



Global Pet Food Industry – Sector Update



Sector Outlook

General Outlook

- The pet food industry still proves to be one of the most resilient industries since it has experienced strong growth in a challenging economic environment over the last three years. Regardless of the current inflationary environment, experts still expect high overall growth rates for the pet food segment
- High brand loyalty in the pet food sector represents a major growth driver as consumers show only little price sensitivity – so far
- Since pet owners shift towards online shopping, brands need to examine their SEO strategy and their online presence to win the attraction of omnichannel customers
- Different segments of the pet food industry are growing at a different pace. The premium and super premium segment is expected to experience the strongest growth, while outlooks for the “mainstream” category forecast a flat development or even a decline in 2023

M&A Outlook

- From an M&A perspective, we could witness a robust deal activity in the first half of 2023 with notable transactions of key industry players, such as the sale of selected brands by J.M. Smucker to Post Holdings and the acquisition of Drools by the PE firm L Catterton. Investors are currently lining up for the long-awaited sale of AlphaPet Ventures, which is expected to be kicked off shortly. Furthermore, US-based Alpha is exploring options including a sale that could value the private equity-owned pet food manufacturer at over \$1 billion, according to people familiar with the matter
- Due to an overall rising interest rate environment and decreases in debt availability, financial sponsors have become more cautious. Due to the grown professionalism in the pet food industry, the strong fundamentals, and the overall market outlook,



Marco Strogusch
Partner at IMAP M&A Consultants AG

“Businesses with a convincing and distinct equity story, a strong brand equity, operational excellence, attractive growth, and high sustainable margins are still poised for strong investor interest with opportunities to achieve premium valuation levels”

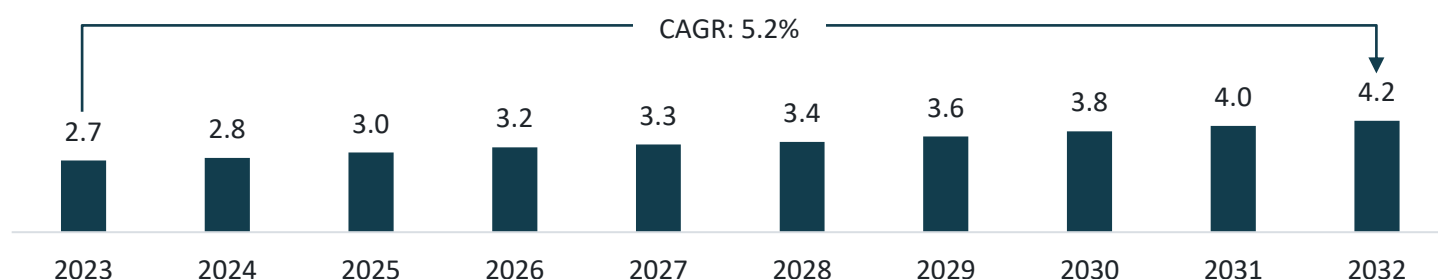
the pet food sector remains a very attractive investment opportunity for private equity investors. Given the strong growth prospects, the high economic resilience, and the most recent deal activity with 19 announced transactions* so far, we expect another dynamic year for M&A transactions

- However, the success of pet food deals in the short term will be determined by two decisive factors: First, stable conditions in the financing environment, and second, a negligible impact of inflationary pressure on consumer spending behavior
- If these requirements are fulfilled, the pet food markets will experience elevated private equity activity. Moreover, strategic buyers will continue to acquire companies with synergistic offerings, brands, and capabilities that will strengthen their market position and drive future growth. Access to new sales channels or product categories, high-profit margins, and cost-saving opportunities remain key investment criteria for this buyer category
- Valuation levels of pet food companies appear to be mainly unaffected by macro market conditions. Current valuation levels still display double-digit EBITDA multiples for strongly growing market participants. On the other hand, valuations of pet health companies & retailers experienced a decline over the last months



Sector Deep Dive – Pet Supplements

Global Pet Supplement Market Volume (in \$bn)



- The pet supplement market is expected to grow at a CAGR of 5.2% in the forecast period from 2023 until 2032, being one of the most attractive subsegments
- An increasing pet population, the rising pet humanization trend, and growing awareness about pet health and wellness are the main growth drivers in this market
- North America is currently holding the largest market share in the pet supplement sector, mainly due to a high pet ownership rate as well as resilient pet care expenditures
- Significant growth is expected from the Asia Pacific region due to overall rising household incomes and growing pet care demand
- With rising awareness among pet owners regarding the importance of preventive healthcare to ensure longevity and well-being, pet supplements such as joint support, digestive health, and immune system boosters have gained popularity as preventive measures
- The growing number of aging pets is expected to additionally drive the demand for pet supplements targeting age-related health issues such as joint mobility, cognitive function, and overall vitality
- The increasing preference for e-commerce platforms is also a significant driver of market growth. The rise in smartphone and internet penetration, improved purchasing power, and convenience offered by online retail platforms have led to a surge in sales through e-commerce channels. Consumers prefer online platforms due to factors such as the availability of diverse products, affordable prices, detailed product descriptions, consumer ratings & reviews, and home delivery services. The COVID-19 pandemic further accelerated the shift toward online shopping
- Based on form, chewable supplements dominate the market due to their popularity among pet owners. Chewable formats, including tablets, capsules, and soft chews, provide an easy way for both young and older pets to consume supplements. Additionally, pet owners seek premium chewable supplements with functional ingredients that serve a specific purpose in their pets' nutrition
- In conclusion, the global pet supplements market is poised for significant growth due to its strong underlying drivers such as the rising number of pet owners and the consumer preference for natural ingredients in pet supplements



Decoding the Resilience of the Pet Industry: Is It Truly Recession-Proof?

Introduction

Step into the dynamic world of the pet industry where the unbreakable bond between humans and their beloved pets seems to defy economic uncertainties. For years, it has been dubbed recession-proof, driven by the unwavering attachment pet owners have for their furry companions. Pets as part of the family, receive unflinching care, regardless of financial constraints. While the idea of a recession-proof pet industry is enticing, we dissect the nuances and potential vulnerabilities within this sector

Why the Pet Industry Thrives in Tough Times

1. Prevalence of Pet Ownership

Especially the United States stands as a testament to pet ownership, particularly with cats and dogs. A staggering 70% of households, around 90.5 million homes, cherish at least one pet. Over the years, pet ownership grew by 14% between 1988 and 2020, even during the 2008 recession. Amid the COVID-19 pandemic, pet ownership held steady with adoption centers noting increased adoptions. A 2021 ASPCA survey confirmed that the majority of American homes remain steadfast in keeping their pets, cementing pet ownership's resilience during adversity

2. Deep Affection for Pets

The profound emotional connection between humans and their pets is a cornerstone of the pet industry's apparent recession-proof nature. Many cat and dog owners view their pets as family members, providing affection, companionship, and care. Surveys reveal that about 88% of Americans consider their pets integral to their families. This emotional bond propels pet owners to prioritize their pets' needs regardless of economic challenges

3. Willingness to Spend on Pets

Despite economic hurdles and inflation, many pet owners continue allocating funds for their pets. Surveys between 2021 and 2022 show increased pet spending, with 35% of pet owners reporting higher expenses on pet supplies compared

to the previous year. Online pet shopping surged by 20%, reflecting a preference for eco-friendly and ethically-sourced pet products – 51% are willing to pay more for such items. Remarkably, some are even willing to go into debt or dip into savings for veterinary care – 44% use credit cards, and 18% use savings. Despite rising costs, the majority (55%) haven't reduced spending on pets and 8% are spending more despite inflation

Why the Pet Industry Faces Challenges in Tough Times

1. Evolution in Veterinary Care

Rising veterinary costs and limited in-person appointments are reshaping pet healthcare. Pet telehealth and at-home testing kits offer cost-effective alternatives to traditional clinic visits, potentially impacting conventional veterinary clinics. This shift demands adaptation and innovation within the veterinary care sector to remain viable during economic downturns

2. Demands for Premium Pet Food

Pet owners increasingly value their pets' nutrition and the impact of a healthy diet on well-being. Many opt for pet food with natural ingredients, also driving the growth of the fresh pet food market. However, companies offering low-quality pet food might struggle if they don't adapt to the demand for high-quality choices. Staying competitive requires rethinking sourcing, preparation, and marketing strategies

Conclusion

The pet industry showcases features that substantiate its status as recession-proof. Widespread pet ownership, the emotional bond between owners and pets, and unwavering spending by pet owners contribute to the industry's resilience. However, certain sectors such as traditional veterinary care services and low-quality pet food face vulnerabilities during economic downturns. Businesses in the pet care sector must adapt to evolving pet ownership attitudes and consumer preferences to not only survive economic challenges but also thrive. Embracing necessary changes in positions, these businesses navigate economic hardships and even experience growth.

Notable Transactions

June 2023



acquires



L Catterton, a consumer-focused investment firm, acquires Drools, India's leading homegrown pet food company. Drools will leverage L Catterton's expertise in the sector to further strengthen its position as the largest domestic player in India's fast-growing pet food market

May 2023



makes a public offering for the acquisition of a majority share in



Symrise AG, a German manufacturer of flavors, fragrances, cosmetics, and aroma ingredients, submits a public offer to acquire 70% of SwedenCare AB, the Sweden-based manufacturer of oral hygiene products for pets and humans. This deal enables both parties to further grow in the pet health segment

February 2023



acquires selected brands from



THE J.M. SMUCKER Co

Post Holdings, Inc., a company operating in the consumer packaged goods segment, acquires selected brands from The J.M. Smucker Co., thus establishing a pet food retail platform with leading cat and dog food brands

February 2023



UNITED PETFOOD

acquires a minority stake in



United Petfood, an international private-label pet food manufacturer, acquires a minority stake in Turkish pet food producer Lider. With Lider as a strategic partner, United Petfood aims at continuing its growth journey in Turkey and other export markets

February 2023



acquires

HERRMANN'S
MANUFAKTUR

AlphaPet Ventures, a leading European digital platform for pet food brands, acquires Herrmann's Manufaktur, a premium brand that strengthens AlphaPets portfolio in the field of private-label organic wet food

February 2023



acquires



Voff Premium Pet Food, the Swedish pet food group, acquires Energique, a producer of natural, raw pet food for cats and dogs. The deal adds additional manufacturing capacities to Voffs existing portfolio

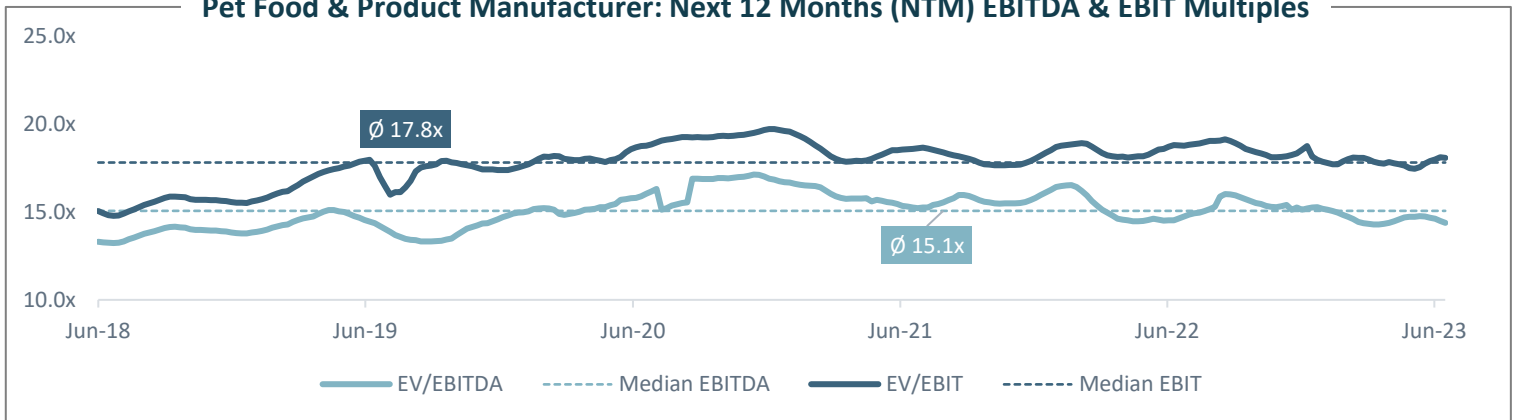
Selected Recent Transactions

Date	Target	Target Business Description	Target Country	Buyer	Buyer's Country	Buyer's Category
June 23	Three Dog Bakery, LLC (consumer products division)	Manufacturer of dog food and treats		Topspin Consumer Partners		Financial investor
June 23	Raw Advantage Processing, LLC (100% stake)	Manufacturer of freeze-dried and frozen raw pet food and treats		BrightPet Nutrition Group, LLC		Strategic investor
June 23	Better Choice Company (\$5m investment)	Pet health and wellness company		Alpha, Inc.		Strategic investor
April 23	Petuluku SL (100% stake)	Supplier of pet products and food		Guaw SL		Strategic investor
April 23	PsiBufet (100% stake)	Manufacturer home-made dog food intended to improve health issues		Dogmates Ltd		Strategic investor
April 23	Lupus Foder AB (100% stake)	Swedish pet food company		VAFO Praha sro		Strategic investor
April 23	Premium Pet Food Suomi OY (50,8% stake)	Pet food supplier in Finland		Musti Group Plc		Strategic investor
March 23	Smudge & Friends Petcare Ltd (stake n.a., £6m)	Manufacturer of natural pet food products		Business Growth Fund Ltd		Financial investor
February 23	Red Collar Pet Foods (pet treats factory, 100% stake)	US-based pet treats factory		Nestle Purina PetCare Company; Nestle S.A.	 	Strategic investor
February 23	Ter Maten (51% stake)	A company processing poultry co-products into products for pet food or human products		Plukon Food Group B.V.		Strategic investor
February 23	Energique B.V. (100% stake)	Netherlands-based Pet food company, sells raw meat products for cats and dogs		Voff Premium Pet Food		Strategic investor
February 23	Nor-Feed (100% stake)	Producer of specialty plant-based animal nutrition ingredients		Adisseo France SAS		Strategic investor

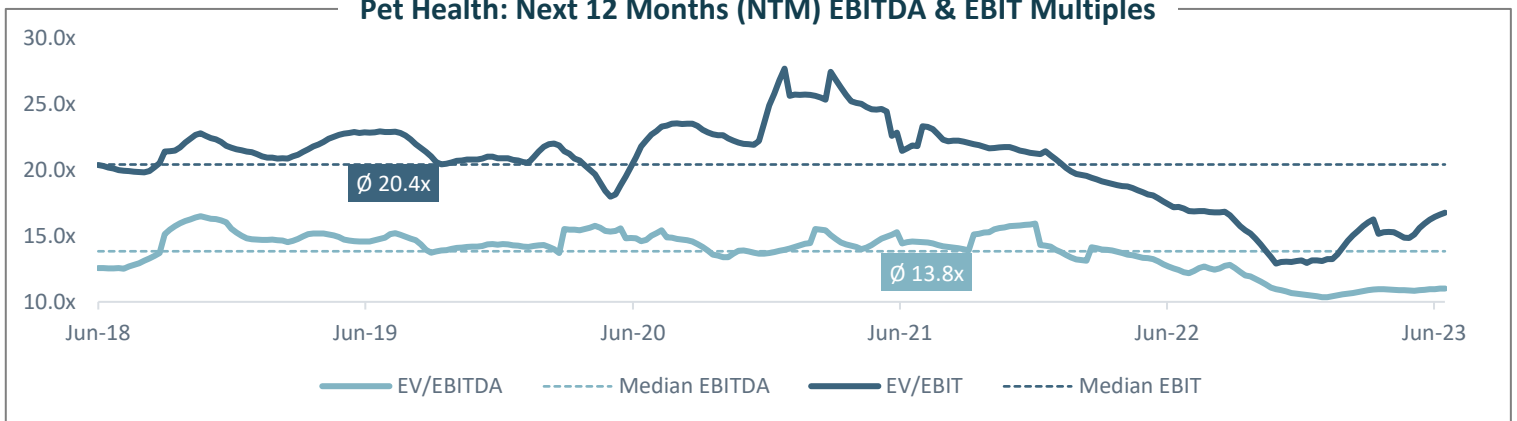
Valuation of Relevant Public Companies

- In the presence of recent recession fears, pet food & product manufacturers maintained a rather robust valuation level while pet health and retailer corporations' valuations declined below their respective 5-year average
- Overall, high valuation levels across all segments of the pet industry, with double-digit EBIT(DA) trading multiples, indicate strong investor demand
- Valuation levels are expected to rebound due to strong deal competition, high levels of dry powder among private equity investors, and the continuing humanization trend driving consumer demand

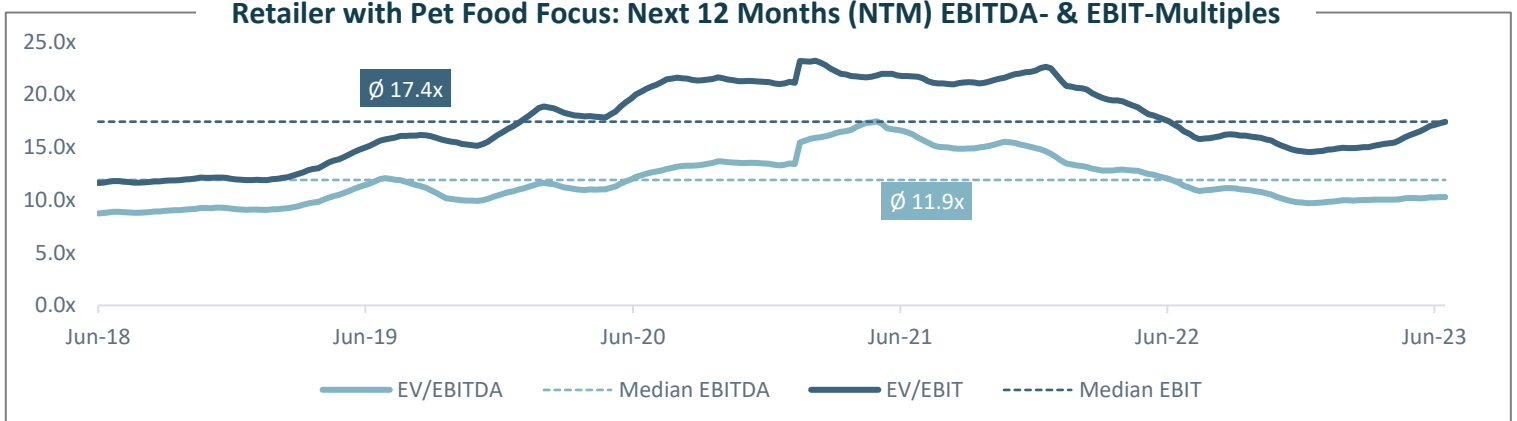
Pet Food & Product Manufacturer: Next 12 Months (NTM) EBITDA & EBIT Multiples



Pet Health: Next 12 Months (NTM) EBITDA & EBIT Multiples



Retailer with Pet Food Focus: Next 12 Months (NTM) EBITDA- & EBIT-Multiples



Valuation of Relevant Public Companies (Cont'd)

Pet Food & Product Manufacturer Peer Group

Company	Country	Market Cap (USDm)	Net Debt (USDm)	EV (USDm)	EV/Revenue			EV/EBITDA			EV/EBIT		
					2022	2023	2024	2022	2023	2024	2022	2023	2024
Central Garden & Pet Company	US	2,104	953	3,057	0.9x	0.9x	0.9x	9.7x	9.0x	8.9x	13.1x	12.6x	12.2x
Colgate-Palmolive Company	US	58,541	7,146	65,687	3.7x	3.4x	3.3x	15.8x	14.4x	13.5x	18.2x	16.5x	15.5x
Freshpet, Inc.	US	2,901	10	2,910	4.9x	3.9x	3.1x	n.m.	55.5x	28.5x	n.m.	n.m.	582.6x
General Mills, Inc.	US	41,113	10,616	51,729	2.7x	2.5x	2.5x	13.7x	12.6x	11.9x	16.1x	14.6x	13.9x
Nestlé S.A.	CH	293,874	48,135	342,010	3.2x	3.2x	3.0x	16.7x	14.8x	14.0x	19.4x	18.3x	17.2x
Petpal Pet Nutrition Technology Co., Ltd.	CN	448	-4	444	1.9x	1.8x	1.5x	16.5x	14.3x	11.0x	22.1x	19.1x	15.3x
The J. M. Smucker Company	US	13,812	2,976	16,788	2.0x	2.1x	2.2x	10.8x	9.9x	9.9x	15.3x	11.5x	11.4x
Unicharm Corporation	JP	20,397	-1,956	18,441	3.0x	2.8x	2.7x	16.5x	14.9x	13.8x	22.3x	19.5x	17.6x
Mean		54,149	8,485	62,633	2.8x	2.6x	2.4x	14.2x	18.2x	13.9x	18.1x	16.0x	85.7x
Median		17,104	1,965	17,614	2.8x	2.7x	2.6x	15.8x	14.4x	12.7x	18.2x	16.5x	15.4x

Pet Health Peer Group

Company	Country	Market Cap (USDm)	Net Debt (USDm)	EV (USDm)	EV/Revenue			EV/EBITDA			EV/EBIT		
					2022	2023	2024	2022	2023	2024	2022	2023	2024
Elanco Animal Health Incorporated	US	5,470	5,180	10,650	2.4x	2.4x	2.4x	10.6x	10.9x	10.2x	27.3x	12.3x	11.6x
IDEXX Laboratories, Inc.	US	38,283	937	39,220	11.6x	10.7x	9.7x	38.8x	32.6x	29.4x	43.6x	36.1x	32.3x
Neogen Corporation	US	4,439	-230	4,208	6.7x	4.5x	4.2x	30.8x	18.3x	15.9x	45.7x	50.6x	40.7x
PetIQ, Inc.	US	508	355	863	0.9x	0.8x	0.8x	13.0x	9.0x	8.2x	25.7x	14.8x	12.9x
PetMed Express, Inc.	US	237	-54	182	0.7x	0.6x	0.5x	10.6x	13.6x	9.0x	13.0x	n.m.	84.5x
Virbac SA	FR	2,410	-83	2,327	1.7x	1.7x	1.6x	9.7x	10.1x	9.0x	11.6x	13.7x	11.8x
Zoetis Inc.	US	80,139	4,635	84,773	10.5x	9.9x	9.2x	25.4x	22.7x	20.7x	28.9x	25.4x	23.1x
Mean		18,784	1,534	20,318	4.9x	4.4x	4.1x	19.9x	16.8x	14.6x	28.0x	25.5x	31.0x
Median		4,439	355	4,208	2.4x	2.4x	2.4x	13.0x	13.6x	10.2x	27.3x	20.1x	23.1x

(Online-) Retailer with Pet Food Focus Peer Group

Company	Country	Market Cap (USDm)	Net Debt (USDm)	EV (USDm)	EV/Sales			EV/EBITDA			EV/EBIT		
					2022	2023	2024	2022	2023	2024	2022	2023	2024
Chewy, Inc.	US	12,045	-249	11,796	1.2x	1.0x	0.9x	101.1x	34.2x	25.1x	211.6x	n.m.	123.1x
Pets at Home Group Plc	GB	2,008	411	2,419	1.4x	1.3x	1.2x	11.5x	7.4x	6.9x	13.8x	12.3x	11.4x
Petco Health and Wellness Company, Inc.	US	1,747	2,614	4,361	0.7x	0.7x	0.7x	10.3x	8.4x	8.0x	19.1x	14.3x	12.9x
Tractor Supply Company	US	22,089	3,869	25,958	1.8x	1.7x	1.6x	14.6x	13.5x	12.5x	18.1x	17.2x	16.0x
Mean		9,472	1,661	11,133	1.3x	1.2x	1.1x	34.4x	15.9x	13.1x	65.6x	14.6x	40.9x
Median		7,027	1,512	8,078	1.3x	1.2x	1.1x	13.1x	10.9x	10.2x	18.6x	14.3x	14.4x

Relevant IMAP References

Pet food

<p>PERWYN EVERGREEN FAMILY INVESTORS Private equity investor FRANCE</p> <p>Acquired Majority Control of Business Operations</p> <p>BARFERS Raw pet food specialist GERMANY</p> <p>IMAP ADVISED ON PURCHASE OF COMPANY</p>	<p>MAXBURG AGRI-FUTUR PARTNERS Private equity investor GERMANY</p> <p>Acquired Majority Control of Business Operations</p> <p>bunny Premium pet food manufacturer for small mammals GERMANY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>HYPER PET Developer of innovative and interactive pet products</p> <p>Acquired 100% of Business Operations</p> <p>Curllets Leading proprietary pet supply company</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>
<p>hound Toys, games, gear and feeders for dogs and cats UNITED STATES</p> <p>Acquired 100% of Business Operations</p> <p>WOLFE All natural limited ingredient pet treats UNITED STATES</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>Carroll Animal Nutrition Animal Nutrition UNITED STATES</p> <p>Acquired 100% of Business Operations</p> <p>INTEGRAL ANIMAL NUTRITION Animal nutrition BRAZIL</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>MISSION pets Designer, importer and distributor of pet products UNITED STATES</p> <p>Acquired 100% of Assets</p> <p>Harry Barker Premium pet lifestyle brand UNITED STATES</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>
<p>PNC RIVERARCH CAPITAL Private Equity Group</p> <p>Acquired a majority share</p> <p>Feeders Supply The Pet Lovers Store 16 store independent pet specialty retail chain</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>pet Two senior management team members of the company UNITED STATES</p> <p>Acquired a majority share</p> <p>R2P Pet Designer and producer of pet toys and accessories</p> <p>IMAP ADVISED ON MANAGEMENT BUYOUT OF MAJORITY CONTROL</p>	<p>ERIDOLA Wildlife feeding specialist UNITED STATES</p> <p>Acquired 100% of Business Operations</p> <p>UNITED PET SPECIAL, INC. Global marketer & manufacturer of pet supplies UNITED STATES</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>

Food & Beverage

<p>Carlsberg Deutschland Beer Brewery Group GERMANY</p> <p>Acquired 100% of Business Operations</p> <p>Wernesgrüner Beer Brewery GERMANY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>BF Cultivation and commercialization of agricultural products ITALY</p> <p>Acquired Investment Interest in Seller's Business</p> <p>Matt Nata's 3 best beverages Food supplements and plant-based drinks ITALY</p> <p>IMAP ADVISED ON PURCHASE OF COMPANY</p>	<p>erfurter Largest pasta producer in Germany GERMANY</p> <p>has been acquired by</p> <p>SCHWARZE Leading global retail company GERMANY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>
<p>Newlat FOOD SpA Agri-food products ITALY</p> <p>Acquired Investment Interest in Seller's Business</p> <p>Centrale del Latte d'Italia Producer of milk, dairy and food products ITALY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>BLBH Invest GmbH Family office that invests in small and mid-size companies AUSTRIA</p> <p>Acquired 100% of Business Operations</p> <p>ROS AGRO FOOD Leading wholesaler of cultivated and wild-grown berries BOSNIA AND HERZEGOVINA</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>LDC Leading European poultry player HUNGARY</p> <p>Acquired 100% of Business Operations</p> <p>Marneval Production of breaded meat products HUNGARY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>
<p>SAN REMO AUSTRALIAN FAMILY OWNED PRODUCER OF PRIVATE LABEL PASTA AUSTRALIA</p> <p>Acquired Majority Control of Business Operations</p> <p>MORO PASTA Specialty production of gluten-free and diabetic pastas and baby food ITALY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>	<p>Refresco Bottler for retailers and branded beverage companies NETHERLANDS</p> <p>Acquired Selected Assets of Seller's Business</p> <p>BELTE Nestlé-owned ice tea brand ITALY</p> <p>IMAP ADVISED ON SALE OF BRAND</p>	<p>FINATEM PE investor focused on German SMEs GERMANY</p> <p>Acquired 100% of Business Operations</p> <p>FOOD & SERVICE Unternehmensgruppe Specialized food service delivery and wholesaler GERMANY</p> <p>IMAP ADVISED ON SALE OF COMPANY</p>

About IMAP

IMAP M&A Consultants AG, founded in 1997, is the German arm of IMAP (International M&A Partners). Founded in 1973, IMAP International is one of the oldest and largest Mergers & Acquisitions organizations in the world with offices in more than 40 countries. Over 450 M&A advisors in international sector teams specialize in corporate divestitures, cross-border acquisitions, and strategic financing issues. Globally networked and with strong execution capabilities, IMAP advises companies and their shareholders on the sale or acquisition of businesses as well as on strategic financing issues. In approx. 25-30 successful transactions per year in Germany and over 200 transactions worldwide with volumes of approx. EUR 20-300 million, IMAP offers its clients entrepreneurial advice and comprehensive support in achieving their goals.

41

Countries

450+

IMAP Professionals

238

Deals
2022

26

Deal value
2022 (in \$bn.)

45

IMAP Professionals
in Germany

20

Deals
2022 in
Germany

Delivering Exceptional Value to Clients

IMAP Germany's pet food experts are characterized by many years of expertise in related Mergers & Acquisition activity in a variety of sectors and are supported by >450 IMAP professionals in 43 countries globally if required.

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