

Oaklins

MARKET OVERVIEW AND M&A ACTIVITY

Pet food

December 2021


M&A advisory experts in the **Food & Beverage** industry



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Dedication and passion for high performance




has been acquired by the

CEO


M&A SELL-SIDE
Consumer & Retail/Private Equity




has been acquired by




M&A SELL-SIDE
Consumer & Retail/Private Equity




has been acquired by




M&A SELL-SIDE
Consumer & Retail/Healthcare



has been acquired by




M&A SELL-SIDE
Consumer & Retail/Food & Beverage/Private Equity




has sold 12 locations to

a private real estate investor

M&A SELL-SIDE
Consumer & Retail/Private Equity/Real Estate



has acquired




M&A BUY-SIDE
Consumer & Retail




has been acquired by



M&A SELL-SIDE
Agriculture/Consumer & Retail/Food & Beverage/Private Equity



has sold a 65% stake to



M&A SELL-SIDE
Consumer & Retail/Other Industries



has been acquired by

Merit Capital & Aiglon Capital

M&A SELL-SIDE
Consumer & Retail/Private Equity

Oaklins – your trusted M&A advisor for transactions in the food and beverage industry

- Oaklins has been active as an experienced M&A advisor for sell- and buy-side transactions for several years in this industry
- Excellent relationships with major market players in the industry
- Personal advice and counseling during the entire transaction process
- Global presence with operations in more than 45 countries, enabling Oaklins to deliver high-quality results for all stakeholders
- This brings about the best possible merger, acquisition and divestment opportunities in the field of pet food



CHRISTOPHER RAHN
Director | Head of pet care
+49 69 5050291 58
c.rahn@de.oaklins.com



LUKAS GIRKE
Associate
+49 69 5050291 50
l.girke@de.oaklins.com



MAREN TIETZ
Associate
+49 69 5050291 51
m.tietz@de.oaklins.com

Executive summary

Market drivers



1

Trends like pet humanization and premiumization lead to high-quality products and healthier ingredients



2

Pet food companies put growing emphasis on marketing and e-commerce distribution channels



3

Meeting the demand for personalized pet food and creating strong brand loyalty are key to obtaining a competitive edge

M&A outlook



1

Fragmented niche markets will be consolidated and acquired by the big players



2

Strategic buyers have higher synergy potential. Private equity investors are highly active and seek high growth potential with add-on acquisitions

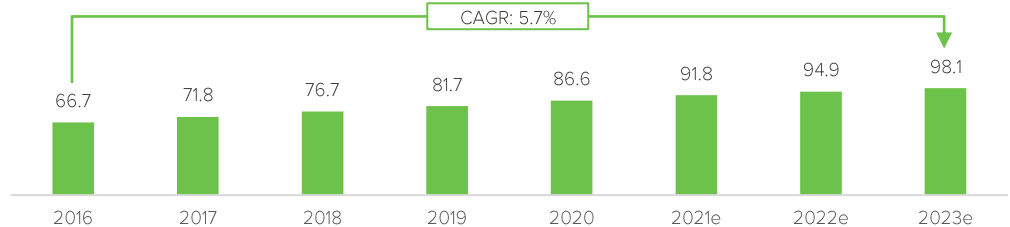


3

Motivations for M&A activities include gain of market share, product extension and new distribution channels

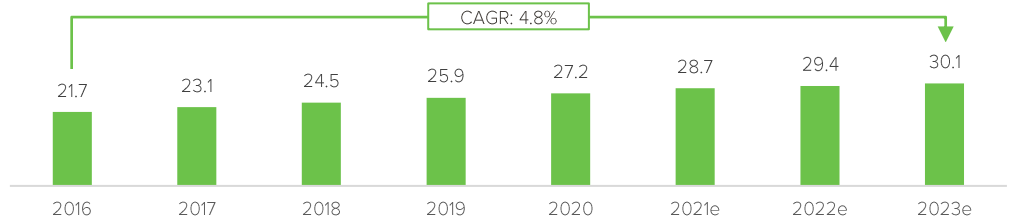
Global pet food market revenue development 2016–2023

(in € billion)



European pet food market revenue development 2016–2023

(in € billion)



Market share of online vs. offline sales in Europe 2010–2020



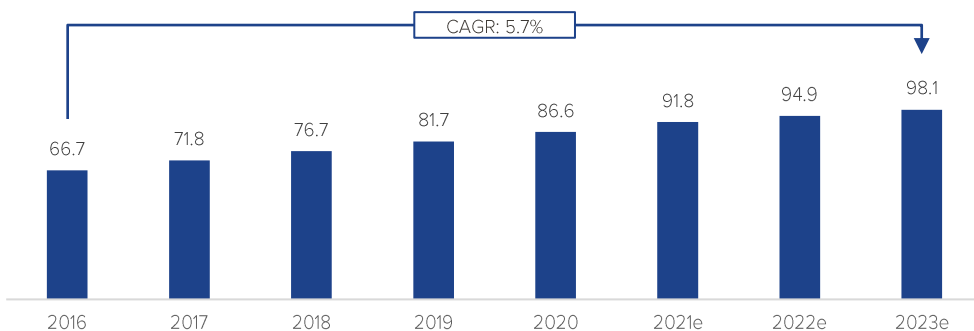
Introduction

The pet food segment has experienced significant growth in recent years as the pet population and number of online stores both increase. What's more, the humanization, premiumization, digitalization and internationalization trends are also driving the global pet food market. Pet owners are willing to spend more of their discretionary income on pet foods, which means, the price gap between human food and pet food is narrowing. When it comes to the growth of companies, international expansion strategies and increasing focus on e-commerce are strong drivers. Additionally, customers' increasing demand for healthier pet food and higher focus on ingredient quality result in a fragmented market with different niche products ranging from premium to vegan and raw meat pet food.

Oaklins has successfully advised on numerous M&A transactions in the pet food and pet care industry, both nationally and internationally.

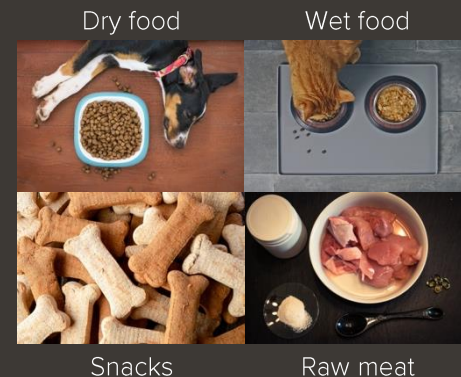
This report analyzes the global pet food market and presents market forecasts, key drivers and challenges. Additionally, the report introduces various global pet food players and gives a brief overview of the German pet food industry. M&A activities and valuation trends within the pet food market are also covered along with a detailed look at the involvement of financial investors. Lastly, two case studies showcase pet food-related transactions where Oaklins acted as an advisor.

Global pet food market revenue development 2016–2023 (in € billion)



Sources: Euromonitor International, Oaklins research

Product categories



- The expanding pet food market was barely impacted by the COVID-19 crisis and is not affected by economic cycles
- A growing pet population and increasing focus on the quality of ingredients and demand for transparency change the consumer and shopping behavior
- The main sales channels are driven by digitalization and e-commerce trends, shifting the point of sale from physical stores to online shops
- E-commerce generates new opportunities for consumers to choose between more brands and to better compare prices

Trends



Humanization

Owners treat their pets like family members



Premiumization

Customers demand high-quality products with healthy ingredients



Digitization

E-commerce channels and online shopping solutions, offers new customer experiences



Internationalization

Product offerings are available globally, and offer market entry into new countries

Drivers



E-commerce

Increasing focus on online channels to scale the business and price sensitivity of customers



Transparency

Pet owners become health-oriented and focus on pet food ingredients and a healthy lifestyle



Personalization

Consumers demand customized products with an optimal nutritional mix



Brand awareness

Customers become loyal to their favorite brand and have a high CLTV*

Challenges



Global market

Large corporations dominate the mass market and offer a comprehensive product portfolio



Competitive landscape

Apart from large dominating corporations, smaller players operate in on regional and niche markets



COVID-19

The impact of the pandemic leads to changing business models and a shift towards e-commerce businesses

Market trends, their drivers and challenges

The humanization of pets and focus on transparency in regard to ingredients lead to an increase in demand for high-quality and personalized products. Additionally, customers want to choose between a wide variety of pet food products, and have a convenient and simple shopping experience.

Manufacturers and retailers shift their sales channels towards the online business and improve the online customer experience along with that of offline stores. Younger generations in particular make use of online shopping possibilities. Companies with a competitive edge offer both offline and online sales channels.

Companies are starting to offer subscription-based offers to increase customer loyalty and generate data for further customer behavior analysis.

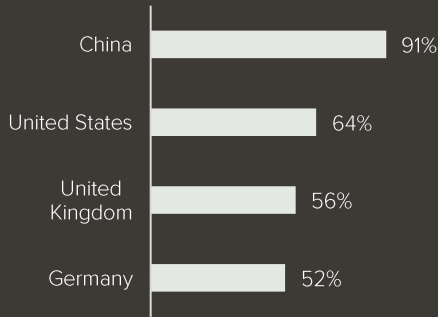
The internationalization of the pet food segment and large corporations holding the major share of the market create a challenging market environment for entering companies, which results in various regional niche markets.



* CLTV= Customer lifetime value
Sources: Max Rubner Institute, Oaklins research

Market dynamics

Consumers who shifted from offline to online purchases due to the COVID-19 pandemic in 2020



Environmental impact on consumer behavior

- 40% of customers say that environmental impact affects the choice of food they give their pets
- 35% of customers have already chosen to use eco-friendly products
- 25% of customers choose their pet store or pet brand based on the environmental impact

E-commerce

Manufacturers and retailers are facing a global trend towards e-commerce businesses and are increasingly shifting their sales channels to the online segment

Personalization

Consumers demand customized products and the ability to adjust food blends to the individual needs of their pets. Innovative approaches, such as subscription-based offers, allow companies to create custom user profiles and products for their clients

Humanization

Pet owners treat their pets like family members, which leads to lower price sensitivity and higher demand for pet products in the premium sector

Consolidated global market

New market entrants face the challenge of competing against large corporations, which dominate the global market for mass pet food products. Therefore, many companies operate in regional niche markets

Sustainability

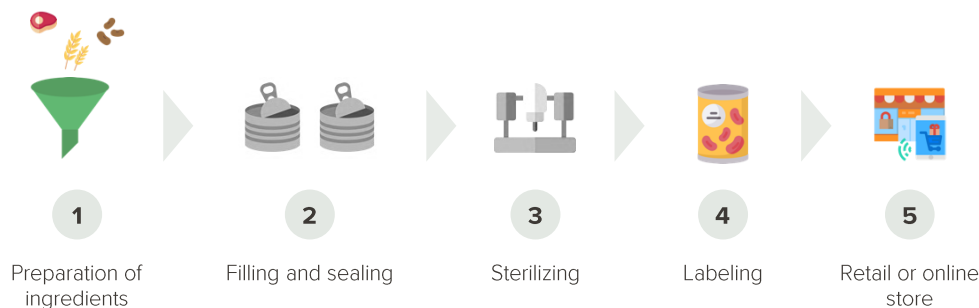
Environmental concerns are becoming an important factor in the pet food market. Packaging is used heavily, forcing companies to explore eco-friendly alternatives

COVID-19

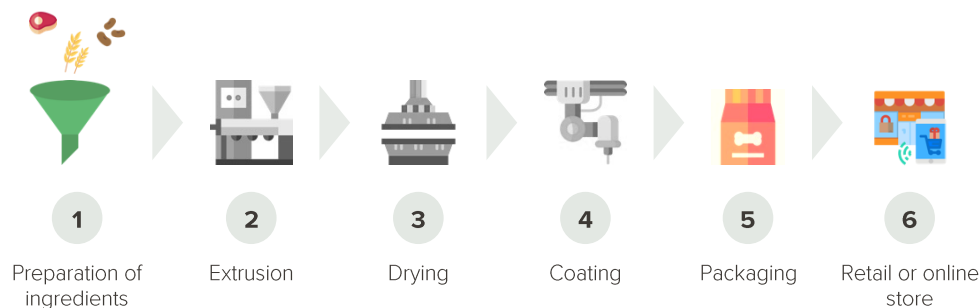
Public restrictions due to the global COVID-19 pandemic are forcing retail shops to operate exclusively through online channels and accelerating the trend towards e-commerce in the pet food market



Manufacturing process of wet pet food

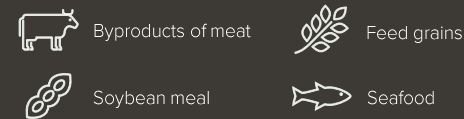


Manufacturing process of dry pet food



Manufacturing process

Main ingredients in dog and cat food



Wet pet food

- The process of producing wet food involves finely ground or pre-cooked ingredients (meat, offal and cereals, etc.)
- The food is poured into cans together with the necessary additives and then sterilized with external heat of up to 120°C

Dry pet food

- Prior to processing, all ingredients (dried meat, poultry slaughterhouse waste, and pre-dried animal feed, etc.) are heated, mixed and ground into small pieces
- During the extrusion process, the food slurry is heated by steam (>100°C). A forming die applies high pressure and high speed to create small morsels
- These morsels are then dried again and misted with vitamins, preservatives and fat or flavoring for better palatability

Shift from ready-to-eat pet food to BARF nutrition

	Ready-to-eat		BARF
Production	Use of grain that is no longer usable and cheap slaughterhouse waste		Raw meat, bones and offal serve as main ingredients
	Enrichment through flavor and aroma substances		Fruit and vegetables are added as supplements
Nutrition	No direct influence on the choice of ingredients		Takes into account the natural needs of the pet
	Inferior quality and potentially harmful additives		Free from unwanted additives
	High protein level due to large amount of grain		Focus on natural feeding
Distribution	Distribution through pet stores and supermarkets		Larger quantities can be ordered in a frozen state
	Inferior quality enables lower pricing		Seasonal vegetables can significantly reduce the total costs for BARF food

Source: Oaklins research

The new trend: BARF

What is BARF?

- BARF is the abbreviation for “Biologically Appropriate Raw Food”, which contains an ingredient mix of raw meat, vegetables, fruits and bones
- The BARF diet is based on the principle of wild nature, feeding dogs the nutrition they are evolved to digest – namely raw meat
- The nutritional mix is usually high in protein and has minimal amounts of carbohydrates

Key advantages



Varied natural diet



No direct influence on individual food components



The animal's organs are spared from artificial additives and cereals



Individual adaptation of the diet to age and weight of the pet



Healthy development of the animal and strengthening of the immune system



Ideal mixture consists of 80% meat and 20% vegetables

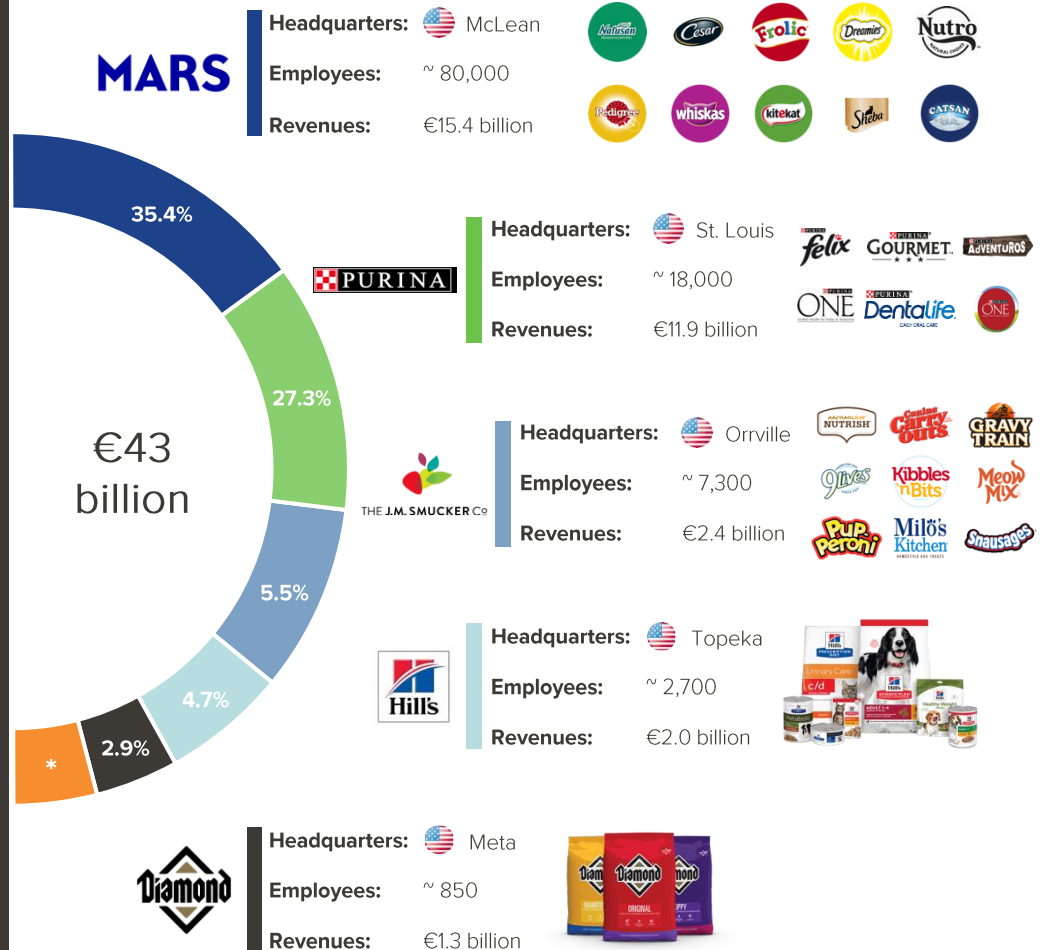
Global market players

- The global pet food industry is consolidated with the top players owning the majority share of the market
- Most market leaders are based in the United States and operate globally in all major markets
- Brand awareness in the industry is high, as pets become accustomed to food brands during different growth stages. As a result, it is difficult for competitors and new entrants to gain any market dominance

M&A activity and motivation

- Large players focus on the mass market pet food brands and tend to sell less established business lines to financial investors
- Acquisitions allow major companies to expand their product portfolios and offer one-stop solutions to customers
- Considering the difficulty of gaining further market share in the pet food sector, M&A offers competitors an efficient alternative for gaining market share inorganically

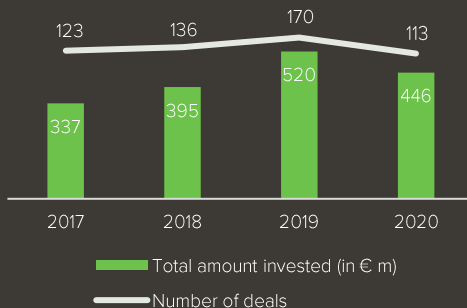
* Other companies represent 24.2% of total market share



Startups

- With the increasing e-commerce trend in the pet food industry and the introduction of new business models, several opportunities for innovative startups are emerging
- This development has even accelerated during the COVID-19 pandemic. Many customers are dependent on alternative shopping possibilities
- Due to the high growth potential of the pet food market, numerous investors are willing to provide growth capital

Global pet food funding between Q1 2017 and Q1 2020



Emerging innovative business models driven by new technologies



Butternut Box was founded in 2016 and is a London-based fresh dog food business offering personalized diets via its own tech platform. A proprietary algorithm identifies how many calories each individual dog needs based on age, weight, breed, activity levels and body condition, and then pre-ports this amount into daily servings.

“Pet owners are left choosing their dog food in an aisle cluttered with washing powder and bin bags and dominated by a few unhealthy choices. Butternut Box makes it easy and convenient to ensure dogs get the very best diet tailored for each individual.” – **Kevin Glynn, Founder**

L CATTERTON

passion capital

WHITE STAR CAPITAL

FIVE SEASONS VENTURES

...invested EUR 47.2m growth capital in August 2021 in the second funding round to reduce total British dog vet fees of EUR 236m per year



Lily's Kitchen was founded in 2007 and is a London-based manufacturer of dog and cat food. Lily's manufactures premium wet and dry natural foods. The startup offers a subscription-based model, which allows customers to create an individual schedule and automate the ordering process.

L CATTERTON

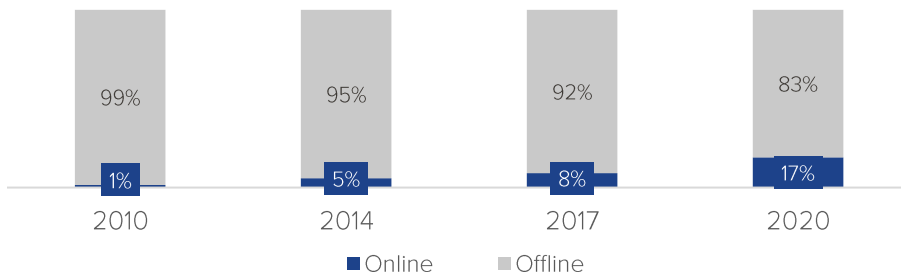
July 2015: L Catterton Management Limited provided a growth capital investment to support the growth and expansion of Lily's Kitchen into key domestic and international markets

PURINA

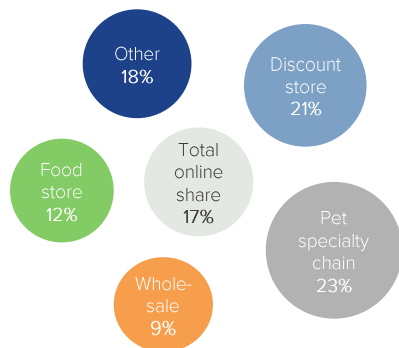
April 2020: Nestlé Purina PetCare Company takes over Lily's Kitchen to complement the brand portfolio

“My dog, Lily, was terribly sick, and began to not eat her dog food, so I was left with the only solution of cooking her food myself. I knew I had to promote this for the benefit of others and their own pet's nutrition and health.” – **Henrietta Morrison, Founder**

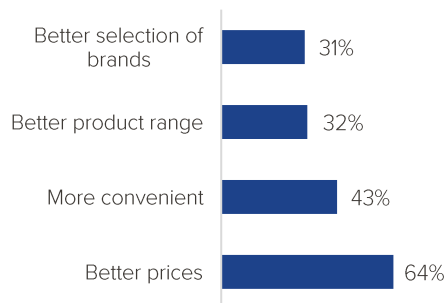
Market share of online vs offline sales in Europe between 2010–2020



Share of sales by retail channel



Main reasons customers prefer buying pet supplies online



E-commerce business

- The pet food market is experiencing an online boom, which is driving consumers away from physical stores
- With customers facing lockdown restrictions, established retailers with an online shop benefit from expansion opportunities. Other companies challenge established pet food manufacturers and retailers with innovative direct-to-consumer business models
- Online platforms allow consumers to compare offers, customer reviews and a choice of options. These major advantages over traditional sales channels constitute key drivers for e-commerce

Opportunities

- Consumers demand a wide range of products and a convenient customer journey throughout the entire shopping process
- Online business channels enable companies to directly address these expectations and streamline customer experience
- Furthermore, the shift towards e-commerce allows pet food producers to meet the demand for individual and personalized products. The possibility of collecting individual customer profiles enables stores to customize offers and provide custom food blends to consumers

Price segmentation



1 With increasing pet humanization, price sensitivity of pet owners is declining continuously

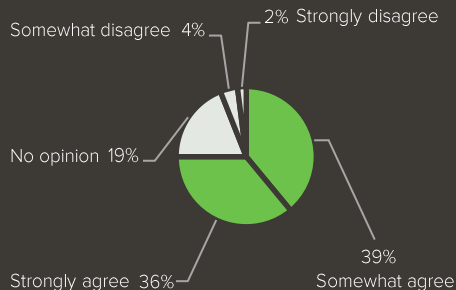


2 Pet owners are paying closer attention to food allergies and intolerances, which increase the demand for specialized and individualized diets



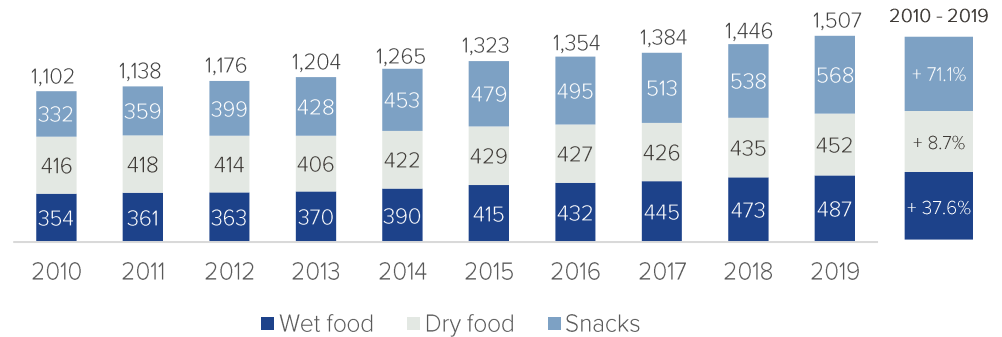
3 The trend towards sustainable and locally sourced products is boosting demand for products in the premium price segment

Share of consumers who agree with paying more for healthy pet food



Revenue development of dog food in Germany 2010–2019 by product category

(in € million)



Revenue development by price segment 2012–2022E

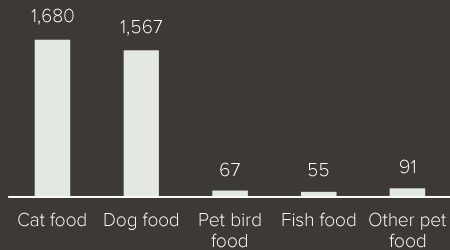
(in € million)



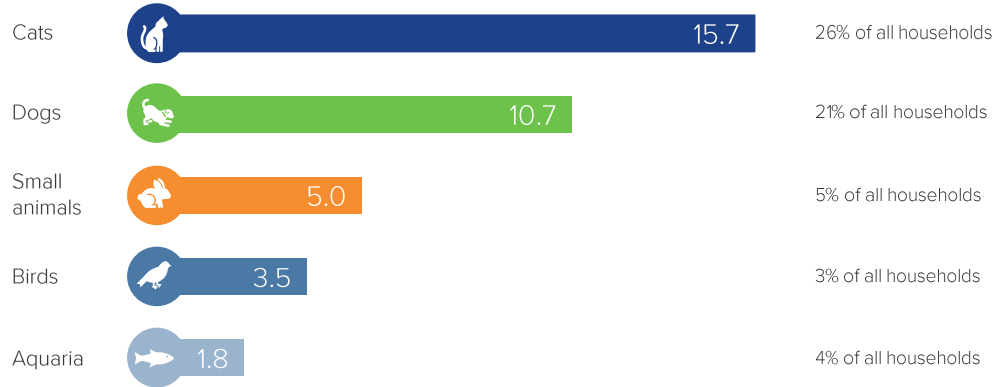
German pet food market

- Dog food and cat food represent around 94% of total sales of the pet food market
- More than 60% of sales are generated via food retail stores and almost 40% via specialized trade
- The online sales volume in 2020 amounted to approx. €822 million
- The increasing rate of pet ownership worldwide, especially across developing regions, is anticipated to be one of the primary drivers of the market

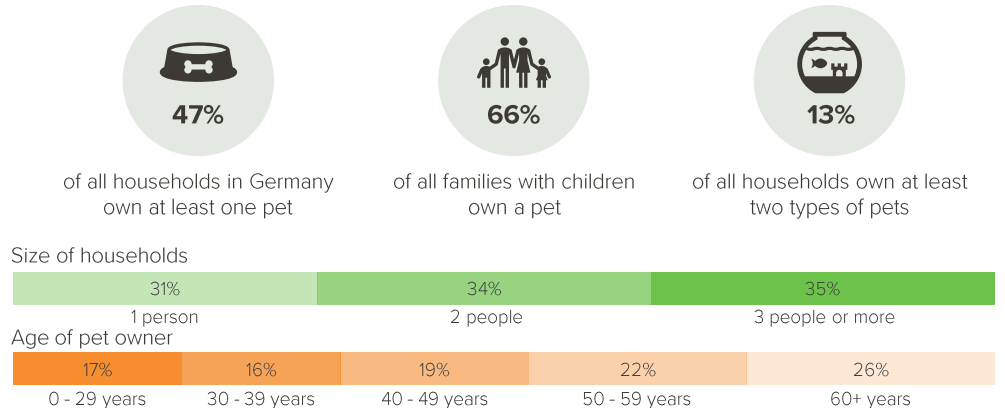
Total sales in Germany in 2020 (in € million)



Pet population in Germany in 2020 (in millions)



Pet households in Germany in 2020



Segments of the German pet food market



Overview of the German pet food industry

Premium segment

- Focus on high-quality natural and organic ingredients
- Sales channels include offline stores and online shops that offer high customer satisfaction

BARF segment

- Emerging trend towards raw meat to exclude harmful ingredients
- Possibility of customizing the nutritional food mix
- Fragmented market with many smaller and regional brands

International segment

- Dominates the mass market, owning several brands and products
- Sales channels are primarily retailers and supermarkets
- Economies of scale enable a lower cost structure

(Online) retailer segment

- Companies focus on wet and dry pet food as well as on pet equipment and accessories
- The leading companies in Germany are zooplus, Fressnapf and ZooRoyal

Private equity activities

Motives of private equity investors

- Sustainable market growth with reliable cash flows
- Growth potential underpinned by online penetration and premiumization
- Niche markets create the potential for high margins and add-on acquisitions
- Accelerate a company's revenue growth and develop the company for the next growth phase
- Initiate global brand expansion with PE's expertise and know-how
- Expand production, packaging and logistics capacities
- Investments in brand marketing and new innovative products to drive growth and increase profitability

Key value drivers

- Expanding a company's digital marketing operations
- Pursue an international growth strategy
- Offer an innovative food products portfolio
- Develop direct-to-consumer capabilities

2021				
Buyer				
Target				
2020				
Buyer				
Target				
2018/2019				
Buyer				
Target				
2017				
Buyer				
Target				
2013 to 2016				
Buyer				
Target				

Buy-and-build strategy



1 Create leading pet food/pet care platforms



2 Niche markets create the potential for high margins and add-on acquisitions



3 Expanding into new markets to create new growth opportunities and additional technological possibilities



4 Sustainable market growth with secure cash flows and increasing demand triggered by the pandemic

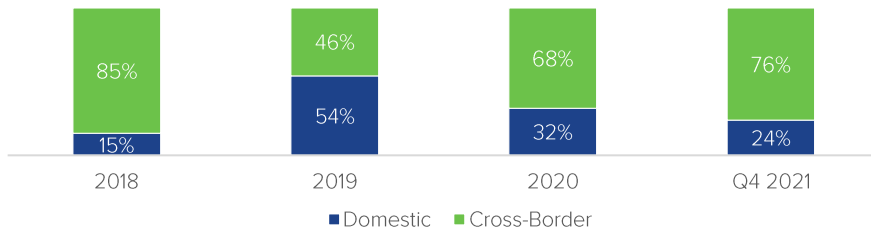
“The combination of Arcaplanet and Maxi Zoo Italia creates a fantastic platform from which to drive growth in the pet care market [...]. Cinven’s Consumer team has a deep understanding of the pet care sector given Cinven’s investment in Partner in Pet Food and the mega trends fueling sector growth, such as pet humanization, product premiumization and specialization.”

Maxim Crewe, Partner and Head of Consumer at Cinven

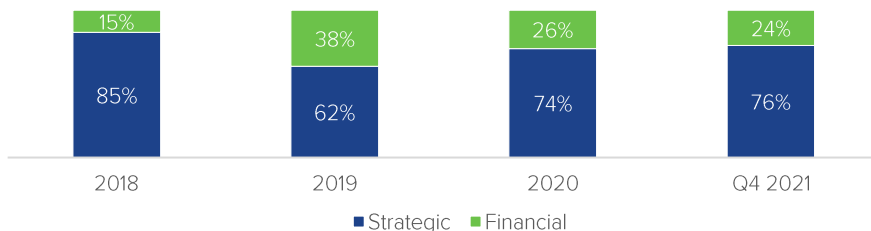
	Platform investment	Add-on acquisitions	Rationale
Buyer			The combination of Arcaplanet and Maxi Zoo Italia creates one of Italy’s leading pet care platforms and profits from market growth potential
Target			
Buyer			Strengthens United Petfood’s position internationally and makes it a full-service pet food provider
Target			
Buyer			Further development of pet care services and integration into the larger ecosystem
Target			
Buyer			Expanding the product portfolio and gain of market share
Target			
Buyer			Vertical integration in the home market by adding pet shop operators and online retailers
Target			

M&A activity

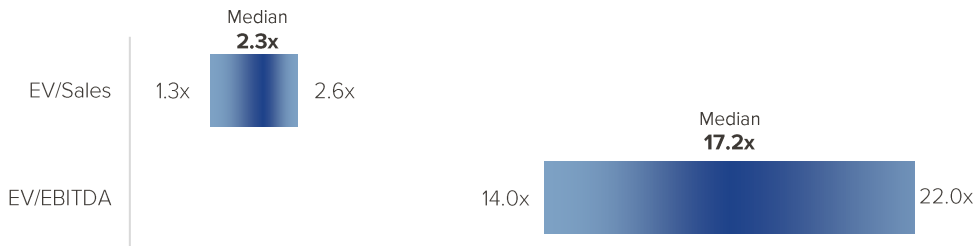
Domestic vs. cross-border transactions



Strategic vs. financial buyers



Transaction multiples (2018 – Q4 2021)



Source: Mergermarket as of 13-Dec-2021

M&A activity

- The cross-border activity has increased between 2019 and 2021 and is as of December 2021 divided into 76% cross-border deals and 24% domestic deals
- The industry is primarily dominated by strategic players, profiting from know-how and product extension synergies
- Strategic players dominate the M&A activity in the overall pet food market as companies follow an inorganic growth strategy to gain market share
- Transaction multiples are based on precedent transactions within the pet food market between January 2018 and December 2021
- The median of the EV/Sales multiple values at 2.3x and includes nine transactions since 2018, while the median of the EV/EBITDA multiple is 17.2x including eight transactions
- The multiple range reflects the 25th and 75th quartile of the past transactions

Motivation for M&A transactions



1 Expansion of product portfolio according to changing market trends



2 Bypassing market entry barriers using expansion strategies



3 Increasing demand for sustainable and organic pet food products



4 Use of cross-border deals to enhance market share

“The acquisition of Cambrian Pet Foods allows us to extend our product range and be a one-stop solution for our customers.”

Joint statement, Board of Directors of United Petfood


“The market for natural pet food in the UK is particularly strong and resilient, and we see significant further growth potential for Forthglade in the UK and beyond in the years to come.”

Tom Salmon, Partner at IK Investment Partners

* Announced or closing date

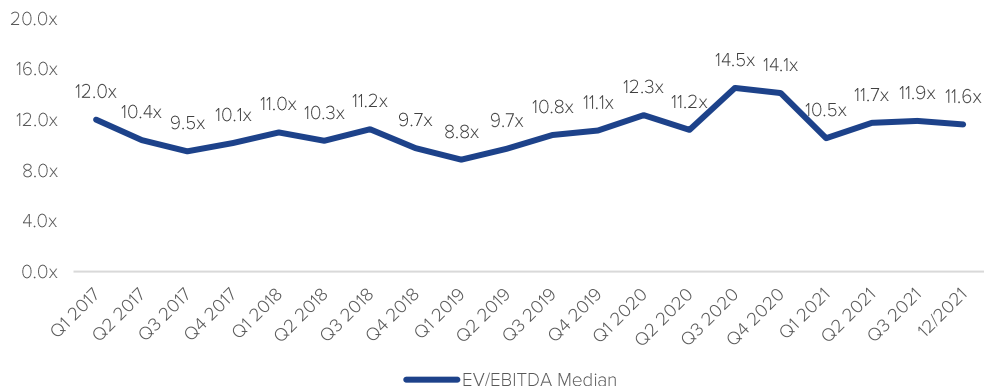
19 Source: Mergermarket as of 13-Dec-2021

Selected transactions in the European pet food market

Date*	Target	HQ	Deal description	Buyer	HQ
MAY 2021			Seeking to invest in an expanding nutritional platform, the PE-firm Apax Partners LLP acquired a majority stake in Nulo Pet Food (revenue: €120 million), one of the fastest-growing pet food brands in the US pet specialty segment.		
MAR 2021			Assisi Pet Care aims to create a significant player in the European pet care market through buy-and-build. The acquisition of pet food supplier Town & Country Petfoods Limited broadens Assisi's offering into dog and cat foods, as well as treats.		
FEB 2021			United Petfood Producers N.V., a manufacturer of extruded dry dog and cat food, acquired pet food producer Cambrian Pet Foods Ltd. (revenue: €32 million), which gives customers access to a complete range of pet food products made in-house.		
FEB 2021			Adhering to its strategy to increase output capacities in the European market, VAFO Praha s.r.o. acquired Finnish pet food manufacturer and wholesaler Prima Pet Premium Oy (revenue: €33 million).		
DEC 2020			CapVest Partners LLP acquired pet food supplier Inspired Pet Nutrition Ltd. (IPN) (revenue: €108 million), which is expected to accelerate the company's organic growth strategy in the UK and Europe, augmented by a targeted buy-and-build strategy in both dog and cat food segments.		
NOV 2020			The UK-based pet food company MPM Products (revenue: €79 million) has been acquired by 3i Group, with the aim of accelerating the company's international expansion in the pet food sector.		
SEP 2020			IK Investment Partners acquired an 80% stake in Forthglade (revenue: €19 million). The company is engaged in producing and selling pet food for cats and dogs, and expects to benefit from IK's resources to enhance its current offerings and expand into new regions.		
JAN 2020			Capiton AG acquired a 35.9% stake in online pet food retailer Alphapet Ventures GmbH. Capiton aims to develop a leading pet food retailer in the premium segment.		

Valuation trends*

Valuation of comparable companies



Selection of comparable companies (as of LTM)

Company	HQ	FTE	Sales (€ m)	EBITDA (€m)	EV (€ m)	EV/EBITDA
Central Garden & Pet Company		6,500	2,925	294	3,097	8.8x
Chewy, Inc.		18,500	7,567	-55	20,164	NM
Freshpet, Inc.		591	394	11	3,805	NM
Pets at Home Group Plc		10,004	1,459	187	3,077	13.2x
The J. M. Smucker Company		7,100	6,999	1,479	17,002	10.0x
zooplus AG		857	2,023	10	3,366	65.7x

* Excluding outliers and negative values
Source: Capital IQ as of 13-Dec-2021

Valuation trends

- The comparable company analysis is based on 10 companies active in the pet food segment from January 2017 to September 2021
- The EBITDA multiple shows a volatile multiple development that reached a peak in September 2021 with a multiple of 14.5x while the lowest multiple was 8.8x in Q1 2019
- The pet food segment did not suffer during the COVID-19 pandemic but actually increased its growth and profitability. The consequences of lockdowns enhanced the trends in the pet food segment and increased the valuation of listed pet food companies

Comparable company characteristics

- The selected public companies are located in the United States and Europe
- Selected companies operate on a global scale and follow inorganic growth strategies to expand internationally
- Companies have a diversified product portfolio and focus on the manufacturing and retailing of pet food and pet related-products

Oaklins case studies

Hillhouse Capital has acquired H. von Gimborn Group

Our client

Penta Investments Ltd.'s portfolio company H. von Gimborn Group is a German developer, manufacturer and marketer of premium cat and dog snacks. The group's products are mainly sold under its own brands including GimCat, Biokat's and GimDog. The company operates in Germany, Italy, the Netherlands, Russia and China. The product portfolio includes snacks and functional food for cats, cat litter and snacks for dogs.

Acquiror

Hillhouse Capital Management is a Chinese long-term investor focused on the consumer, technology, healthcare and financial sectors. Hillhouse Capital owns 30% in Bridge PetCare, China's leading pet food firm. Bridge PetCare was founded in 2002 in Shanghai, has more than 400 employees, and is engaged in the manufacturing and sale of cat and dog food.

Transaction details

Hillhouse Capital Management has acquired H. von Gimborn Group, as part of Gimborn's internationalization strategy, from the private equity investor Penta Investments Ltd.

Rationale

Hillhouse Capital's expertise in the pet food sector and its portfolio company Bridge PetCare is the best partner for Gimborn to realize an international expansion strategy with a focus on the Asian market. The acquisition can bring about a significant increase in sales and profitability and fits well with Gimborn's key objectives in the future.



has been acquired by



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Consumer & Retail/Food & Beverage/Private
Equity



has been acquired by

BPE

M&A SELL-SIDE

Agriculture/Consumer & Retail/Food &
Beverage/Private Equity

BPE Unternehmensbeteiligungen has acquired Seitz GmbH

Our client

Seitz GmbH is a German developer and manufacturer of premium pet food. The company is active in the private label business and produces primarily deep-frozen and canned pet food for dogs and cats. The company minces and processes fresh meat products and sells them via specialized pet shops and veterinarians in the premium segment.

Acquiror

BPE Unternehmensbeteiligungen is a German private equity investor based in Hamburg. The firm focuses on the financing of MBOs and MBIs in the German SME sector. Typical investment scenarios include ownership succession, corporate spin-offs, buy-and-build, and the reorganizations of profitable companies.

Transaction details

BPE has acquired Seitz GmbH via a management buy-in. The new management's proven knowledge and experience in meat processing from their prior business and successful exit from Karl Kemper GmbH make them suitable candidates for the management of Seitz GmbH. Karl Kemper is a manufacturer of meat convenience products.

Rationale

The new management's expertise in the meat processing business and the financial know-how and support from BPE can generate further sales and growth potential in the premium pet food segment.

Conclusion

The global pet food market is expected to grow at a CAGR of 4.2% between 2020 and 2023, from a total market size of €73.6 billion to €83.3 billion.

The high growth rates mainly result from the demand for personalized and high-quality pet food products and a change in consumer behavior towards healthier alternatives. E-commerce business models disrupt traditional in-store purchases and offer new opportunities to sell pet food to a larger customer base.

The dominant mass market pet food producers have a competitive edge through economies of sale and by operating internationally. Companies that focus on niche markets target customers that place value on healthy pet food. The pet food segment is also highly attractive to private equity investors as additional capital is used to increase production capacity and to improve sales channels. Larger private equity investors pursue a buy-and-build strategy and consolidate different products in different regions.

Market trends



Humanization of pets leads to a higher willingness to increase spending



Increasing demand for high-quality products and healthy ingredients



Changing consumer behavior through emerging e-commerce

Private equity investors are highly active and see great growth potential



High volume of cross-border transactions as companies follow inorganic expansion strategies



Attractive business models and the independency of economic cycles result in high valuation multiples



Market activity

Deal drivers



Expansion strategy and entry to niche markets



Companies aim to increase production and logistics capacities and improve e-commerce coverage



Complementary product synergies

Highly attractive market conditions



Sustained growth potentials through changing customer views regarding their pets



Outlook

Rising cross-border transactions to increase market share and customer base





About Oaklins

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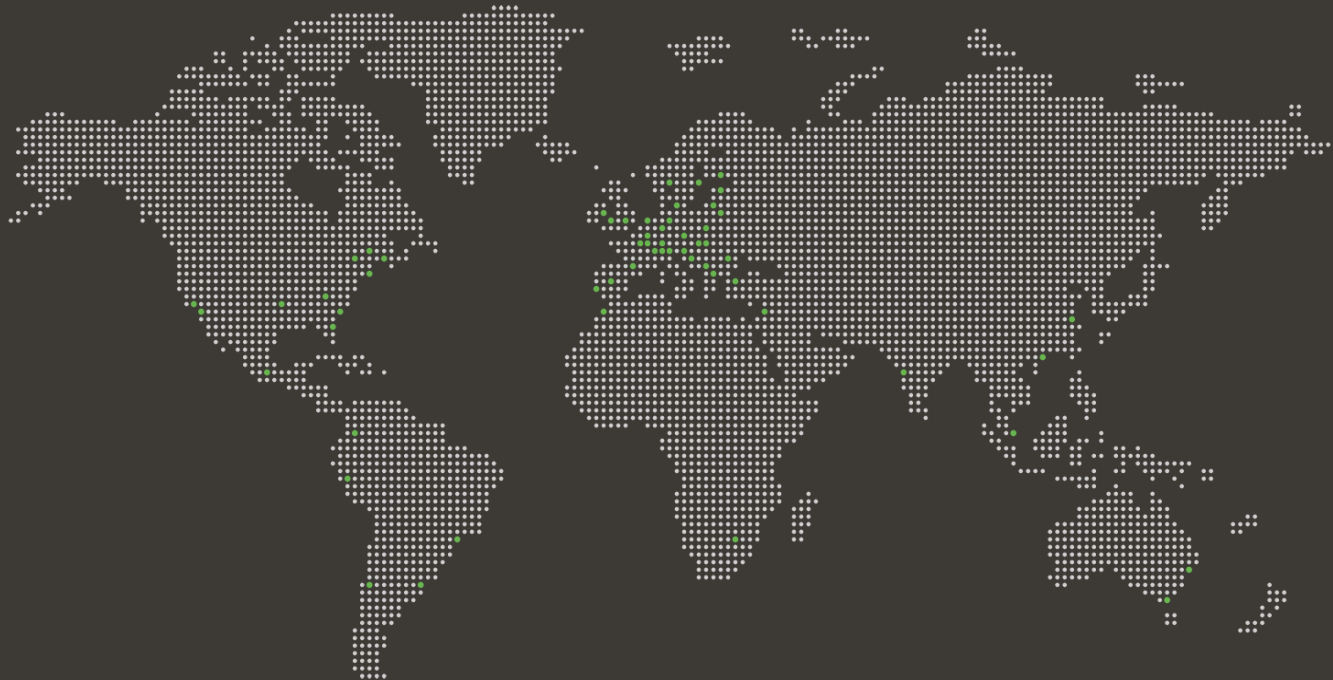
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- Debt advisory
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Global Reach



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