

# VETERINARY SERVICES POST-PANDEMIC: HAS ANYTHING REALLY CHANGED?

October 2021



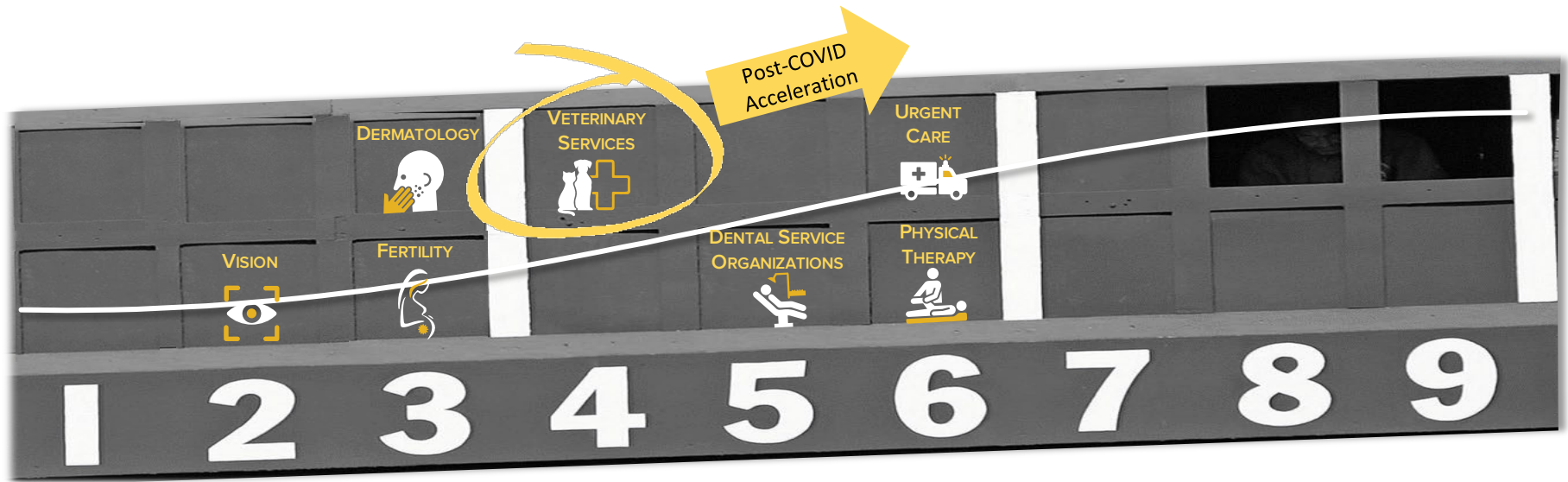
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I AS THE INDUSTRY STRUCTURE IS EVOLVING ...

II ... KEY INVESTMENT THEMES ARE CRYSTALLIZING

III ABOUT HARRIS WILLIAMS

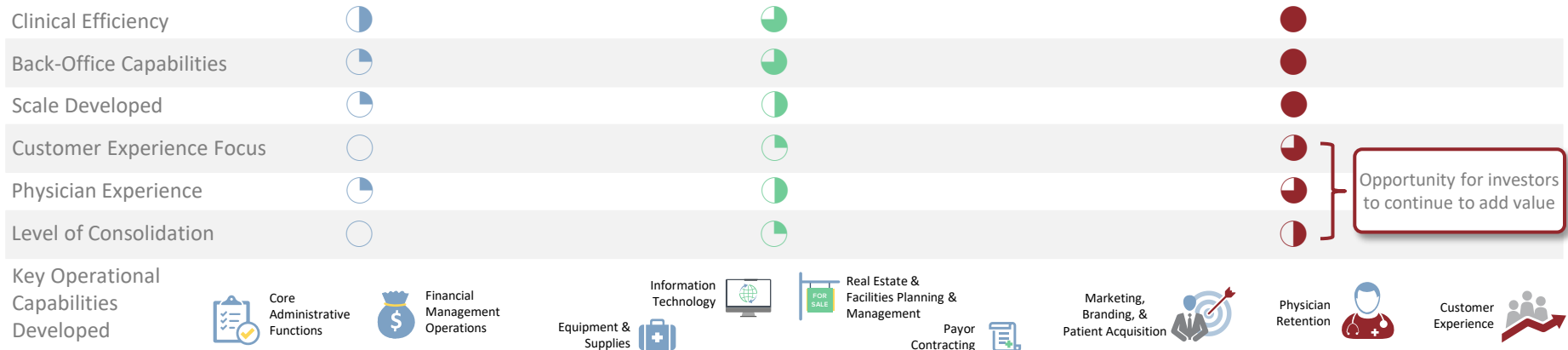
# Where Were We in 2019?



## INNINGS 1 – 3 (THE LAND GRAB STAGE)

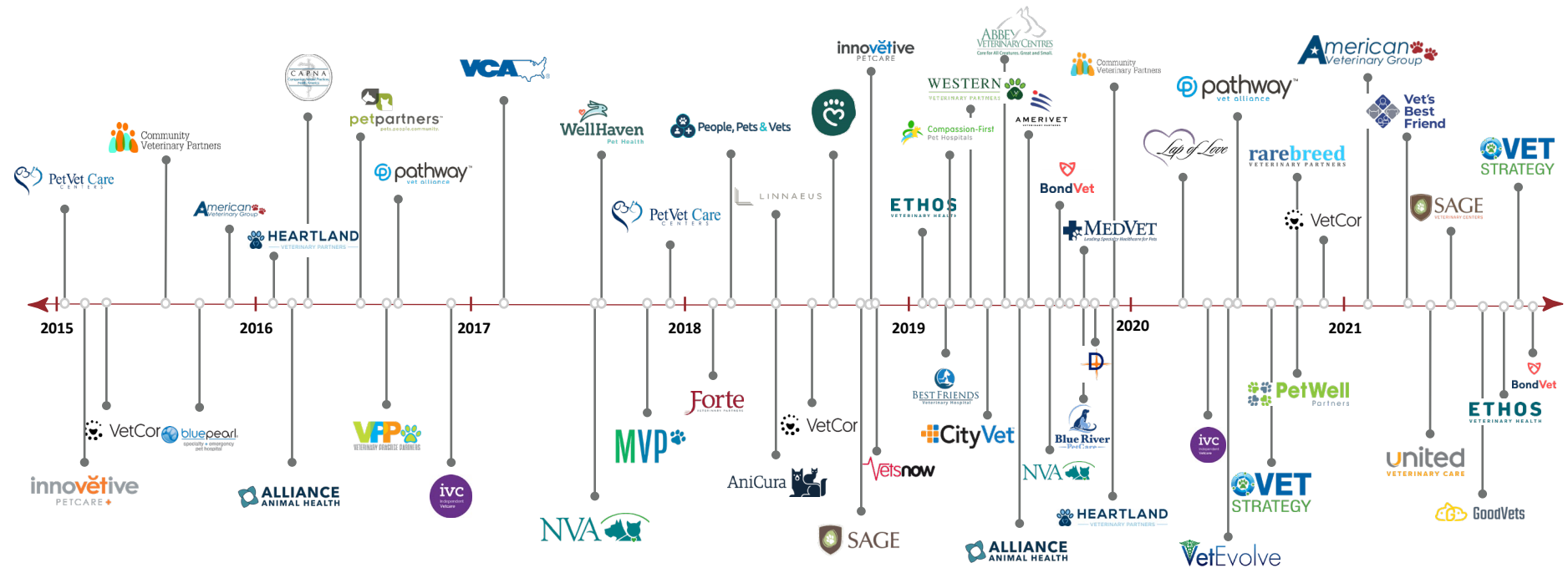
## INNINGS 4 – 6 (THE PROFESSIONALIZATION STAGE)

## INNINGS 7 – 9 (THE CONSUMER STAGE)



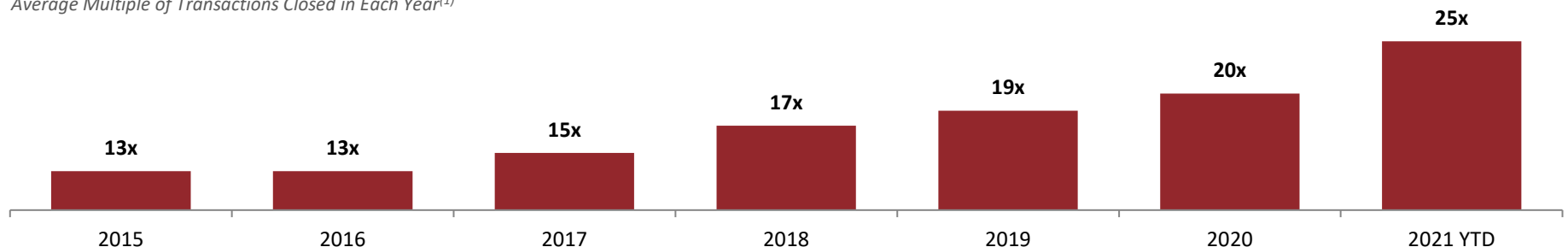
# COVID Was No Match for Sector Interest

M&A remained strong through the pandemic, as the industry proved exceptionally stable on a relative and absolute basis.



## AVERAGE MULTIPLE PAID PER YEAR

Average Multiple of Transactions Closed in Each Year<sup>(1)</sup>



(1) Average EBITDA multiple for veterinary transactions >\$200M in enterprise value

# Scale Players Are Pressing Their Advantage

It is expected that several of these companies will go public in the relative near-term.



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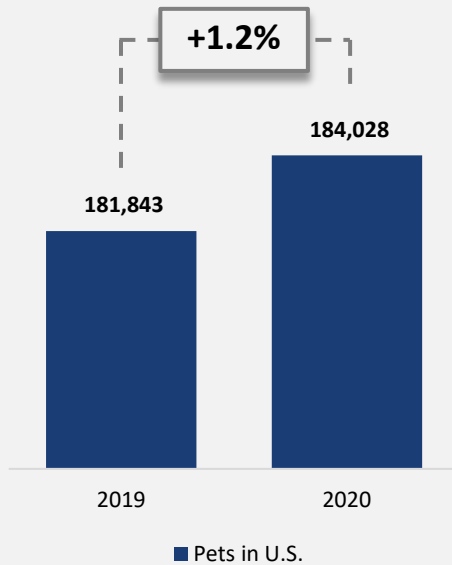
# Industry Metrics Are Well-Understood

VALUE DRIVERS	EXPECTED	DIFFERENTIATORS
OPERATIONAL	<ul style="list-style-type: none"><li>▪ Regional footprint</li><li>▪ Tiered hospital performance by size</li></ul>	<ul style="list-style-type: none"><li>▪ Price/volume optimization</li><li>▪ Increase in revenue per pet visit</li><li>▪ Increase in NPS scores</li><li>▪ DVM staffing</li></ul>
GROWTH	<ul style="list-style-type: none"><li>▪ Increase in same-hospital sales</li><li>▪ Proven acquisition discipline</li></ul>	<ul style="list-style-type: none"><li>▪ Acquisition integration plan</li><li>▪ Post-acquisition margin expansion</li><li>▪ De novo strategy</li></ul>
SYSTEMS/ INFRASTRUCTURE	<ul style="list-style-type: none"><li>▪ Business Development</li><li>▪ HR</li><li>▪ IT</li><li>▪ Legal</li></ul>	<ul style="list-style-type: none"><li>▪ Uniform practice management</li><li>▪ Professionalized marketing</li></ul>
FINANCIAL	<ul style="list-style-type: none"><li>▪ Corporate SG&amp;A</li><li>▪ 4-wall EBITDA tracking</li></ul>	<ul style="list-style-type: none"><li>▪ Hospital-level margin improvement</li><li>▪ Acquisition multiple dilution</li><li>▪ Low capex requirements</li></ul>

# DVM Staffing Only Getting More Challenging

## INCREASING PET OWNERSHIP<sup>(1)</sup>...

(# in 000s)

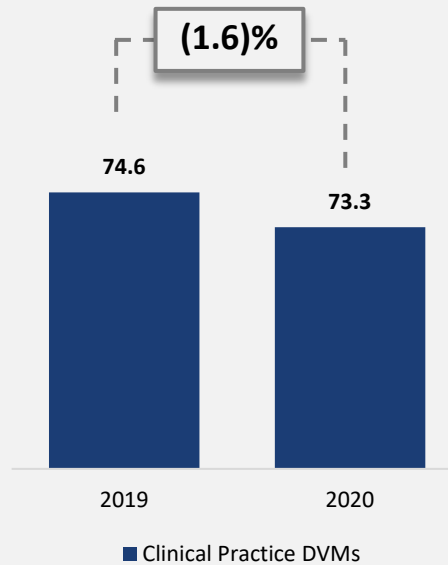


**1.1%**

Annual Growth in # of Pets  
From 2010 to 2020

## ...COUPLED WITH STABLE DVM COUNT<sup>(2)</sup>...

(# in 000s)

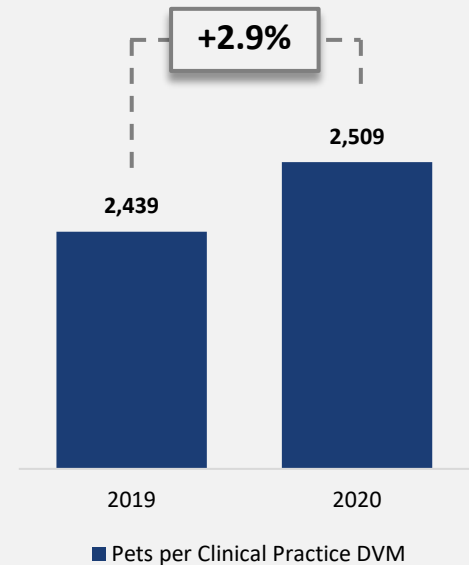


**6**

Veterinary Schools Added in  
the US Since 1978

## ...PRODUCES TIGHTNESS IN DVM STAFFING

(# in actuals)



**3,000 – 5,000**

Estimated Current DVM  
Shortage<sup>(3)</sup>

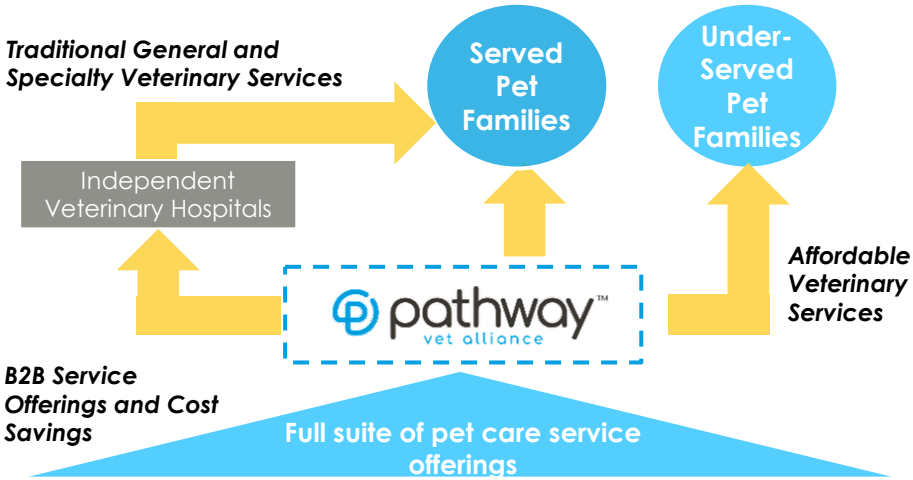
(1) IBIS World; represents cats and dogs only  
(2) American Veterinary Medical Association  
(3) Bureau of Labor Statistics

# Investors Are Seeking (and Paying Up for) Differentiated Models

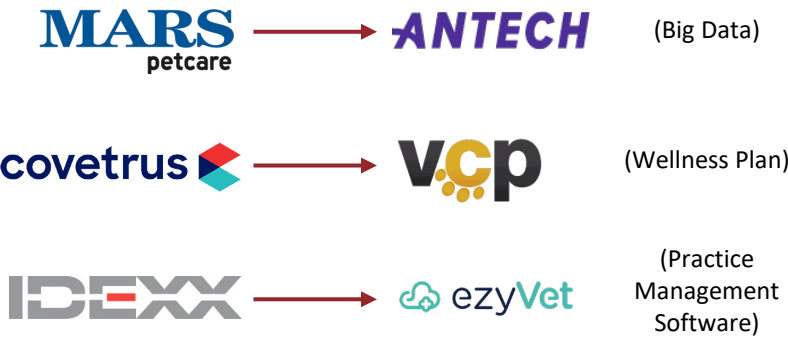
## UNIQUE SERVICE OFFERING



## INTEGRATED ECOSYSTEM



## THINKING ONE STEP AHEAD



## CONVERGENCE OF HUMAN & ANIMAL HEALTH



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# Harris Williams Firm Update

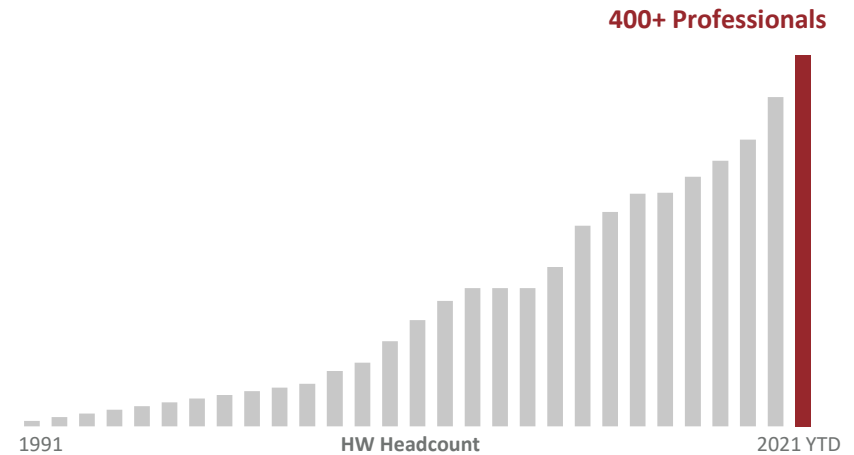
## FIRM OVERVIEW

- 400+ professionals across the US, Europe and Asia
- 30-year history, with over 170+ closed sell-side M&A transactions in the last 24 months
- A “One P&L” culture



## CONTINUED INVESTMENT IN PEOPLE

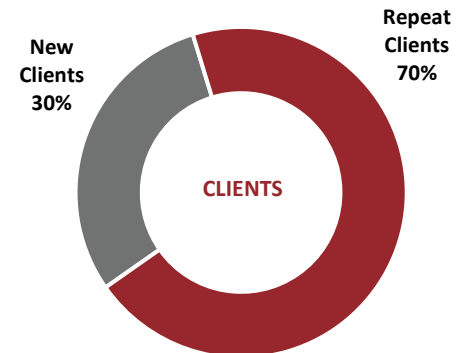
HW headcount has increased 7x since 2000



## WHAT WE PROMISE, WE DELIVER



## REPEAT CLIENT BASE



# Leading Healthcare and Consumer M&A Franchises



Aerospace,  
Defense, &  
Government  
Services



Healthcare & Life  
Sciences



Building  
Products &  
Materials



Industrials



Business  
Services



Specialty  
Distribution



Technology,  
Media, &  
Telecom



Consumer

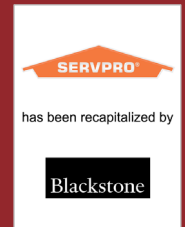
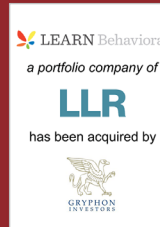


Energy,  
Power, &  
Infrastructure



Transportation  
& Logistics

## Healthcare and Life Sciences Group



## Consumer Group

# Extensive Experience in Pet Care

## PET CARE TRANSACTIONS

 a portfolio company of   has been acquired by 	 has acquired 	 a portfolio company of Morgan Stanley Global Private Equity has been acquired by 	 has received an investment from 
 has acquired 	 a portfolio company of <b>DEERFIELD</b> has been recapitalized by 	 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 recapitalized by 	 a portfolio company of  has received a significant investment from 	 a portfolio company of  has been acquired by 

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## THOUGHT LEADERSHIP IN PET CARE

### Three Factors Shaping M&A Strategy in the Global Pet Products Industry

The global pet products industry is growing, changing, and attracting attention from major acquirers and investors. In this report we share the three key trends shaping M&A strategy in this dynamic sector.

#### Pet Food Becoming More Premium

Growth for the pet food sector is healthy, outpacing U.S. packaged food sales in 2015 by a factor of three. The fastest-growing opportunity is in the premium end of the market. Premium pet food sales were greater than economy and mid-priced sales combined in 2015.

Will Blum, a director in Harris Williams & Co.'s Consumer Group in London, observed this trend during the recent visit to the intensive conference in November, Germany. "The strong alignment of the three main players, primarily pharma, with the objectives of European regulatory compliance, creates a competitive advantage for them. The best for them."

The M&A strategy of this recently acquired food and nutrition premium pet food.

#### Harris Williams

##### Article

### Ahead of the Pack: The Next Generation of Veterinary Services Platforms

March 3, 2016

Spence Williams & Co. professionals Geoff Smith, Will Dwyer and Taylor Miller recently attended the North American Veterinary Community Veterinary Meeting & Expo (NAVME) in Orlando, Florida. The event attracted a record-breaking 18,000 attendees, including veterinary professionals, practice owners, private equity investors and vendors.

The Harris Williams & Co. team gained valuable insights on the forces shaping the future of the veterinary services industry, and how investors can make the most of the opportunity.

### VETERINARY SERVICES MARKET OVERVIEW

SEPTEMBER 2016

#### MARKET GROWTH DRIVER: PETS ARE INTEGRAL MEMBERS OF THE FAMILY

Growing "humanization" and increased sense of pets as key members of the family produces an inelastic demand curve for pet treatment and healthcare.

- Highly emotional human-animal bond
- In times of recession, owners are less sensitive to the overall price of care for their pets and are more willing to seek out necessary treatment.
- Owners are increasingly insuring their pets against more catastrophic events, although there is significant room for further growth.

U.S. pet insurance industry expanded 14.3% annually from 2012-2014

- 58% early in growth cycle: despite recent expansion, only 1% of pets in the U.S. are insured, as compared to 23% in the U.K.
- Owners with pet insurance on average spend ~120% more on pets annually and consume a higher volume of services as compared to those without insurance

#### EMOTIONAL BOND BETWEEN PET AND OWNER...

93% of pet owners view pets as family member or companion

93% of pet owners would risk their lives for their pet

Pricing index 2011 to 2015

Per Spent daily necessities

#### ...CREATES INELASTIC DEMAND FOR PET HEALTHCARE

### VETERINARY PRACTICE MANAGEMENT DRIVER: HIGHLY FRAGMENTED MARKET

Highly fragmented universe of veterinary hospitals presents consolidation opportunity for operators of scale

- 90%+ of the 28,000 veterinary hospitals in the U.S. are independently owned
- Veterinary services is in the early stages of consolidation, with consolidator ownership expected to nearly double by 2025P
- Consolidation trends accelerating given aging of veterinarians and a growing preference among graduating veterinarians to work for a veterinary services platform rather than start their own practice or acquire an existing hospital

#### HIGHLY FRAGMENTED MULTI-SITE HC SUB-SECTOR...

Vet remains one of the most fragmented multi-site HC industries

Consolidating Industries

Top Provider Market Share	Current	2025P
Veterinary Services	9%	14%
Dental	14%	14%
A&C	20%	20%
Health	21%	21%
Physical Therapy	21%	21%
Optical	21%	21%

Expected near doubling of consolidator ownership by 2025P

Consolidator Ownership

Independent Hospitals

# Contact Us



**Geoff Smith**

**Managing Director,  
Co-Head of Healthcare Group**

**20+ Years M&A Experience**

*M.B.A. MIT Sloan*

*B.B.A. Emory University*

***gsmith@harriswilliams.com***



**Whit Knier**

**Managing Director,  
Healthcare Group**

**15+ Years M&A Experience**

*M.B.A. Kellogg*

*B.S. Washington & Lee*

***wknier@harriswilliams.com***



**Corey Benjamin**

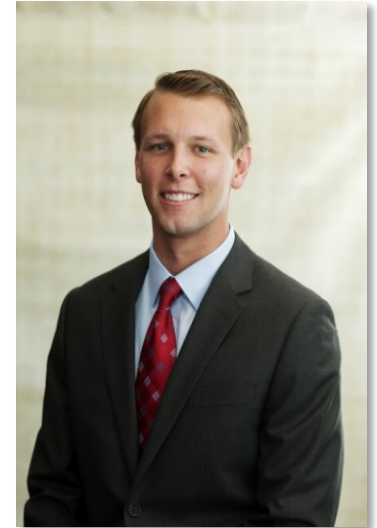
**Managing Director,  
Consumer Group**

**15+ Years M&A Experience**

*M.B.A. Duke Fuqua*

*B.A. University of Virginia*

***cbenjamin@harriswilliams.com***



**Nate Robertson**

**Vice President,  
Healthcare Group**

**6+ Years M&A Experience**

*M.B.A. Duke Fuqua*

*B.B.A. University of Georgia*

***nrobertston@harriswilliams.com***