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# M&A in the pet business

Oaklins Pet Care Group

November 2019 | Marc van de Put



## Who we are

Market dynamics

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M&A activity in the pet care industry

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Example of a transaction

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Dutch pet care and pet food transactions





# Leading global financial advisory firm for mid-market companies

## Global Oaklins offices



### GLOBAL

60 offices in 40 countries

### HIGHLY EXPERIENCED

A track record of over 5,000 successfully closed transactions. Currently working on 600 active deals

### INDEPENDENT

No conflicts of interest

### EXTENSIVE SECTOR EXPERTISE

800 dedicated professionals working in 20 sector groups

### MID-MARKET FOCUS

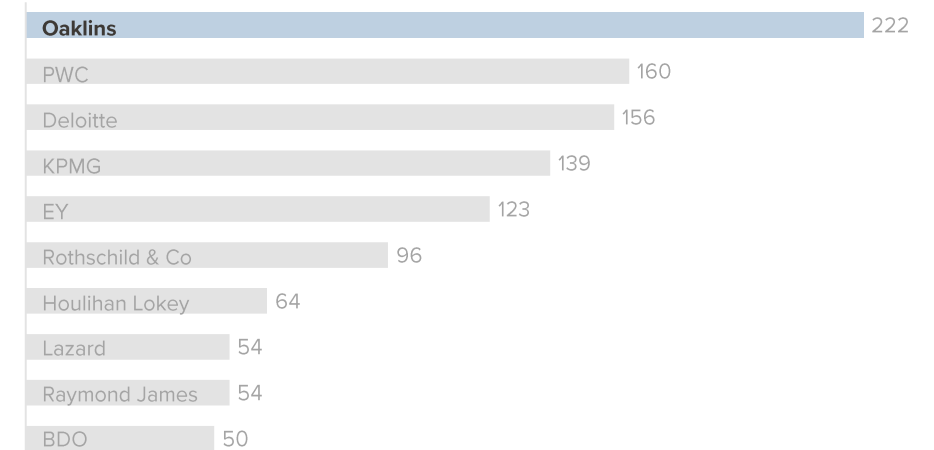
Sweet spot transaction size is EUR 25m to EUR 250m

### 30 YEAR HISTORY

The foundation of Oaklins was laid in 1985

## Global mid-market 2018

by volume (value USD)



No. of deals EV USD 5m – USD 250m

### Selection of clients



## Approaching pet care

Decades of experience, driven by a passion for this industry



“M&A has changed a lot in the pet care industry. In past times, acquisitions were almost always within the same industry. Today, acquisitions are approached much more open-mindedly. A good example of this is the global pet food giant, Mars. Through a number of acquisitions in the past 5 years, the company has become the world’s leading operator of veterinary hospitals and practices. This emphasizes that M&A can be used as a tool for companies to become game changers”

**Marc van de Put**





Who we are

**Market dynamics**

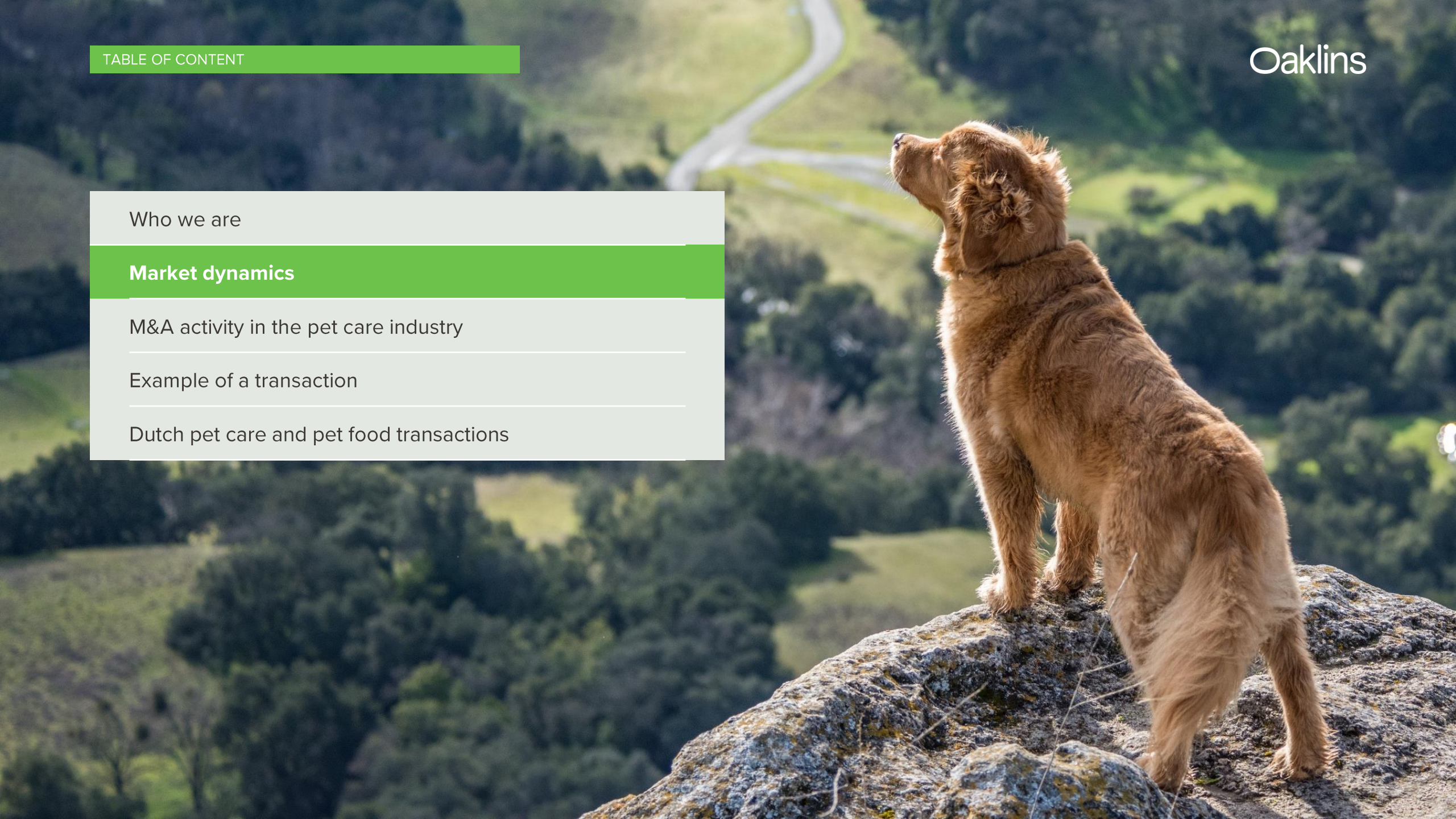
M&A activity in the pet care industry

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Example of a transaction

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## Key trends shaping the global pet care industry



### HUMANIZATION

- Pet owners are increasingly treating their pets like members of their family
- Pet owners are willing to spend more of their discretionary income on pet care products

### INTERNATIONALIZATION

- Internationalizing the product offering offers volume and value growth
- International markets are following comparable trends and drivers, but are in different development stages

### PREMIUMIZATION

- Customers want premium products with distinguishing features
- Premium products offer attractive margins
- Premium products offer opportunities for SMEs as large grocery retailers are typically seen as more “mass” and not as premium

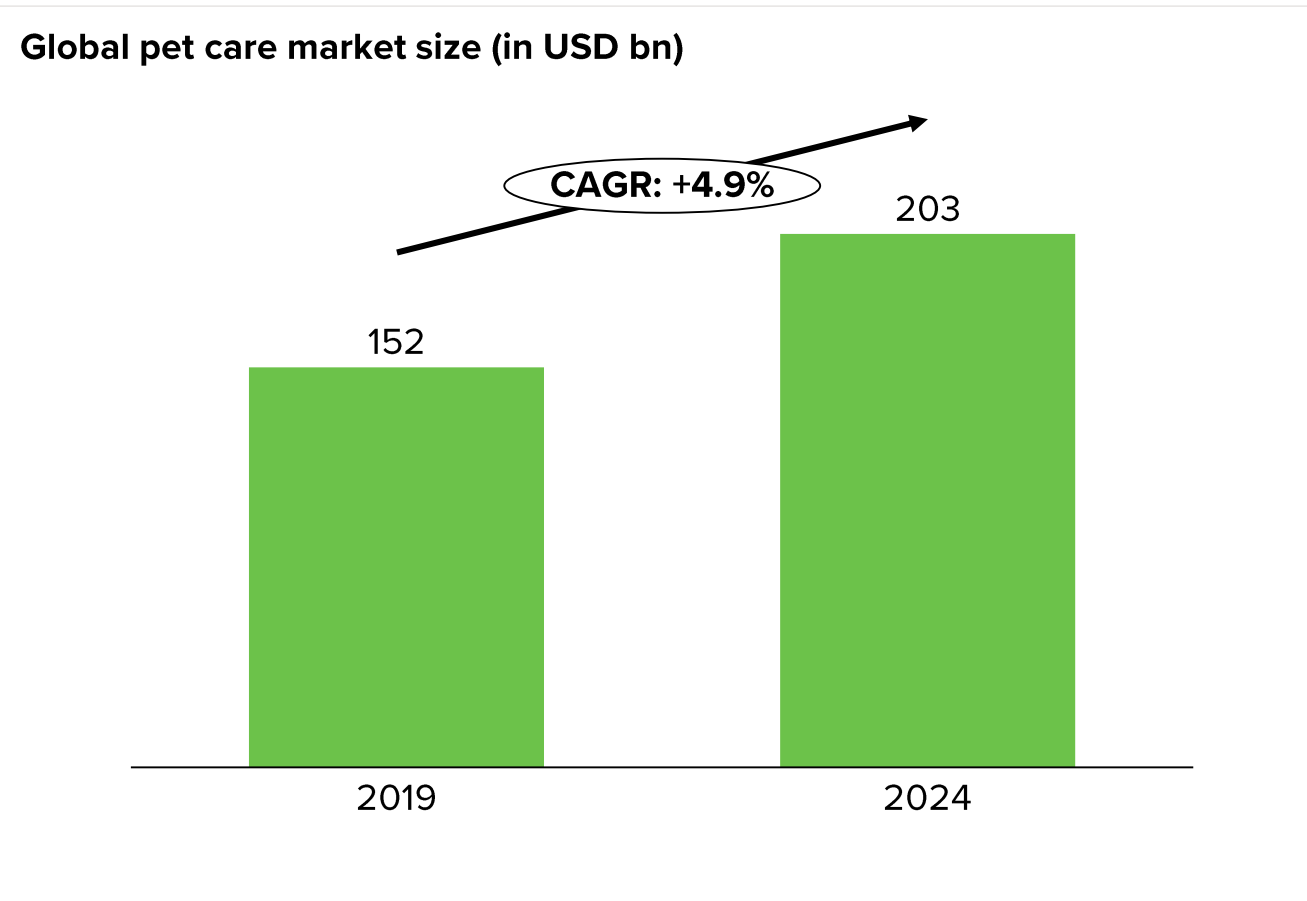
### DIGITALIZATION

- Online shops are becoming increasingly important, particularly for bulky products such as those for pet care
- New shop styles promise a unique customer experience attracting new customers

### PE INTEREST

- Investors are showing substantial interest
- Stable market, with promising growth drivers resulting in future market growth
- Many opportunities for add-on acquisitions

## The global pet care market is expected to grow steadily



- The pet care market consists of pet food, veterinary care, OTC/supplies, live animal purchase and pet grooming
- The pet care market is sizable and is characterized by consistent growth
  - Growth is mainly driven by humanization, internationalization, premiumization, and digitalization
  - Care is one of the basic (pet) needs generating recurring and stable revenues and making the market less dependent on economic cycles

## Key trends in the global pet food industry



### ONLY THE BEST

- The premiumization trend will continue as the willingness to spend big for pets has not reached its mountain top
- The use of an ever higher quality of ingredients, the application of increasingly sophisticated production processes and the rising demand of consumers for boutique-like brands will drive the cost base of pet food



### CLEAN AND TRANSPARENT

- Transparency will become increasingly important
- Pet parents want to know what is in the pet food, where the ingredients come from and how a product is manufactured
- A clean label has to fulfill the increasingly challenging requirements for food safety, ethics and sustainability. It should use an easy to understand language



### PERSONALIZED NUTRITION

- Every pet is, just as human beings, unique. So, as each of us has a specific diet requirement and taste, why should animals be different?
- In a made-to-order approach, the personalized pet food takes perfectly into account a pet's race, age, weight, allergies, diseases etc.
- Either pre-packed or freshly cooked, it's the pet's decision what to have for dinner



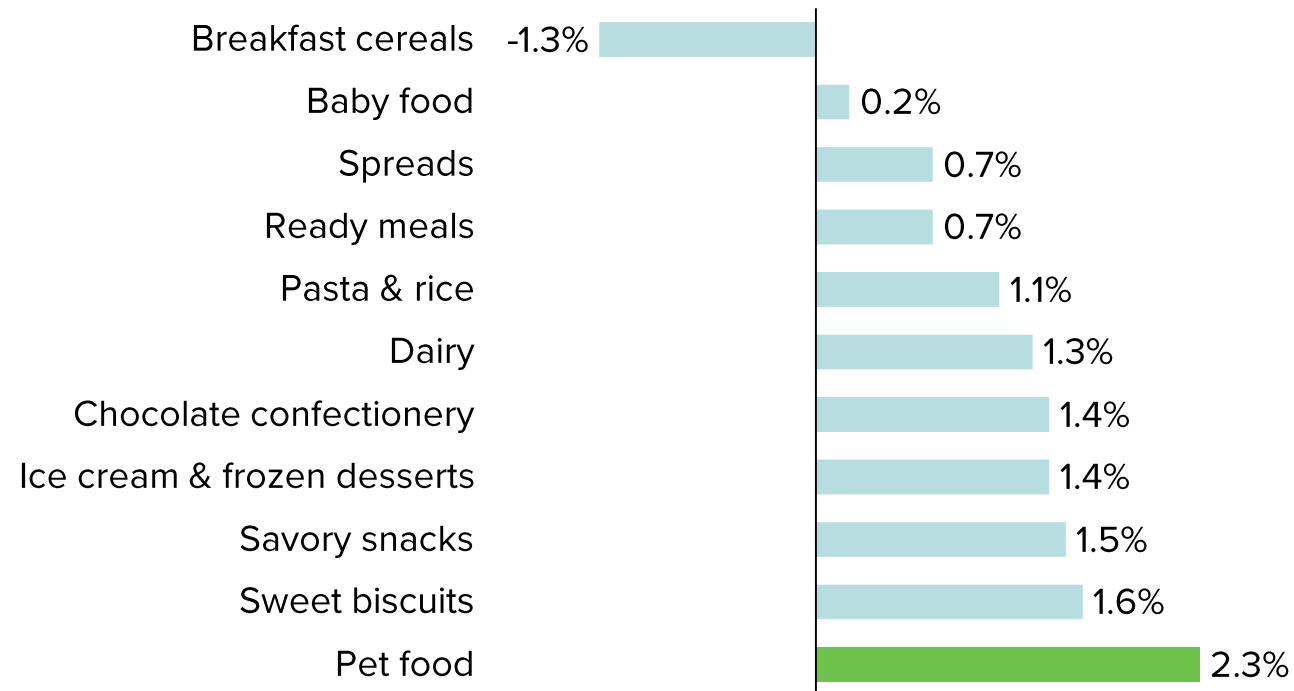
### NEW PROTEIN SOURCES

- Global meat production is becoming a serious threat to the environment
- Pet food contributes to that development
- New sources of proteins, either in substitutes (e.g. in vegetables or insects) or grown in labs, are currently under research



## Pet food outperforms all consumables in terms of growth

2018 – 2023 CAGR in North America, by sector (in %)



- Pet food is the fastest growing sub-segment of the pet care market
  - Growth is mainly driven by humanization, internationalization, premiumization, and digitalization
  - Food is a daily basic pet need generating recurring revenues making this market even less dependent on economic cycles than the entire pet care market
- Pet food outperforms all consumables
  - Increasing number of one person households making it more likely to acquire pets and hence pet food
  - Emerging trend towards biologically appropriate pet food
  - Increasing societal focus on animal welfare

Who we are

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Market dynamics

**M&A activity in the pet care industry**

Example of a transaction

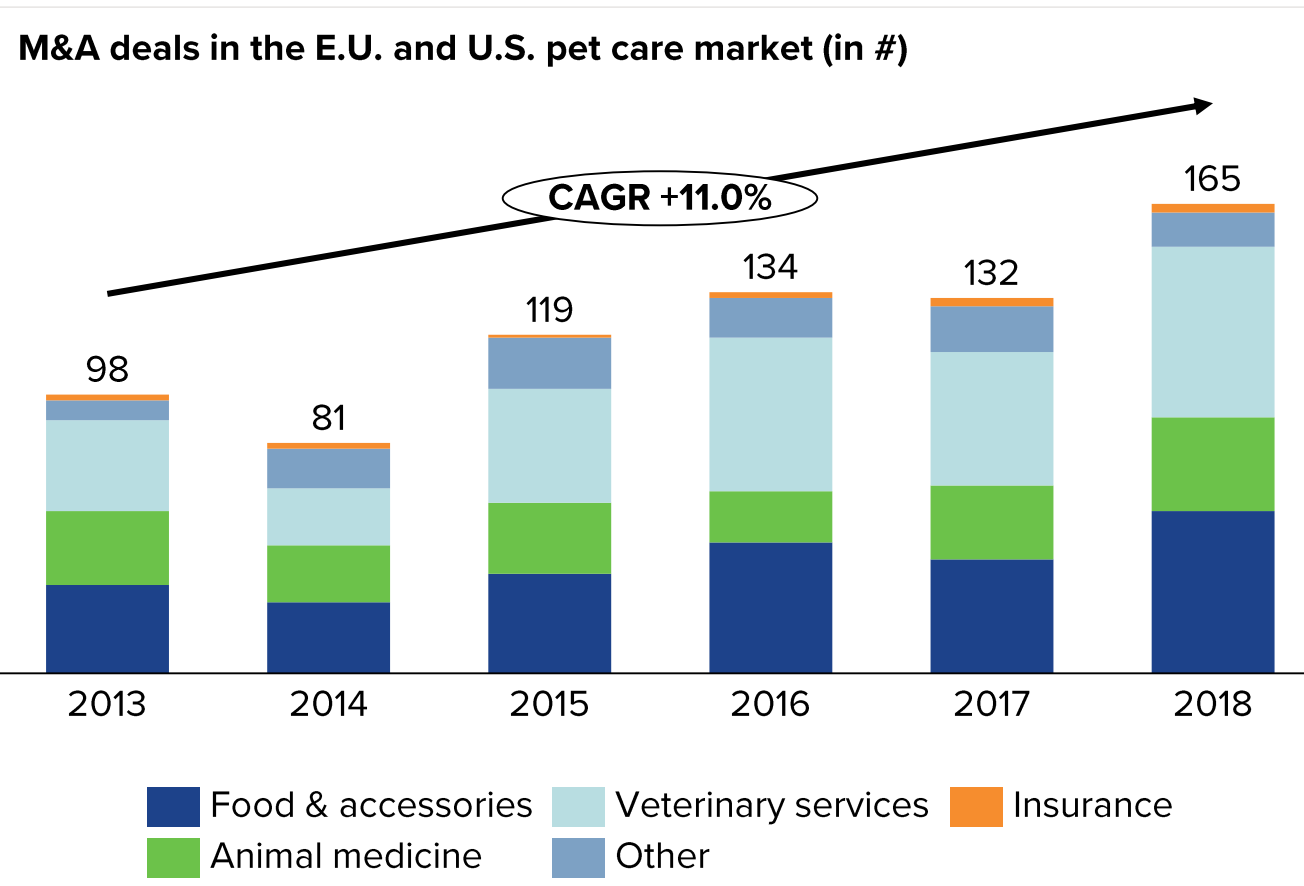
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Dutch pet care and pet food transactions




















## M&A activity in the pet care market reached all time high in 2018



















- The M&A activity in pet & animal care reached an all-time high in 2018
- In general, high volumes of cash and low interest rates drive these record high number of transactions, it is a sellers market
- M&A offers a lot of opportunities for strategic buyers, as they can enter new markets (such as pet food and veterinary services, amongst others) or expand their product portfolio
- In addition, financial investors have identified the pet care market as an attractive sector as it promises good returns at a reasonable risk. Moreover, the market has limited exposure to economic cycles which is highly attractive, taking the current economic climate in account

## Selection of M&A transactions (1/4)

Date	Target	Country	Target description	Bidder	Bidder description	Country	Valuation		
							EV (EURm)	Sales	EBITDA
April 2017			Veterinary healthcare services	AniCura 	Veterinary healthcare services		n/a	n/a	n/a
Dec 2017			General practice and specialty veterinary services	KKR	Private equity		n/a	n/a	n/a
Jan 2018			Distributor of animal pharmaceutical products		Manufacturer and distributor of products for veterinarians		340	n/a	n/a
Feb 2018			Manufacturer of private label and co-manufactured pet foods		Distributor of a.o. food ingredients and animal nutrition		n/a	n/a	n/a



## Selection of M&A transactions (2/4)















Date	Target	Country	Target description	Bidder	Bidder description	Country	Valuation		
							EV (EURm)	Sales	EBITDA
Apr 2018			Distributor of natural pet foods and treats for cats and dogs		Distributor of bakery products to the foodservice and retail industry		6,543	6.3x	25.6x
Apr 2018			Manufacturer of private label pet food		Private equity		n/a	n/a	n/a
May 2018			Manufacturer of premium pet food and pet snacks		Manufacturer of food services and bakery products		1,545	n/a	n/a
Jun 2018			Veterinary healthcare services		Manufacturer of confectionery and pet food		n/a	n/a	n/a

## Selection of M&A transactions (3/4)

Date	Target	Country	Target description	Bidder	Bidder description	Country	Valuation		
							EV (EURm)	Sales	EBITDA
July 2018			Distributor animal feeds, premixes and additives		Distributor of agricultural commodities and products		1,544	0.9x	n/a
July 2018			Manufacturer of private label pet food products		Manufacturer extruded dry dog and cat food		n/a	n/a	n/a
July 2018			Diagnostic services for veterinary services		Manufacturer animal health products		1,551	7.5x	39.4x
Aug 2018			Veterinary healthcare services		Private equity		803	2.8x	14.0x



## Selection of M&A transactions (4/4)

Date	Target	Country	Target description	Bidder	Bidder description	Country	Valuation		
							EV (EURm)	Sales	EBITDA
Dec 2018	Pet care S.A.		Veterinary centers		Pet health care services		16	n/a	n/a
Feb 2019			Veterinary healthcare services	FIDELIO	Private equity firm		n/a	n/a	n/a
April 2019			Veterinary healthcare services		Manufacturer of nutrition, health, and food products for cats and dogs		n/a	n/a	n/a
June 2019			Distributor of health care solutions and products of pets		Manufacturer of animal feed for horses, cattle, goats, rabbits, and swine		n/a	n/a	n/a

# Financial investors also have appetite for pet care<sup>1</sup>



- For several years, financial investors have been very interested in the pet care sector
- The sector is attractive as it promises good returns at a reasonable risk. Moreover, the market has limited exposure to economic cycles
- The pet care and pet food markets are characterized by a high level of fragmentation with many smaller companies making it suitable for consolidation
- Various transactions can be expected in the future



Who we are

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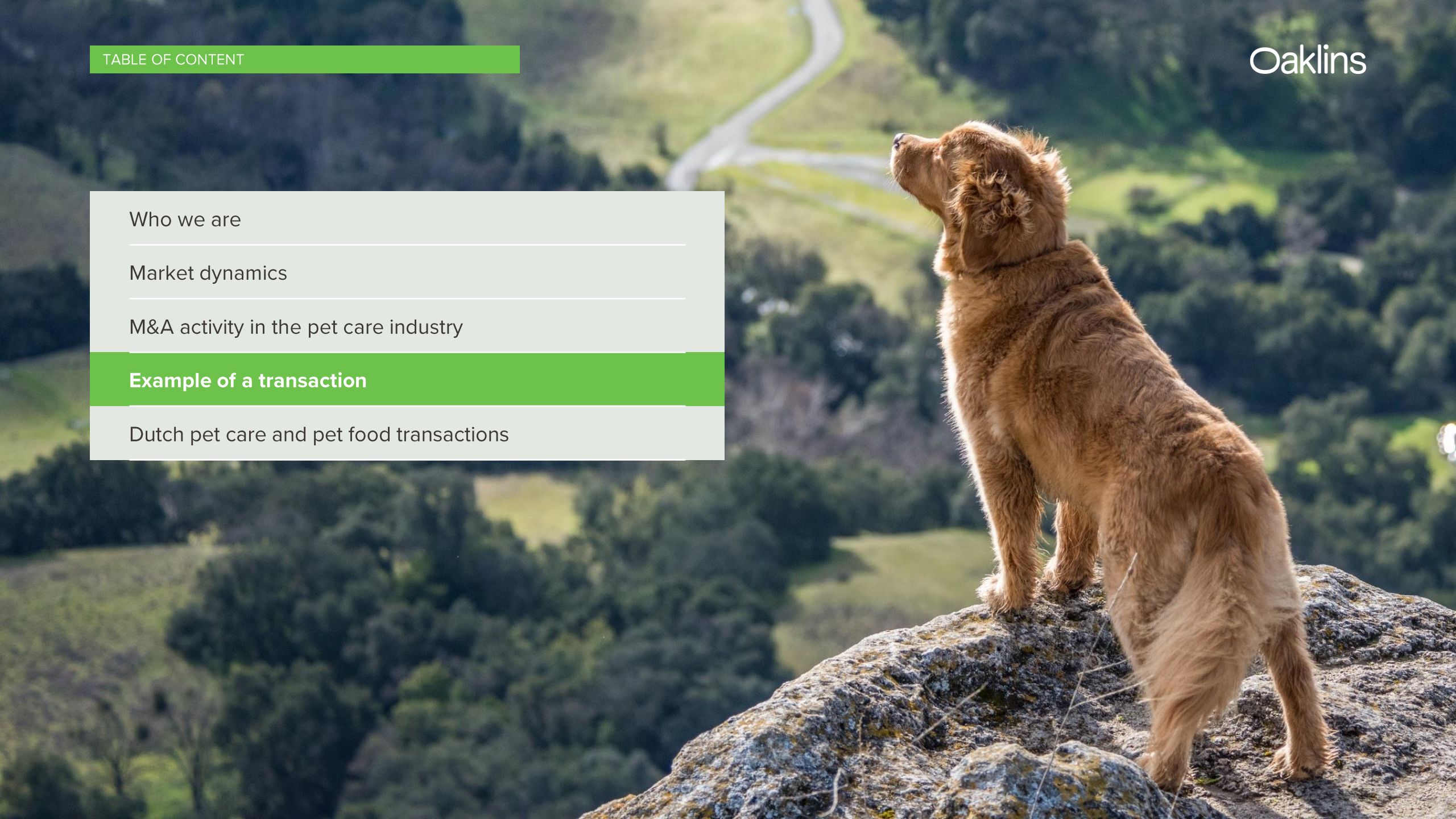
Market dynamics

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**Example of a transaction**

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## Key facts on General Mills & Blue Buffalo

### Multinational branded consumer foods



Sales  
\$15.6bn

EBITDA  
\$3.4bn

Staff  
38,000

### Wholesome natural pet food manufacturer



Sales  
\$1.28bn

EBITDA  
\$0.32bn

Staff  
1,700



# The Blue Buffalo transaction strongly outperformed valuations of listed food conglomerates



**\$8.0bn** Enterprise value

÷ **\$1.3bn** Sales 2017

= **6.3x** Sales-multiple



**\$8.0bn** Enterprise value

÷ **\$0.3bn** Adj. EBITDA 2017

= **25.0x** EBITDA-multiple

## Sales-multiple

2.6x

3.7x

3.5x

2.4x

1.8x



Sales ('18)	USD 16.9bn	USD 90.9bn	USD 25.9bn	USD 27.4bn	USD 56.6bn
EBITDA ('18)	USD 3.2bn	USD 17.7bn	USD 4.1bn	USD 4.9bn	USD 16.4bn
Market cap.	USD 31.0bn	USD 298.7bn	USD 74.1bn	USD 53.3bn	USD 154.8bn

12.6x

16.4x

16.7x

12.4x

7.8x

## EBITDA-multiple

# The high transaction value was based on 3 pillars

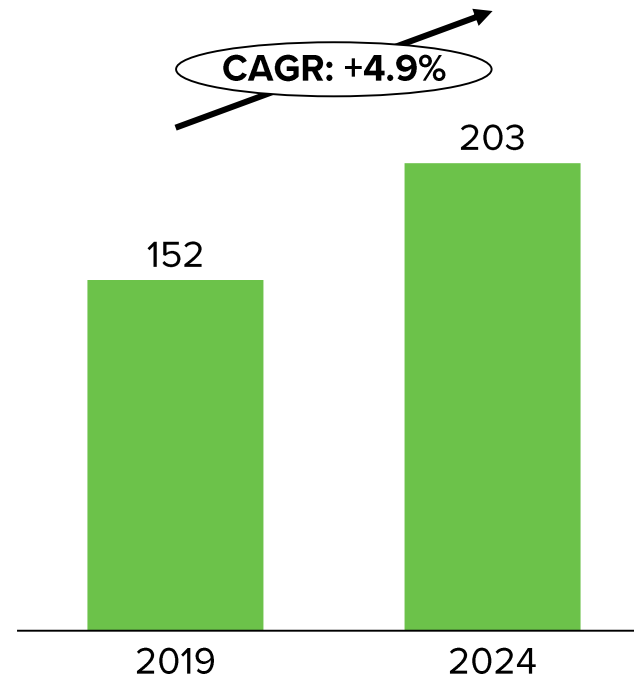
## 1. Strong brand equity

“Your Brand is what other people say about you when you are not in the room”

**Jeff Bezos**  
CEO & Founder of Amazon

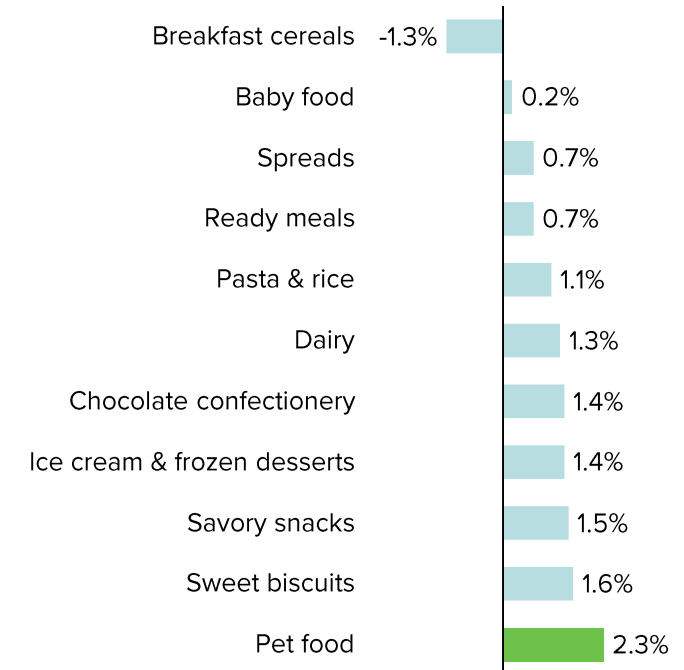
## 2. Exceptional growth

Global pet care market size <sup>1</sup>(in USD bn)



## 3. Sector outperformance

2018 – 2023 CAGR in North America, by sector (in %)





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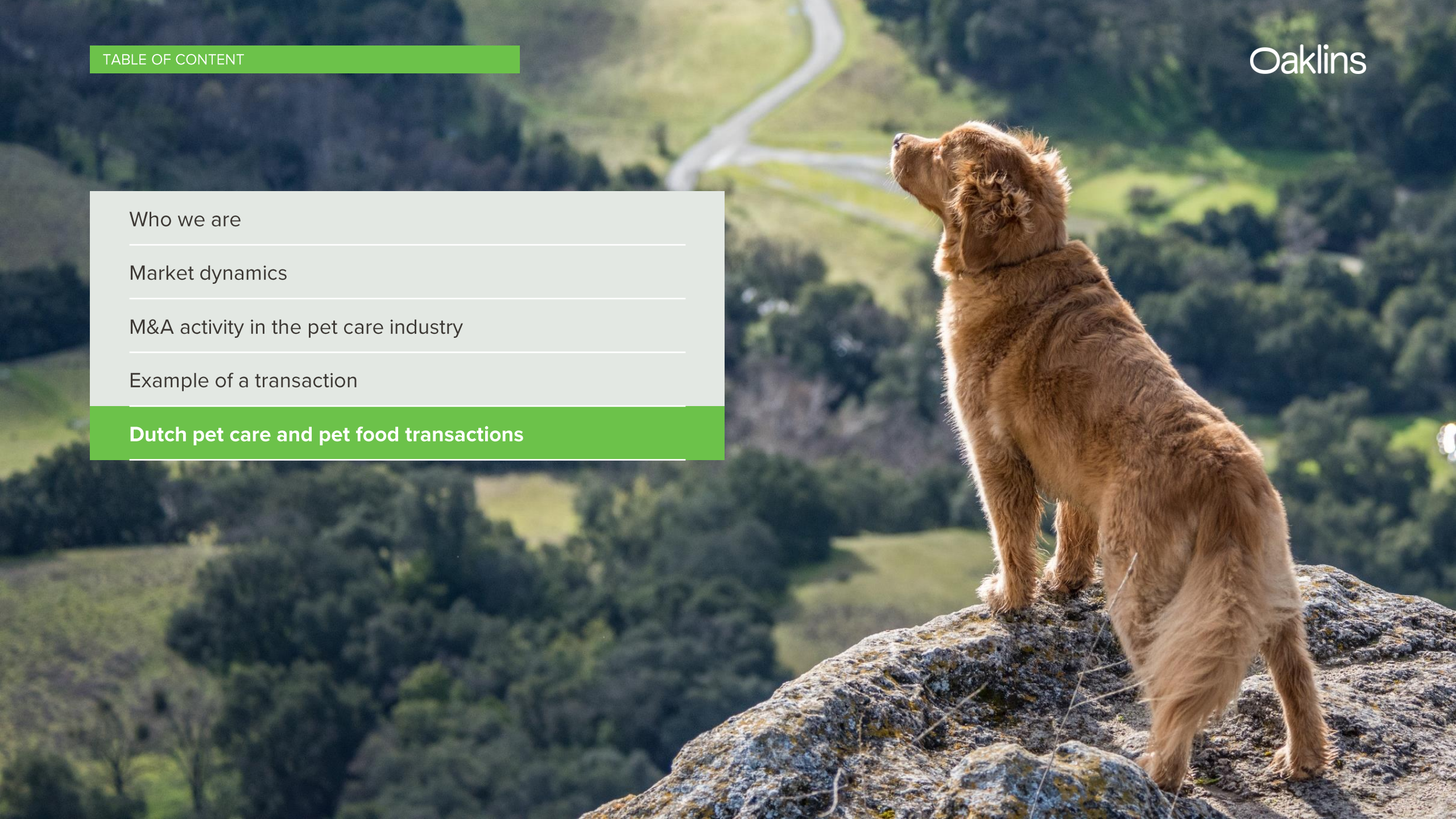
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Example of a transaction

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**Dutch pet care and pet food transactions**

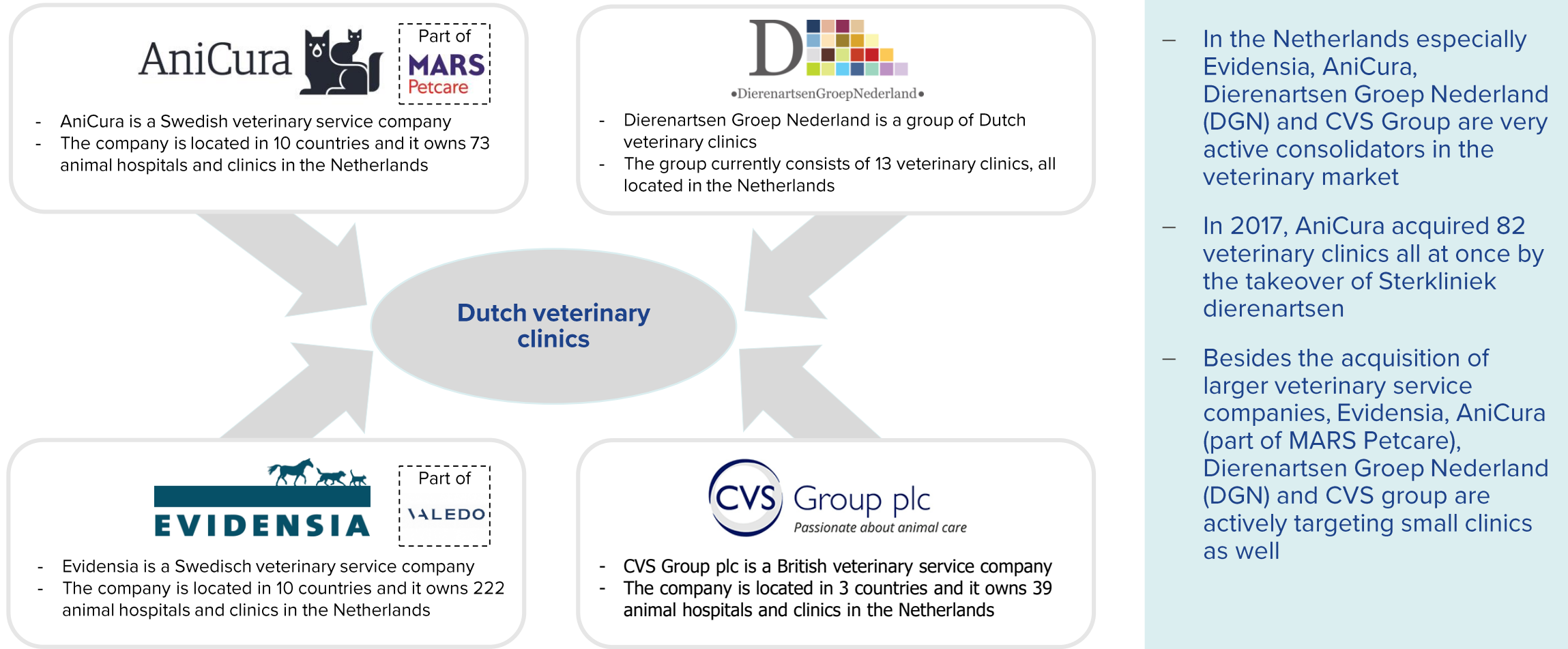


## The Dutch market follows global M&A trends where private equity is particularly active

Date	Target	Country	Target Description	Bidder	Country	Valuation		
						EV (EURm)	Sales	EBITDA
Dec 2017			Distributor of dog and cat treats			n/a	n/a	n/a
Aug 2017			Distributor of premium claim-ingredients to pet food industry			n/a	n/a	n/a
May 2017			Manufacturer of organic pet food			n/a	n/a	n/a
Dec 2016			Manufacturer of extruded dry dog and cat food			n/a	n/a	n/a



## The continuous consolidation in the Dutch veterinary market



**What will you do?**

