

Are Pets Becoming More Expensive?

The Post-Pandemic Pet Economy & The Future of Your Wallet



CONSUMER INDUSTRY UPDATE

Carleton McKenna & Co

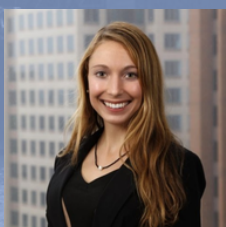
TABLE OF CONTENTS

Key Pet Product & Services Sector Trends	3
Macro Economic Effects on Wholesaling	4
Where is the Pet Economy Headed?	6
Notable Transactions & Representative M&A Multiples	7
Carleton McKenna Team & Track Record	10

CARLETON MCKENNA PET PRODUCTS & SERVICES BANKERS



Paul H. Carleton
Managing Partner
phc@carletonmckenna.com



Alexis M. Becker
Vice President
amb@carletonmckenna.com



Are Pets Becoming More Expensive? *Post-Pandemic Pet Economy & The Future of Your Wallet?*

KEY TAKEAWAYS

Carleton McKenna is pleased to share its 1Q24 pet report following the [Pet Industry Year in Review](#). In this report, Carleton McKenna explores the strategic marketplace, consolidation trends, noteworthy transactions, as well as what the future deal-making landscape may look like for pet services and products businesses to help sector participants shape their strategies for the near- to medium-term.

1. **Market Growth:** The pet industry has seen significant expansion post-pandemic, driven by increased pet adoption rates.
2. **Spending Surge:** There's a noticeable uptick in consumer spending on pet care and products, highlighting a shift in priorities towards pet welfare.
3. **Online Shopping:** E-commerce for pet supplies has surged, reflecting a broader trend of online shopping preferences among consumers.
4. **Health Focus:** Pet owners are increasingly investing in health and wellness products, indicating a rising concern for pet health.
5. **Innovative Solutions:** The market is witnessing the introduction of innovative pet care solutions, catering to the evolving needs of pets and their owners.

Carleton McKenna has substantive experience in the Pet industry, with a niche interest in niche pet products and premium pet services. To learn more about Carleton McKenna's wide range of transaction experiences, strategies for growth or exit, and current Pet industry trends, please [contact us](#).

MACRO ECONOMIC EFFECTS ON WHOLESALING

Looking back at 2023, the surge in economic uncertainty has continued to ring true across multiple industries with most having a common root disruptor – the price of oil. The pet industry, both food and toys, is no stranger to inflationary measures and consumer sentiment fluctuations. Relative to the production of pet food, the price of oil is impacted by the need for agricultural equipment during harvest, as well as the increased use of substitutes including soybean oil (used in biodiesel) and corn oil (used in ethanol).

High oil prices boost demand for alternative fuel options, which in turn, drive up the price for soybeans and corn. Furthermore, the increase in the price of agricultural products across the industry is likely to increase overall production costs. Due to this combination of price increases, producers are expected to prioritize the stabilization of profit margins by putting the deferred cost on the downstream consumer's disposable income¹.

Economists track the price of agricultural products using the Farm Price Index (FPI). The FPI represents prices reported by farmers for all US agricultural products, both livestock and crops. It is widely seen as an important lagging indicator in the economy, meaning it confirms economic trends or changes in trends as a signal to the health of the overall economy². For instance, if the FPI shows signs that agricultural sales are set to decline, companies may respond by delaying or canceling new capital expenditures. If the index shows signs of recovery, such as in the years following a recession, then companies may interpret this as an opportunity to make new investments in the sector.

FARM PRICE INDEX³

(2017 - Present)



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

COVID and Inflation, a Disastrous Pair

In 2020, the FPI decreased 5.1% amid the pandemic. With lower downstream demand from restaurants and service establishments (a major market for agricultural commodities) the agricultural supply chain shifted toward servicing grocery stores and consumers.

MACRO ECONOMIC EFFECTS ON WHOLESALING

This caused productive congestion, keeping consumer-facing prices more elevated than the decline in aggregate demand would otherwise suggest. Moreover, the demand for agricultural commodities did not affect overall economic FPI performance – as reliance on major end markets shifted and cost subsequently remained constant. Similar sub-industries to Farm Products that were not affected by pandemic-induced decline include Processed Foods and Feeds like wheat flour, meats, poultry and fish.

In 2021, renewed economic growth, consumer spending and demand from service establishments all contributed to the index rising 16%. End markets that were stalled during the pandemic brought renewed activity into the market as supply chain distributors clearing bottlenecks and numerous backorders.

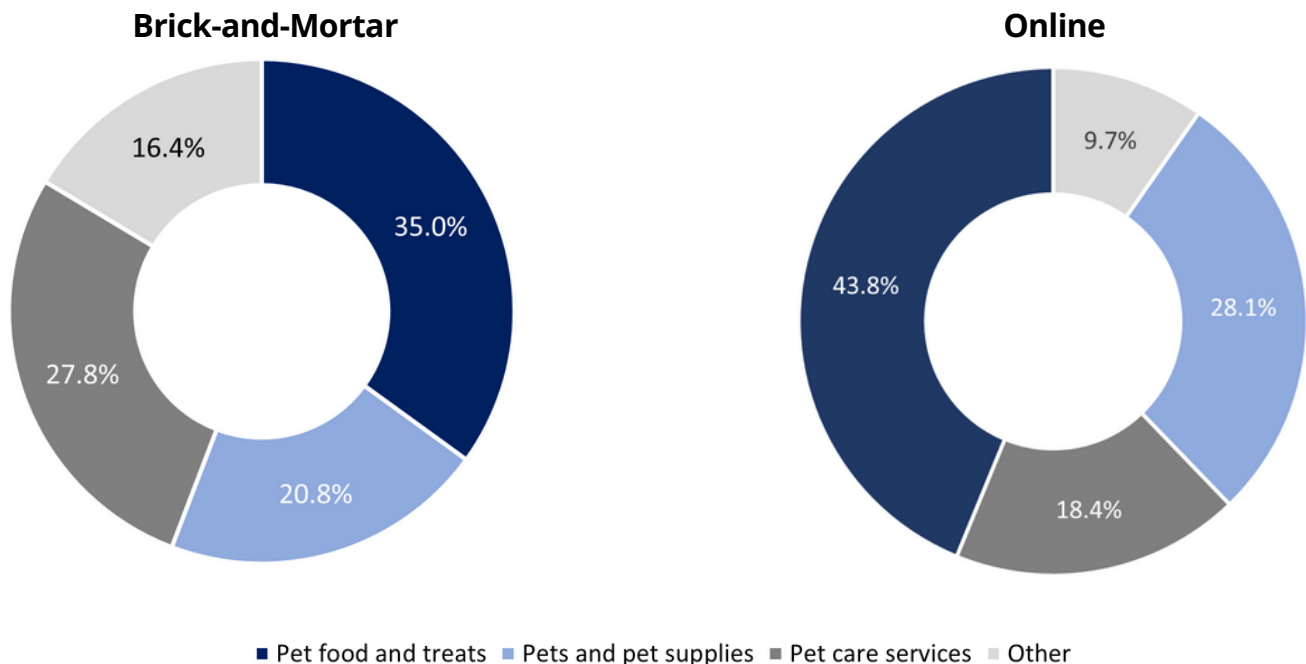
Following the pandemic, the FPI reached its peak in May of 2022 at 263 points. Coinciding with peak inflation during June of that same year, pricing for farm products slowly declined into December 2023 where it sat at 214 points. After increasing 9.6% during 2022, the Agricultural Price Index decreased by 0.7% through 2023. Further declines are expected during 2024 as export demand is forecast to continue falling, resulting in the Agricultural Price Index dropping 6.4% YoY¹.

Downstream suppliers and manufacturers should expect a decrease in input costs related to pet food, toys, and other products.

Capitalizing on the Pet Economy Now⁴

According to the Bureau of Economic Analysis, personal income, disposable personal income and personal consumption expenditures increased during December of 2023. The increase in personal income was primarily reflected in increases in compensation and personal interest income. More specifically, the amount of disposable personal income spending for services increased by \$75.6 billion in the U.S. while prices for services also increased by 0.3%.

Product Vs. Service Revenues by Sale Channel



Products vs. Services

In congruence with spending for services, key factors to revenue generation in the pet economy will continue to stem from service expenditures during 1H 2024. For those industry operators currently generating revenue through products, forecasts indicate the need for economies of scope to mitigate expected losses in 2H 2024. Large retailers like Petsmart Inc. revisited acquiring pet service providers as early as January 2021 and have continued to broaden their scope for revenue and profit opportunities -- ultimately bridging any gaps where profit is expected to slow.

Brick-and-Mortar vs. Online Sales

Conventional shopping methods have generated a split in purchase preference for pet owners in the last three years. The growing popularity of e-commerce has tailored the buying process in favor of younger pet owners including Millennials and Gen Zers. Conversely, the aging population of Gen Xers and Boomers have preferred the traditional buying experience through brick-and-mortar retailers.

The ability to increase market share for pet product and service retailers has fallen heavily on the popularity of online sales. From 2019 to 2024, online sales for pet products grew at a CAGR of 13.5%, in contrast to the brick-and-mortar sales which grew at a CAGR of 2.5%.

Smaller pet retailers have the opportunity to generate online sales revenue via Amazon.com, or the creation of branded e-commerce websites with regional scale.

Where is the Pet Economy Headed?⁵

Following Morningstar's Economic Outlook for 2024, the U.S. economy is expected to enter and stay in a "soft landing" zone, with inflation averaging 1.8% over the period 2024 to 2027. Though the economy has fared well given the effects of rate hikes so far, a greater slow down is expected in addition to the slowing of GDP growth in 2H 2024.

What does this mean for the producer? Households will remain stringent with spending as most excess savings from stimulus checks are near depletion. How much longer will the excess last? Calculations with respect to 2019's savings rate of 7.4% indicate a full depletion of excess savings by mid-2024⁴. However, the necessity for pet food and medication will remain essential, making customers less sensitive to price changes.

What does this mean for the consumer? As spending tightens at their own discretion, the likelihood that consumers will shop for cost efficient pet food and products is relatively high. Consumer purchase power will coincide with the quality of life that may have been established for their pet before or during recent inflationary measures. However, demand for non-essential toys or products will remain relatively low, if not show a decline.

Brick-and-Mortar Product and Service Performance¹

Four key segments constitute the pet economy: (i) Pet food and treats, (ii) Pet care services, (iii) Pets and pet supplies, and (iv) Other. The "Other" segment includes various non-industry products that provide added convenience for consumers shopping via online retailers or at brick-and-mortar retailers.

Pet food and treats remain the largest product segment with a reported \$10.1 billion in 2023, though pet care services have generated greater interest from consumers. The necessity for pet services like haircuts, baths, toenail trimming and toothbrushing has become more widely accepted by consumer. Historically, the willingness to pay for these services was relatively low as the pet owner typically took on these responsibilities within the home. More recently, the spike in pet service utilization by consumers has driven profits for the pet economy and increased competition between service providers.

Petsmart Inc. accounts for \$6.7 billion of overall revenues or about 23% of market share generated by brick-and-mortar pet stores. Petco Animal Supplies Inc. is the closest market competitor with about \$3.8 billion in total brick-and-mortar sales, or about 13% in market share.

Online Product & Service Performance¹

Similar to brick-and-mortar sectors, the four key segments to Online Pet Food and Pet Supply Sales include: (i) Pet food and treats, (ii) Pet supplies, (iii) Other services, and (iv) Veterinary medicines. Dissimilar is the capacity for online retailers to sell veterinary products, as brick-and-mortar retailers are not associated with veterinary services due to medical licensing requirements and restrictions on a larger scale.

Revenues generated within the online market are higher than that of brick-and-mortar, primarily due to the rise in e-commerce popularity. Most notably, Amazon.com represents \$10.4 billion or 33% of total available market share in the industry. Though Petsmart Inc. is the closest competitor with \$2.8 billion in revenue or about 9% of the online market.

Notable Transactions⁶

wholesalepet.com[®]

was acquired by

tiny

WholesalePet.com Acquired by Tiny, Ltd.

Founded in 2001, WholesalePet established itself as one of the largest pet wholesale marketplaces in the United States, serving pet boutiques, pet store and pet services businesses including pet boarding and grooming. Tiny's LBO is set to bolster the online pet wholesaling market as the platform looks to expand their e-commerce footprint.

ORSCHELN[®]
FARM & HOME

was acquired by

TSC TRACTOR[®]
SUPPLY CO.

Orscheln Farm and Home Acquired by Tractor Supply (NAS: TSCO)

Orscheln, a retailer of home and farm equipment, was acquired by Tractor Supply for \$398 million. This acquisition expands Tractor Supply's market share in the Midwest through the sale of livestock feed, pet food, pet supplies, apparel, and farming equipment.

Pet and Pet Supplies Store Multiples⁷

(2012 - Present)

TEV Range	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA	N
10 - 25	\$ 18.0	\$ 17.1	11.9%	22.1%	1.5x	6.9x	5
25 - 50	\$ 35.7	\$ 33.0	90.1%	19.5%	1.1x	5.9x	5
50 - 100	\$ 65.1	\$ 49.2	22.0%	13.9%	1.4x	9.8x	3
Total	\$ 35.7	\$ 30.6	44.3%	19.2%	1.3x	7.2x	13

Veterinary Services Multiples⁷

(2012 - Present)

TEV Range	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA	N
10 - 50	\$ 26.7	\$ 26.3	18.3%	18.4%	1.3x	7.8x	5
Total	\$ 26.7	\$ 26.3	18.3%	18.4%	1.3x	7.8x	5

Select M&A Transactions⁶

Date	Target	Target Description	Acquirer	Deal Value (\$M)
2/7/2024	Chanelle Pharma	Manufacturer of medical and veterinary products intended to improve the lives of people and pets.	Exponent Private Equity	\$326
2/5/2024	Time to Pet	Developer of pet sitting software providing client and staff management, integrated scheduling and communications to deliver transparent services to pet parents.	DaySmart Software	Undisclosed
1/31/2024	WholesalePet.com	Operator of an e-commerce platform specializing in pet boutiques, toys, treats, apparel, shampoos, bowls, feeding supplies, and other grooming accessories, helping retailers to purchase products.	Tiny, Ltd.	\$9.25
1/30/2024	Olde Towne Pet Resort	Operator of pet facilities intended to provide pet boarding, grooming, and training services as well as day camps, activities, and webcams for pet owners to check in.	Pet Resort Hospitality Group	Undisclosed
1/30/2024	Paws 'n' Rec	Operator of dog daycare and boarding intended for physical and mental stimulation of dogs.	Pet Resort Hospitality Group	Undisclosed
1/9/2024	Riley's	Producer of dog food products intended to provide organic pet diets. Products are free of chemicals and have no wheat, corn, soy or preservatives.	Pet MD Brands	\$7.5

Select M&A Transactions⁶

Date	Target	Target Description	Acquirer	Deal Value (\$M)
11/29/2023	Rover Group (NAS: ROVR)	The company connects pet parents with pet care providers who offer overnight services, including boarding and in-home pet sitting, as well as daytime services, including doggy daycare, dog walking, and drop-in visits.	Blackstone	\$2,300
11/3/2023	TDBBS	The company offers protein-packed products including grass-fed bully sticks, antlers, beef bones, jerky and yak cheese chews made from natural ingredients.	Central Garden & Pet (NAS: CENT)	Undisclosed
3/10/2023	CannPal Animal Therapeutics	Animal-focused pharmaceutical company engaged in developing standardized and dosage-controlled, regulatory-approved pharmaceuticals, derived from the cannabis plant.	Animal Health Holdings	Undisclosed
10/18/2022	Plastic Packaging Technologies	Manufacturer of flexible packaging products intended for pet care, food and beverage, healthcare, industrial and specialty markets.	PPC Flexible Packaging	Undisclosed
10/13/2022	Gold Line Feeds	Specializes in pet food, animal nutrition and contract manufacturing services, thereby providing pets with nutritional support and supplements.	United Petfood	Undisclosed



Paul H. Carleton
Managing Partner

Paul is founder and Managing Partner of Carleton McKenna & Company. He has more than 40 years of experience in corporate and investment banking focusing on mergers and acquisitions and capital raising activities for both private and public corporations. Prior to establishing Carleton McKenna, Paul was founder and Senior Managing Director of Carleton, McCreary, Holmes & Company, which was acquired by KeyCorp. Paul was previously Senior Managing Director and Head of Corporate Finance at the regional investment banking firm of McDonald & Company.

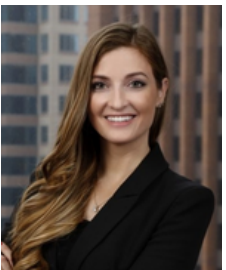
Paul has extensive corporate governance experience serving on corporate boards and not-for-profit boards. He has served on over 15 private company boards and currently sits on the Boards of E & H Family Group, Inc. and Breuer Premium Pet Food, Inc. Paul earned his bachelor's degree from Baldwin Wallace University and his master's in business administration from Northwestern University. He also received an honorary doctorate degree from Baldwin Wallace University.



Christopher J. McKenna
Managing Partner

Christopher McKenna is Managing Partner at Carleton McKenna & Company. Before joining Carleton McKenna, Chris partnered with a private equity firm to buy a Cleveland manufacturing business where he was President and CEO. Previously, Chris was the Director of Financial Analysis with the MacLean-Fogg Company in Chicago where he executed on financial transactions and acquisitions and also managed a business unit.

Chris was an Associate with the investment banking firm of Rodman & Renshaw in New York, where he was involved with private and public transactions to raise equity, subordinated and senior debt. He began his career in commercial banking in New York with Manufacturers Hanover Trust and Security Pacific Business Credit. Chris received his B.A. in Economics from Dartmouth College and his M.B.A. with High Distinction from the University of Michigan Business School.



Nora T. Mahoney
Managing Director

Nora T. Mahoney has experience with securities regulation, corporate governance, commercial litigation and broker dealer registrations. Nora is primarily responsible for the execution of capital raisings and private placement assignments across a variety of industries, as well as M&A advisory for business owners, specifically focused in B2B Services and Manufacturing.

Prior to joining Carleton McKenna, Nora worked for Attorney General Mike DeWine and then practiced Commercial Litigation with a national law firm where she was involved in pre-trial practice for securities litigation.

Nora was awarded her Juris Doctor and Masters from Vermont Law School and serves as a Board Member for First Federal of Lakewood and as an executive Board Member for the Union Club of Cleveland. She also serves on the Board of Trustees for Baldwin Wallace University, from which she received her Bachelors in Biology and Sustainability.



Alexis M. Becker

Vice President

Alexis is a Vice President at Carleton McKenna & Company. As part of Carleton McKenna's senior management team, Alexis manages M&A and capital raise transactions, guiding clients from preparation and marketing stages through negotiation and close. As part of transaction processing, Alexis reviews and develops marketing materials, conducts financial and valuation analysis, identifies strategic and financial partners for clients and facilitates due diligence processes. Alexis is also actively involved in building and maintaining client and partner relationships for Carleton McKenna.

Alexis completed her M.B.A. in Business Administration from Baldwin Wallace University in May 2018. She received her B.S. in Business Administration with a concentration in Marketing and a minor in Spanish from the Honors Program at Edinboro University of Pennsylvania, where she graduated top of her class.



David T. Jeziorowski

Analyst

David is an Analyst at Carleton McKenna & Company. His current job responsibilities include industry and sell-side flow research, as well as creation of buyers lists, pitches and other transaction documents.

Before joining Carleton McKenna, David worked as a research and investment intern at Praetorian Holdings Group, a Cleveland-based private equity firm. During his internship, David performed extensive research on Industrial and Renewable Energy industries, communicated directly with sell-side M&A advisors and executed business and financial analysis utilized by members of the firm's investment committee.

David graduated from the University of Dayton in May 2022 where he received his B.S. in Business Administration with a concentration in Finance.



Emily A. Kuznik

Marketing Analyst

Emily is a Marketing Analyst at Carleton McKenna & Company. Her primary responsibilities include researching and developing marketing content and industry reports, enacting website development, maintaining a social media strategy and regulating web-based management services.

Prior to joining Carleton McKenna, Emily worked as a Leadership Development Fellow for Baldwin Wallace University's Carmel Boyer School of Business. As a member of the pilot program, she coordinated a variety of marketing initiatives for both graduate and undergraduate programs including social media and email marketing campaigns, advertising, event planning, and recruiting.

She graduated magna cum laude from Baldwin Wallace University in 2021 where she earned a B.A. in Digital Marketing and again in 2022 with an M.B.A. in Management.



has completed a recapitalization with



The undersigned provided exclusive financial advisory services to Malley's Candies, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided exclusive valuation and financial advisory services to Saucy Brew Works, LLC

Carleton McKenna
INVESTMENT BANKING SERVICES



has been acquired by



The undersigned provided exclusive financial advisory services to Platform Beer Co.

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided exclusive valuation and financial advisory services to Sibling Revelry Brewing

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided valuation advisory services to Buehler's Food Markets, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided exclusive valuation advisory services to C. J. Dannemiller Co.

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided exclusive financial advisory services to Toast Spirits, LLC

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided exclusive valuation and financial advisory services to The Brew Kettle

Carleton McKenna
INVESTMENT BANKING SERVICES



Chris McKenna is an investor and advisor to this artisan dough provider and advised on its exit

Carleton McKenna
INVESTMENT BANKING SERVICES



has acquired

The undersigned provided financial advisory services to Saucy Brew Works, LLC

Carleton McKenna
INVESTMENT BANKING SERVICES



Paul Carleton is a Board Representative for this rapidly growing organic pet food company and has assisted in capital raising

Carleton McKenna
INVESTMENT BANKING SERVICES



Carleton Advisors, LLC served as financial advisor in the sale of 28 Wendy's franchisees to an undisclosed buyer

Carleton McKenna
INVESTMENT BANKING SERVICES



Private Equity-backed chocolate manufacturer, wholesaler and retailer seeking acquisitions

The undersigned are currently providing exclusive buy-side advisory services to Project Confections

Carleton McKenna
INVESTMENT BANKING SERVICES



has successfully closed on the sale of equity financing

The undersigned provided exclusive financial advisory services to Petsense, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned is currently providing exclusive financial advisory services to Music Box Supper Club

Carleton McKenna
INVESTMENT BANKING SERVICES



Operator of a water & amusement park resort with numerous retail and dining offerings

The undersigned are currently providing exclusive buy-side advisory services to Project Splash

Carleton McKenna
INVESTMENT BANKING SERVICES

ENDNOTES

1. <https://www.ibisworld.com/>
2. <https://www.investopedia.com/terms/f/farmprices.asp/>
3. <https://fred.stlouisfed.org/series/WPU01/>
4. <https://www.bea.gov/news/2024/personal-income-and-outlays-december-2023>
5. <https://www.morningstar.com/lp/us-economic-outlook>
6. <https://www.pitchbook.com/>
7. <https://www.gfdata.com/>