

# Katten

PRIVATE EQUITY

## Pets a Good Bet: Private Equity Zeroed In on Animal Care, Survey Finds



## Pets a Good Bet: Private Equity Zeroed In on Animal Care, Survey Finds

The animal care sector has been a favorite target of private equity for years, due in large part to low risk, good returns and relatively light regulation. But with COVID-19 prompting stay-at-home orders – and perhaps a reevaluation of household priorities – animal care’s position has become even stronger, making it the best in show for some investors.

That’s according to a new survey by law firm **Katten Muchin Rosenman LLP**. When asked in May 2020, more than two-thirds of private equity respondents said the pandemic [positively impacted their outlook when it comes to animal care](#). And a similar percentage of animal care respondents [have become more open to private equity](#) since COVID-19 swept through the United States.

**68%** of private equity respondents said their outlook on animal care has been at least somewhat positively impacted by the COVID-19 pandemic

While this bullishness is remarkable – especially as the world braces for continued economic shockwaves – it’s not over the top.

Consider that although private equity deal and transaction volume fell in the first few months of 2020, there’s still plenty of dry powder on the sidelines. Simultaneously, pet ownership has skyrocketed as Americans have been mostly stuck at home for the past few months. “Folks who don’t have animals for one reason or another, because of their work schedule or their travel schedule, that’s all changed right now,” Kitty Block, president and CEO of the Humane Society of the United States, [told Wired in April](#).

Our survey respondents likely had those factors in mind: 90% of private equity respondents [agreed that animal care is an attractive investment target](#), and 71% of them expect private equity transactions in the sector to [increase over the next year](#) – with more than a fourth saying the increase would exceed 10%.

**61%** of animal care respondents are more open to private equity since the outbreak of COVID-19

This would be good news for animal care in any context. But with some private equity firms reportedly focusing on their portfolio companies amid the economic downturn, the optimism about animal care stands out. All private equity respondents surveyed are [at least considering](#) making external investments in animal care, if not outright acquisitions. Other areas buoyed by stay-at-home orders – such as information technology and communications – are also drawing attention, according to [S&P Global Market Intelligence](#).

Unsurprisingly, the confluence of animal care and technology, which had been somewhat sluggish in recent years, has also been accelerated by COVID-19. With some states and the FDA loosening regulations, “the industry is ready to embrace more widespread use of telehealth,” a spokesman for VCA Animal Hospitals, which operates more than 1,000 animal hospitals in North America, [told CNBC in April](#).

Accordingly, our survey respondents said that technology products for pet owners – along with therapeutics and diagnostics, pharmaceuticals and vaccines, and insurance – [is ripe for investment in the coming years](#).



This imminent wave of M&A activity underscores the importance, for both parties, of knowing who's on the other side of the negotiating table. The insights gathered in the following report should be useful in that respect and will examine these central themes:

[Catalysts for Investment](#)

[Top Investment Areas](#)

[What Makes a Good Match?](#)

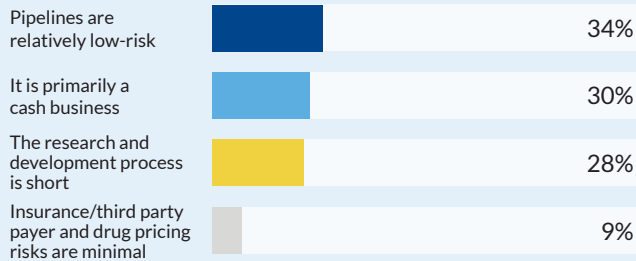
[Full Results](#)

[Demographics and Methodology](#)

# Catalysts for Investment

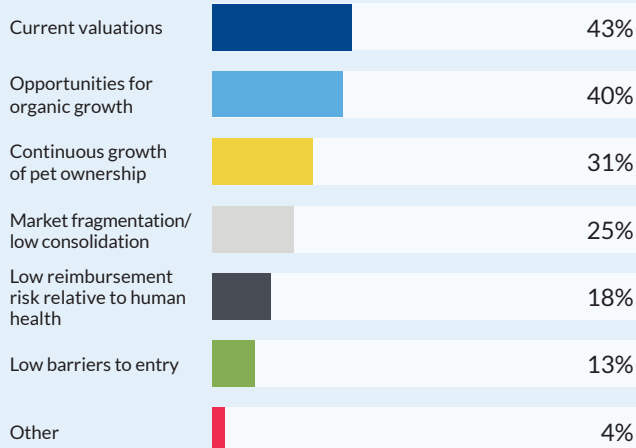
## WHAT MOST APPEALS TO PRIVATE EQUITY INVESTORS WHEN IT COMES TO ANIMAL CARE?

1



## WHAT ARE THE TOP TWO CATALYSTS DRIVING ANIMAL CARE INVESTMENTS?

2



We asked private equity respondents about the [factors that best summarize the appeal of animal care](#). A slight plurality (34 percent) noted that animal care pipelines are relatively low risk, perhaps reflecting the recession-proof nature of the sector. As Robert Ross, senior income analyst at Mauldin Economics, [wrote last year in MarketWatch](#), companies in animal care fared well in the previous two recessions: “Pets are considered part of the family now.”

Other factors relate to how animal care compares with human healthcare, which often has cumbersome payer and reimbursement processes. Thirty percent of respondents said animal care is appealing because it’s primarily a cash business, while 9 percent said as much because insurance/third-party payer and drug pricing risks are minimal. Twenty-eight percent said that the research and development process is short, making it less expensive and thus a more attractive investment. Animal Health Invest USA, which seeks to connect animal care businesses with investors, [made similar comparisons](#), adding that animal medicines and vaccines face lower pressure from generic competition.

In our survey, animal care and private equity respondents agreed that valuations were a primary catalyst for investment in animal care – [but the similarities ended there](#). Private equity was far more focused on opportunities for organic growth (57% compared with 26%), the fact that the sector is fragmented (30% compared with 23%) and low barriers to entry (19% to 9%) – while animal care respondents pointed to the continuous growth of pet ownership (36% to 26%) and low reimbursement risk relative to human healthcare (21% to 15%). Given private equity’s focus on growth, these differences are perhaps not that surprising.

We also asked respondents about the market characteristics leading to investment. Current market demand led the way for [animal care](#) and [private equity](#). After that, private equity was much more focused on regulatory freedom and resistance to economic cycles. Animal care respondents, though, rated the investment firm’s experience as a top priority, a recurring theme in the survey.

And even as COVID-19 is believed by many to be a reason for confidence in the sector, some private equity respondents had concerns. “We worry about the current economic climate as it relates to the COVID pandemic,” one said. Others noted that, “It is unclear as to how distancing and safety measures will impact productivity” and that, “A second coronavirus wave could derail our plans. It is such an unknown.”

# Top Investment Areas

WHICH OF THE FOLLOWING AREAS REPRESENT THE GREATEST INVESTMENT OPPORTUNITIES IN ANIMAL CARE OVER THE NEXT TWO YEARS, FROM YOUR PERSPECTIVE?

3

	Pe Private equity	Ac Animal care
Therapeutics and diagnostics	47%	38%
Technology products for pet owners	36%	28%
Pharmaceuticals and vaccines	34%	23%
Insurance	34%	23%
Telemedicine/telehealth	23%	23%
Basic veterinary care	19%	17%
Premium/dietary-specific food	4%	17%

For all respondents, therapeutics and diagnostics represented the greatest investment opportunity over the next two years. With pet ownership high and getting higher – an [American Pet Products Association report](#) released before the pandemic found that 67 percent of U.S. households have pets – there are more pet owners who will want to find out what’s wrong with ailing pets and pay for treatment.

They want to know not only what’s wrong with ailing pets but also how to prevent issues in the first place. Sixty percent of respondents [who chose therapeutics and diagnostics](#) said their feelings were based on broad interest in preventive wellness. They [emphasized an interest](#) in cannabinoid and hemp-based products (which typically include treats and oils for pets) and mobility-related therapies. Forty-eight percent picked advancements in screening procedures, and 40% identified something more emotional – the humanization of pets.

This trend likely explains why technology products for pet owners was the second-most promising investment area among survey respondents. The market for such products is growing and includes devices that play music designed to calm pets, translating devices that allow owners to be more attuned with their pets’ needs, a treadmill for dogs, sunglasses for cats and dogs, a device that monitors litter box output and even prosthetic replacements for ears, eyes and testicles – to eliminate neuter-hesitant concerns.

When examining investment opportunities, some important takeaways [emerged when comparing the responses from private equity and animal care](#). Private equity was generally more bullish, except for telemedicine/telehealth and in the area of premium/dietary-specific food. The difference in the area of technology is perhaps a sign that investors see such products as an untapped market and are on the lookout for game-changing innovations.

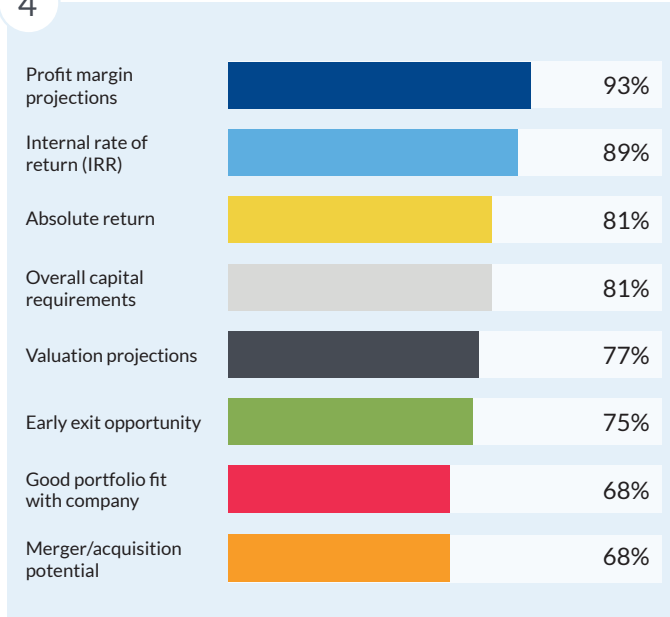
“Apps and devices are now offering pet owners a more intimate look at their animals’ well-being, from veterinary care to fitness,” according to a [late 2019 report in Axios](#), which highlighted innovations in pet fitness trackers, camera monitoring and intercoms and telehealth options.



# What Makes a Good Match?

## WHAT DOES PRIVATE EQUITY MOST VALUE IN ANIMAL CARE TARGETS?

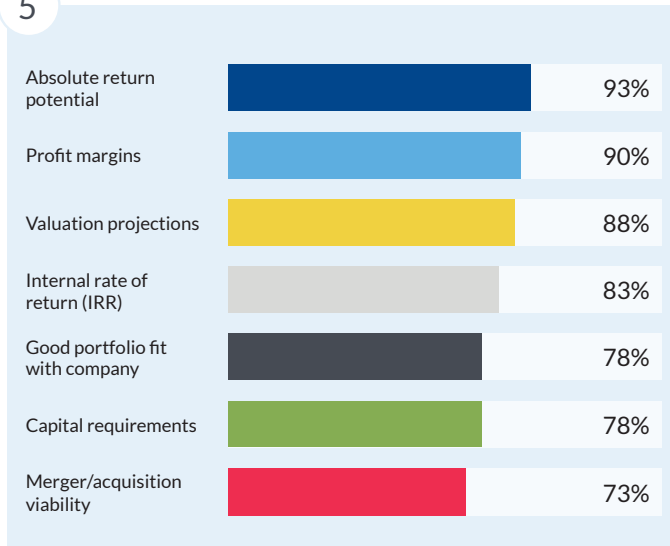
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We asked private equity respondents about the characteristics they would consider when investing in animal care. We also asked animal care respondents what they wanted investors to demonstrate knowledge of during a pitch. The results were strikingly similar – with each group picking four of the same top five choices, albeit in different orders.

## WHAT DO ANIMAL CARE BUSINESSES MOST VALUE IN PITCHES FROM PRIVATE EQUITY?

5



Many of the top choices (profit margins, valuation projections, etc.) revolve around bullish feelings for the sector and general deal-making criteria. We also asked animal respondents what they wanted in an investor, and while responses varied, knowledge of or experience with the veterinary profession was a common hope, though there were others. One respondent said, “not every hospital can operate the same,” and investors should be “willing to take risks with specific ideas from the team about what works with their current client base.”

Another respondent said it was important to “take proper care of the staff that helped build us to where we are. Our business sells experience and relationships, not medicine.”

Animal care respondents valued portfolio fit more than private equity (78% compared with 68%), but knowledge of and experience in the sector is an asset for private equity firms as well. Those that don’t understand animal care can end up paying too much for investments and may miss opportunities to find efficiencies, streamline operations – or ultimately sell full platforms for big paydays.

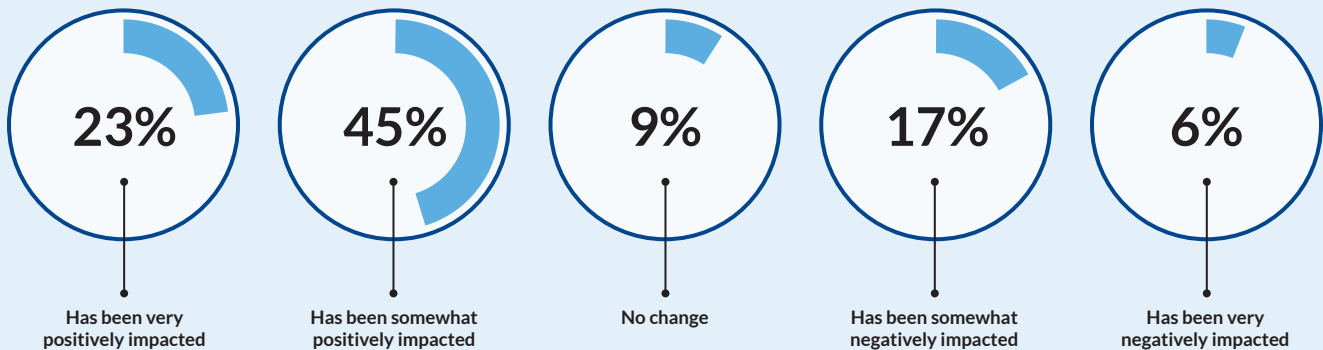
All of this will be important to consider given where things are headed. The vast majority of private equity respondents (90%) [expect consolidation in the animal care market](#) over the next two years.

# Full Results

(Asked to private equity only):

**HOW WOULD YOU SAY THAT YOUR OUTLOOK ON ANIMAL CARE AS AN INVESTMENT TARGET MAY HAVE CHANGED SINCE FEBRUARY 2020, OR PRIOR TO THE COVID-19 PANDEMIC? OUTLOOK FOR ANIMAL CARE \_\_\_\_\_.**

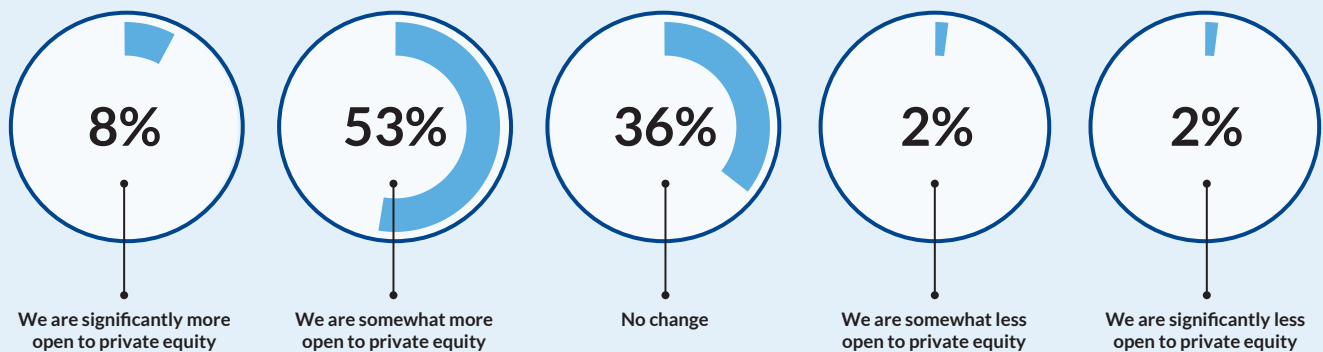
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(Asked to animal care only):

**HOW HAS YOUR BUSINESS'S STANCE ON PRIVATE EQUITY CHANGED, IF AT ALL, SINCE FEBRUARY 2020, OR PRIOR TO THE COVID-19 PANDEMIC?**

7

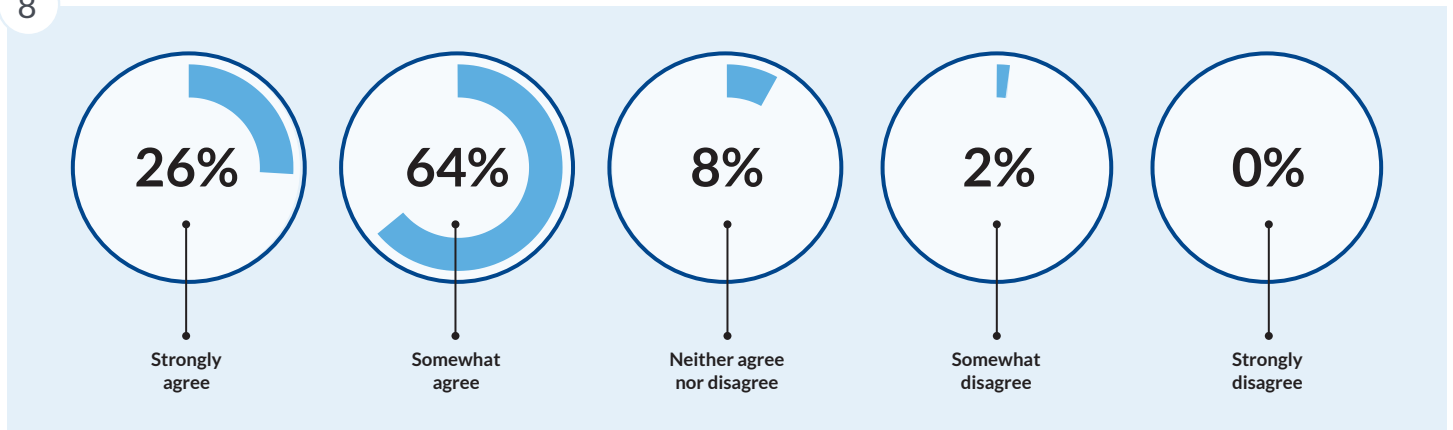


# Full Results

(Asked to private equity only):

**TO WHAT EXTENT DO YOU AGREE WITH THIS STATEMENT: ANIMAL CARE IS AN ATTRACTIVE PRIVATE EQUITY INVESTMENT TARGET.**

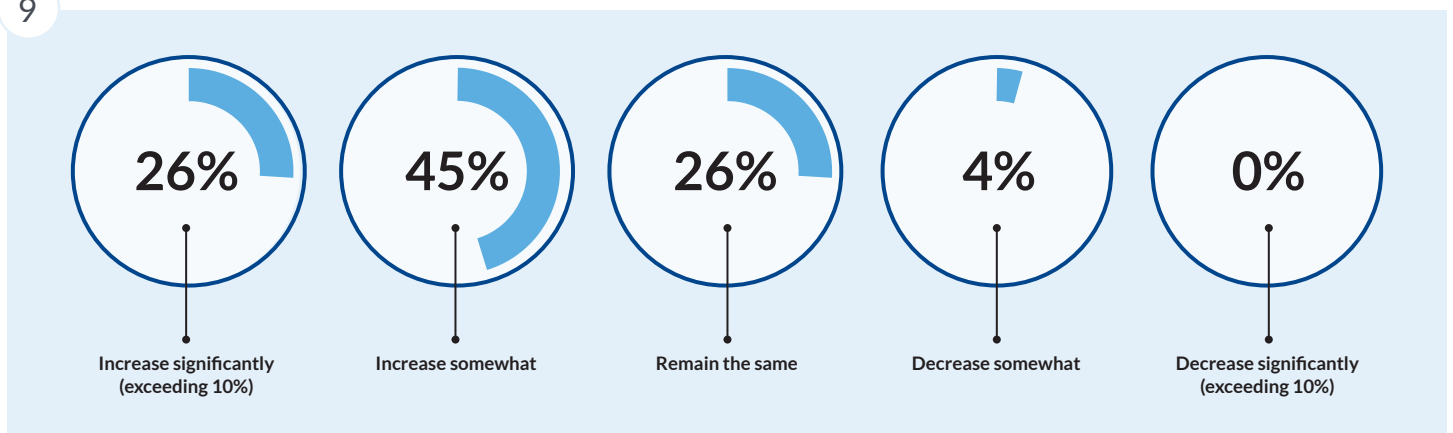
8



(Asked to private equity only):

**WHAT WOULD YOU EXPECT TO SEE IN TERMS OF ANIMAL CARE PRIVATE EQUITY TRANSACTIONS OVER THE NEXT YEAR?**

9





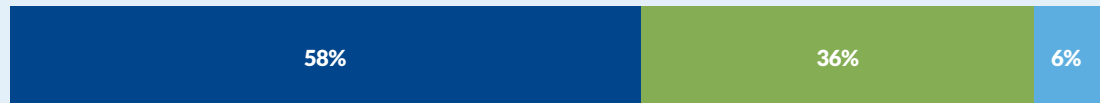
# Full Results

(Asked to private equity only):

**TAKING THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC INTO ACCOUNT, WHICH CATEGORIZE(S) YOUR FIRM'S NEAR-TERM POSITION ON THE FOLLOWING PRIVATE EQUITY INVESTMENT ACTIVITIES?**

10

Focus exclusively on current portfolio companies



Taking over businesses



Making investments in businesses (external)



**A** Already doing      **C** Considering doing      **D** Does not apply

(Asked to animal care only):

**TAKING THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC INTO ACCOUNT, WHICH CATEGORIZE(S) YOUR BUSINESS'S NEAR-TERM POSITION ON THE FOLLOWING PRIVATE EQUITY INVESTMENT ACTIVITIES?**

11

Trying to sell business(es)



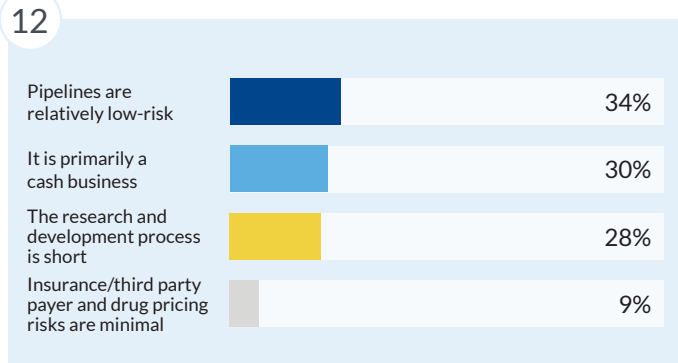
Accepting investments in business(es)



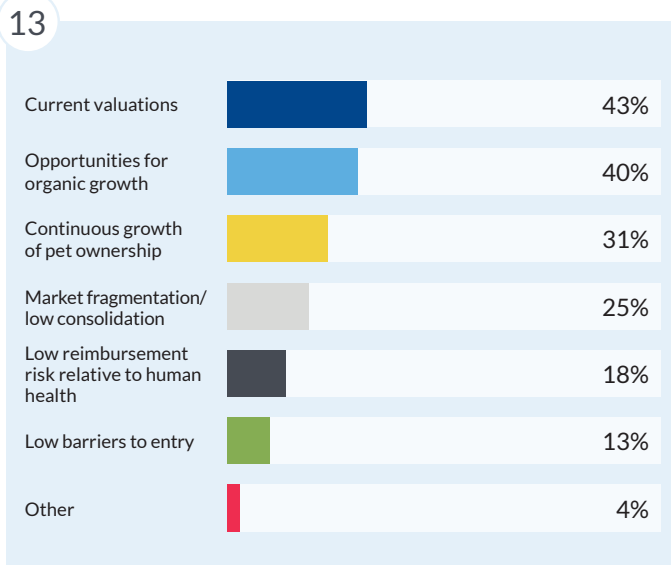
**A** Already doing      **C** Considering doing      **D** Does not apply

# Full Results

(Asked to private equity only):  
**WHICH OF THE FOLLOWING BEST SUMMARIZES THE APPEAL OF ANIMAL CARE IN PARTICULAR TO PRIVATE EQUITY INVESTMENT?**



**WHAT ARE THE TOP TWO (2) CATALYSTS BEHIND INVESTMENT ACTIVITY IN THE ANIMAL CARE MARKET?**



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	Pe Private equity	Ac Animal care
Current valuations	43%	43%
Opportunities for organic growth	57%	26%
Continuous growth of pet ownership	26%	36%
Market fragmentation/low consolidation	30%	21%
Low reimbursement risk relative to human health	15%	21%
Low barriers to entry	19%	8%
Other	4%	4%

## Full Results

(Asked to private equity only):

**NOW LET'S THINK ABOUT SOME OF THE MARKET AND ENVIRONMENT CHARACTERISTICS THAT YOU OR YOUR FIRM WOULD EVALUATE IN CONSIDERING AN INVESTMENT IN ANIMAL CARE. PLEASE INDICATE THE IMPORTANCE OF EACH FACTOR:**

15

	Vi Very important	Si Somewhat important	N Neutral	Ni Not important
Current market demand	55%	33%	10%	3%
Resistance to economic cycles	55%	28%	15%	0%
Regulatory freedom	38%	45%	13%	5%
Forecasted market demand	43%	38%	20%	0%
Level competition in the market	50%	30%	15%	5%
New category/innovation	48%	33%	15%	5%
Our firm's experience	40%	38%	18%	5%
Products/services have open access to the market	38%	38%	18%	5%
Established distribution channel/client base	40%	35%	10%	8%

(Asked to animal care only):

**NOW LET'S THINK ABOUT SOME OF THE MARKET AND ENVIRONMENTAL CHARACTERISTICS THAT YOU OR YOUR FIRM WOULD EXPECT AN INVESTOR TO INCORPORATE INTO A PITCH TO BUY SOME SORT OF STAKE IN YOUR OPERATION. PLEASE INDICATE THE IMPORTANCE OF EACH FACTOR:**

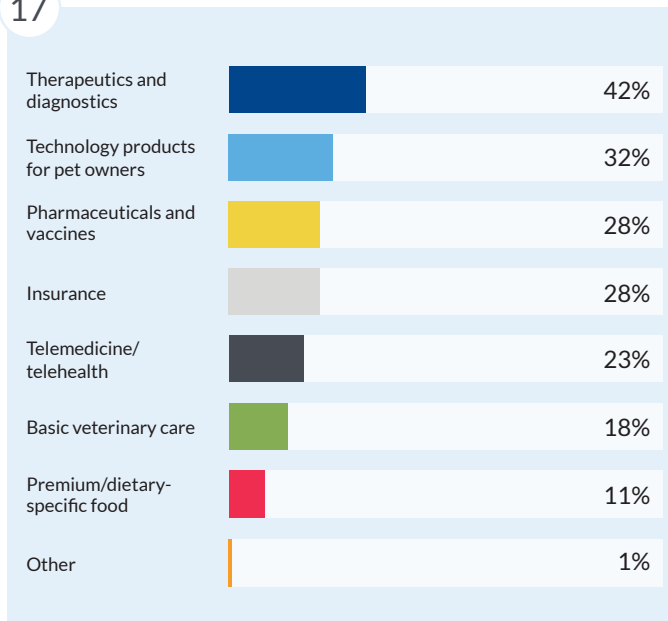
16

	Vi Very important	Si Somewhat important	N Neutral	Ni Not important
Current market demand	58%	38%	3%	3%
Investment firm's experience	55%	33%	13%	0%
Forecasted market demand	50%	35%	13%	3%
Established distribution channel/client base	38%	48%	13%	3%
Resistance to economic cycles	40%	43%	15%	3%
Level of competition in the market	30%	50%	20%	0%
Regulatory freedom	28%	46%	21%	3%

# Full Results

**WHICH OF THE FOLLOWING AREAS REPRESENT THE GREATEST INVESTMENT OPPORTUNITIES IN ANIMAL CARE OVER THE NEXT TWO (2) YEARS, FROM YOUR PERSPECTIVE? PLEASE SELECT ALL THAT APPLY:**

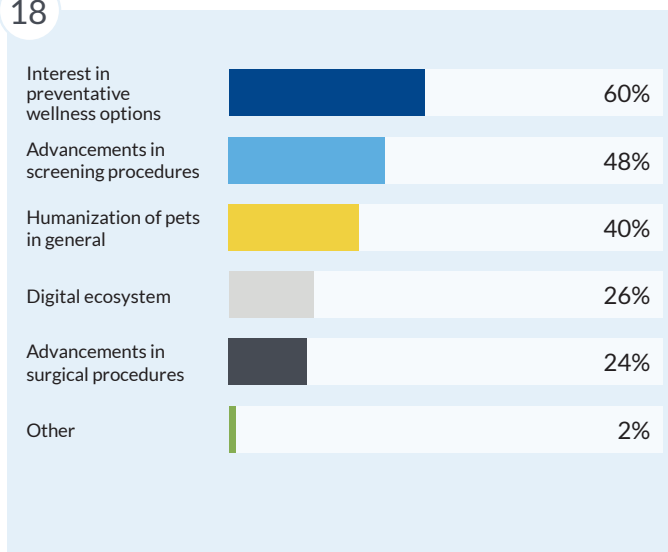
17



(Asked to those who selected “Therapeutics and Diagnostics” in previous question):

**WHICH OF THE FOLLOWING CONTRIBUTED MOST TO YOUR SELECTION OF THERAPEUTICS AND DIAGNOSTICS AS AN INVESTMENT OPPORTUNITY? PLEASE SELECT THE TOP TWO (2):**

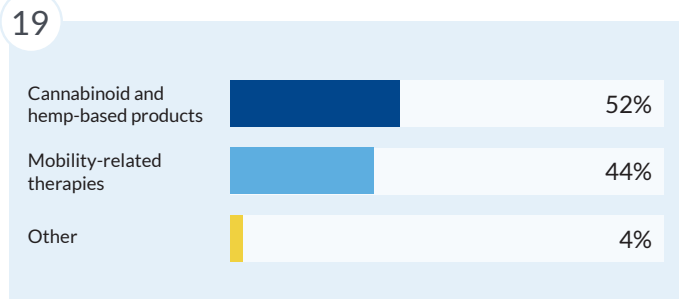
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# Full Results

(Asked to those who selected “Preventative Wellness” in previous question):

**THINKING SPECIFICALLY ABOUT ALTERNATIVE THERAPIES AS A WELLNESS OPTION, WHICH OF THE FOLLOWING DO YOU BELIEVE REPRESENTS THE MOST LUCRATIVE OPPORTUNITY FOR INVESTMENT OVER THE NEXT TWO (2) YEARS? PLEASE SELECT ONLY ONE:**



(Asked to private equity only):

**LET’S THINK ABOUT SOME OF THE FINANCIAL CHARACTERISTICS THAT WOULD COME INTO PLAY IN CONSIDERING AN INVESTMENT IN ANIMAL CARE. PLEASE INDICATE THE IMPORTANCE OF EACH FACTOR:**

20

	Vi Very important	Si Somewhat important	N Neutral	Ni Not important
Profit margin projections	53%	40%	7%	0%
Internal rate of return (IRR)	40%	49%	6%	5%
Absolute return	53%	28%	15%	4%
Overall capital requirements	53%	28%	15%	4%
Valuation projections	45%	32%	17%	6%
Early exit opportunity	49%	26%	17%	8%
Good portfolio fit with company	47%	21%	23%	9%
Merger/acquisition potential	38%	30%	28%	4%

## Full Results

(Asked to animal care only):

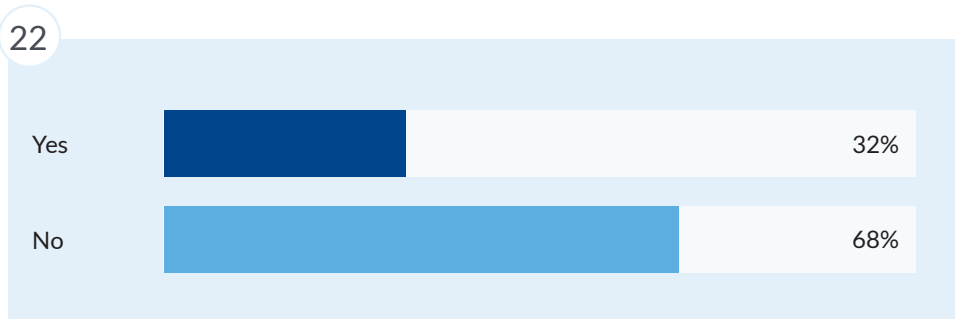
**WHICH OF THE FOLLOWING WOULD BE MOST IMPORTANT FOR AN INVESTOR TO COMMUNICATE OR DEMONSTRATE KNOWLEDGE OF IN MAKING A PITCH TO BUY SOME SORT OF STAKE IN YOUR OPERATION? PLEASE INDICATE THE IMPORTANCE OF EACH FACTOR:**

21

	Vi Very important	Si Somewhat important	N Neutral	Ni Not important
Absolute return potential	63%	30%	3%	5%
Profit margins	60%	30%	10%	0%
Valuation projections	43%	45%	13%	0%
Internal rate of return (IRR)	43%	40%	18%	0%
Good portfolio fit with company	38%	40%	23%	0%
Capital requirements	30%	48%	18%	5%
Merger/acquisition viability	30%	43%	20%	8%

(Asked to animal care only):

**ARE THERE ANY OTHER FINANCIAL FACTORS THAT YOUR OPERATION WOULD EXPECT TO SEE AN INVESTOR COMMUNICATE OR DEMONSTRATE KNOWLEDGE OF IN MAKING AN INVESTMENT PITCH?**



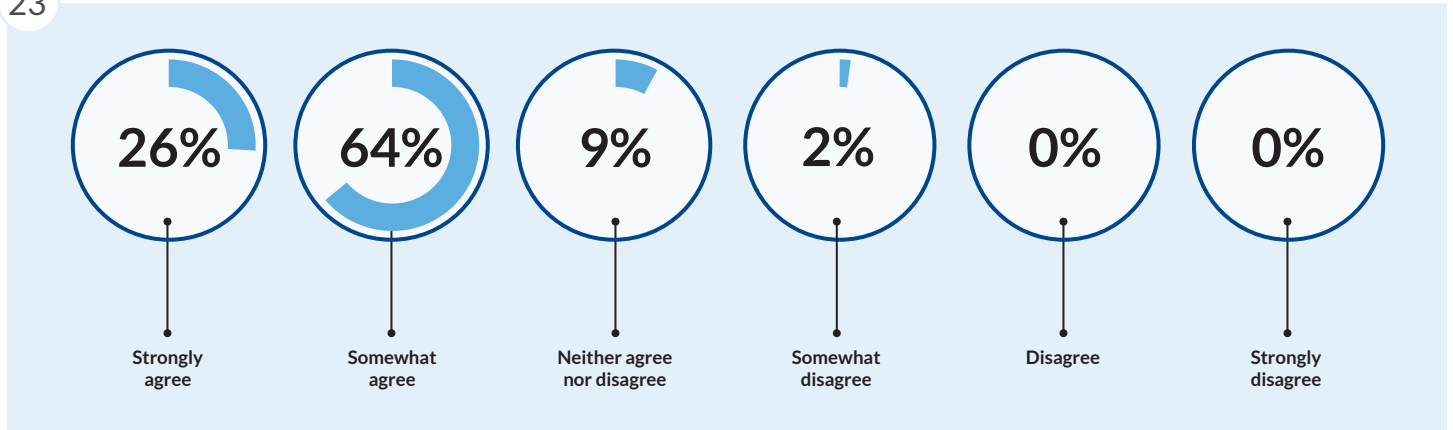
*\*A plurality of respondents who said “Yes” to this question noted the importance of knowledge of the field.*

# Full Results

(Asked to private equity only):

**PLEASE INDICATE YOUR AGREEMENT WITH THE FOLLOWING STATEMENT: PRIVATE EQUITY WILL DRIVE CONSOLIDATION IN THE ANIMAL CARE MARKET OVER THE NEXT TWO (2) YEARS.**

23



# Demographics and Methodology

In early May 2020, **Katten Muchin Rosenman LLP** surveyed 47 individuals involved in private equity and 53 involved in the animal care industry about trends in the industry, the investment climate and other topics. To qualify for the survey, respondents from each segment had to either have participated in a private equity/animal care transaction over the past two years or indicate likelihood to participate in such a deal in the future. In addition, only decision-makers qualified to take the survey.

Due to rounding and multiple-choice options, total percentages for some questions surpass 100%. The respondents were screened using the following criteria.

## Q1. WHICH BEST DESCRIBES YOUR BUSINESS FOCUS?

24

	# Number	% Percent
Private equity	47	47%
Animal care	53	53%

## Q2. (Asked to private equity only): HAVE YOU OR YOUR ORGANIZATION PARTICIPATED IN AN ANIMAL CARE-RELATED PRIVATE EQUITY INVESTMENT OR DEAL OVER THE PAST TWO YEARS?

25

	# Number	% Percent
Yes	30	64%
No	17	36%

## Q3. (Asked to private equity only who selected "No" in Q2): HOW LIKELY ARE YOU OR YOUR ORGANIZATION TO CONSIDER A PRIVATE EQUITY INVESTMENT IN ANY ANIMAL CARE-RELATED BUSINESS?

26

	# Number	% Percent
Very likely	12	71%
Somewhat likely	5	29%



# Demographics and Methodology

**Q4.** (Asked to private equity only):  
**WHICH BEST DEFINES YOUR ROLE IN PRIVATE EQUITY TRANSACTIONS?**

27

	# Number	% Percent
Primary decision-maker	28	60%
Share in decision-making	19	40%

**Q5:** (Asked to animal care only):  
**HAVE YOU OR YOUR ORGANIZATION PARTICIPATED IN A PRIVATE EQUITY INVESTMENT OR DEAL OVER THE PAST TWO YEARS?**

28

	# Number	% Percent
Yes	17	32%
No	36	68%

**Q6.** (Asked to animal care only who selected “No” in Q5):  
**HOW LIKELY ARE YOU OR YOUR ORGANIZATION TO CONSIDER A PRIVATE EQUITY INVESTMENT IN THE BUSINESS?**

29

	# Number	% Percent
Very likely	4	11%
Somewhat likely	32	89%

**Q7.** (Asked to animal care only):  
**IN THE CASE THAT YOUR BUSINESS WAS APPROACHED BY INVESTORS AS A POTENTIAL PRIVATE EQUITY TARGET, WHICH BEST DEFINES YOUR ROLE IN THE DECISION-MAKING PROCESS?**

30

	# Number	% Percent
Primary decision-maker	33	62%
Share in decision-making	20	38%

## About Katten

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With more than 700 attorneys serving public and private companies, Katten is the firm of choice for clients seeking sophisticated, high-value legal services in the United States and abroad. Our collaborative, entrepreneurial culture leads to true partnerships with our clients. We understand and focus on our clients' business objectives and address their legal needs in a manner consistent with their "big picture." We have a reputation for being trusted advisors, and we demonstrate our value every day in the successful results we deliver.

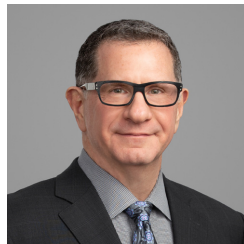
## About Katten's Private Equity Practice

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To get good deals done, private equity investors must contend with sky-high valuations, compressed timelines and unprecedented competition. When opportunities do appear, the stakes are high and investment parameters complex. Katten cuts through the legal issues that bottleneck deal flow and provides the immediacy, intelligence and integrity private equity investors demand.



**[Kimberly T. Smith](#)**  
+1.312.902.5411  
[kimberly.smith@katten.com](mailto:kimberly.smith@katten.com)



**[Kenneth W. Miller](#)**  
+1.312.902.5261  
[ken.miller@katten.com](mailto:ken.miller@katten.com)



**[Christopher S. Atkinson](#)**  
+1.312.902.5277  
[christopher.atkinson@katten.com](mailto:christopher.atkinson@katten.com)

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