

# M&A Trends in the Booming Pet Industry



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## Industry Overview

The global pet industry has grown dramatically in recent years, despite the downturn in the world economy, driven by increased adoption rates, humanization trends among owners, and e-commerce penetration. The industry has proven to be largely recession-resistant while underlying trends support continued growth in the future, regardless of overall economic conditions.

Seventy percent of U.S. households owned a pet in 2021, compared to 67% in 2019, according to a survey conducted by the American Pet Products Association (APPA). Even more impressive, 89% of home-owning Millennials have pets, according to Spots.com. The COVID-19 pandemic itself only accelerated growth in pet ownership, as it forced more people to stay indoors or work from home. This transition led to more compact living spaces and increasing household stress levels, negatively impacting well-being. This led more people to adopt pets, who are seen as friendly faces and stress relievers. Many people were also moved by the large number of animals abandoned by their owners who lost their jobs or were dislocated due to the economic shutdown, further increasing adoptions. The record rates of dog and cat adoptions during the pandemic created an estimated 23 million new pet-owning households, which are expected to contribute to robust spending on pet food and supplies for the foreseeable future.

A survey conducted by Morgan Stanley found that while pet ownership accelerated during the pandemic, Millennials and Generation Z are expected to sustain growth by 14% a year through 2030. The survey also found that about 65% of 18-to-34-year-olds plan to add a pet to their family in the next five years. Data also shows that this age group is willing to spend a higher portion of their earnings on their pets compared to previous generations.

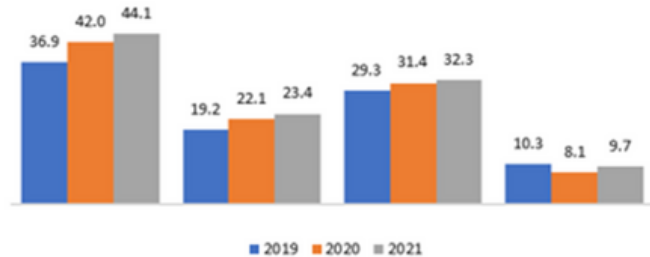


## Industry Size

The global pet care market size is expected to grow from \$223 billion in 2021 to \$326 billion in 2028 at a CAGR of 5.6% in the 2021-2028 period, according to Fortune business insights. The increase in pet adoptions has boosted growth in several different pet industry categories, including food, veterinary care, toys, and grooming. This growth is expected to continue in the coming years, as more consumers turn to pets for companionship and entertainment. Privately-owned businesses that capitalize on online purchasing habits of pet parents are likely to attract acquirer interest and premium valuations.

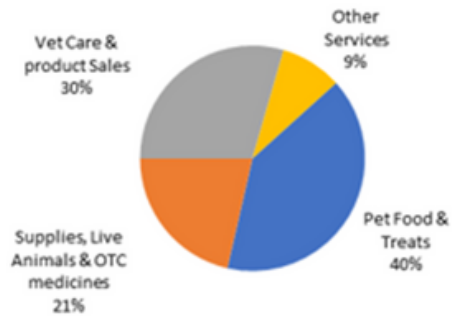
The pet industry is comprised of four sub-categories: Pet Food & Treats (40%); Supplies, Live Animals & OTC Medicines (21%); Veterinary Services & Product Sales (30%); and Other Services (9%).

U.S. Pet Industry Market Size (in Million USD)



Source: Capital IQ, Pitch Book, and FactSet

Pet Industry by Sub-Sector, 2021



## Here are some noteworthy global pet market indicators:

- The global natural pet food market has a value (revenue) of \$22.8 billion.
- An average of 42% of dog and cat owners expect to spend more money on premium pet food.
- Over the last five years, raw dog food (like organ meat and vegetables) has seen a 147% increase in sales.
- About 42% of pet owners buy their pet food online.
- People spend between \$70 and \$80 on a single dog grooming session.
- The global pet grooming products market size is expected to reach \$14.5 billion by 2025, expanding at a CAGR of 5.7%, according to a new report by Grand View Research, Inc.
- Pet supplement sales grew 116% from 2019 to 2020.
- In the U.S., 83% of dogs and 17% of cats are insured.
- During 2021-2025, the pet accessories market is expected to grow by \$9.2 billion.
- More than 50% of pet owners say they are willing to pay more for eco-friendly pet care products.
- The pet tech market has been booming as well, referring to the usage of technology in the pet sector to improve pet care and their living conditions. The pet tech market is set to grow at a 22% compound annual growth rate from 2021-2027.
- Americans spent \$490 million on Halloween costumes for their pets in 2021, an 18% increase from 2020.

Revenue in the pet food and supplies segment was projected to reach \$70 billion in 2022. This growth was expected to be driven by the increasing number of pet-owning households, as well as the trend of humanizing pets. Young adults are especially more likely to spend on high-quality pet food and supplies, with 75% of Millennials and Generation X pet owners expressing that they are interested in grain-free, organic, and non-GMO pet food, which tend to be more expensive. Indeed, 73% of owners indicate that their pet's health is equally as important to them as a human family member, and 70% made food choices for their pets that mirror their own, according to a 2021 survey conducted by leading online pet food retailer Chewy. Pet treatment and care are a focus of consumers and remain strong with respect to holistic and preventive wellness care, high quality and boutique brand foods, grain-free food alternatives, medications and vitamin supplements, and CBD-infused/hemp-based alternative treatments.

E-commerce sales are also projected to continue to grow rapidly in the pet industry, reaching \$24 billion by 2022. Online sales of pet products represented 18% of total retail sales and were projected to increase to 23% by 2023 and 45% by 2026, according to Retail Dive.

According to Packaged Facts, e-commerce sales of pet products is estimated to have reached \$30.7 billion in 2022, or 36 percent of total pet spending. This growth is expected to be driven by increased consumer adoption of online shopping, which accelerated substantially during the pandemic. Pet food & treats have emerged as the most purchased categories in the online space. However, service providers, including veterinarians, are also poised to benefit from online platform enhancements as consumers utilize online resources to guide decisions regarding their pet's health.

The assessment above demonstrates the supply and demand drivers that support the premium valuation of pet products at \$261 billion in 2022. Demand has been rising, as many of today's pet owners look to provide the very best for their pets, while supply chain disruptions and operational constraints impact supply, driving prices up. All of these factors indicate that the pet M&A market currently favors sellers.

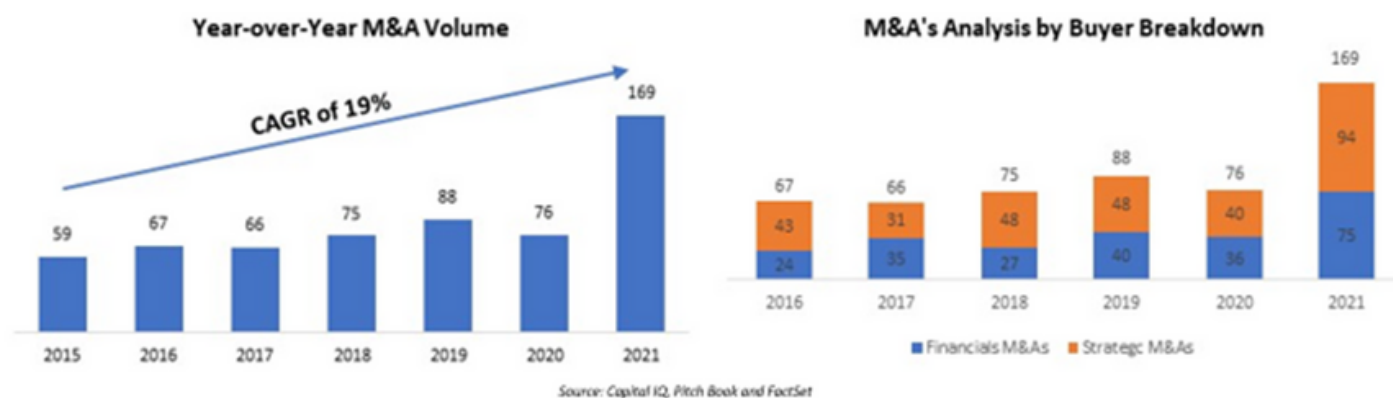
## **Mergers & Acquisitions in the Pet Industry**

Just as pet industry sales have shown explosive growth, so has activity in mergers and acquisitions. M&A activity in the pet sector ramped up dramatically in 2021, with the number of transactions more than doubling to 169 from 76 in 2020 as per Capstone Partners' pet market report. Strategic buyers have continued to demonstrate a healthy interest in the pet sector, with several large deals announced at high valuations in 2021.

In particular, rapid consolidation in the veterinary segment pushed transaction volume to new heights as private equity-backed rollups and large strategic investors used acquisitions to increase scale and gain exposure to attractive geographies. A good example is veterinary care network VetCor, backed by Cressey & Company and Golub Capital, which added 13 new practices to its portfolio in 2022.

In 2021, there were 169 M&A transactions in the pet industry valued at \$121.2 billion. Some of the key takeaways from the year include:

- Consumable product companies with high repeat purchase rates continued to attract higher valuations than companies selling durable goods.
- Companies that built their business around online channels, such as FurHaven and Best Friends by Sheri, became attractive acquisition targets for platforms that were traditionally brick-and-mortar-focused.
- Consolidation in the veterinary space produced high multiples (over 20 times enterprise value/EBITDA) being paid for Sage and Ethos in deals valued north of \$1 billion, according to PE Hub. The number of smaller deals in the space almost tripled in 2021 as consolidators continued to roll up veterinary practices.



What's driving all of these M&A activities? There are a few different factors at play.

First, the pet industry is growing rapidly. As per Global Industry Analysts, the global pet care market grew to \$261 billion in 2022, up from \$245 billion in 2021. An estimated 6.1% CAGR will increase that figure to \$350 billion by 2027. The report also projects that American consumers alone will spend close to \$109.6 billion on their pets in 2022, or more than 40% of the global total. As noted above, this growth is being driven by a number of factors, including the increasing popularity of pets as family members, the growing demand for premium pet food and products, the boom in e-commerce sales, and the expanding pet care services market.

Second, the pet industry is becoming more complex and sophisticated. Consumers are demanding more high-quality products and services for their pets, and companies are looking for ways to differentiate themselves from their competitors. M&A can be a way to accomplish that.

Finally, the pet industry is becoming more consolidated in many subsectors, such as veterinary. This assessment is supported by both financial and strategic buyers participating in M&A transactions. A lot of small players are getting bought up by bigger players, and that trend is likely to continue. This consolidation is making the industry more competitive, which in turn is leading to more M&A deals.

In 2021, M&A transactions in the pet industry enabled some companies to expand their market share. Some of the most notable acquisitions were Mars' purchase of VCA Inc., a leading provider of animal health care services, and J. M. Smucker's acquisition of Ainsworth Pet Nutrition, a manufacturer of premium pet food.



## Veterinary Segment Growth Trends

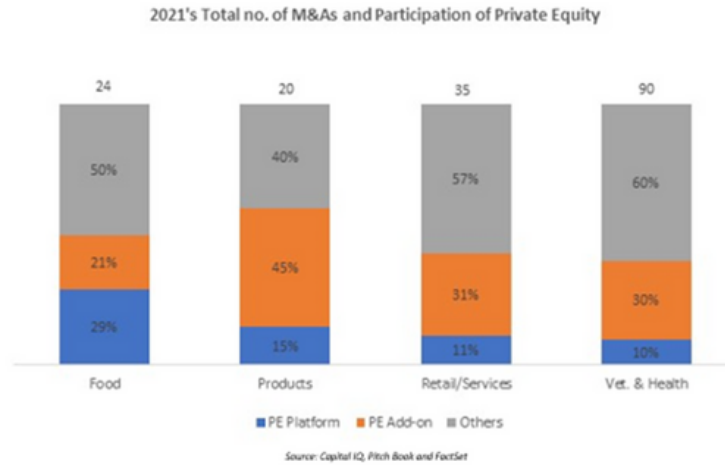
The veterinary care subsector accounts for about 30% percent of the global pet industry, with significant roll-up opportunities for acquirers to further drive growth. With consumers able to invest in high quality pet care, more preventive and elective procedures stand to disrupt what was once a sleepy industry.

In 2021, pent-up acquirer demand, low interest rates, and elevated competition for defensible assets supplemented the already robust levels of deal activity in the Veterinary & Health subsegment. These favorable tailwinds culminated in a 157.1% year-over-year (YOY) increase in transaction volume in the Veterinary & Health sector in 2021. Active acquirers, including Southern Veterinary Partners and National Veterinary Associates, completed numerous add-on deals to expand their geographic reach and scale.

The U.S. Veterinary & Health space continues to present ample consolidation opportunities, as \$31 billion of the \$38 billion market remains privately owned, according to Entrepreneur. For private equity firms looking to increase their cash returns and diversify their portfolios, buying a veterinary clinic is considered a low-risk, high-reward investment. While a healthy rate of return for PE firms is about three times over a holding period of three to five years, veterinary consolidators often exceed this figure, generating a four-to-five times return, according to Entrepreneur. An abundance of practice owners considering a sale or retirement provides a favorable near-term outlook for M&A in this segment.

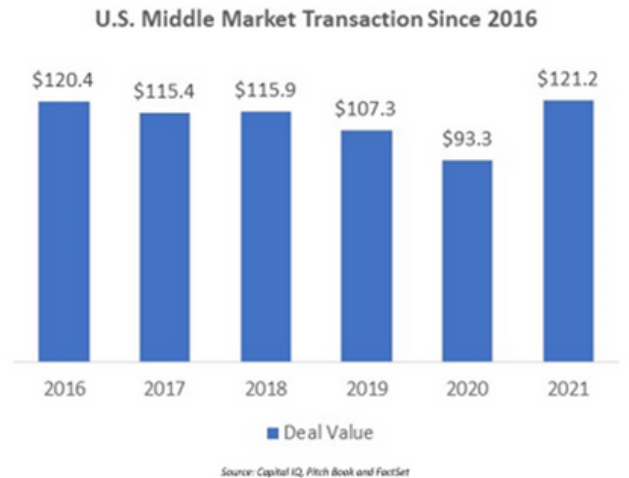
## Private Equity Marks its Territory

As we've shown, the pet industry has proved itself to be recession resistant and continued to grow amid various supply chain challenges and shifting consumer purchasing trends seen over the last two years. Private equity firms are eager to mark their territory in this lucrative market, and established pet industry players are recognizing the value in diversifying their portfolios through mergers and acquisitions.



PE buyers are extremely active in the space, accounting for 44.4% of deal activity in 2021. PE groups are looking for business opportunities via investing, ownership, or partnership with established pet industry players. Financial buyers that became attracted to the pet sector when it proved to be recession-proof during the Great Recession have become even more enamored with the space during the pandemic, which has led to record levels of pet ownership and spending.

A further look indicates that given the booming pet industry, it has certainly turned into a sellers' market. In 2021, completed transactions/acquisition deals ranged from \$5 million to \$250 million. The collective dollar value of these transactions was \$121.2 billion in 2021, up from \$93.3 billion the prior year.







Continuous acquisitions and ever-increasing industry growth have created market opportunities for smaller players to consolidate and larger, established players to collaborate or partner with investors. Acquirers can position themselves to monetize these business trends and diversify their portfolios through mergers and acquisitions.

FOCUS expects deal activity to continue at a strong pace, with premium transaction multiples being paid in 2022 as new private equity entrants look to add on to their platforms and more sellers look to capitalize on the favorable valuation environment.

## Conclusion, and Next Steps

For pet owners and consumers, the boom in M&A means that they can probably expect even more innovation and variety in the pet products and services that are available to them. For the industry, it means that we can probably expect to see even more M&A deals in the years ahead.

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## RECENT DEAL SPOTLIGHT

Veternity (“the Company”) core business is end-of-life services including cremation for pets throughout Europe. A market leader, they operate 25 crematoriums in Europe and employ over 300 people. The Company engaged FOCUS to advise and assist them with the expansion of their operations to the US and ultimately acquired Paws, Whiskers and Wags.

“Following the creation of a subsidiary in Canada in 2019, and the development of subsidiaries in Montreal and Ottawa, Veternity Group has officially been present in the USA since July 31, 2020,” Veternity management announced. FOCUS assisted in finalizing the purchase of four PWW crematoriums in Georgia and North Carolina. This is a strong and stable starting point for the Group’s development, and other perspectives of expansion are under study in the surrounding states to spread the model.”

Doug Rodgers, FOCUS Chairman who led the engagement, said, “Veternity, led by CEO Philippe Thomas was looking to acquire their first United States operations. It was important for them to buy a well-managed group that had similar philosophies and values to theirs. Paws, Whiskers and Wags was a great fit. Their high standards and focus on providing a compassionate experience were differentiators.”

*This announcement appears as a matter of record only.*

**VETERINITY**

The Pet Funeral Company

has acquired



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to the Veternity Pet Funeral Company.

**FOCUS**  
Investment Banking