Pet & Animal Care
Coverage Report

MERGER & ACQUISITION ACTIVITY

Merger and acquisition activity in the pet & animal care industry remained level in the first half of 2012 compared to the same period last year, as the economy continued its modest recovery and M&A activity stabilized across the general economy. Activity in 2010 and 2011 has noticeably increased from levels in prior years. This increase reflects post-recession market improvements, including renewed interest among both corporate and private equity buyers, as well as better financing conditions for M&A transactions.

A review of transactions in 2012 shows the Pet Products Manufacturing category accounted for the highest number of transactions with 27.3% of deals reported in the sector. Animal Health Manufacturing and Media & Other each accounted for 18.2% of transactions, followed by Animal Health Services at 13.6%.
INDUSTRY GROWTH ATTRACTS INVESTORS

The pet and animal care industry proved to be recession resistant, with steady growth recorded throughout the recession and beyond. The full spectrum of pet products and services has prospered, including pet food, non-food supplies, veterinary services and non-medical services such as grooming, boarding and training. The industry’s consistent growth and stability, even during economic uncertainty, has attracted private equity groups and other investors to the space.

The industry is expected to continue to expand in 2012 and beyond. In fact, despite steady growth over several years, pundits believe that an industry boom is yet to come. Expansion is being driven by a steady increase in pet ownership, including a rise in pet adoptions resulting from an improved housing market. New pets are particularly beneficial to industry sales as most hard-good purchases (which tend to be higher margin) are made in the first two years of pet ownership. In addition, pet owners’ preferences have shifted toward premium and super-premium products, a structural shift that has also boosted sales and profits. Increased awareness and availability of pet health and veterinary services has also contributed to a rise in spending per pet. Finally, the growing humanization of pets in the U.S. is having a positive impact on all pet product categories.

The pet and animal care industry is projected to grow 3.6% this year, reaching a new high of $52.9 billion. In 2012, U.S. households that own pets are expected to spend approximately $33.0 billion on pet food and supplies alone. Natural, organic and eco-friendly products are expected to continue to show strong growth, as well as pet health products and services including medications, supplements and insurance.

While consumers remain focused on value, they are migrating into the higher-priced specialty retail channel. Online retailers have also begun to see increased purchases, particularly of pet food. In the next five years, online pet food sales are expected to increase by 18.0%, reaching $595.8 million. Online pharmaceutical retailers have also seen increases in revenue. The rise in online sales is driven by the high demand for premium pet products, the need for convenience and consumers searching for the most competitive prices.
## SELECT PET & ANIMAL CARE M&A TRANSACTIONS

<table>
<thead>
<tr>
<th>Announc. Date</th>
<th>Target</th>
<th>Acquiror</th>
<th>Target Business Description</th>
<th>Enterprise Value ($mm)</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/21/2012</td>
<td>PetStyle</td>
<td>Pet360</td>
<td>Provides education, entertainment, community and commerce solutions to dog and cat owners.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6/21/2012</td>
<td>Central Bark Doggy Day Care</td>
<td>Villa La PAWS</td>
<td>Provides doggy day care, doggy sleepovers, doggy parties, dog grooming salon, and veterinary and training services.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6/6/2012</td>
<td>Fetch Enterprises</td>
<td>Potpourri Group</td>
<td>Offers dog supplies such as beds, mats, blankets, gates, crates, carriers, crate pads, collars and ID tags, and leashes and harnesses online.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5/8/2012</td>
<td>Classic Brands</td>
<td>Topperscot</td>
<td>Develops bird feeders sold through retail stores and online retailers.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4/16/2012</td>
<td>Pet Appeal</td>
<td>Merrick Pet Care</td>
<td>Manufactures natural and organic food products for dogs and cats, toys and clean up products.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4/11/2012</td>
<td>AUV Veterinary Services</td>
<td>Henry Schein</td>
<td>Distributes veterinary pharmaceutical products.</td>
<td>$52.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4/5/2012</td>
<td>Eurovet Animal Health</td>
<td>Dechra Pharmaceuticals</td>
<td>Develops, produces, and markets veterinary pharmaceutical medicines and instruments.</td>
<td>$176.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4/2/2012</td>
<td>Newport Laboratories</td>
<td>Merial Limited</td>
<td>Produces autogenous biologics for food animal veterinarians.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3/22/2012</td>
<td>C&amp;K Distributors</td>
<td>Phillips Feed Service</td>
<td>Distributor of pet food and products.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3/20/2012</td>
<td>My Pet Habit</td>
<td>The FamilyPet Network</td>
<td>Operates a daily deal site for pet care products and services.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3/13/2012</td>
<td>Fe-Lines</td>
<td>Pioneer Pet Products</td>
<td>Produces pet products under the brand name Sticky Paws.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3/5/2012</td>
<td>Genesis</td>
<td>Kemin Industries</td>
<td>Offers supplements for dogs and cats through licensed veterinarians.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2/29/2012</td>
<td>Serwe Implement</td>
<td>Rieister &amp; Schnell</td>
<td>Provides pet care products, which include small animal care products, animal feed and food/water products, pet toys and treats and grooming products.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2/23/2012</td>
<td>Impact Social Networking</td>
<td>The PAWS Pet Company</td>
<td>Development and sales of database, web, mobile and social media tech for pet owners.</td>
<td>$2.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2/20/2012</td>
<td>Mikes Feed Farm Wholesale Distribution</td>
<td>Phillips Feed Service</td>
<td>Sells pet food for dogs, cats, horses and birds. Offers dog training and chiropractic services.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2/15/2012</td>
<td>Emporia Pet Food Products Plant</td>
<td>Cargill</td>
<td>Comprises a pet food manufacturing facility.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2/1/2012</td>
<td>ThinkPets</td>
<td>Vetsstreet</td>
<td>Provides print and online communications, pet owner education, and reports for veterinary practices in the United States.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1/18/2012</td>
<td>Anchor Bay Veterinary Center</td>
<td>Private investor</td>
<td>Provides veterinary services in Southeastern Michigan.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1/17/2012</td>
<td>VetCentric</td>
<td>Direct Vet Marketing</td>
<td>Operates as a home-delivery veterinary pharmacy in the United States.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1/9/2012</td>
<td>Twelve Franchised Stores in Northeast Pennsylvania</td>
<td>Pet Supplies Plus/USA</td>
<td>Franchisee consisting of twelve stores in northeast Pennsylvania.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1/5/2012</td>
<td>Butler Schein Animal Health Supply</td>
<td>Henry Schein</td>
<td>Provides animal healthcare supplies to veterinarians.</td>
<td>$717.6</td>
<td>0.4x</td>
<td>-</td>
</tr>
<tr>
<td>1/1/2012</td>
<td>True Science</td>
<td>Eos Partners</td>
<td>Provider of pet pharmaceuticals. Also provides over-the-counter products to national retailers.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

LTM = last twelve months; EV = enterprise value

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases
SELECTED DEAL BRIEFS

Pet360.com Acquires PetStyle - In June 2012, pet media and ecommerce platform Pet360.com announced the acquisition of PetStyle, a website dedicated to pet-friendly lifestyle and entertainment articles. Pet360.com, operator of four brands – PetFoodDirect.com, NationalPetPharmacy.com, PetMD.com and Pet360.com, believes the acquisition will add breadth to the company’s lifestyle article and video offering, ultimately enhancing its user experience. The acquisition is also expected to further Pet360.com’s capability to deliver unique and revenue-generating solutions for advertisers and publishers. Rose Hamilton, Pet360.com CMO, stated, “The acquisition of PetStyle expands the depth of our video and article offerings beyond the number one vet-approved health and wellness content available on petMD.com.”

Merrick Pet Care Acquires Pet Appeal - Pet food producer Merrick Pet Care announced the acquisition of Pet Appeal (doing business as Castor & Pollux Pet Works) in April 2012. Pet Appeal is a privately held natural and organic pet food business. Merrick’s acquisition of the Oregon-based company expands its brand portfolio further into the “super-premium” pet food market, an increasingly attractive segment. The acquisition will give Merrick the opportunity to sell to the nearly 40% of dog-owning households that purchase super premium dog food. Merrick Pet Care founder, Garth Merrick, added “The addition of the outstanding Castor & Pollux brands gives us a solid footing within the natural and organic space.”

Merial Limited Acquires Newport Laboratories - In April 2012, Merial, the animal health division of French healthcare leader Sanofi, announced the acquisition of U.S.-based Newport Laboratories. Newport Laboratories assists veterinarians and livestock producers in their efforts to address animal health problems through diagnostic testing and the production of veterinary biologics. The Company is the United States’ leading manufacturer of autogenous biologics. Merial CEO, Jose Barella, has noted Newport’s “ability to screen field samples and produce autogenous vaccines from large integrated producers with remarkable efficiency.” Newport Laboratories’ management believes the merger will allow for expansion in both U.S. and world markets. “Joining forces with Merial allows us to expand our expertise in the market and enhance the profitability of our customers through solution-based animal healthcare offerings. We will also be able to reach untapped markets in the U.S., and eventually, even bring our expertise to the rest of the world,” said Newport COO Randy Simonson.

Kemin Industries Acquires Genesis Ltd. - Kemin Industries announced the completion of its acquisition of Genesis, a companion animal health supplement manufacturer, in March 2012. Genesis, most widely known for its RESOURCES brand, markets its animal health supplements directly to veterinarians. Genesis founders Bill and Mary Bookout are confident the partnership will be a good fit. “Genesis has been carefully considering partnerships that would expand the use of its products and ultimately fulfill its vision of improving the lives of pets,” said Bill. “Only after a very thorough and complete evaluation did Genesis decide to join Kemin Industries. We found our values of quality, integrity, service, dependability and trust to be true of Kemin and we are confident our customers will as well.” Kemin president Andrew Yersin agreed, stating, “Our seven divisions share a unified vision of improving the quality of life by touching half the people of the world every day with our products and services. We believe pets are an important part of reaching this vision and our acquisition of Genesis and its RESOURCES brand will positively impact our ability to improve the lives of more people and their pets.”

Vetstreet acquires ThinkPets - In February 2012, Vetstreet, a provider of a veterinary marketing, communications and education tools for veterinary practices, announced its acquisition of ThinkPets. ThinkPets is a leading provider of print and digital pet owner education. The Company also publishes HealthyPet Magazine. The acquisition expands Vetstreet’s client base beyond animal health professionals to pet owners as well. Derrick Kraemer, Vetstreet president, stated in a press release, “We are extremely excited about combining ThinkPets with our existing business since it will improve the products and services we offer to the clients of both companies. In addition, combining HealthyPet Magazine to our portfolio will enable us to expand the quality of pet owner education that we offer to animal health professionals and their clients.”
CAPSTONE PARTNERS: COMPLETED CONSUMER PRODUCTS & SERVICES TRANSACTIONS

Capstone Partners has completed several transactions within the consumer products & services space. These transactions span the major categories of manufacturing, retail, wholesale and services. They include a wide range of companies offering a diversity of products such as those related to pet, juvenile, food, drug and neutraceutical, and recreation products and services. Capstone’s experience in the consumer products & services sector provides us with insight into the valuable attributes and likely valuation of a target company, the active buyers in the industry and the nuances of transactions in this space.

**Q3 2012**

**Pet & Animal Care**

**CROSSBreed PRODUCTS**

has been acquired by

**B-O-B, R.I.P.**

has been acquired by

**MANATTS**

has divested

**DOC’S PHARMACY**

has been acquired by

---

**UNITED PET GROUP, INC.**

has been acquired by

**Birko**

has been acquired by

**Britax**

a portfolio company of **NORDIC CAPITAL**

**IOA Speedway**

America’s Place To Race

Senior Members of Doc’s Drugs, Ltd.

---

**KERADERM**

has secured financing from **NewVA Capital Partners, LP**

**AC**

has partnered with **Branford Castle, Inc.**

**media source incorporated**

has been acquired by

**TROPHY RIDGE**

has been acquired by

**ESCALADE SPORTS**

---

**slime**

has been acquired by **FRIEND SKOLER & Co.**

**INTERLEUKIN GENETICS**

acquisition advisory

**malibu BOATS**

has recapitalized with **Horizon Holdings**

**Babe Farms**

has been acquired by **AN INDIVIDUAL INVESTOR**
THE PET & ANIMAL CARE TEAM

Kevin Jolley, Managing Director
kjolley@capstonellc.com • (617) 619-3330

Kevin has over 20 years of investment banking, syndicated bank loan and corporate finance experience. His transaction experience includes managing complex engagements for clients in a variety of industries including consumer products, industrial products, medical devices, biotechnology, business services, software, and distribution. Prior to joining Capstone, Kevin served as a Vice President in the Investment Banking Group at Adams Harkness. Kevin also served as an Associate in the Debt Capital Markets Group of FleetBoston Robertson Stephens, Inc. Before Fleet, Kevin was at Textron Inc. where he worked in the Strategic Planning, Internal Audit and Mergers & Acquisitions departments. He also has four years of finance experience with Oracle Corporation. Kevin received his B.A. from Brown University and his M.B.A. from the University of Pennsylvania’s Wharton School. He is registered with FINRA and is qualified as a General Securities Representative.

Dan Schultz, Associate
dschultz@capstonellc.com • (617) 619-3368

Dan works closely with senior bankers and firm clients on mergers and acquisitions, private placements, divestitures and recapitalizations. Prior to joining Capstone, Dan was an Analyst at Headwaters MB, a middle market investment bank in Denver, where he focused on the business services industry. Dan also worked at Ernst & Young LLP in the Assurance and Advisory Business Services (AABS) practice in the Denver office. Prior to working in Denver, he worked in the Ernst & Young National Professional AABS Practice in New York. Dan received his BE in Biomedical Engineering with a Business Minor from Vanderbilt University, and a Master of Business Administration with a finance concentration and Master of Accountancy from the Daniels College of Business at the University of Denver.
ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading national investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in Pet & Animal Care Products. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

NATIONAL AND REGIONAL LEADERSHIP TEAM

NATIONAL
John Ferrara
President, Managing Partner
(617) 619-3325
jferrara@capstonellc.com

NORTHEAST REGION
Kevin Jolley
Managing Director
(617) 619-3330
kjolley@capstonellc.com

TECHNOLOGY & TELECOM
David Michaels
Managing Director
(858) 926-5950
dmichaels@capstonellc.com

MIDATLANTIC REGION
Eric Williams
Managing Director
(215) 854-4065
ewilliams@capstonellc.com

CORPORATE RESTRUCTURING
Brian Davies
Managing Director
(617) 619-3328
bdavies@capstonellc.com

MIDWEST REGION
Ted Polk
Managing Director
(312) 674-4531
tpolk@capstonellc.com

WESTERN REGION
David Bench
Managing Director
(949) 460-6431
dbench@capstonellc.com

© 2012 Capstone Partners LLC. All rights reserved.