



Take the lead with compassionate petcare

SPOT ON | PETCARE | MARCH 2019

“Pets are family members. The way we treat our pets has never been more human. Caring has become so important, especially as far as a pet’s health is concerned.

People are not reluctant to spend an ever-growing share of their wallet on drugs and medical procedures. This creates attractive market dynamics and a promising growth profile. Several corporates, as well as financial investors, have invested heavily in veterinary services. They acquired single practices as well as large chains.”

THORBEN WOELTJEN

AUTHOR AND OAKLINS PETCARE SPECIALIST

MARKET OVERVIEW (pg.2)

The veterinary services market has drawn a lot of attention from corporates and investors alike. What makes this sector so attractive?

SPOTLIGHT (pg.4)

We track the M&A path of Mars, Inc., the global food giant — known for its iconic confectionary and petcare brands — to see how it became a leader in veterinary services.

M&A IN PETCARE (pg.7)

M&A activity in the petcare market is very high, both in terms of number of transactions and valuations.

CASE STUDY (pg.9)

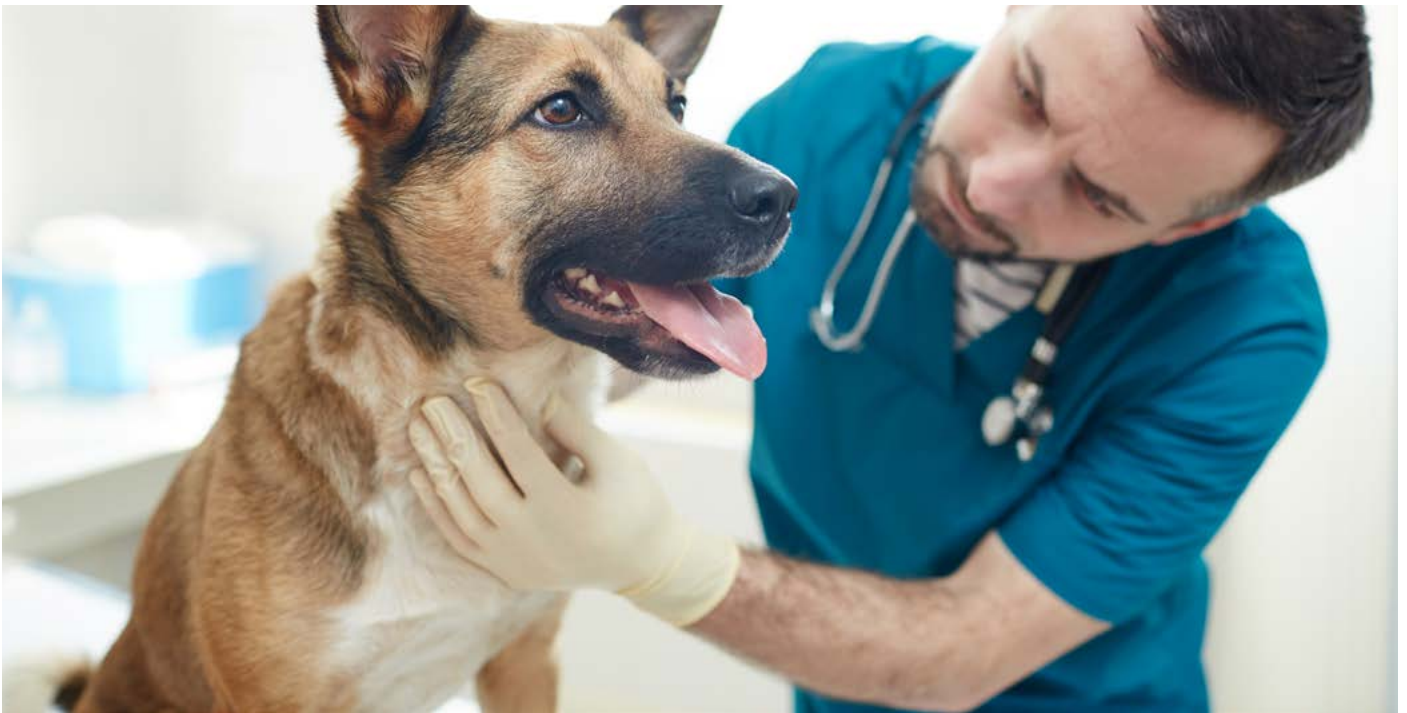
Brown Brothers Harriman Capital Partners, a private equity firm, has partnered with Ethos Veterinary Health, a provider of specialty veterinary health services.

MARKET OVERVIEW

Pet parents care more about the health and well-being of their pets than ever before. They are willing to spend heavily on medications as well as veterinary services, not only to improve their pet’s quality of life but also to extend its lifespan.

(CONTINUED ON NEXT PAGE)





Market overview

WITH INCREASING AGE, PETS — SIMILAR TO HUMAN BEINGS — NEED TO RECEIVE MORE MEDICAL ATTENTION, TAKE MORE MEDICATION AND CONFRONT THE CHALLENGES OF NECESSARY SURGERIES.

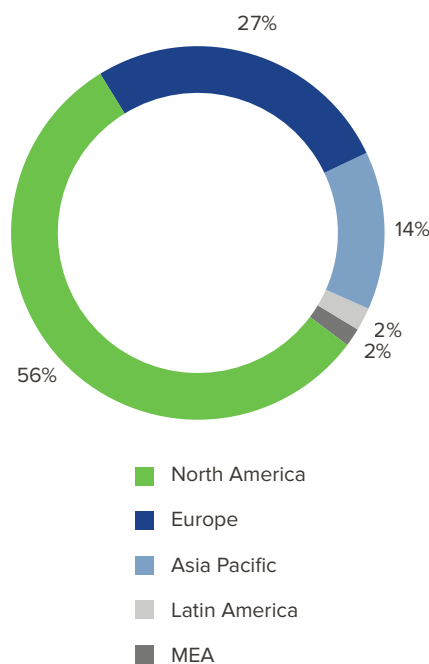
In addition, pet pampering has led to many first-world problems, such as obesity. According to recent research, a staggering 59% of the world's pet population is considered obese. This is increasing the number of visits to the vet and the use of drugs.

Veterinary services, therefore, are highly demand. According to Grand View Research, a US-based market research and consulting company, the global veterinary services market accounted for approximately US\$92 billion in 2017. North America represented 56.0% of the market, followed by Europe with 26.7% and Asia Pacific with 13.7%.

These figures include veterinary services for both companion animals and livestock, with the market in North America split roughly a third and two

thirds between the two, respectively. However, the companion animals subsector share is expanding the fastest.

Global veterinary services market in 2017



Source: Grand View Research

“There have been many large mergers and acquisitions in the last few years, including Mars taking over AniCura and BC Partners acquiring VetPartners. Economies of scale and interest in regional expansion are the main drivers, leading to a consolidation of the market. Existing structures are changing, which affects not only veterinarians but also suppliers of food supplements and health products.”

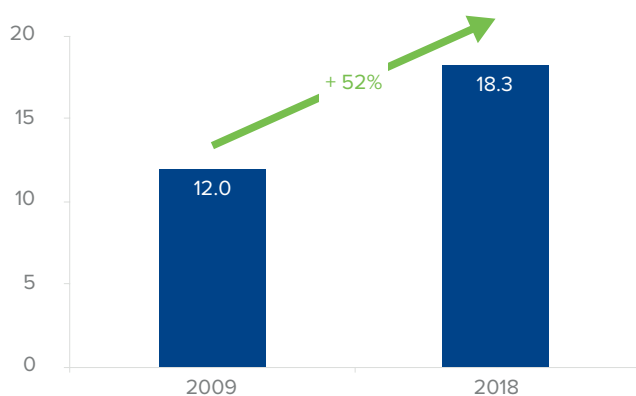
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OAKLINS PETCARE SPECIALIST

“Since the US has always been the most advanced market, it is worth taking a closer look at this geography to make assumptions about global development.” The American Pet Products Association (APPA) estimates the US spend on veterinary services for pets in 2018 was roughly US\$18.3 billion. Compared with a year ago, it represents a growth of 6.9% or US\$1.2 billion in additional revenues.

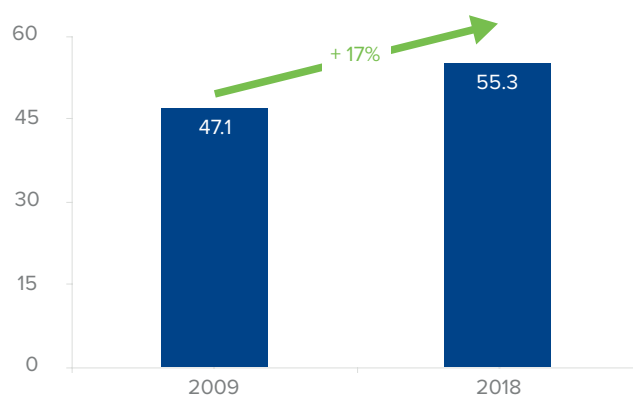
According to the American Veterinary Medical Association (AVMA), approximately 55,000 veterinarians worked predominately or exclusively for companion animal clinics or hospitals by the end of 2018. Thus, on average, each veterinarian generated a revenue of US\$330,000 last year.

In the past 10 years, the US veterinary services (VS) market has grown by 52% on average, while the number of companion animal veterinarians has grown by only 17%. Thus, the average revenue by veterinarian is around 29% higher than 10 years ago.

US vet services market (in US\$bn)



Number of vets (in '000)



Source: Oaklins, American Veterinary Medical Association (AVMA), Statista

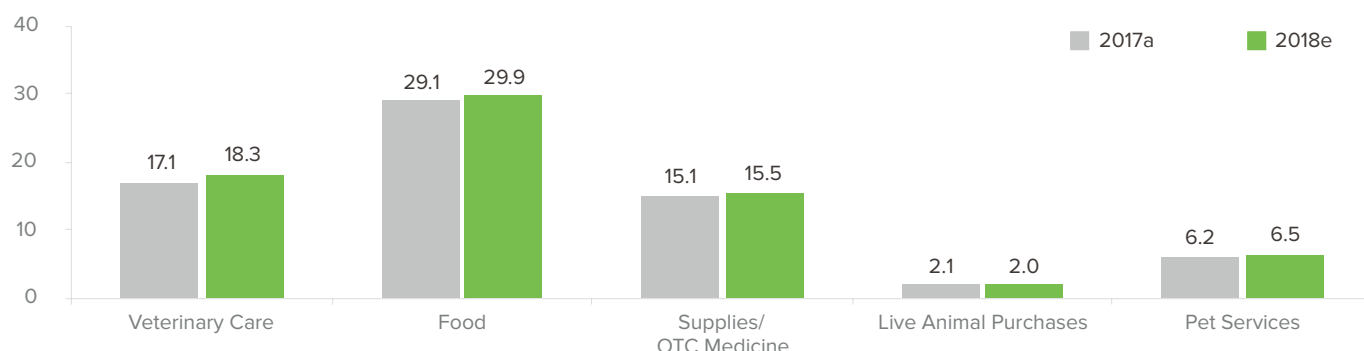
The total petcare market in the USA was estimated to be US\$72.1 billion in 2018. Every fourth US dollar in the petcare sector was spent on veterinary services. It is likely that this share will increase over time, as its growth was 1.8x faster than the general market in 2018 (6.9% vs 3.7%). Although many mergers and acquisitions have taken place in the veterinary services market, the actual

number is challenging to assess. Besides several notable transactions, many tiny deals took place. However, due to their size, these have not been picked up by database providers. Furthermore, the market is still highly fragmented. The three leading operators, VCA, Banfield and NVA — with their 11,000 veterinarians — account for a market share of only 20 to 30%.

Nevertheless, given the competitive advantages of large groups in this segment, it seems clear that consolidation is only a matter of time.

The share of independently owned clinics and hospitals will decrease heavily in the future.

The US petcare market 2017 and 2018 (in US\$ bn)



Source: American Pet Products Association (APPA)



Spotlight

MARS

COMMITMENT TO HAPPY AND HEALTHY PETS TRANSFORMS THE SECTOR

Mars, Inc. is a global manufacturer of confectionary, pet food and other food products. The family-owned business has its headquarters in McLean, Virginia, USA, and is more than 100 years old. The company has a revenue of over US\$35 billion a year and employs about 115,000 people.

Mars is particularly popular for its category-leading iconic brands in the confectionary space, like M&Ms, Snickers, Twix and Wrigley's, and in the pet food sector, such as Cesar, Pedigree, Royal Canin, Sheba and Whiskas.

Although less well known, Mars is also the global leader in the veterinary services sector, particularly in North America, but also with a significant position in Europe.

In this edition of Spotlight, we tell the story of how Mars has achieved its leading position in the veterinary business and look at which companies it has to compete against today.

“The biggest transformation that we’re continually pondering on is our portfolio transformation. We used to be very much a pet food company. Now we are a petcare company.”

STEPHAN M. BADGER
CHAIRMAN
MARS, INC.

2007

In 2007, Mars acquired a veterinary hospital chain called **Banfield**. The company, founded in 1955, operated as a single veterinary hospital until 1994. At that time, Banfield opened a second hospital in a PetSmart location. This led to a strategic partnership between PetSmart and Banfield, with the goal of setting up further hospitals in other PetSmart locations.

In 1996, the company already operated in 150 locations and employed more than 1,000 people. In 1999, Banfield acquired PetSmart's 114 non-Banfield veterinary clinics to become the retailer's preferred veterinary provider. In 2007, Mars became sole shareholder in the company, which, at that time, operated in roughly 700 locations.

In the following years, Banfield expanded — primarily organically — together with PetSmart, but it also started to operate its own clinics outside of PetSmart stores. Today, Banfield owns 1,000 hospitals and employs 19,500 people, including 3,500 veterinarians.

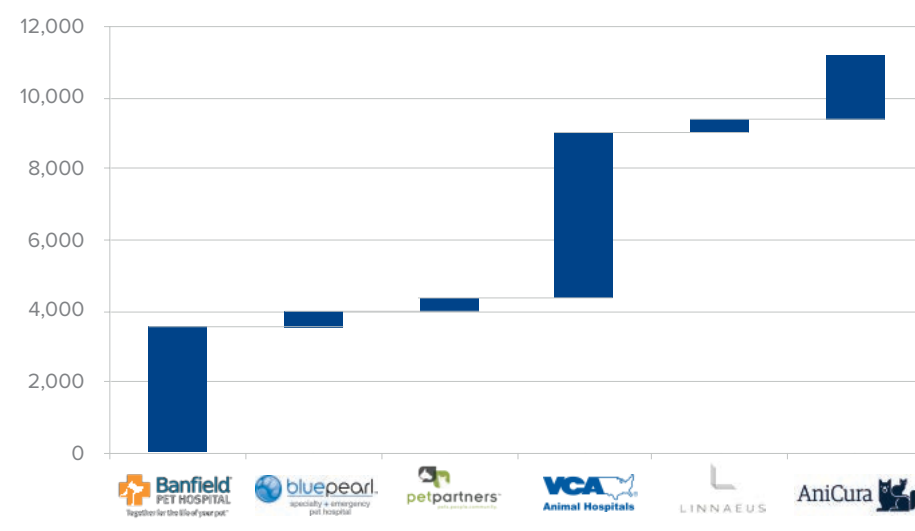
2015

Although Mars went into the veterinary services sector in 2007, the company did not become a consolidator before 2015, when it acquired **BluePearl Veterinary Partners LLC**, which owned specialty and emergency veterinary hospitals. While BluePearl was able to take advantage of Mars' size and scale, it has continued to operate as a separate, distinct business unit under its own brand. Today, it employs 3,150 employees, including almost 500 veterinarians.

2016

Mars acquired **Pet Partners LLC** in 2016. The company uses a community approach, which gives a high level of autonomy to the single practices they own. At the same time, they get access to Mars' massive financial

Number of veterinarians in Mars, Inc., 2018



Source: Oaklins research

and management resources. Today it operates roughly 80 practices in the USA, with more than 1,800 employees.

2017

In 2017, Mars completed the acquisition of **VCA Inc.** — the largest takeover of a veterinary services firm ever, with an enterprise value of US\$9.1 billion. VCA Inc. operates animal hospitals and laboratories for veterinarians in North America. Today, it manages more than 900 clinics and over 60 veterinary diagnostic laboratories. The company employs almost 23,000 people, including more than 4,700 veterinarians. By combining Banfield and VCA, Mars became the clear market leader in veterinary services in North America.

2018

In 2018, Mars acquired **Linnaeus**, a UK-based veterinary services provider, and entered the European market. Sovereign Capital Partners was the previous owner of Linnaeus. The investor expanded the veterinary services company from one to 87 sites in England within four years. Today, the group employs approximately 1,500 people, including ca. 400 veterinarians.

In the same year Mars acquired **AniCura**, a leading European veterinary services provider, with operations in Germany, Sweden, Norway, Denmark, Austria, Switzerland and The Netherlands. It operates 250 hospitals and employs roughly 5,000 people, including 1,800 veterinarians.

TODAY

Through its massive M&A activity, Mars has created a group of veterinary services companies with about 2,400 hospitals and 11,000+ veterinarians.

To put this into perspective: the total number of veterinarians Mars employs is greater than the number of veterinarians in Germany who specialize in companion animals.

Mars underwent a transformative change in the past five years. At the end of 2014, Mars employed 80,000 people globally. Half of its employees worked in the petcare division and most of these manufactured pet food. Nowadays, Mars employs more than 115,000 people, 85,000 of whom are active in petcare, including 60,000 employees in the veterinary services sector.

FUTURE AND CHALLENGERS

Mars' story is an impressive example of a well-developed and consequently implemented M&A strategy, but it has not yet reached the end of the road. The worldwide veterinary services market is still highly fragmented. It offers many opportunities for Mars to grow organically, as well as through acquisitions, in the future. In addition, the company has not yet entered all parts of the globe. Many markets remain untapped, such as Latin America, Asia Pacific and Africa.

However, Mars is not the only party who has understood the attractiveness of this sector. There are many other corporates, as well as investors, trying to grab a piece of the cake. This is particularly true in the USA, but also in Europe and China. We have seen many firms investing in a platform business, which they have used for consolidating the market, a typical buy-and-build strategy. Notable examples include:



In August 2018, Sky News reported that BC Partners was buying UK-based veterinary services group VetPartners for £700 million. At the time of the transaction, VetPartners operated 260 sites across the UK and employed roughly 3,000 people. According to their website, they have already expanded to 350 sites and have a workforce of 4,000 employees.



CVS owns more than 500 veterinary practices in the UK, the Netherlands and Ireland and employs over 1,500 veterinarians. In addition, it operates four laboratories, seven pet crematoria and an online store for medicine and pet food. In its last business year, CVS acquired more than 50 clinics.



EQT, a global financial investor, acquired Evidensia, a Swedish chain of veterinary hospitals and clinics, in 2014, and Independent Vet Care (IVC), a British operator of veterinary practices, in 2016. In early 2017, EQT announced it intended to combine both businesses, which, at that time, had 500 clinics with roughly 2,000 veterinarians across eight countries. According to IVC group's website, it now operates 1,000+ clinics and hospitals and employs more than 3,300 veterinarians across 10 countries. This number becomes even more striking when taking into account that, on average, EQT has added one practice or hospital to the group each working day during the past two years.



The Chinese firm owns shares in several veterinary hospital chains, like Beijing Puppy Town Animal Hospital, Dr. Pet, Vet Anan, Ainuo and Chongfuxin. Hillhouse made significant investments in these companies, and this helped them to expand rapidly.



















The global financial investors acquired PetVet Care Centers from a group of investors (e.g. Ontario Teachers' Pension Plan and L Catterton) in late 2017. The company grew from 30 hospitals in 2014 to 125 sites at the time of the transaction. Meanwhile, according to its website, it has expanded to 180 general, specialty and emergency hospitals.

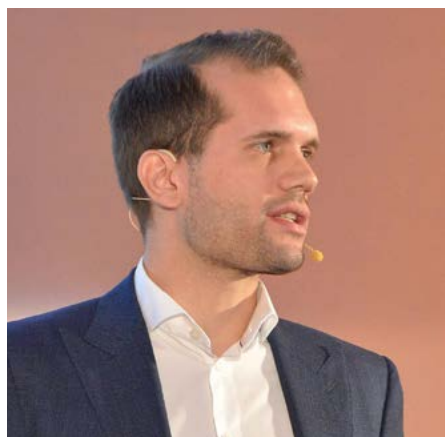


Recent M&A activity

A selection of private transactions in the petcare sector

Closing date	Category	Target	Target country	Buyer	Buyer country	Buyer category	Description
Feb-19	Health	Independent Vetcare		Institutional investors		Investor	Institutional investors have acquired approximately 20% of shares in Independent Vetcare, Europe's leading veterinary services firm, from EQT for ca. €3 billion.
Jan-19	Health	Davies Veterinary Specialists Limited		Linnaeus Group Limited		Corporate	Davies Veterinary Specialists, the UK-based veterinary specialist, has been acquired by Linnaeus, a subsidiary of Mars Petcare Veterinary Health Group and provider of veterinary services.
Jan-19	Food	American Dehydrated Foods/ International Dehydrated Foods (ADF/IDF)		Symrise		Corporate	Symrise AG, the listed Germany-based manufacturer of fragrances, flavorings and raw materials has acquired International Dehydrated Foods, Inc., the the US-based manufacturer of digestible protein and natural chicken flavor ingredients for food formulators and chefs.
Dec-18	Non-Food	Vets Now		IVC Group		Add-on	Vets Now, a Scottish emergency animal-care provider has been acquired by EQT-backed Independent Vetcare (IVC), a leading veterinary services provider in Europe.
Dec-18	Tech	Tractive		Monkfish Equity (Trivago)		Investor	Tractive, an Austrian GPS-tracking company for pets and dogs has received an investment from Monkfish Equity, the German investment company of the Trivago founders.
Dec-18	Food	Pet Supplies Plus		Sentinel Capital Partners		Investor	Sentinel Capital Partners, a US-based private equity firm, has acquired Pet Supplies Plus, a portfolio company of Irving Place Capital and a pet specialty chain with 448 franchised and company-operated stores across the United States.
Nov-18	Food	Vetark Products Ltd.		Candioli		Corporate	Vetark, a provider of food supplements for exotic animals, has been acquired by Candioli, an Italy-based manufacturer of pharmaceutical products and nutritional supplements for companion animals.
Nov-18	Food	DIBO Tierkost GmbH & Co. KG		Serendipity		Add-on	DIBO Tierkost, a manufacturer of pet food, has been acquired by Voff Science AB, a pet food manufacturer.
Nov-18	Non-Food	Gen7Pets		Petmate		Corporate	Petmate has announced that is has acquired Gen7Pets, a company that produces pet strollers, carriers, ramps, steps, cots, travel beds and petyards for cats and dogs.

Closing date	Category	Target	Target country	Buyer	Buyer country	Buyer category	Description
Nov-18	Food	Higgins Premium Pet Foods		Versele-Laga		Corporate	Versele-Laga has announced that it has acquired The Higgins Group Corp., a companion bird and small animal food manufacturer located in Miami, Florida.
Nov-18	Non-Food	Damolin Etrechy		The Laviosa Group		Corporate	The Laviosa Group, an Italian manufacturer of cat litter, acquired Damolin Etrechy, a French producer of cat litter.
Nov-18	Food	Benyfit Natural		Billy + Margot		Corporate	Billy + Margot, an international pet food company, has acquired the UK business Benyfit Natural Pet Food, a manufacturer of dog food.
Oct-18	Tech	DogBuddy		Rover.com		Add-on	Rover.com, the US-based dog-sitting platform has acquired its European competitor DogBuddy, a dog boarding, day care and walking platform based in London, UK.
Oct-18	Retail	Animax Mr. Pet		The Rohatyn Group		Investor	The Rohatyn Group, a US-American asset management firm, has acquired Animax and Mr. Pet, two leading pet suppliers in Romania and Slovenia.
Aug-18	Food	Nordic Petfood		United Pet Food		Add-on	United Petfood, a private label pet food manufacturer, has acquired Nordic Petfood, the largest Romanian pet food producer.
Aug-18	Health	VetPartners		BC Partners		Investor	The private equity firm BC Partners is close to sealing a takeover of the UK-based veterinary care company VetPartners.



“With valuations at an all-time high and the presence of both strategic and financial players with huge cash reserves, the petcare market is supportive of strong M&A activity. On the back of clear consolidation drivers, favorable market dynamics and a fragmented market, we expect the consolidation trend to continue at its current pace.”

THORBEN WOELTJEN
OAKLINS PETCARE SPECIALIST



Case study

THE PRIVATE SHAREHOLDERS OF ETHOS VETERINARY HEALTH, LLC (ETHOS) HAVE SOLD THE COMPANY TO BROWN BROTHERS HARRIMAN CAPITAL PARTNERS.

Headquartered in Woburn, Massachusetts, Ethos is a leading provider of specialty veterinary health services, with over 300 doctors of veterinary medicine throughout the USA.

The company's unique integrated clinical model includes 21 specialty and emergency hospitals and a suite of complementary reference laboratory, compounding pharmacy and SaaS-based training services.

Ethos, formed in 2015 through the merger of four veterinary hospital systems, has since acquired six additional hospital systems and also earned a national reputation among veterinary professionals for providing exceptional quality, world-class professional development and a veterinarian-first culture.

Through this minority equity recapitalization with Brown Brothers Harriman, Ethos has provided liquidity to its owners, gained a partner with significant experience scaling multi-unit healthcare businesses and positioned itself for future organic and acquisitive growth.

Brown Brothers Harriman Capital Partners is a private equity company that provides highly customized, one-stop, junior capital solutions to lower middle-market companies.

Oaklins' team in Cleveland served as the exclusive financial advisor to the seller in this transaction.

ETHOS
VETERINARY HEALTH

has been acquired by

BROWN
BROTHERS
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M&A SELL-SIDE

Consumer & Retail/Healthcare/Private Equity

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- Debt advisory
- Corporate finance services

Petcare is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the petcare sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for petcare companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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