

PRIVATE EQUITY ANALYST

LBO FOCUS: Pet Product Deals Are Private Equity's Best Friend

Lillian Rizzo

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When **Cloud Star Corp.** hit the sale block this year, private equity firms hungry for pet consumer product deals quickly circled the maker of all-natural dog treats and shampoos.

Five of the six initial indications of interest in the company came from private equity firms, said Carol Frank, a pet industry specialist and a managing director with investment bank **SDR Ventures** who worked on the deal.



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"I was amazed at the interest from private equity and the premium multiples," said Ms. Frank. Ultimately, Chicago buyout shop Frontenac Co. bought the company for an undisclosed amount in July. Frontenac plans to expand Cloud Star through new-product innovation and select acquisitions, said Walter Florence, a managing partner at Frontenac.

Private equity firms can't seem to get enough of pet product companies, making them some of the darlings of an already popular segment, thanks to steady, stable consumer demand for their products, even during challenging economic times, said consumer-focused general partners, investment bankers and analysts. Expenditures in the pet sector are expected to reach a record high of about \$58.5 billion in 2014, according to the **American Pet Products Association**.

Demand for such companies and a limited supply of targets have pushed up purchase-price multiples and forced some private equity firms to get more creative in their quest for deals.

Purchase-price multiples for consumable pet products businesses average in the double-digit range of earnings before interest, taxes, depreciation and amortization, while companies that produce hardline items, such as pet toys, tend to command multiples of seven to eight times, said Ms. Frank and other investment bankers.

"Consumable products are where the frothiest multiples are and command a 20% to 30% higher multiple than hardline products such as toys and bedding," said Ms. Frank.

Some of the same trends driving deal flow in other parts of consumer products industry, such as increasing demand for higher quality food, have manifested themselves in the pet sector, said Laird Koldyke, managing director at Winona Capital Management, owner of specialty pet retailer **Petsense LLC**.

"The consumer is changing how it buys pet food and the other pet items as well," said Christopher Sciortino, managing director at advisory firm Baird Global Investment Banking. "It's become both an appealing and emotional purchase. The consumer is also now seeing the appeal of local concepts and small box or regional retailers."

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