

A black and white and tan dog, possibly a Sheltie, is looking through a yellow ring. The dog's head is centered within the ring, and its front paws are visible. The background is a blurred outdoor scene with trees and a building.

Opportunities & New Frontiers in Pet

January 2023



OC&C
Strategy consultants

HW Harris Williams









Introduction

- Pet continues to be a highly dynamic area – **there is significant M&A activity that shows no signs of slowing down**, with strong interest from both strategic and financial buyers
- Amid the current volatility, Pet's **strong and enduring fundamentals** make for a compelling investment case. Our recent consumer research provides reassurance that **Pet continues to be a protected area of spend**, even as consumers feel a squeeze on their income
 - However, the nature of the **different phases of the inflationary cycle** do require players to **deploy a broad set of levers to protect value**
- As in other categories, consumers are **increasingly conscious of sustainability** – and although not yet a significant driver of behaviour, **brands cannot afford to be complacent**
 - There is a choice to be made around the **right sustainability position** to occupy, based on which **attributes pet owners care most about** – other more developed categories provide a point of reference
- While Pet is a well-developed category, **new areas of innovation provide opportunity for rapid growth across multiple new frontiers**, driven by continued premiumisation and humanisation trends
- **Public valuation levels** have been **negatively impacted** by the Ukraine / Russia crisis and accompanying inflationary pressure, however, **strong businesses with well-articulated equity stories** still achieve **premium valuations** in the current market
- Today, greater **investor focus** is on **operational strength** and **capabilities to navigate successfully** through the **current environment** – businesses with these characteristics will emerge as **clear winners** in the months ahead

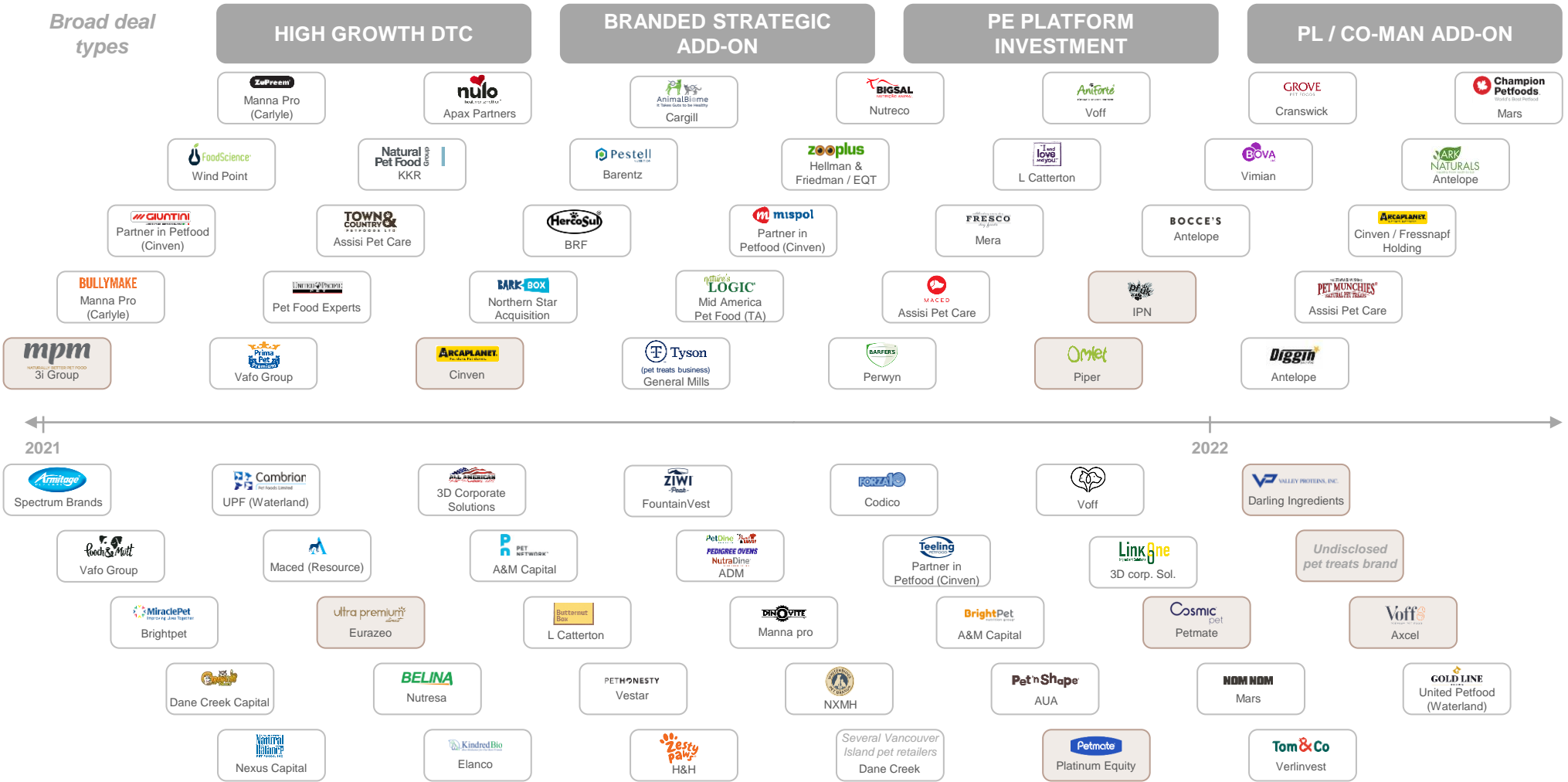
Pet remains an attractive category for investors, especially in times of economic turbulence

Why Investors Like Pet

	Continued premiumisation, driven by humanisation
	Resilience through economic downturns
	High margins (relative to other consumer goods categories)
	Pet ownership surge
	Expandability into new products and subcategories
	Prevalence of disruptive models

Significant deal momentum across the pet space showing few signs of slowing down

Selected M&A Transactions in 2021 and 2022 in the Broader Pet Sector

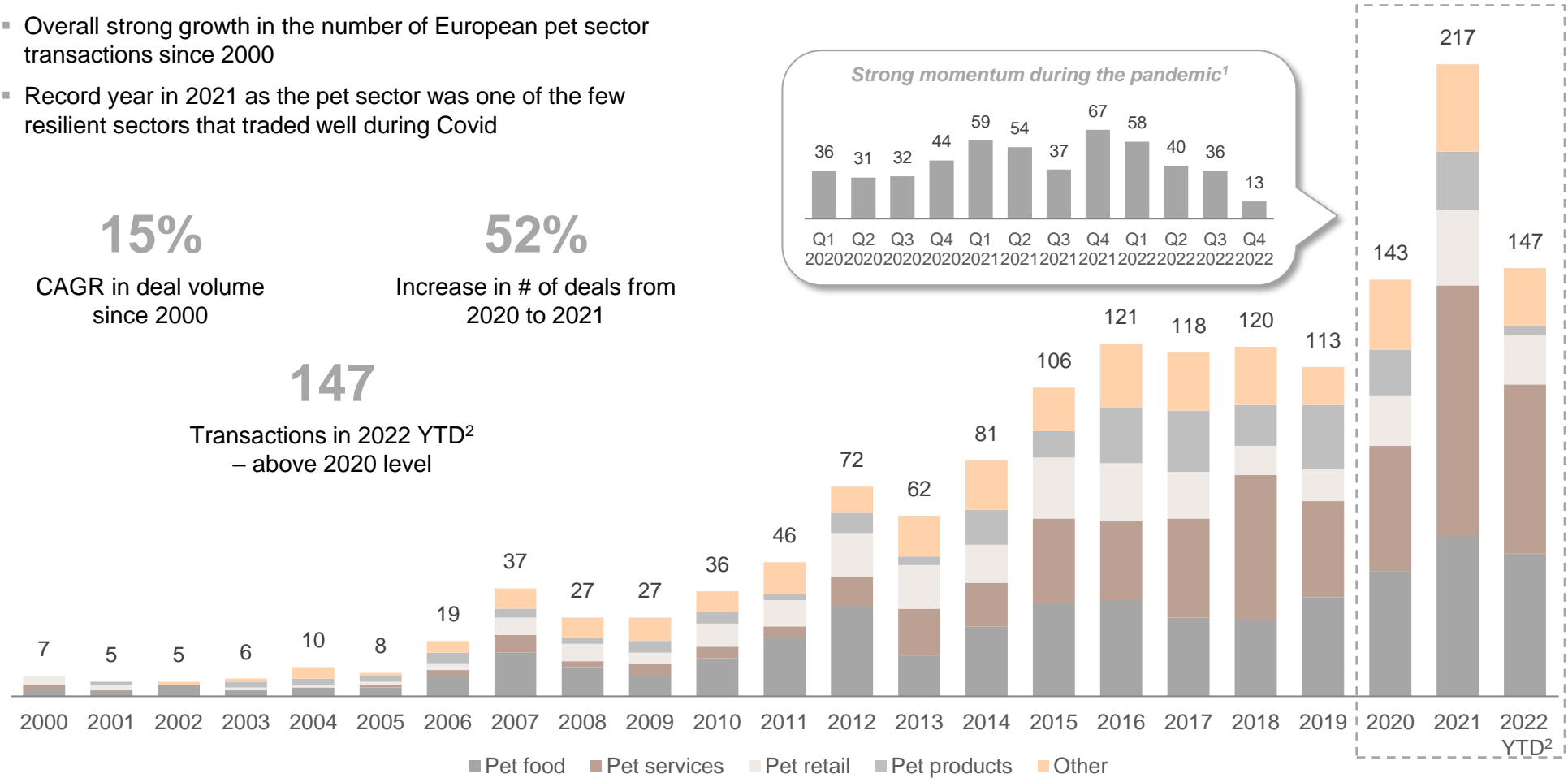


Sources: HW Intelligence, Mergermarket, Pitchbook

Investor interest in pet has been steadily increasing, with exceptionally high deal volumes since the start of the pandemic

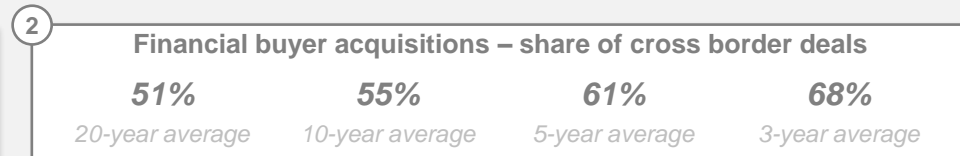
Pet Sector Deal Volume in Europe (# of Deals, 2000 – 2022)

- Overall strong growth in the number of European pet sector transactions since 2000
- Record year in 2021 as the pet sector was one of the few resilient sectors that traded well during Covid







1. Record year 2021 driven by strong investor interest in pet sector during the COVID-pandemic due to resilience of the pet sector and rising pet ownership across countries 2. As of 1st December 2022
 Sources: HW Intelligence, Pitchbook

Breakdown of Pet Sector M&A Activity by Investor and Transaction Type



With well-established and attractive category fundamentals, now is the right time to be planning your medium and long-term strategy in pet

Key Evolving Trends for Incumbents and Investors

	Resilience in the Macro Environment	<ul style="list-style-type: none">• Despite a challenging period for household budgets, consumers are protecting spend on their pets• To maintain position, brands should ensure their price pack architecture and channel strategy are accessible for consumers prioritising value for money
	Evolving Consumer Attitudes to Sustainability	<ul style="list-style-type: none">• Whilst ESG is not a major driver of choice in Pet today, consumers are increasingly mindful of it (and investors also place great value on it)• Brands cannot be complacent, as other industries have shown that action typically follows awareness• The most pressing challenge for brands will be meeting rising expectations around e.g. packaging – however, longer term, they will need to decide whether / how to evolve the core product
	New Frontiers	<ul style="list-style-type: none">• The continued humanisation of pets is opening up new frontiers, which often follow trends that started in equivalent human categories• Areas gaining traction incl. super-premium food (eg fresh, raw), and supplements for both physical & mental health• Clear opportunity here for existing asset owners and investors
	Valuation and Transactional Impacts	<ul style="list-style-type: none">• Valuation levels of pet sector transactions have steadily increased over time• Crafting a long-term equity story, backed by data and based on the key valuation drivers in the pet food space, is key to attract premium valuations• Currently, investors are heavily focused on operational strength and capabilities to navigate successfully through the current environment

Key Themes for Today



**Resilience in the
Macro Environment**



**Evolving Consumer
Attitudes to
Sustainability**



New Frontiers



**Valuation and
Transactional Impacts**



Pet is underpinned by strong fundamentals, and despite the challenging external environment there are levers available for players to protect value

Macro Context for Pet



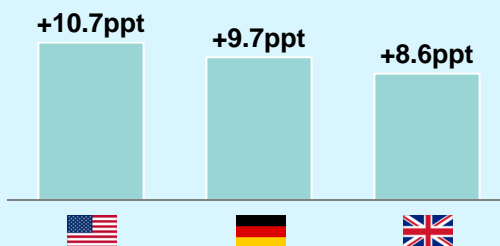
Strong & Enduring Fundamentals

- **Sustained growth** driven by:
 - **Pet ownership surge**
 - Continued **premiumisation**, driven by **humanisation**
 - **Expandable demand** into new products and sub-categories
- Alongside **attractive margins** (relative to other consumer goods categories)

A Challenging Environment

- **Surging inflation & squeezed disposable incomes across markets**

Pet products inflation 2021-22YTD¹ (ppt delta)



But with Levers Available to Protect Value

- Levers available to navigate continued **inflationary pressures** and protect pricing and margins (e.g. **brand, portfolio and channel strategy**)...
- ...With further levers available to sustain higher pricing through a future period of **input cost deflation**, primarily **premiumisation**

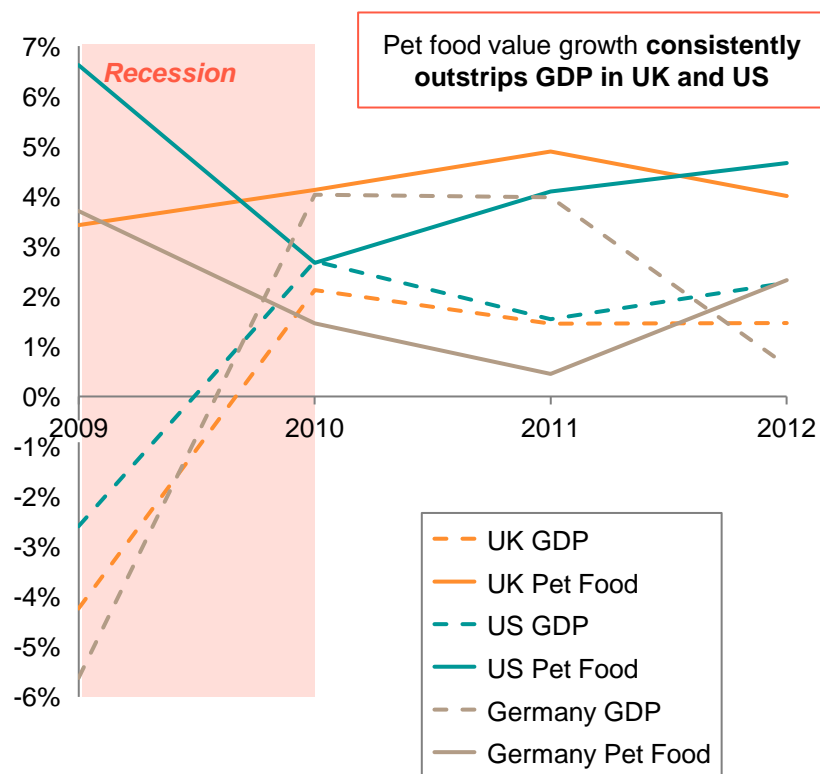
1. Up to August 2022: DE = Dog and cat food; US = Pet food; UK = Pet Care
Sources: ONS, BLS, Destatis, OC&C analysis

The Pet Food market was resilient during the recession of 2008-10, exhibiting strong value growth; trade-up to premium continued

Pet Food Recession Performance¹

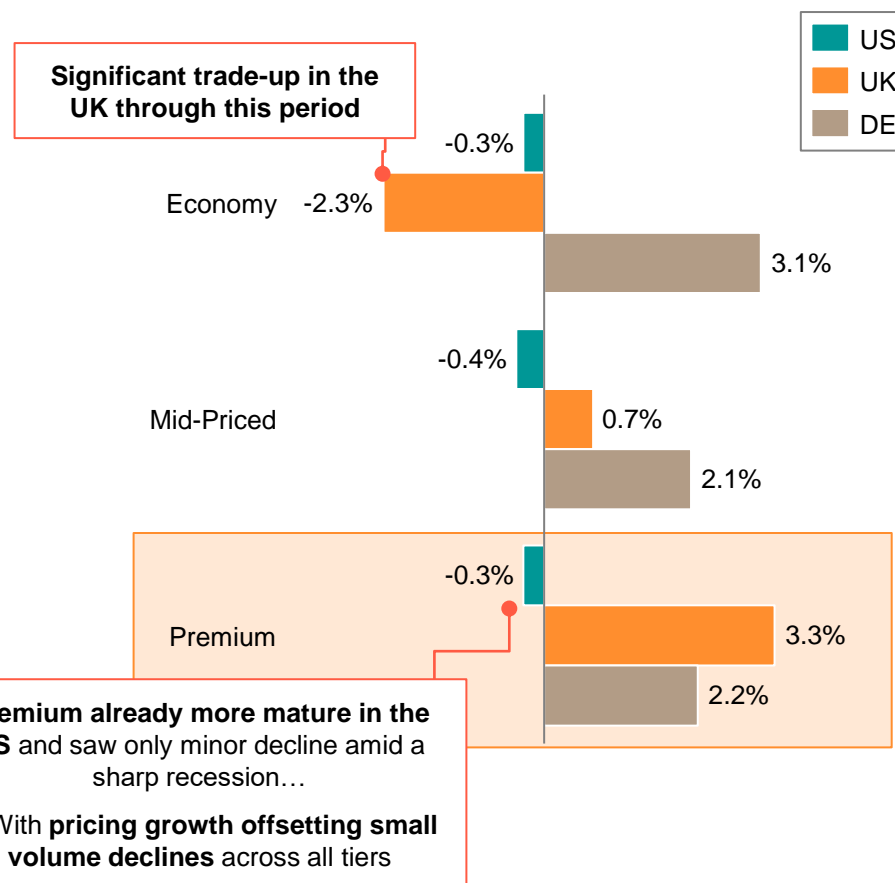
Value Evolution vs GDP by Geography

YoY % Change, 2009 – 2012



Volume Evolution by Price Point by Geography

% CAGR, 2008 – 2010



1. Cat and dog food only

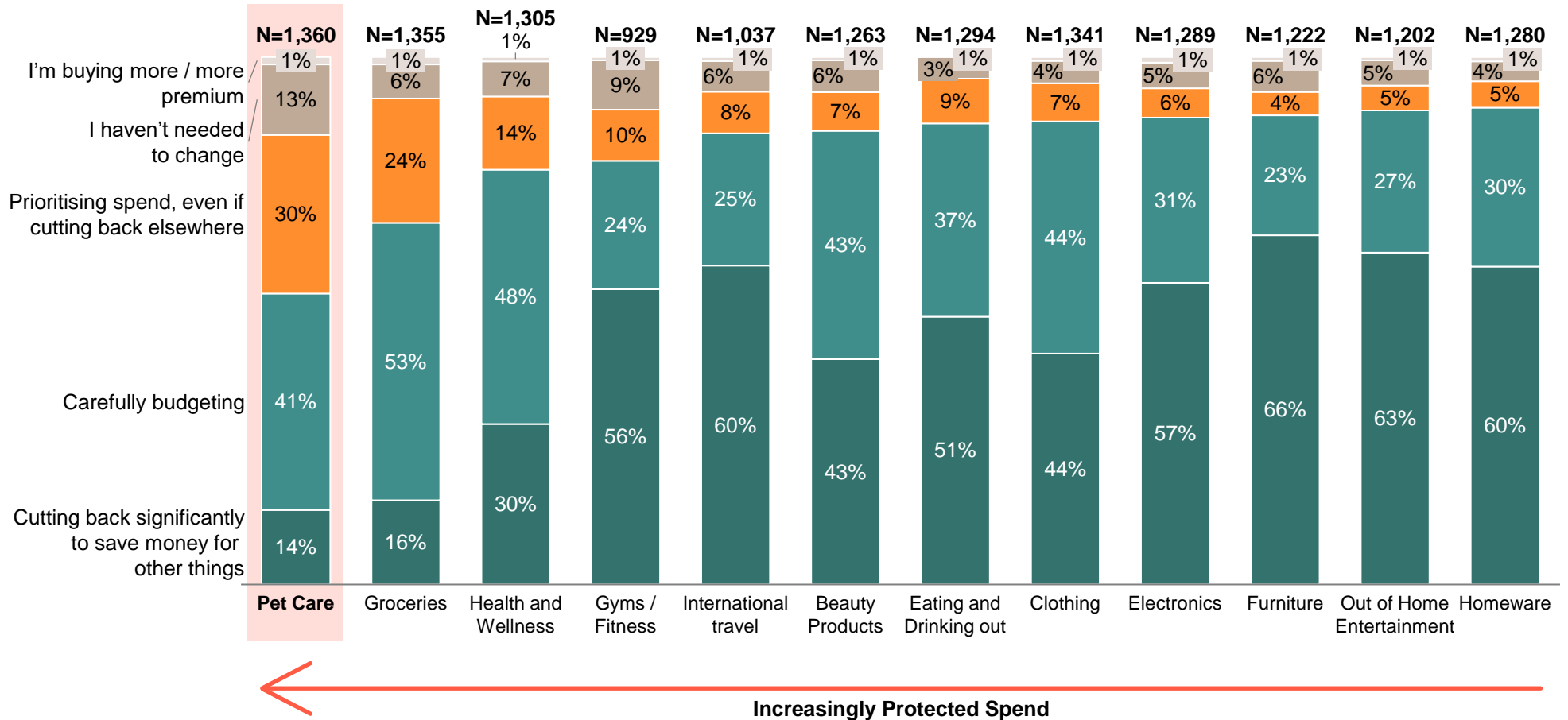
Sources: Oxford Economics, Euromonitor, OC&C analysis



Evidence suggests that pet spend is holding again, with owners reporting they are protecting spend on pets over other areas

Purchasing Habits in the Last Six Months, by Category¹
% of Respondents Who Shop Category

Only Respondents who are Reducing Spend due to Inflation
Survey Covered USA, Germany, and UK Respondents (Sep 2022)



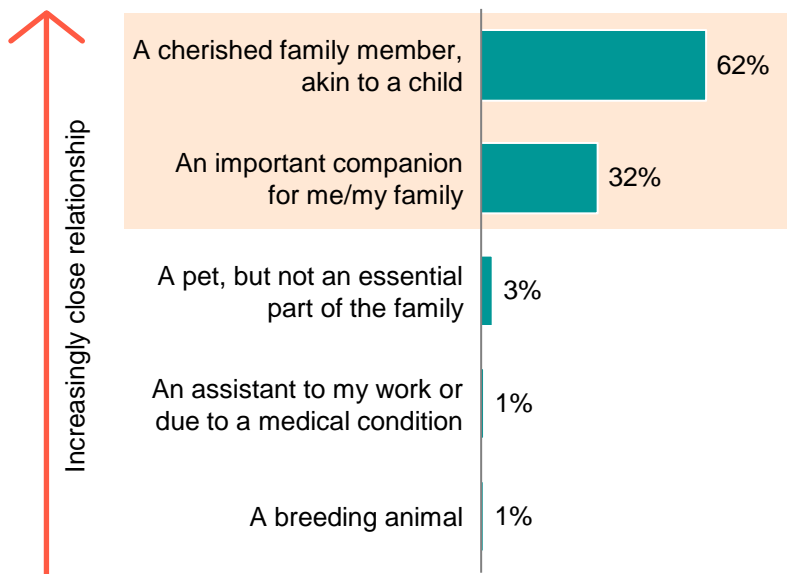
1. Which sentence best describes how your purchasing habits have changed over the last 6 months, in the following categories?

Sources: Consumer Survey, OC&C analysis

This is underpinned by owners' strong emotional connections with pets; they are often seen as *cherished family members*

Drivers of Pet Spend Resilience

Relationship with Pet(s)¹
% of Respondents; N=3,031



Attitudes to Pet Spend²
% of Respondents; N=3,031



As evidenced above, pets are generally treated as cherished family members and spend on them is prioritised and protected...

...However, despite recent anecdotal evidence of increases in returns of pets to shelters (due to normalisation of behaviours post-covid and the cost of living crisis), returns make-up a very small proportion of overall pet population and are unlikely to have a material impact on the trajectory of the market

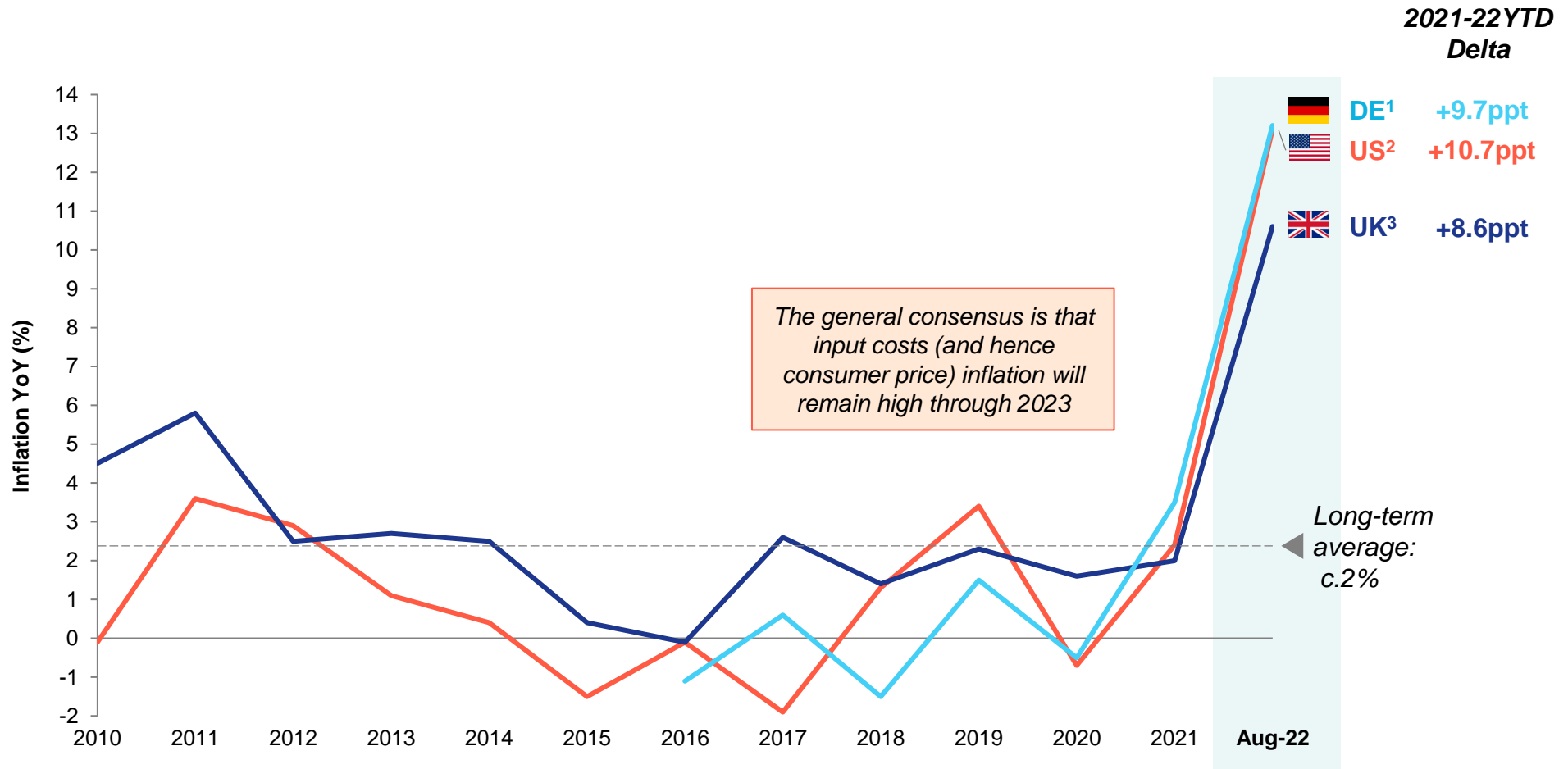
1. Which of the below descriptions best characterises your relationship with your pet(s)?

2. Which of the following best describes how you spend money on your pet(s)?

Sources: Consumer Survey, OC&C analysis

Pet owners are however facing a challenging environment, with pet-related products surging in price relative to disposable incomes

CPI Petcare Inflation (End of Year CPI 2010 – Aug 2022, %)



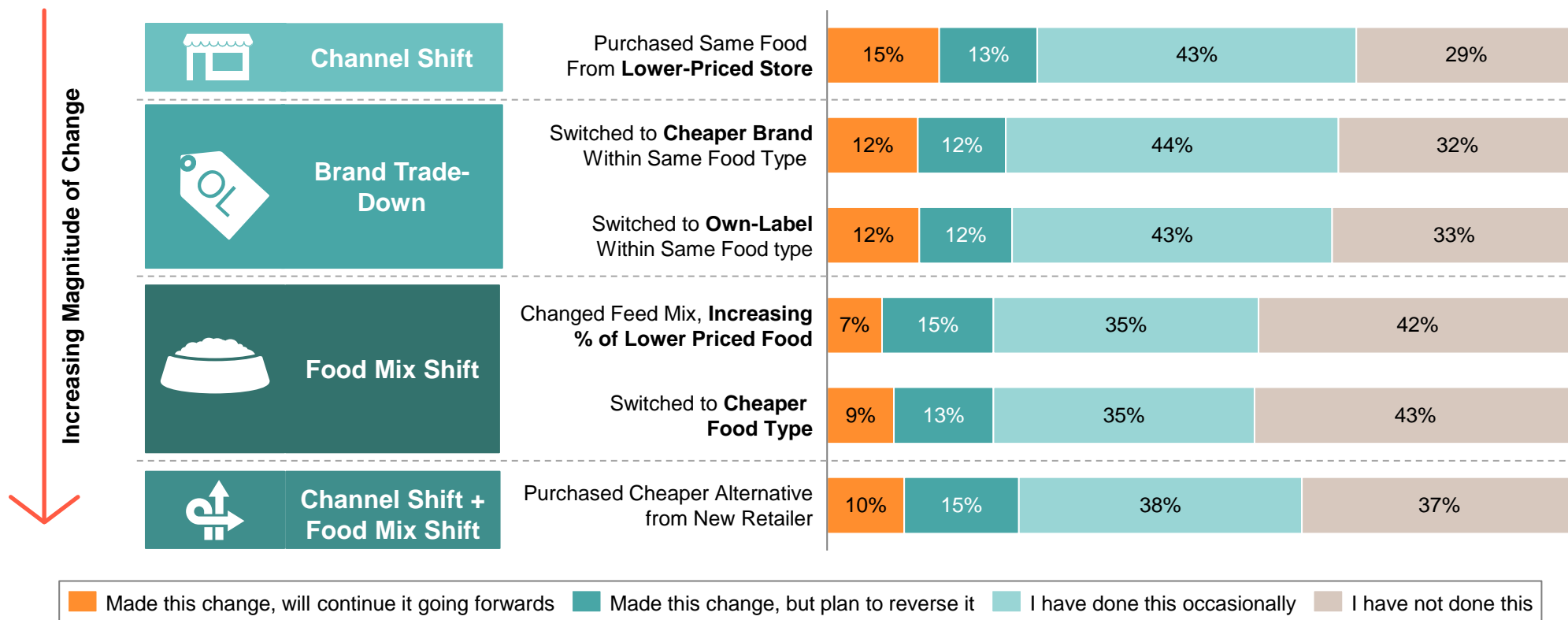
1. Dog and cat food 2. Pet food 3. Pet Care
Sources: ONS, BLS, Destatis, OC&C analysis

And amid the squeeze, a small selection of pet owners are trading-down permanently; when making changes, they are likely to protect food quality

Changes in Pet Food Shopping¹

% of Respondents Who Changed Spend; N=1090

Generally, the **changes that consumers are making are minimal – maintaining food type** wherever possible, and **only a minority plan to continue the changes** they have made going forwards



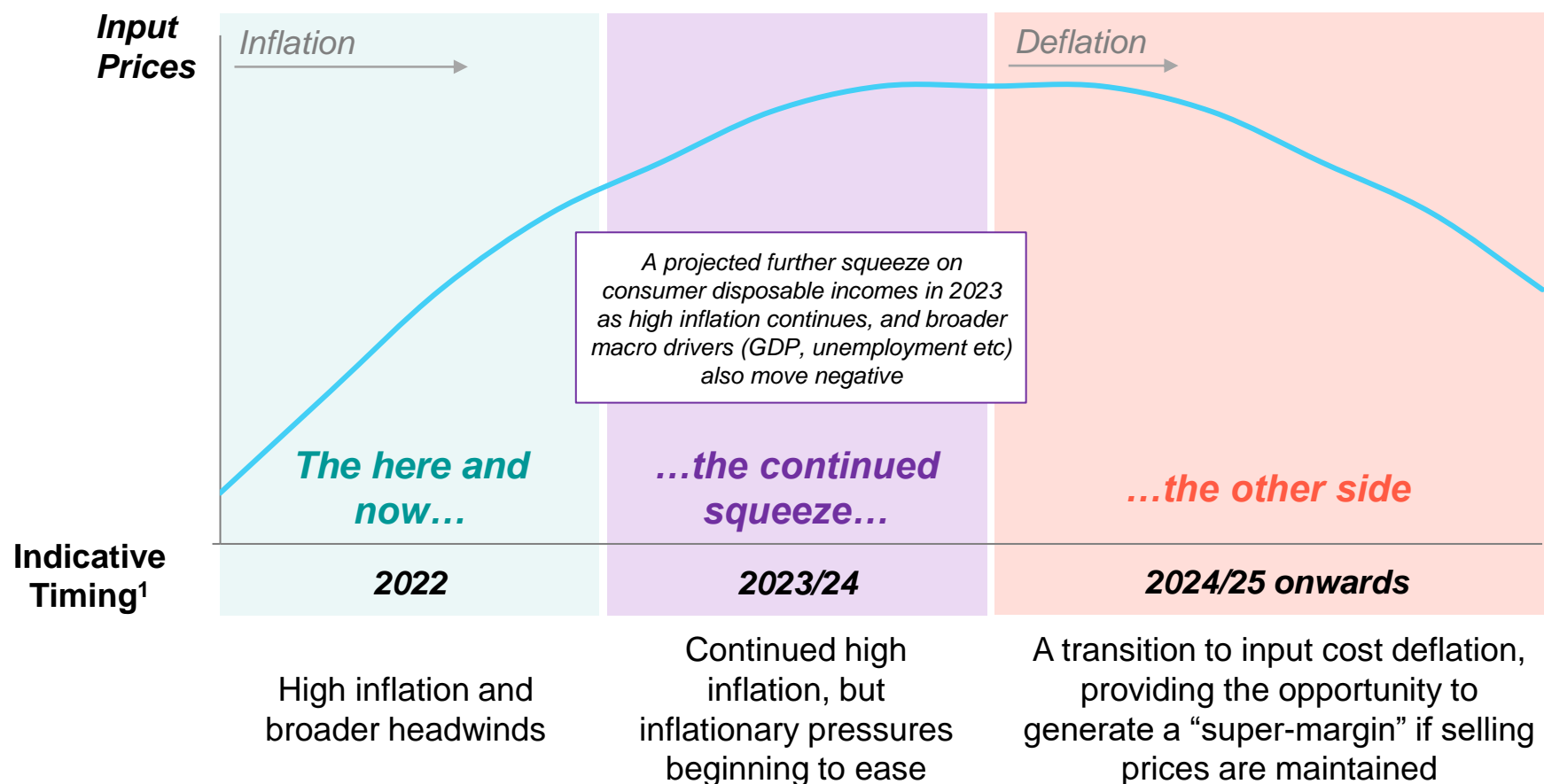
1. You said you have been more careful about your spending on pet food over the last 6 months. Which of the following have you done? N=377

Sources: Consumer Survey, OC&C analysis

Looking forward, the consensus is for continued high inflation and a squeeze through 2023, before transition to input cost deflation, potentially from 2024

Phases of the Inflationary Cycle

Conceptual



1. Based on broker notes and key commodity input price forecasts
Sources: Broker reports, OECD, World Bank, OC&C analysis



For pet food / product players there are multiple tried and tested levers available to protect value through these different inflationary phases

Strategic Levers for Pet Food / Product Players

Not Exhaustive



The here and now...

- 1 **Core Pricing** – getting pricing through with retailers, **often and early**
- 2 Ensuring **security of supply**



...the continued squeeze...

- 1 **Core Pricing** – continuing to push pricing through to recover input cost inflation
- 2 **Value chain realignment and COGS** (e.g. vertical int., SKU rationalisation, OH reduction)
- 3 **Reset retailer commercial models** (e.g. index-linking, shorter refresh times etc)
- 4 **Reset channel strategy** (e.g. engaging more strategically with Discounters)
- 5 **Reassess the brand and product portfolio**
 - A Pack price architecture
 - B Brand architecture & (re)launches
 - C Focus on new occasions & trends

Critical to place some growth bets through this period to then fully leverage them on the other side

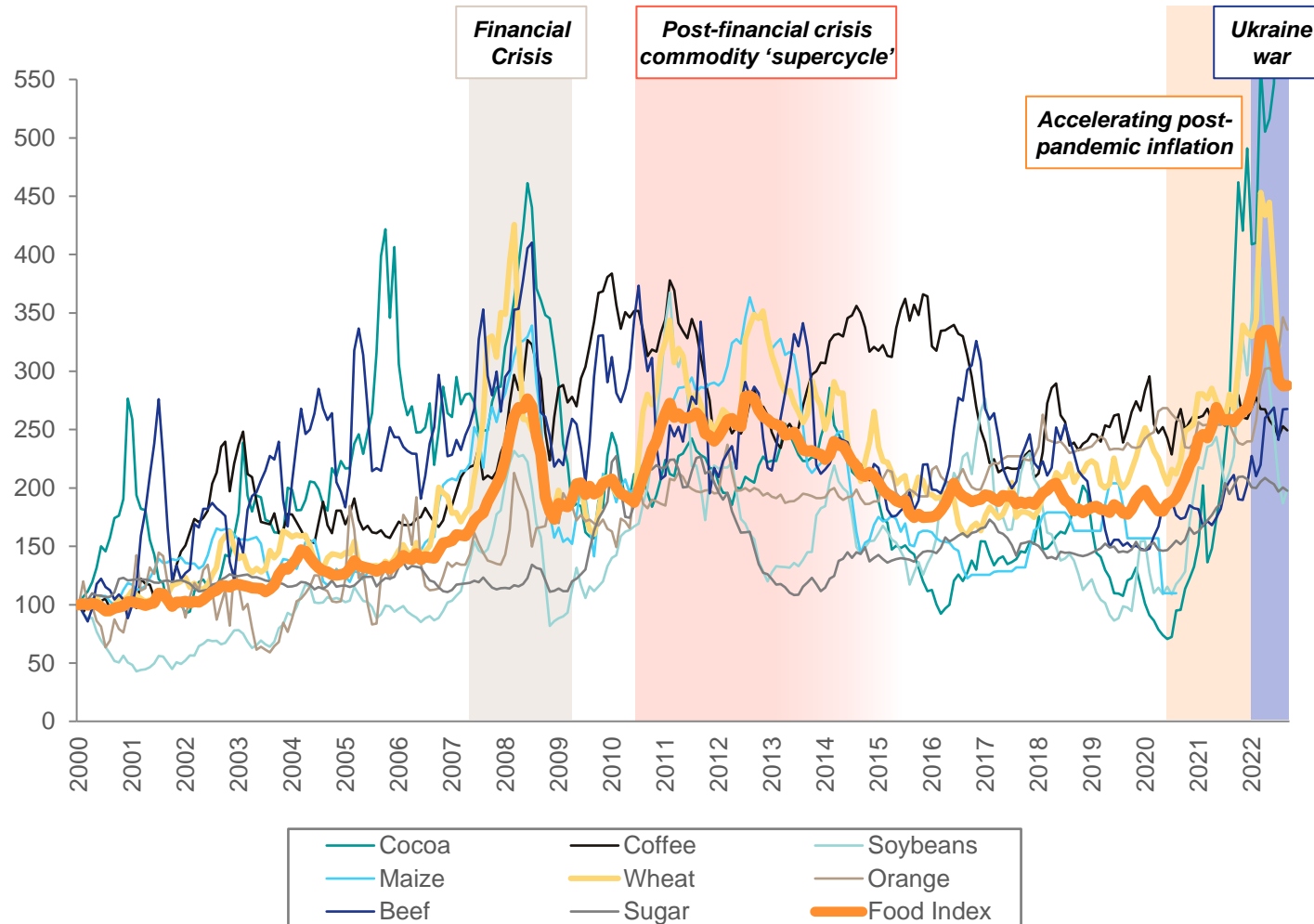


...the other side

- 1 **Core pricing & leveraging growth bets** to protect pricing and margin and potentially generate a “super-margin”
- 2 Strengthening **retailer commercial relationships**, aligning business plans and terms to **minimise downward pricing pressure**
- 3 **Realign promotional strategy** (e.g. deeper discounts from high sticker price to access new consumers / channels)

“Super-margin” potential: Similarly to historical crises, inflation is driving up costs for manufacturers – notably raw material prices have increased

Agricultural Commodity Prices / Prices Indexed to 100 in Jan 2000 (Jan 2000 to Sep 2022)

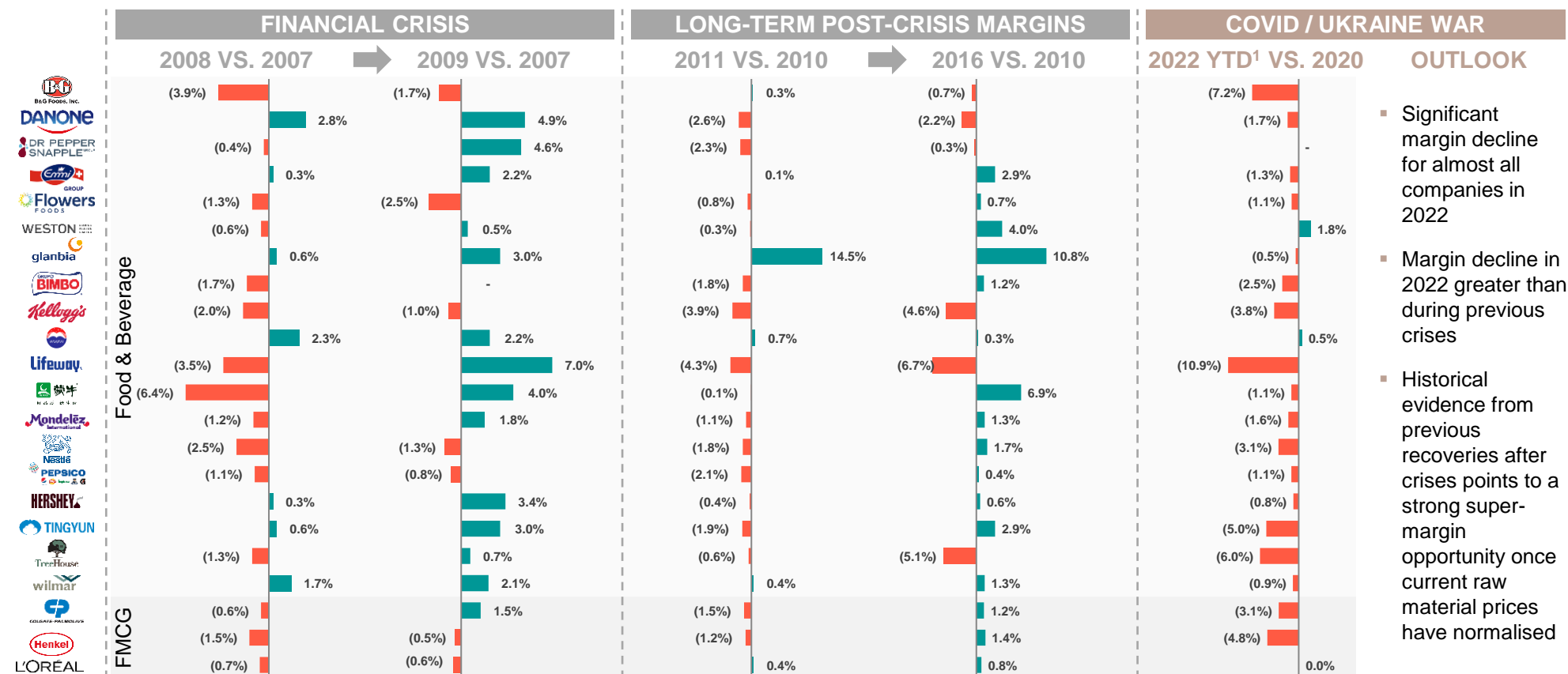


- There have been significant increases in prices across all agricultural raw materials over the past c. 12 months
- This has been exacerbated by the war in Ukraine, which has both **directly restricted supplies** of raw materials like wheat, but also affected all food commodities by **driving up input costs**
- However, **some individual raw materials have not reached their historical 'supercycle' highs** (e.g. coffee and beef)
- The last supercycle was driven by supply and demand factors:
 - Increased land allocation to biofuel production
 - Poor crop yields due to weather
 - Flight to perceived financial safety after the GFC (from equities) intensified by central banks' policies of Quantitative Easing

Note: Cocoa index capped at 550
Sources: World Bank, OC&C analysis

Historical margins of F&B / FMCG companies after input price escalations provide evidence to generate “super-margins” as input costs normalise

Percentage Points Change in Gross Margin of Selected Public F&B and FMCG Companies



There is evidence for super-margins of F&B and FMCG companies in the aftermath of economic crises, driven by raw material price increases

- 1) Initial raw material price shocks significantly driving up input costs
- 2) Companies increase consumer price levels to match rising raw material costs
- 3) When raw material prices begin to normalise but increased price levels for consumers still hold for a certain period of time, companies are able to generate higher gross margins

1. As of 1st December
Sources: Capital IQ, HW Intelligence

Key Themes for Today



Resilience in the
Macro Environment



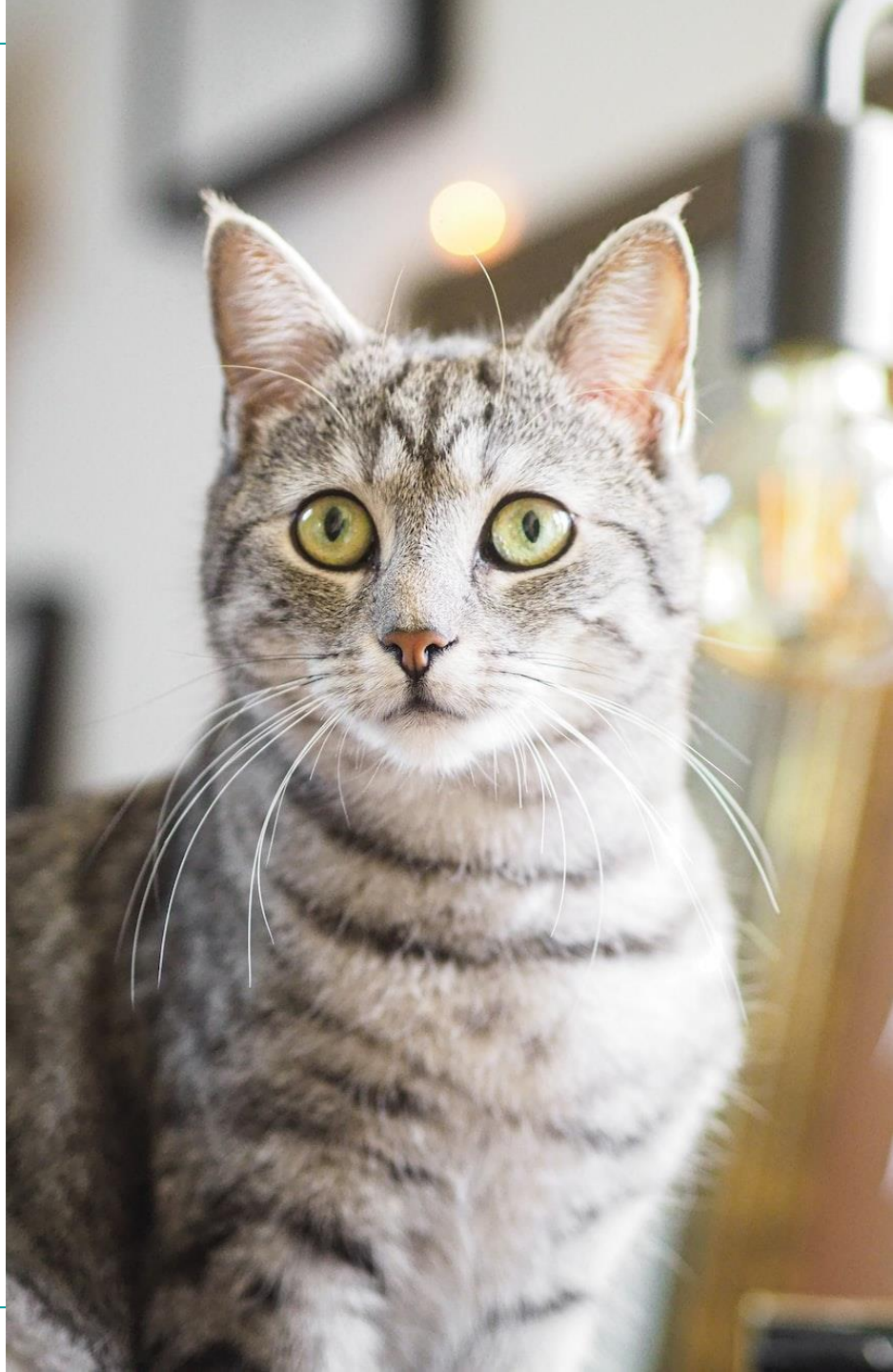
Evolving Consumer
Attitudes to
Sustainability



New Frontiers



Valuation and
Transactional Impacts

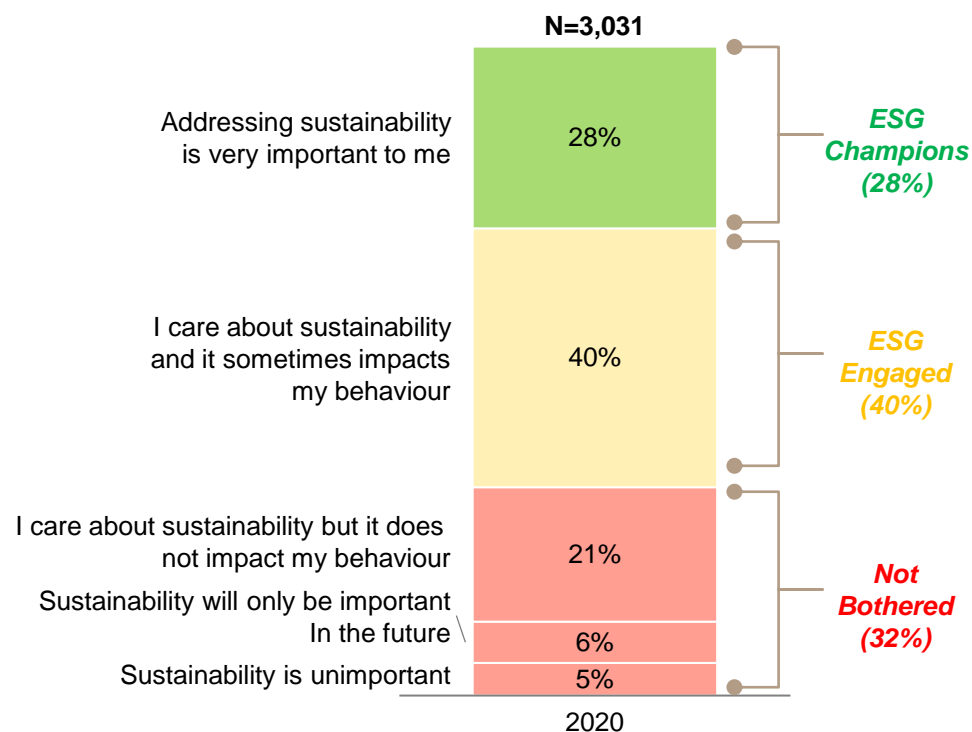


Over 2/3 of consumers view sustainability as mid-to-high importance in their lives; this holds true in Pet Food, to a similar degree as in Beauty / Fashion

Importance of Sustainability

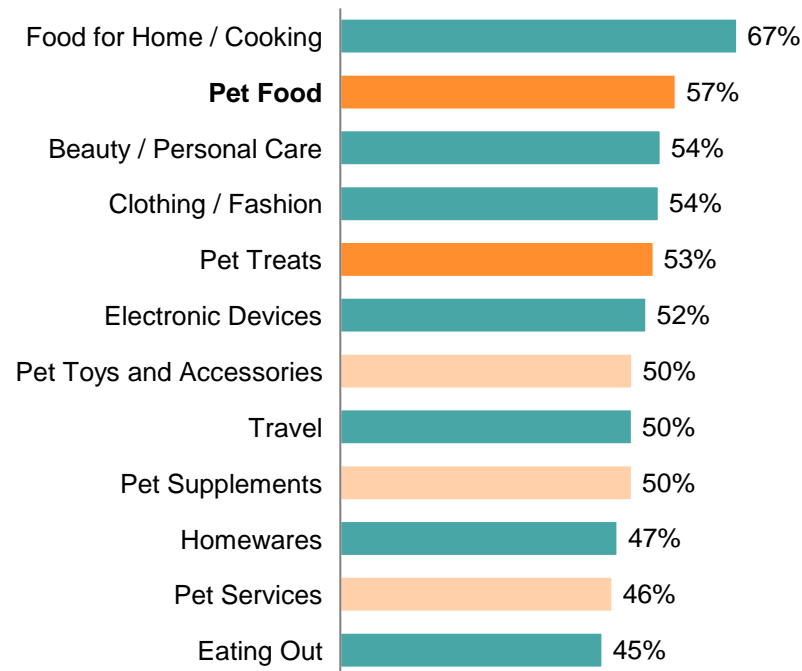
General Attitudes towards Sustainability¹

%



Consideration of Sustainability by Consumer Spend Categories²

% Selected Somewhat / Very Important



1. Which of the following best describes your attitude towards sustainability issues today? N=3031

2. Thinking about the purchases you make, how important is sustainability to you in each area? N=3031

Sources: Consumer Survey, OC&C analysis

However, quality & value remain the fundamental drivers of purchase decisions, with ESG-related criteria lower down even for ESG Champions

Pet Food Key Purchasing Criteria¹

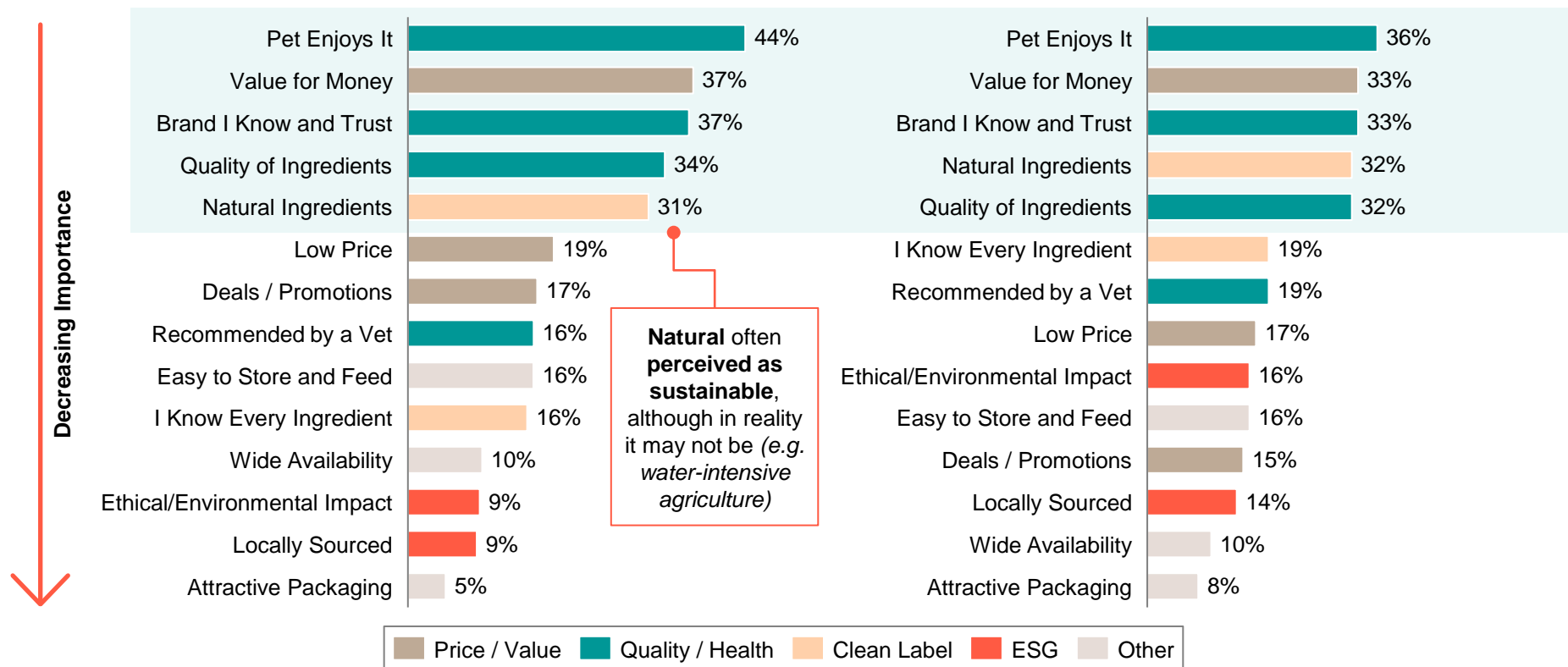
% Rank Top 3

Pet owners prioritise criteria such as taste, value and quality over ESG considerations

This holds true for 'ESG Champions', whose top 5 purchase criteria are the same

Full Sample N=3031

ESG Champions N=849



1. Thinking about food purchases you make for your pet(s), how important are the following criteria? Please rank.

Sources: Consumer Survey, OC&C analysis

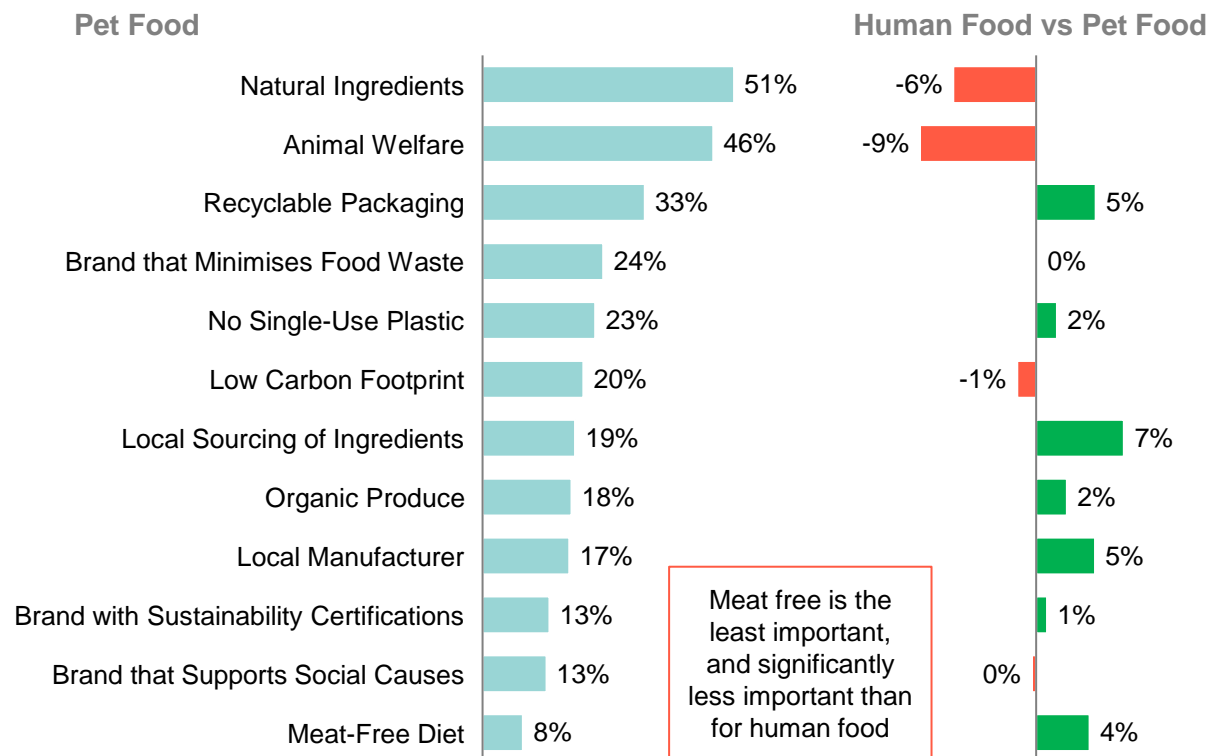
Consumer priorities for ESG in pet food are similar to human food, although there appears to be greater reluctance to make sacrifices on the core product

Importance of Aspects of Sustainability

The top ESG priorities are the same for pet and human food – however, owners appear more reluctant to make ESG ‘sacrifices’ on behalf of a pet, e.g. prioritising naturalness...

Importance of Sustainability Dimensions¹

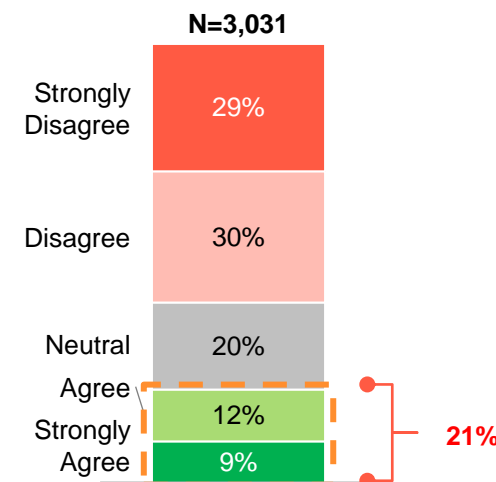
% Rank Top 3, N = 3,031²



... and are less likely to choose a meat-free diet

Support for Cats / Dogs Eating Meat-Free Diet³

% of Respondents, N=3031



“The jury is still out on vegan dog diets”

Justine Shotton, British Veterinary Association President

1. Thinking about the food purchases you make for your pet(s), how important are the following sustainability elements?

2. 217 respondents selected ‘none of these - sustainability is not important to me’

3. To what extent do you agree with the following statements about your pet? “I do not think cats / dogs should eat a meat-free diet”

Sources: Consumer Survey, OC&C analysis

As a result, action on ESG today lags caring – a small proportion of people have taken action, and behavioural changes are typically small

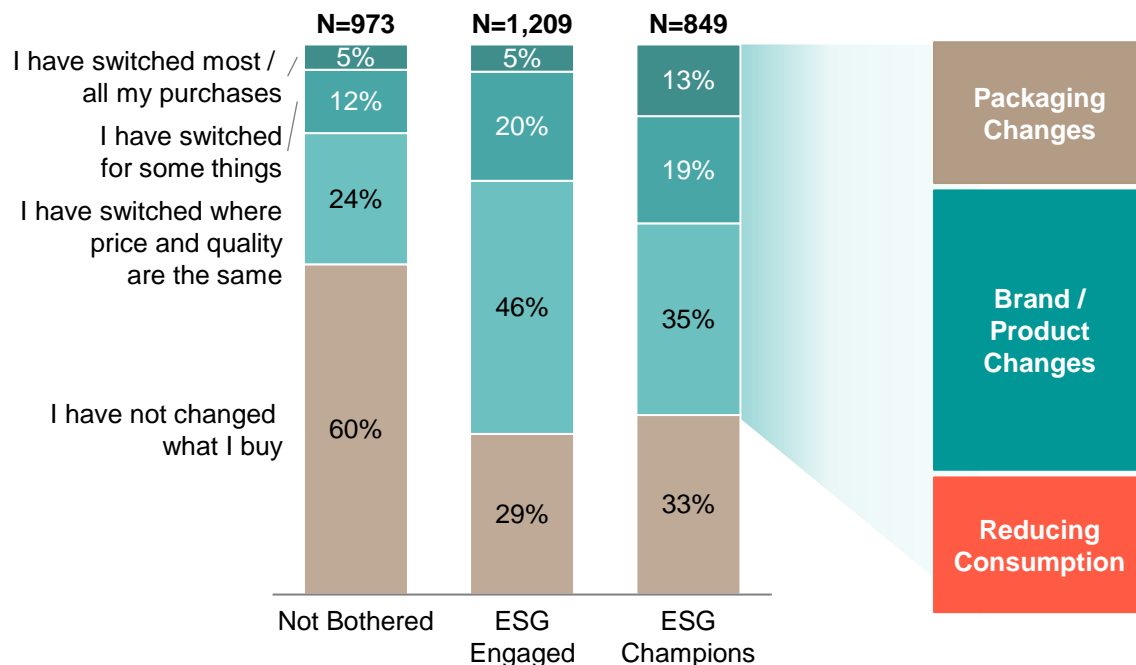
Willingness to Switch to Sustainable Pet Products

Consumers who are more conscious of sustainability are more likely to switch pet purchases, although relatively few say they do so consistently...

... and the changes they make are small, e.g. looking for better packaging, rather than fundamentally changing their pet's diet

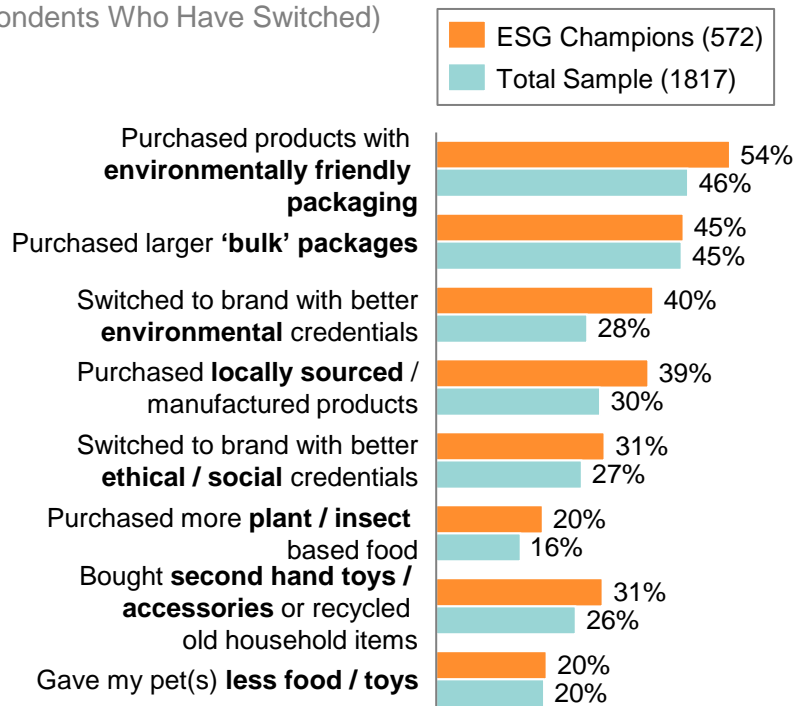
Switching to More Sustainable Pet Products by Attitude to Sustainability¹

(#, % of Respondents)



Actions taken to Improve Sustainability of Purchases²

(% of Respondents Who Have Switched)



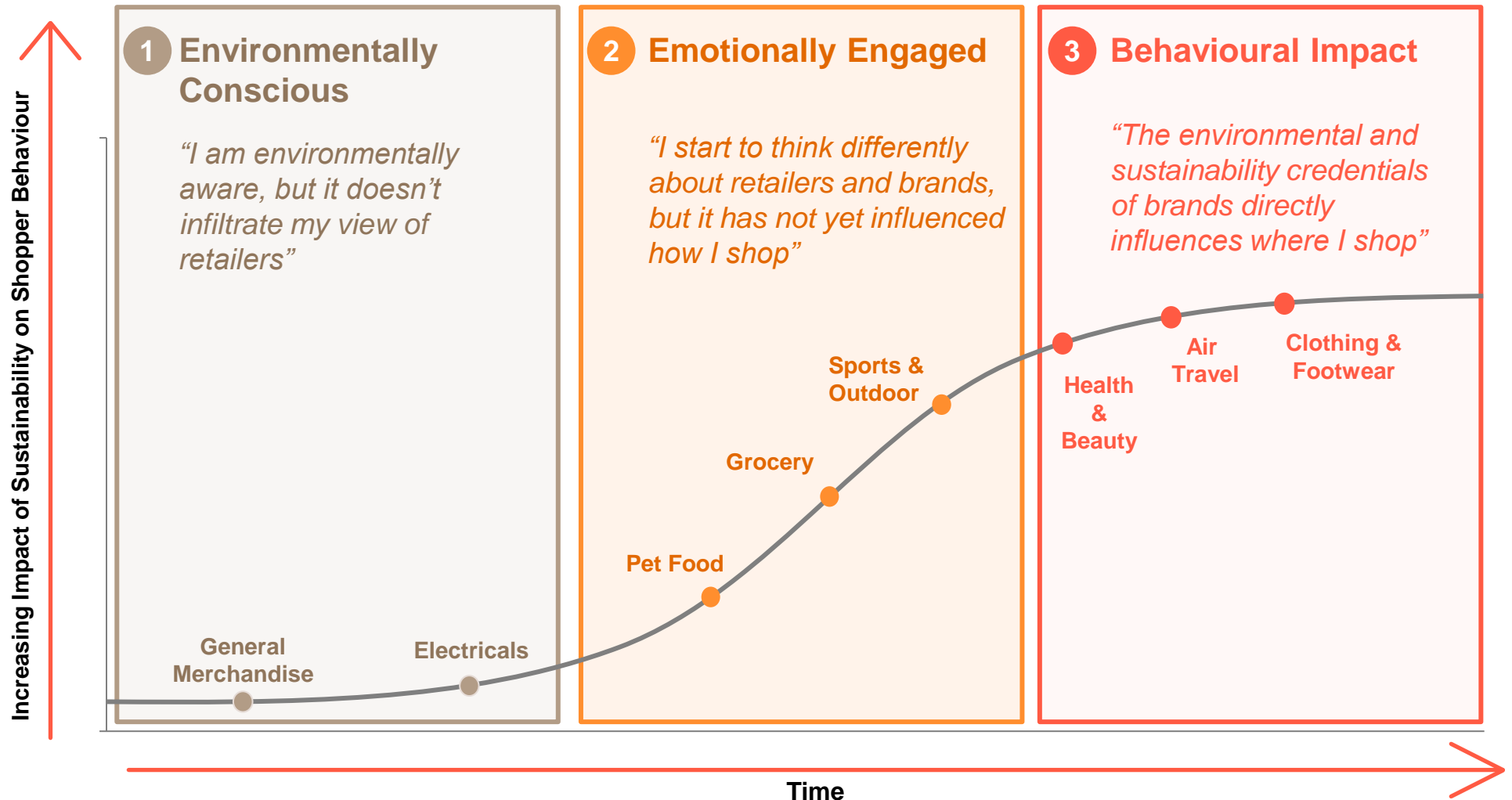
1. Thinking about what you buy for your pet(s), to what extent have you changed what you buy to make your pet purchases more sustainable?

2. Which, if any, of the following have you done specifically to try to make your pet purchases more sustainable?

Sources: Consumer Survey, OC&C analysis

However, evidence from other industries shows the impact as consumer awareness of sustainability rises; it impacts attitudes first, then behaviour

Indicative



There is already a small, engaged group of consumers consistently making changes – giving clues as to what behaviours may become more prevalent

ESG Pioneers¹

There are 'pioneers' making more radical changes - typically younger, affluent, super-premium buyers



ESG Pioneers

"I have switched most / all of my purchases to sustainable products and brands"

c.7% of pet owners

Affluent

52% earning over \$100k, vs 34% of total pet owners (*US only*²)

Younger

53% under 45, vs 45% of total pet owners

Super-Premium Shoppers³

36% buying Super Premium, vs 22% of total pet owners

They are more likely to seek out sustainable products (e.g. with ESG creds) – however uptake of meat-free remains low

Actions taken to Improve Sustainability of Purchases⁴ (% of Respondents Who Have Switched)

ESG Pioneers (216) ESG Champions (572)

Packaging Changes

Purchased products with **environmentally friendly packaging** 52%
54%

Purchased larger **'bulk' packages** 37%
45%

Purchased **locally sourced** / manufactured products 41%
39%

Switched to brand with better **environmental** credentials 38%
40%

Switched to brand with better **ethical / social** credentials 38%
31%

Purchased more **plant / insect based food** 21%
20%

Bought **second hand toys / Accessories** or recycled old household items 34%
31%

Gave my pet(s) **less food / toys** 22%
20%

Reducing Consumption

1. ESG Pioneers are respondents who answered I have switched most/all of my purchases to sustainable products / brands to the question to what extent have you changed what you buy to make your pet purchases more sustainable?

2. In UK, 19% of ESG Pioneers earn over £100k p.a. vs 12% of total sample; in Germany, 27% of ESG Pioneers early over €77k p.a., vs 25% of total sample

3. Thinking of the meals you typically feed your pets each week, how much of it falls into the following types? 4. Which, if any, of the following have you done specifically to try to make your pet purchases more sustainable?

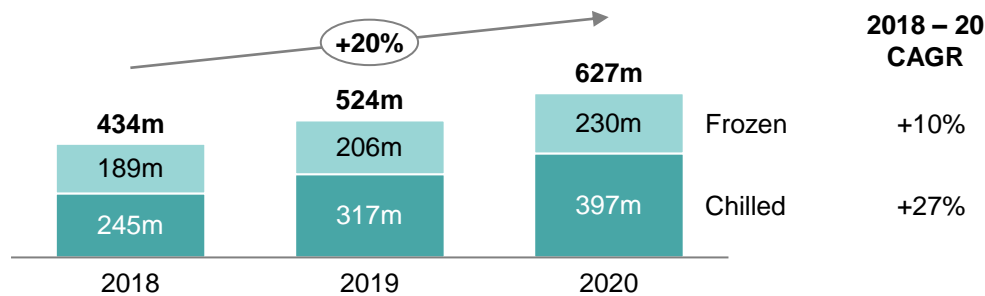
Sources: Consumer Survey, OC&C analysis

Whilst a major shift to meat-free diets seems unlikely today, there is scope for meat reduction, and better products / education may drive growth over time

Pet Meat-Free Diets

The meat-free segment has been growing rapidly within Human food – this gives some clues as to how meat-free could evolve in Pet

'Meat-Free' Market, 2018-20
£m



- Rapid growth in human 'meat-free' has been driven primarily by an **increase in people following a 'flexitarian' diet** – i.e. reducing, rather than removing, meat from their diet
- **A number of key factors drove the increase in 'flexitarians':**
 - Innovation in taste / formulation
 - Improvements to products' health benefits / claims
 - Scientific research on health considerations
 - Consumer education on health and ESG benefits

Growth is more likely to be driven by changes to consumption, rather than removing meat entirely

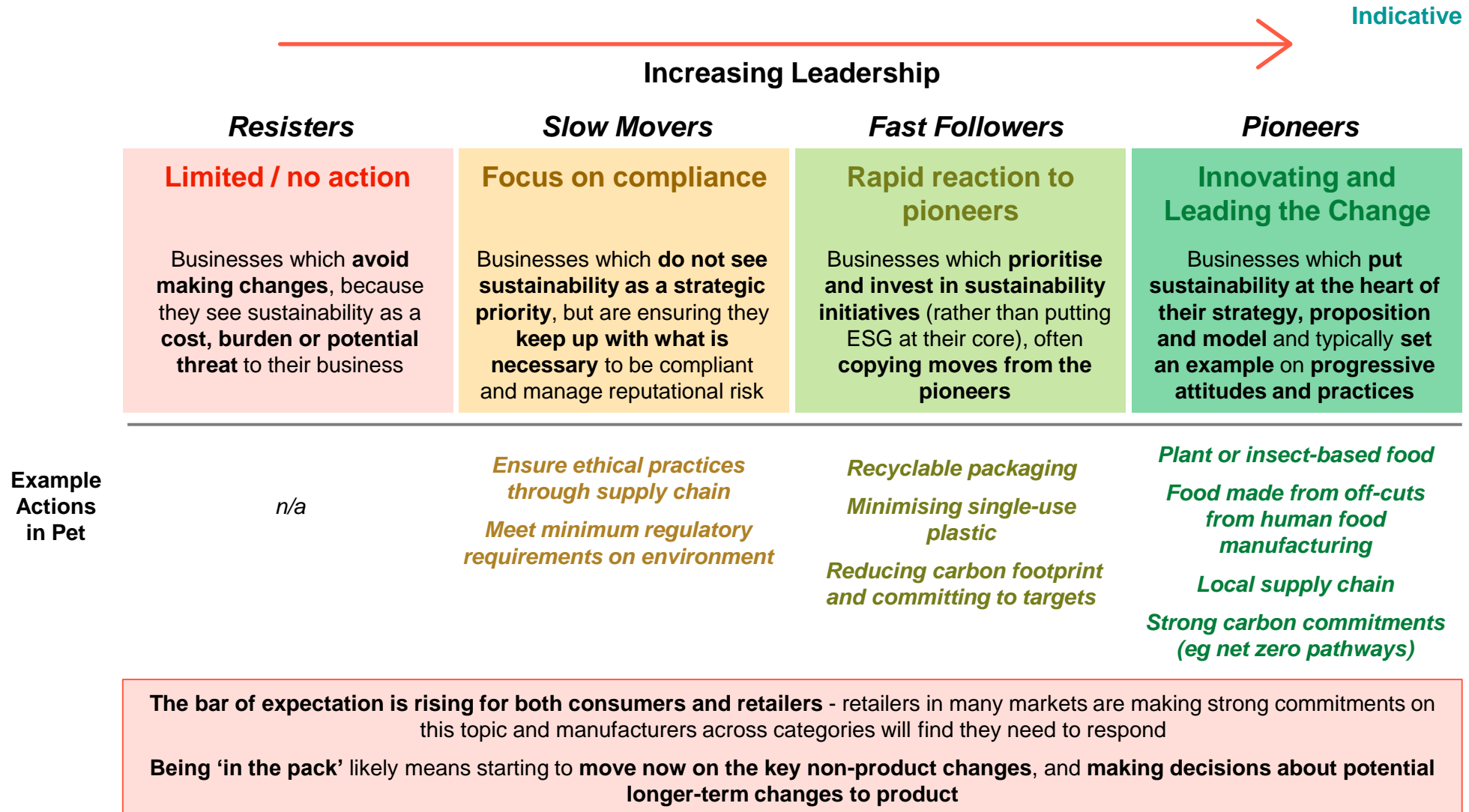
Reduced overall volume of meat consumption

Increased consumption of 'less desirable' cuts to **minimise food waste**

Potential slowing / reversing premiumisation trends towards 'human grade' / 'prime cuts' of meat

More creative sourcing, eg insects, invasive species

Brands have a choice around how to position themselves on ESG – however, as the bar of expectation rises, there are risks to being behind the curve



There are successful ESG 'pioneers' in Pet which have built a brand around a sustainable product proposition, while also delivering on health, taste etc.

Pet Brand Case Studies

 Inspired Pet Nutrition

£100m+ Turnover

Focus of activity across a **wide spectrum of ESG activities**, encompassing **People, Pets & Planet**

Our Positive Pawprints So Far

- MILES & MEALS**: 3 million meals donated to pet charities across the UK, thanks to our Miles and Meals programme.
- 7k+ members** in our Miles & Meals strava group, committed to helping pets in need across the UK.
- 100,000 trees** planted as of June 2022.
- CARBON NEGATIVE**: Entering our second year as the first major UK pet food business to be carbon negative.
- POSITIVE FOOTPRINT**: 23,686 tonnes of CO2 offset so far. (1 tonne of CO2 = driving once around the world)
- More than 300** incredible people working for us across 3 different sites.

The UK's first major pet food manufacturer to be **Carbon Negative in 2020**

Packaging is 98% recyclable with this clearly communicated to consumers on products

 shameless pets

\$50m+ Turnover


Transformed packaging to only 25% PCR plastic

Upcycle misfit and surplus food into pet treats, utilising food that would otherwise go to waste



Combined with **nutritional focus and health claims** – ingredients tested to meet standards before use

Utilise **renewable energy** (80% of production) throughout the product line

 Jiminy's

c.\$5m Turnover

GOOD GRUB
SUSTAINABLE & HUMANE
GRUB RECIPE WITH OATS & SWEET POTATO

DELICIOUS & NUTRITIOUS | SOFT BAKED KIBBLE | HIGHLY DIGESTIBLE | GREAT FOR FOOD SENSITIVE DOGS

ADULT DOG FOOD • NET WT 10LB (4.5KG)

Nutrition and taste remain critical

Uses **insect-based protein** and **local sourcing** to reduce environmental footprint – fundamental shift in proposition / model

ESG messaging included on packaging, and website offers **interactive calculator** of env. savings

In a single year with Jiminy's, Bill will save...

6 ACRES OF LAND	511,738 GALLONS OF WATER	252,102 GALLONS OF GREENHOUSE GAS
On this land you could plant: 2,846 TREES	Think about this as: 341,159 TOILET FLUSHES	Imagine not driving: 709 MILES

For existing brands, the challenge is how to evolve to deliver on ESG while maintaining price, quality and convenience; we have seen brands in similar categories (e.g. Baby) navigate this

Sustainability in Baby Food Category

Baby is a good analogue category that is further along in its sustainability journey

Similar consumer dynamics

The consumer is **buying for someone else** who they care deeply about, who can demonstrate taste preferences but cannot make decisions on ESG

Similar challenges for brands

Stakeholder expectations are rising: Consumers are **increasingly ESG conscious**, but **will not compromise on price and convenience**, and **retailers are also increasingly making commitments** which suppliers need to respond to

Further along the journey

ESG concerns have more traction in Baby, e.g. **recyclable packaging in top 3 purchase criteria for 20% of baby food buyers** - as a result, **major suppliers are prioritising solutions**




Ella's kitchen

- Ella's Kitchen is a UK manufacturer of organic baby food that places **sustainability at the core of its brand**, for example:
 - Child-friendly graphics on website display **3 sustainability promises**
 - reduce our emissions
 - net zero by 2030
 - restore, rewild + protect our ecosystems
 - our promises
 - 'Ellacycling' scheme works with supermarkets and nurseries around the UK to make all **flexible plastic pouches fully recyclable**
 - Packaging shows **B Corp certification** and a call to find out more on '**ellacycle.co.uk**'

Key Themes for Today



**Resilience in the
Macro Environment**



**Evolving Consumer
Attitudes to
Sustainability**



New Frontiers



**Valuation and
Transactional Impacts**





There are attractive investment opportunities in Food, Treats & Supplements, particularly where innovation is driving volume growth or premiumisation

Potential Investment Theses – Food and Supplements

Scale Brands in Premium / Natural Food and Treats	<ul style="list-style-type: none"> Invest in scaling / internationalising individual brands, or build brand platforms driving cross-sell, in Premium / Natural <ul style="list-style-type: none"> Rapid growth in Premium / Natural is expected to continue, with remaining headroom in Food (particularly outside the US) and Treats / Toppers representing an expandable category in terms of both volume / price points
Develop Super-Premium Food Categories	<ul style="list-style-type: none"> Place multiple smaller bets in nascent super-premium categories <ul style="list-style-type: none"> New super-premium formats will drive the next wave of premiumisation in Pet Food – however, it is not yet clear what will be the winning format (raw, fresh, air- / freeze-dried, personalised, etc.) so creating optionality is key
Roll-up Private Label	<ul style="list-style-type: none"> Consolidate Private Label manufacturers within and across markets <ul style="list-style-type: none"> There is headroom for Private Label within Pet Food, including in premium, but the manufacturing base is currently highly fragmented (including both Pet specialists and the Pet arm of meat businesses)
Scale Brands in Health & Supplements	<ul style="list-style-type: none"> Scale-up individual brands, or create brand platforms, in supplements and related OTC health products <ul style="list-style-type: none"> Innovation expected to continue driving rapid growth, mirroring trends from human VMS – e.g. catering to broader set of conditions than traditional supplements and more tailored to specific needs
Drive Durables & Tech Category Growth	<ul style="list-style-type: none"> Drive category expansion and create scale brand(s) in Pet Durables and Tech space <ul style="list-style-type: none"> Growth in spending on premium lifestyle products (e.g. pet housing, beds, toys, other lifestyle products) and Pet Tech expected to continue, supported by broader humanisation trend in Pet and continuing innovation
Invest Behind Growing Pet Services Space	<ul style="list-style-type: none"> Consolidate and roll up Vet Services in markets where regulatory conditions allow Support expansion of spend on new Pet services models and associated digital platforms <ul style="list-style-type: none"> Growth in spending driven by continued humanisation of pets, with younger owners in particular open to 'sharing economy' or tech-enabled solutions for pet care
Drive Growth in Pet Specialist Channels	<ul style="list-style-type: none"> Invest in driving expansion of differentiated specialist pet retailers <ul style="list-style-type: none"> Pet specialist retail is seeing strong growth as highly engaged pet owners seek expert advice and a broad, but curated range of products; this will likely be accelerated as financially squeezed owners seek value for money

Across categories, innovation is often driven by humanisation, with many trends from human products and services translating into Pet

From basic, generalised care...

Food & Treats



- **Simple, nutritionally complete** solution
- **Opaque** formulation
- **Ambient** storage
- **Minimal tailoring** for age and breed size



Health



- Basic preventative physical health treatments - e.g. **anti-flea / deworming**



Products



- **Functional** litter & hygiene
- **Dog / cat friendly** shampoo



Services



- **Local vet** visits for health issues
- **Training** classes
- Dog walkers & pet sitters

...To much greater nuance in need states

- **Natural ingredients** and **clean label** – fresher, simpler and less processed
- **“Human-grade”** meat
- Greater focus on **gut health**
- **Vegetarian / vegan, halal** diets



All-natural

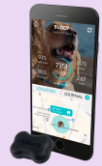


Fresh / raw food

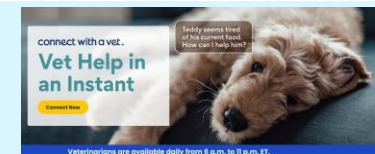
- **Tailoring** by life stage, breed, individual needs
- **Supplements** for joints, digestion
- **Holistic approach** to wellbeing – importance of **mental health**



- **Natural, “clean beauty”**
- **“Inclusive”** products, e.g. shampoos by **coat type**
- **Activity monitoring** tech




- **Televet** & online prescriptions
- **Nutritional** advice
- Animal **behaviourists**






We are seeing fast growth from innovative, premium brands in new Food categories, such as freeze-dried, fresh, personalised and air-dried


Case Studies: Premium Brands Winning in High Growth Areas



Freeze-Dried Raw


- **Leader in Freeze-Dried and Raw** – method preserves entire pieces of raw meat for maximum nutrition
- **Offline Channel Dominance** – only raw player in PetCo & PetSmart, the top 2 US specialist retailers
- **Rapid Growth** – c.\$180m US revenue in 2020; 5-10% top line CAGR 2017-20






Fresh


- **Largest Player in Refrigerated Pet Food** with focus on 100% natural ingredients
- **Premium Distribution** e.g. Wholefoods
- **Sustainable Brand** – marketing focus on ESG credentials, e.g. 100% wind-powered kitchens
- **Growing Share in Premium** – grew from 9.4% to 16.0% of premium wet dog food from 2016-21






Personalised

- **Bespoke Meals** tailored to dog's portion size and nutritional content needs, based on online calculator
- **Human-Grade Ingredients** – meals look like human food
- **Pet Kitchens** – chefs create made-to-order meals
- **Secured Funding** – \$68m in Series C funding in 2020





Air-Dried Raw

- **Air-Dried and Raw** – air dry locks in superior nutritional value and moisture of raw ingredients
- **Convenience** – only air- / freeze-dried player with meals that are ready-to-eat
- **Sustainable Local Brand** – brand marketed as 'ethical New Zealand produce'
- **Rapid Growth** – 28% CAGR from 2018-20



Source: OC&C analysis

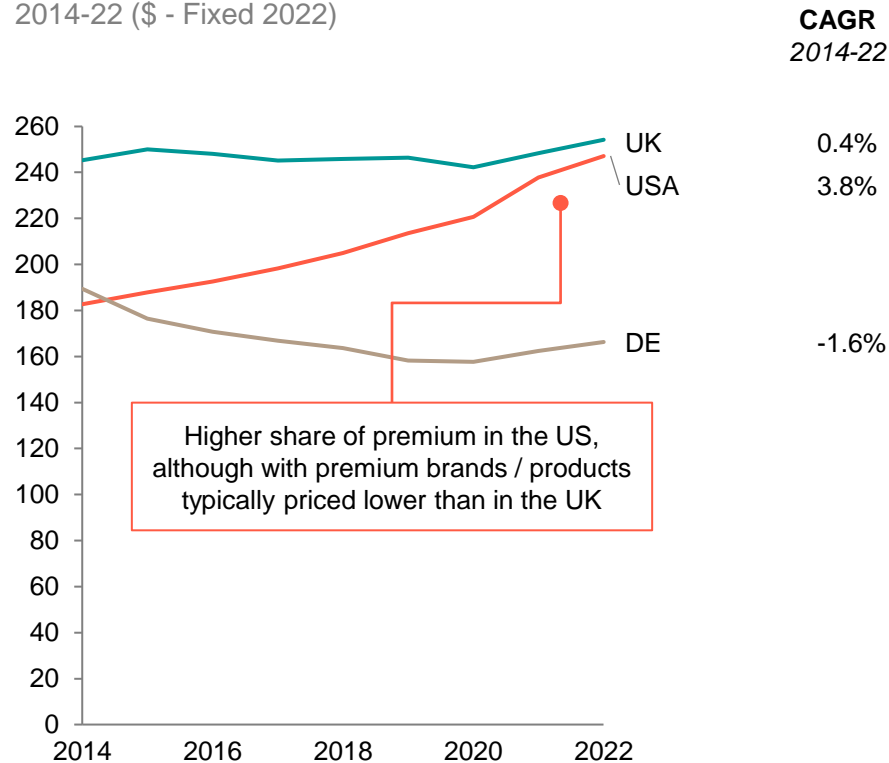


Innovation often emerges and gains traction in mature markets (e.g. UK, US) where pet spend is highest

Penetration of Frontier Products

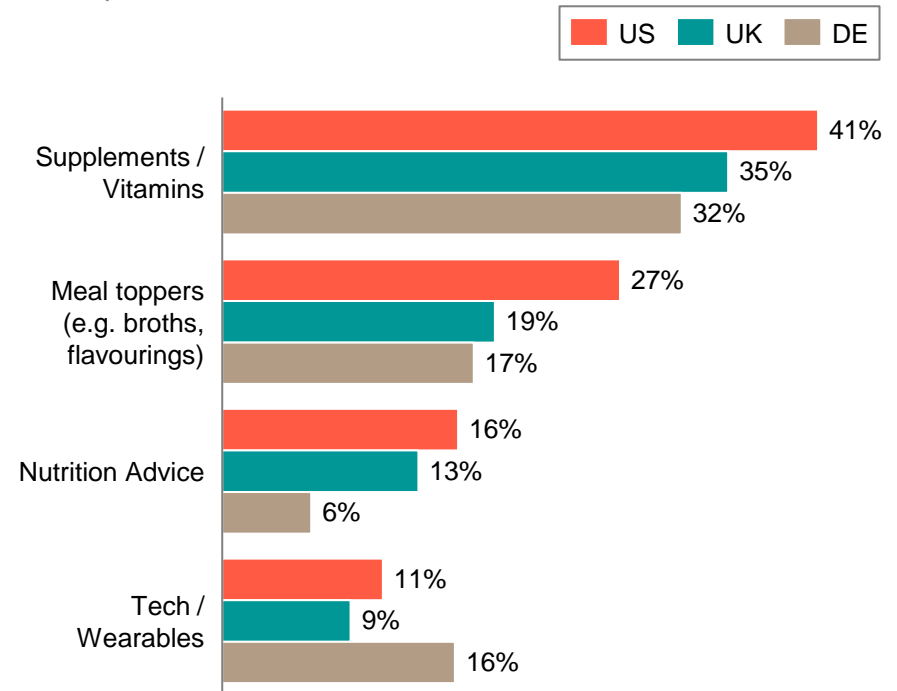
Spend per pet is highest in the UK and US, partly reflecting greater propensity to spend on new / more premium products

Household Pet Food Spend per Dog/Cat, by Country
2014-22 (\$ - Fixed 2022)



Penetration of several 'frontier' categories is highest in the US, but UK and DE are not far behind

"Frontier" Products Purchased in Last Year¹
% of Respondents



1. What types of pet products have you purchased for your pet(s) in the last 12 months?

Sources: Consumer Survey, Euromonitor, OC&C analysis

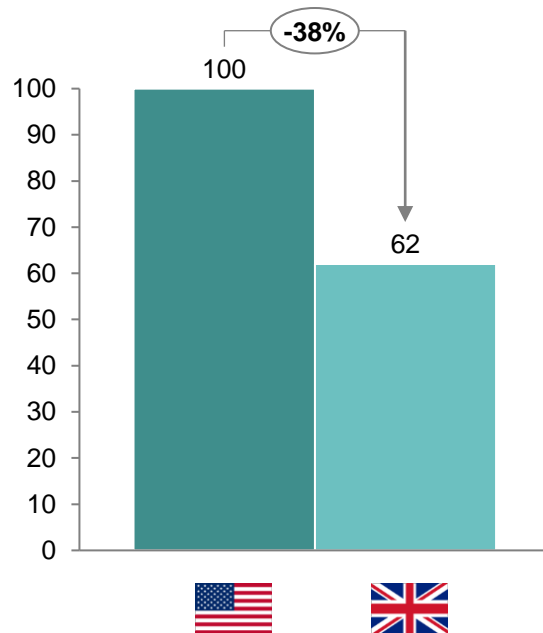


For example, Pet Supplements is a more developed category in the US, with a more engaged, educated consumer – suggesting likely headroom in Europe

Comparison of Google Search Activity for 'Pet Supplements', USA vs UK

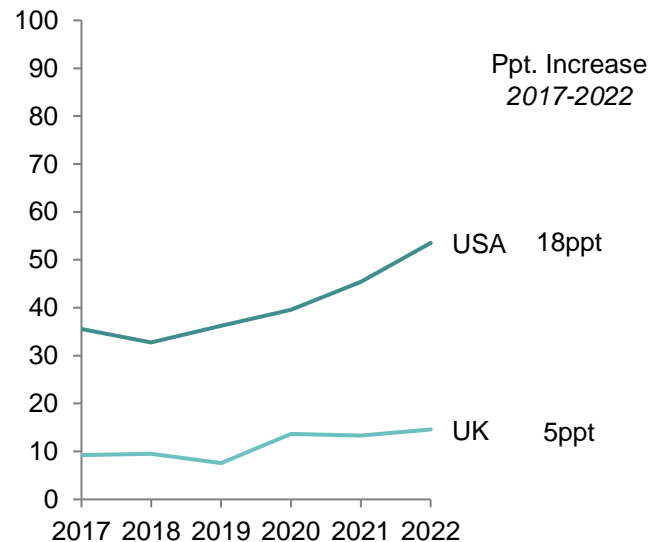
1 'Pet Supplements' capture a higher share of searches in the USA than UK...

Search Volume¹ on 'Pet Supplements', by Country (Indexed², 2022 LTM³)



2 ... and search volumes are increasing faster in the USA than UK

Average Search Volume of 'Pet Supplements', USA vs UK (Indexed⁴, 2017-2022³)



3 Related search terms are more sophisticated in the US than UK

Search Terms Related to 'Pet Supplements', USA vs UK

USA	UK
'pet vitamins'	'dog supplements'
'holistic pet organics'	'pet drugs online'
'only natural pet'	'pet supermarket'
'Zesty paws'	'pets at home'
'Petco'	'joint supplements dogs'
+ 20 more related searches	

In the US, **search terms related** to 'dog supplements' are **more numerous** and **more educated**, often targeting specific brands and products

1. Search volumes are normalised to allow comparison, by dividing by the total number of searches in the period; 2. Search volume indexed against the country with the highest volume of searches over the period; 3. 2022 LTM (18/09/2021 - 18/09/2022); 4. Average search volume over each year is indexed against the highest performing week for each country within the 2017-2022 period

Sources: Google Trends, OC&C analysis



Companies deciding where to place their bets should carefully consider their customer base, capabilities, and right to win

Evaluating New Frontiers

How do you continue to serve current pet owners as they trade up?

- What do your **customers care about**?
- Are they **trading up**? If so, what to and why?

How could you access new customers?

- Are there **new segments** that do not currently consider the brand, who could be reached through new frontiers?
- What are their values and preferences?

What is your right to win?

- Why will your **proposition be superior** to existing and potential competitors?
- What do you expect your **competitors** to do? How will they respond to you?

What capabilities do you have, and how can you leverage them?

- What are the **sources of advantages** in your core business and how can you deploy these effectively in new frontiers?
 - E.g. innovative product development, communicating brand messages, distribution...

How should you pursue the opportunity?

- Do you have the **capabilities** (manufacturing, brand, RTM etc) to develop the proposition **organically**?
- Should you **partner or acquire** to obtain the right capabilities?

Key Themes for Today



**Resilience in the
Macro Environment**



**Evolving Consumer
Attitudes to
Sustainability**



New Frontiers



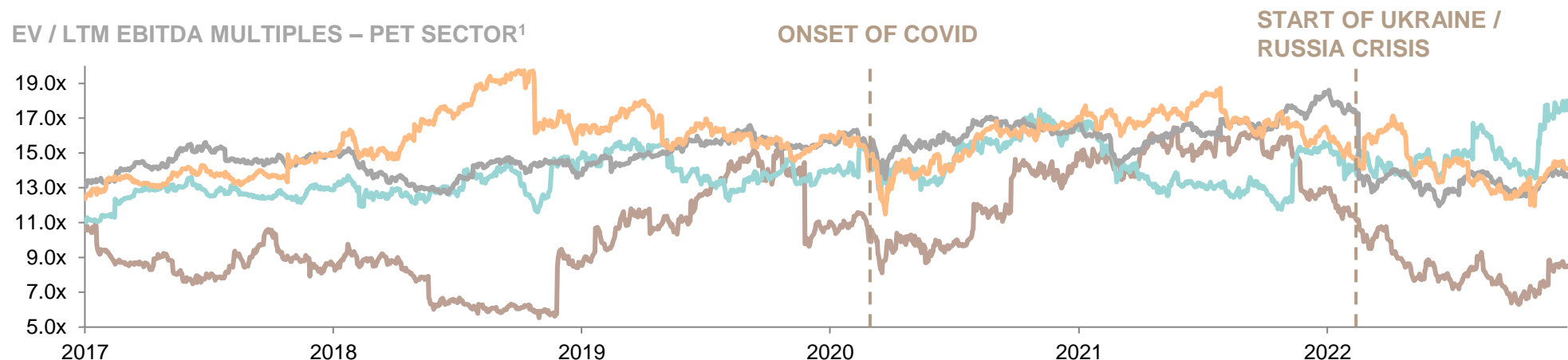
**Valuation and
Transactional Impacts**




















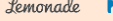













Public pet sector peers have traded at averages of c. 12-16x EV / EBITDA over the last 3 years, depending on the subsector

Long-term Valuations of Public Companies

EV / LTM EBITDA MULTIPLES – PET SECTOR¹



	PET RETAIL	GENERAL PET PRODUCTS	BRANDED PET FOOD / FMCG WITH PET ACTIVITIES	PET CARE
Peer Group	  	   	     	                 
TODAY	8.5x	18.0x	13.7x	14.1x
1-Year Average	8.9x	14.9x	14.0x	14.4x
3-Year Average	11.7x	14.6x	15.4x	15.6x

Pet sector valuations have proven their resilience during the pandemic

Valuations increased during the onset of COVID driven by increasing growth and profitability

Across subsectors, valuations have remained at or above pre-COVID levels until the outbreak of the Ukraine / Russia crisis

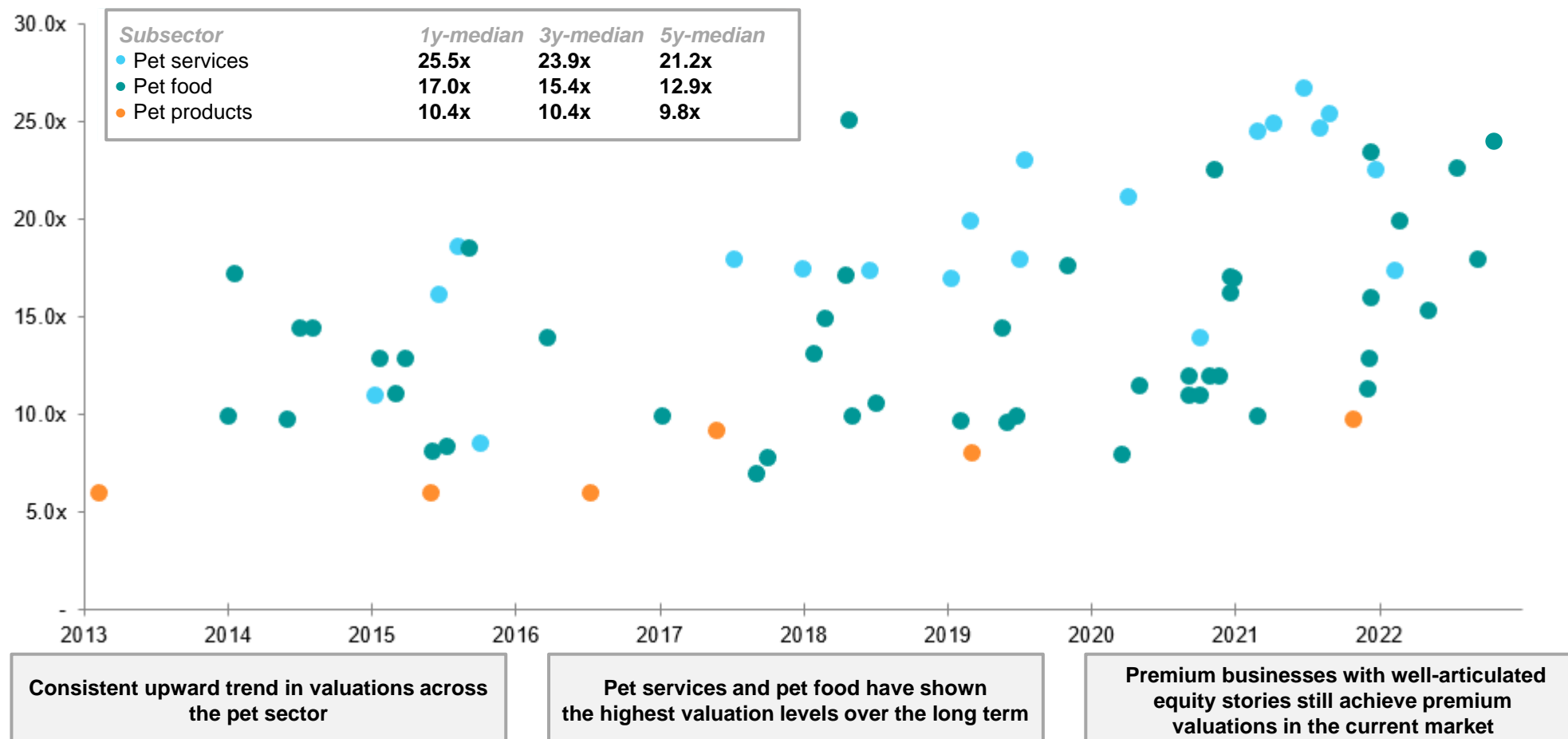
1. As of 20th December

Source: Capital IQ (Multiples greater than 50.0x considered not meaningful)

Valuation levels of pet sector transactions have steadily increased since 2013, with pet services and pet food achieving the highest valuations

Long-term Valuations of Pet Sector Transactions

SELECTED EV / LTM EBITDA MULTIPLES – PET SECTOR¹



1. As of 1st December

Sources: Mergermarket, HW Intelligence

What makes a compelling equity story?

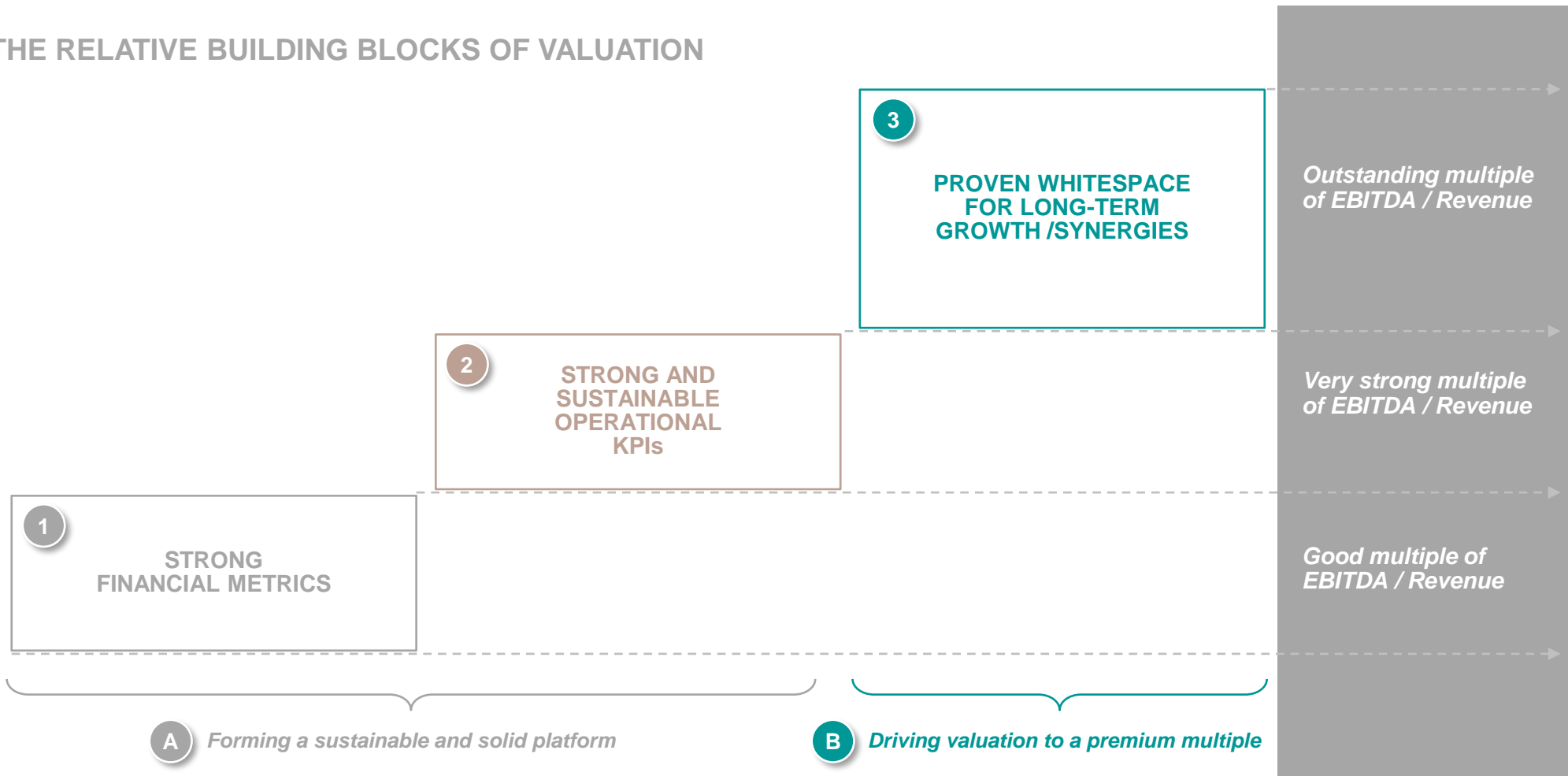
The Best Equity Stories are Long-Term in Nature (10+ Years) and are Heavily Supportable by Data

1	FOCUS ON THE 10+ YEAR STORY, NOT JUST THE NEXT 3 YEARS	<ul style="list-style-type: none"> Whether marketing to Private Equity, Patient Capital or Strategics, one needs to look far longer term than the next 3 years (in the forecast plan) We encourage clients to set their horizons for 10+ years
2	FURTHER INTERNATIONAL EXPANSION	<ul style="list-style-type: none"> International growth stories generally have far longer growth horizons They also have the benefit of attracting a wider investor universe
3	FOCUS ON THE AREAS OF THE STORY THAT WILL DRIVE MAXIMUM VALUE	<ul style="list-style-type: none"> Keep this simple A small number of hard hitting, evidenced initiatives is far more effective than a large number of untested elements in a business plan – look to build trust
4	ASSESS THE LIKELY PROOF POINTS OF EACH INITIATIVE WELL IN ADVANCE	<ul style="list-style-type: none"> Assess well in advance how an investor is likely to diligence the elements of the plan. Are the proof points sufficient to enable that investor to complete diligence to their satisfaction? If time allows in advance of a sale, ensure management focus on the proof points
5	SPLIT THE GROWTH INITIATIVES BY LEVEL OF EVIDENCE ATTACHING TO EACH – KEEP IT SIMPLE	<ul style="list-style-type: none"> Delineate between fully and partially proven growth drivers. Don't risk clouding the base story by confusing the two categories Ideally have a base plan that delivers a solid return on its own. The less evidenced initiatives provide upside for investors to build on this (growth overlays)
6	TAILORED MESSAGES FOR DIFFERENT INVESTORS CATEGORIES / INDIVIDUAL INVESTORS	<ul style="list-style-type: none"> Different investor categories (and individual investors) may value parts of a business differently Understand these in advance and focus on the areas that are going to most excite the investor in question; this often means different and bespoke messaging

How we think about valuation drivers

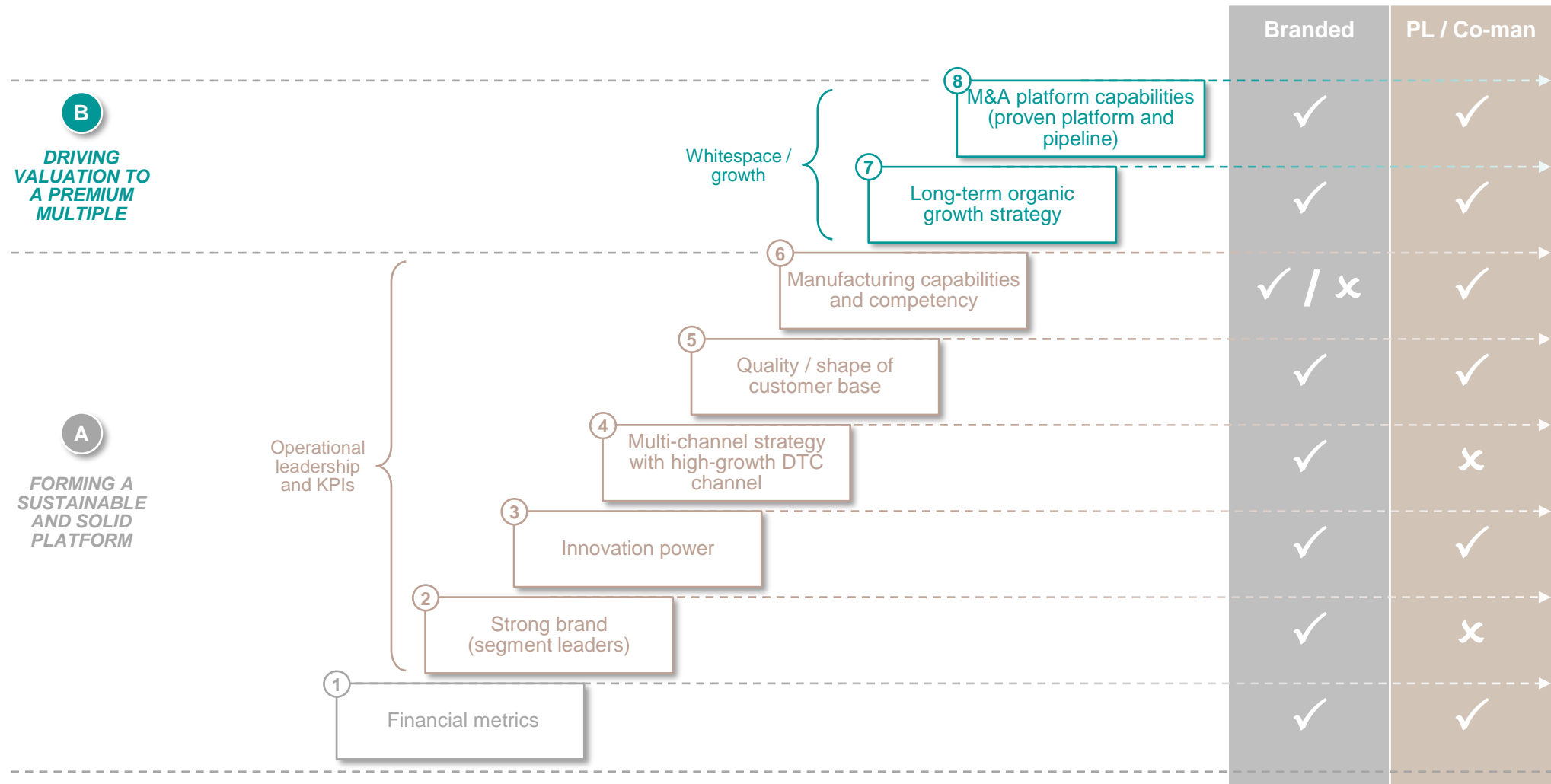
The Highest Valuations are the Preserve of Businesses that Deliver Strong Operational and Financial KPIs, but Also (and Most Importantly) Have Vast Proven Whitespace for Long-Term Growth

THE RELATIVE BUILDING BLOCKS OF VALUATION



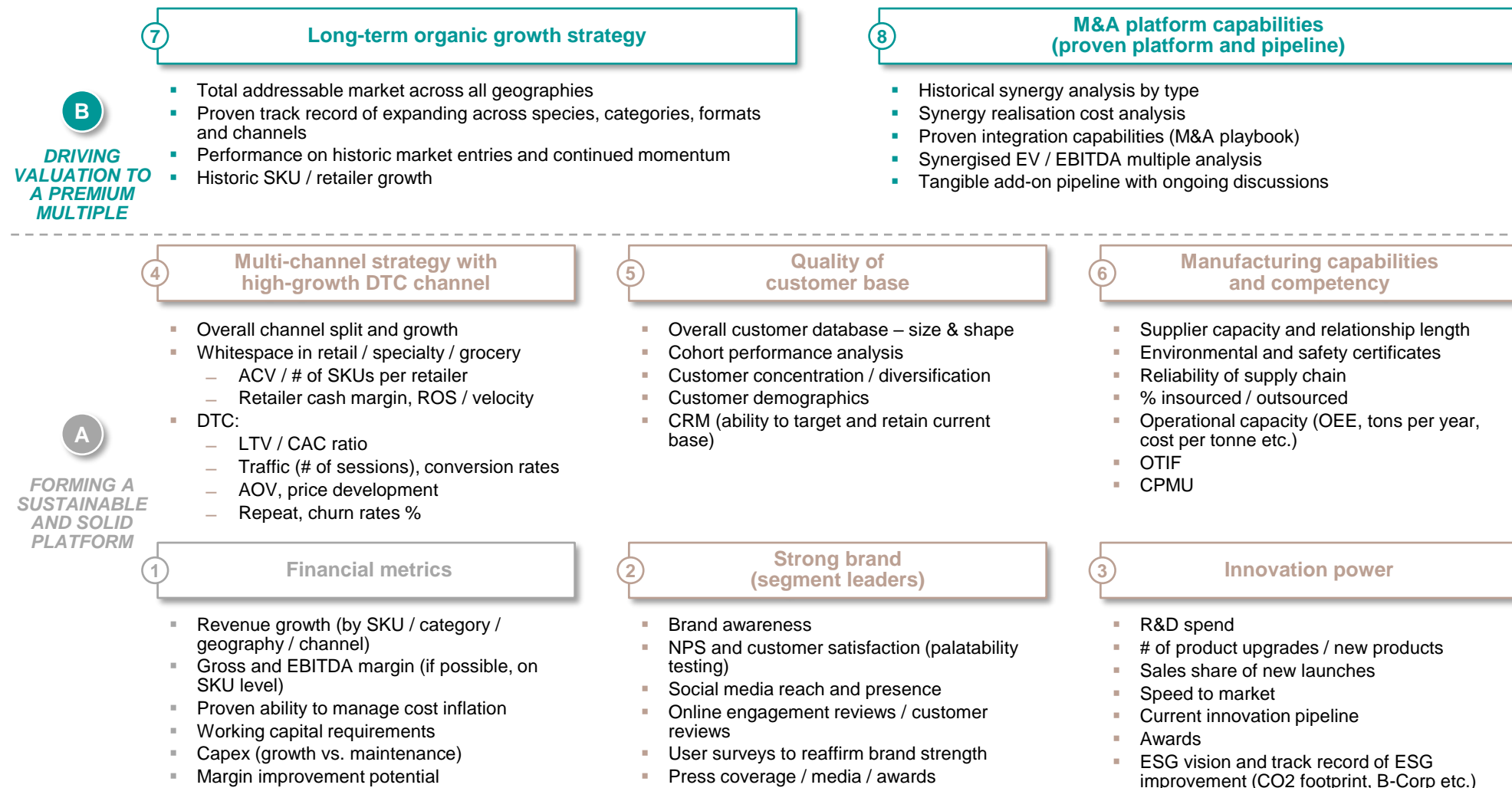
Crafting a long-term equity story, backed by data and based on the key valuation drivers in the pet food space, is key to attract a premium valuation

Key Valuation Drivers for Branded and PL / Co-Man Pet Food Companies



We recommend tracking KPIs and data that impact the key valuation drivers early to support the equity story, facilitate diligence and maximise valuation

Overview on KPIs Across the Key Valuation Drivers in the Pet Food Space (Non-Exhaustive)



Currently, investors are more focused on operational strength and capabilities to navigate successfully through the current environment

Key Takeaways from Recent Transactions

1	INFLATION	<ul style="list-style-type: none"> Across the whole supply chain – COGS, manufacturing, people costs and logistics The devaluation of EUR and GBP has further impacted those that source in USD Likely beneficiaries in Private Label and Value brands, however pet owners feeding premium and super premium products tend to stay loyal to their brands / pets' diets
2	PRICE RISES	<ul style="list-style-type: none"> Most brands have instigated multiple price rises already; more will be coming A delineation in the success between “must have” brands and “me-toos”. Channel mix is important to success Focus on other opportunities to drive / retain GM% (benefits the vertically integrated brands)
3	SUPPLY CHAIN DISRUPTION	<ul style="list-style-type: none"> Significant impact on OTIF International brands with outsourced value chains most impacted Significant opportunity to rapidly take market share
4	INCREASED FOCUS ON EBITDA AND CASH	<ul style="list-style-type: none"> Investors are much more focused on profit; life will become much tougher for the smaller, VC-backed (often digital-channel focused) brands Those that have low margins to start with (or promised “jam tomorrow”) will struggle without additional investment
5	CONSOLIDATION	<ul style="list-style-type: none"> There are now a number of “platforms” across Europe; many of which have started from slightly different angles Attractive synergy opportunity – the question is how diversified a brand portfolio they want, and how large they can grow their brands Still a very large number of potential consolidation chips to target
6	COVID / CHANNEL MIX	<ul style="list-style-type: none"> Post-Covid, long-term shift towards multi-channel tech platforms Mass and Specialty are fighting back well The large increase in pet numbers from Covid will be helpful to long-term market growth
7	ESG	<ul style="list-style-type: none"> Increasingly important to meet consumers' AND investors' expectations on ESG criteria Key topics to focus on are CO2 footprint, packaging, sourcing and raw materials as well as manufacturing conditions and employee diversity The best businesses are able to support positive ESG trajectory with data and KPIs

Summary Perspectives



For Investors

Pet is a resilient category, with attractive underlying growth drivers and continued strong investor interest

Emerging ESG pioneer brands in Pet, experiences in other categories and evolving consumer preferences show ESG is gaining real traction, even if consumer behaviour is yet to shift *en masse*

Huge whitespace remains and premiumisation will continue through new frontiers

Focus should be on operational strength and whitespace opportunities – those businesses, that navigate well through the current environment will emerge as clear winners coming out of the recession



For Asset Owners

The squeeze should not be existential, but there is opportunity to maximise value and generate a *super-margin* through smart brand & portfolio choices, and channel strategy























The ESG bar of consumer and retailer expectation is rising in Pet, and it is critical to deliver on the aspects of ESG that matter most to your customers whilst maintaining price, quality & convenience

Customers will continue to trade up and seek out new trends, consider how you can leverage your capabilities to follow them





Premium business that utilise the available data to craft a compelling long-term equity story continue to achieve premium valuations

Credentials

OC&C

 VDD for £300m Sale by 	 Vendor Due Diligence for 	 Vendor Due Diligence for 	 Commercial Due Diligence for Acquisition by 
 Commercial Due Diligence for 	 Commercial Vendor Due Diligence for 	 Due Diligence for Investment by 	 Commercial Due Diligence for 
 Sell-side Market & Consumer Mapping	 Commercial Due Diligence for 	 Commercial Due Diligence for 	 Vendor Due Diligence

HARRIS WILLIAMS

 a portfolio company of Cressey & Company has been acquired by  a portfolio company of  Cressey & Company	 a portfolio company of  has been acquired by 	Leading vertically integrated pet treats brand	 a portfolio company of  has been acquired by 
 has been acquired by 	 a portfolio company of  has been acquired by 	 a portfolio company of  has been acquired by 	 a portfolio company of  has been acquired by 
 a portfolio company of  has been acquired by 	 has invested in 	 a portfolio company of  has been acquired by 	 a portfolio company of  has been acquired by 

As well as supporting numerous Pet clients in strategy engagements encompassing a broad range of topics, including: portfolio / brand strategy, new market entry, pricing and net revenue management, diversification strategy and beyond

HW Harris Williams / GLOBAL M&A ADVISOR

8 INDUSTRY GROUPS

With Robust Experience
Across the Globe

3 DECADES

Providing Award-Winning
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1 UNIFIED TEAM

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