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WHAT YOU'LL FIND:

- Recent trends across the pet sector, with a focus on pet food and treats
- Standout companies capitalizing on these trends
- Transaction activity and public company data in this space

ABOUT FORBES PARTNERS:

Forbes Partners is a market-leading boutique investment bank. We are hyper-focused on businesses that have strong growth outlooks and solid foundations of market leadership, compelling and enduring business models, and attractive sectors.

We've built a different model to create extraordinary results for these elite companies, working with a select few clients each year to move quickly and deliver maximum value.

HOW HAS THE PET SECTOR FARED OVER THE PAST YEAR?

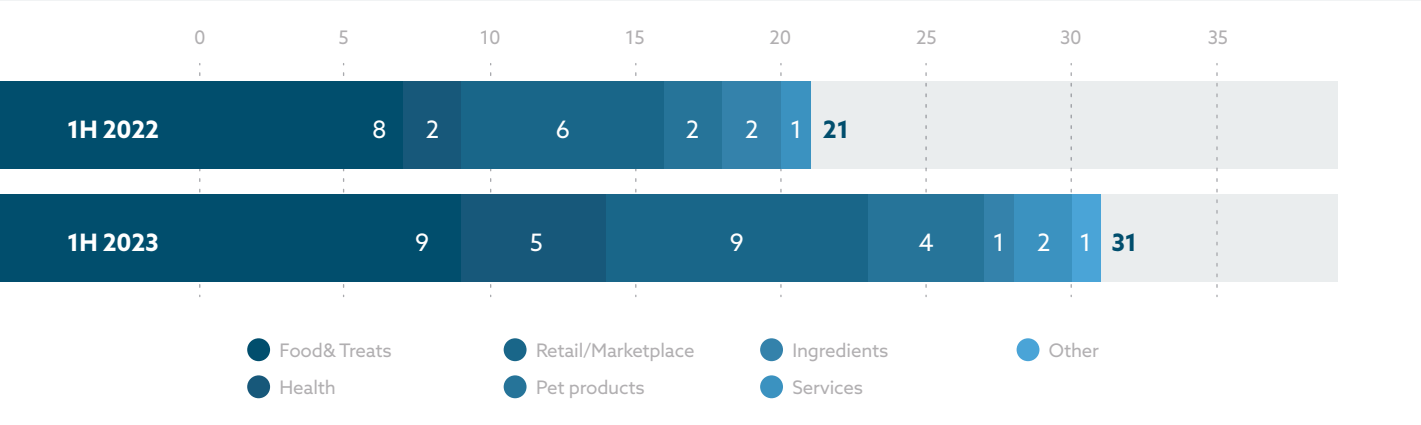
Pet continues to be one of the hottest segments of the market, with 128 transactions occurring in the U.S. from January 2022 through June 2023. Investors have remained focused on the segment due to its highly attractive features, including:

- Significant reoccurring revenue** driven by the consumable nature of food, treats, health, and service offerings
- Deeply loyal consumers** that rarely switch to other brands / offerings
- Recession resistant companies** – pet products are the last items cut in a downturn
- Rapid growth** driven by increasing adoptions, the premiumization of pet products, and sticky price dynamics

Interest has come from both sides of the market, with financial sponsors and their platforms positioned as buyers on 57% of the transactions with a counterparty within the period. Within the industry, activity has closely mirrored industry spend – in 2022, pet food and treats accounted for 42% of the \$137B market, while pet treats represented 31% of transactions over the period – the largest segment.



YOY M&A ACTIVITY



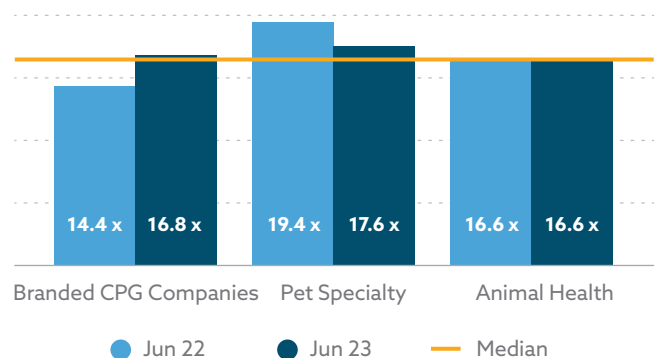
Pet has outperformed with a 48% YoY increase in transactions, compared to a 17% decrease across the broader market driven by major headwinds, including:

- Historic levels of inflation
- 525bps increase in the Fed Funds rate
- Major supply chain disruption

WHAT ABOUT VALUATIONS?

Across the board, public sector valuations remained largely flat with 1% average growth since June of 2022. Of the main sectors highlighted below, branded CPG achieved the highest growth of ~16%, supported by new product launches, supply chain normalization, and strong consumer spending, which has maintained volume despite price increases exceeding 10% at major public CPGs. In the private markets, valuations have begun coming down as leverage gets more expensive and traditional lenders pare back the amount of debt they provide. Among pet companies, brands have historically traded at a premium to co-manufacturers, which can be seen in recent transactions, i.e., Zesty Paws, which sold for 8.3x LTM Revenue (35.4x LTM EBITDA), while Garmon Corporation, a co-manufacturer, sold for 22.4x LTM EBITDA. In more recent transactions, this precedent has flipped, with co-manufacturers often trading for >12x EBITDA, while brands are selling for below that number unless they exhibit exceptional brand loyalty, revenue growth, or differentiated products.

PUBLIC SECTOR VALUATIONS (EV/LTM EBITDA)



WHAT ARE THE FACTORS DRIVING VALUE?

While investors are highly interested in acquiring any pet company, they'll only pay a premium for companies that stand out from the competition. Those companies typically have:



Significant recurring revenue from loyal customers



Well-defined growth plan with insight into near-term wins



Capitalizes on and identifies industry trends ahead of competition



True partner providing critical, unique solutions



Diversified, value-added sourcing capabilities



Proven management team ready to take business to next level

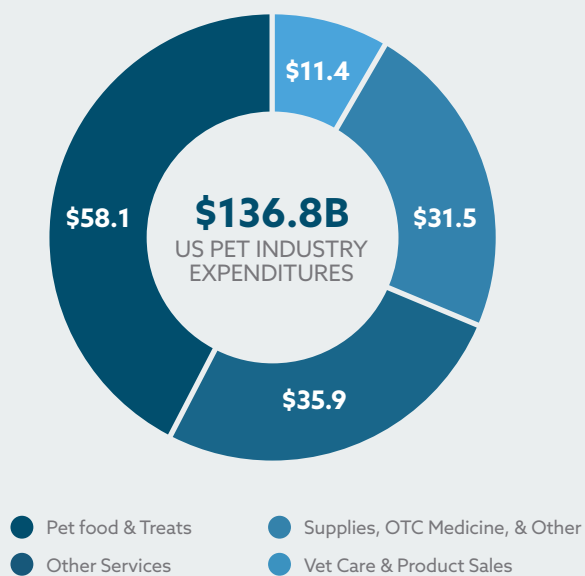


WHAT ARE THE FACTORS DRIVING VALUE? (continued)

In the current environment of elevated rates and ongoing supply chain issues, buyers are increasingly focused on high quality opportunities. Companies that display the qualities above will not only attract significantly more interest but will command a valuation premium when it comes to a sale, which can reach up to and exceed 3x the multiple achieved by lower-value competitors.

Beyond looking for companies that outperform on key value factors, buyers are highly selective about what category they invest in within pet. Pet is a massive market and investors want to maximize the growth potential of their investments by focusing on categories with large addressable markets. Within pet, nothing has more potential than food and treats, which is reflected in the transaction level data and market expenditures, highlighted below, followed by vet care and product sales, where many roll-ups have been.


















2022 INDUSTRY BREAKDOWN





WHO IS THE MOST ACTIVE AND WHAT ARE THEY BUYING?

With pet's strong performance over the past decade and explosion of growth since COVID, it has become an entrenched investment category for both strategic and financial buyers. Over the past year, both have been active, with financials edging out strategic buyers in terms of activity. Key investors have been:

BUYER	CATEGORY	TARGETS
 	Pet Products	 January 22  January 22  April 22
	Retail / Marketplaces	 November 22  March 23  May 23
	Pet Products	Invisible Fence of Central Alabama November 22 Invisible Fence of Ann Arbor October 22 The Canine Companies December 22
	Food & Treats	 January 22  November 22
 	Food & Treats	 October 22  June 23

WHERE TO NEXT?















Today's pet sector is not the pet sector of yesteryear. Since 2010, Millennials and Gen Z have come into their full earning potential and are using it to treat their furry family members as well as (if not better) than their parents and Uncle Buck. This demographic shift and increased spend has driven a variety of macro trends, including:

Premiumization of Pet Products – As all generations increasingly view pets as family members, spending has increased, with pet companies creating premium products to capture this spend

Shrinking Trend Gap – The time between new products and ingredients crossing from the human market to the pet market has narrowed considerably, with pets receiving innovative ingredients like ashwaganda and probiotics on the same timeline as humans

Expansion of Online Purchasing – A macro trend since the late 90's and Pets.com, COVID greatly accelerated e-commerce purchasing in the pet space, which accounted for \$30.7B (36%) of industry sales in 2022, and continues to grow as consumers adopt subscriptions and conduct more one-off purchases on marketplaces

These tailwinds have transformed the industry and were on display at this year's trade shows, which saw a return to pre-pandemic form. Companies at these shows have innovated year in and year out to meet and anticipate consumer needs. For this year, we've highlighted the major ways brands are rising to the occasion below:

CATEGORY	INNOVATORS
RAW / FREEZE-DRIED Consumers continue to flock towards raw and freeze-dried products, which preserve more nutritional content. The massive demand has spurred major investments from buyers, as well as capital investments from large players like Scoular, Carnivore Meat Co., and others	  
FUNCTIONAL FOODS Since tailored supplements broke onto the scene several years ago, they've continued to evolve in unique ways, targeting ailments like allergies, anxiety, and coat issues before moving into digestion and other ailments using beneficial ingredients like pumpkin	  
TECHNOLOGY Startups continue creating unique technology, with brands like Pure Cravings using it to rapidly test individual fish (as opposed to inaccurate school-sampling) for mercury and other chemicals, while BioCraft Pet Nutrition is working on developing cell-based proteins for pet food	 
ESG ESG considerations remain a major factor for consumers and investors, resulting in a wave of ESG-friendly brands and products, such as Jiminy's insect-based products that create less CO2 emissions and Polkadog's treats that use overpopulated / invasive species as protein	  
NOVEL INGREDIENTS More and more brands are offering products with novel ingredients, such as bison protein, yak milk, or seaweed, in an effort to keep up with the latest research, as well as meeting ESG needs.	  



OUR TAKE

M&A

- M&A activity will remain healthy given the sector's recession-resistant features
- Lower leverage and increased interest rates will affect valuations, with private equity seeing the largest impact
- Financial sponsor activity will slow slightly as they digest prior acquisitions and focus on A-tier opportunities
- Strong cash reserves will enable strategics to continue purchasing on-trend, authentic companies to augment in-house capabilities and product portfolios

INDUSTRY

- The focus on wellness and premiumization of products is here to stay
- We expect to continue seeing breed- and age-specific products, such as Tiki Cat's Baby food
- Companies will increase their use of invasive / overpopulated species as protein ingredients, while shifting to other ESG-friendly ingredients and sourcing methods
- Freeze-dried, raw, and air-dried products will continue their invasion, with most brands (that have dry food products) offering some form of product using those ingredients

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