



Veterinary M&A industry trends

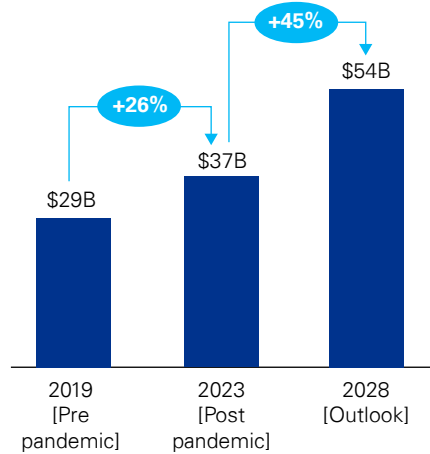
The veterinary market continues to attract top dog aggregators who are great retrievers of value



The veterinary sector has attracted substantial acquirer interest for several decades as large players have capitalized on the sector's clinic fragmentation. The thesis is anchored around consolidating competitors to establish regional dominance, bolster scale, and enhance service offerings. M&A activity ramped up dramatically in 2021. Volumes have been pushed to new heights for private equity and strategic buyers for two compelling reasons: 1) buying a cash business like a companion animal practice is considered a safe, lucrative and generally recession proof investment – particularly to gain profit and diversify portfolios; 2) veterinary data is powerful currency to increase and influence pet parent/consumer engagement. Both will continue to drive valuations and numerous acquisitions will be centered around this thesis.

Veterinary expenditures for companion animals have been growing significantly and the trend is expected to continue which is supported by powerful growth drivers.

US companion animal veterinary expenditures ⁽¹⁾



The humanization of pets has turned pet owners into pet parents and the human-animal bond continues to strengthen



Pet parents now expect the same health care for their pets, high end diagnostics are becoming more prevalent



Veterinarians are offering a broader menu of services, including CAT scans, root canals, and cancer surgery



Pet insurance expenditures are estimated to rise by 8% through 2026 which is expected to boost frequency of visits



The faster growing younger pet parent segment visit clinics more often and prefer chain veterinary clinics, including those located in mass market superstores

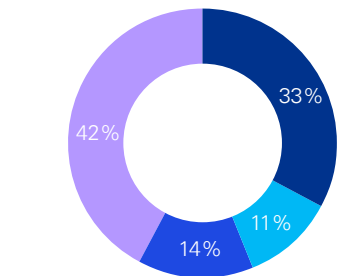
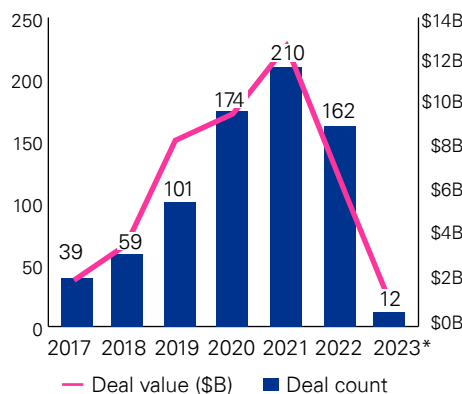


8% CAGR for 2023-2028

M&A activity in the veterinary market is a bit on a pause. However, whilst transaction volume in 2022 did not match record levels seen 2021, volume did surpass pre-pandemic levels. Financial buyers maintain a prominent presence in the space – with private equity firms seeking add-ons to portfolio companies or a path to enter the sector.

US veterinary PE deal activity ⁽²⁾

Deal activity breakdown ⁽²⁾

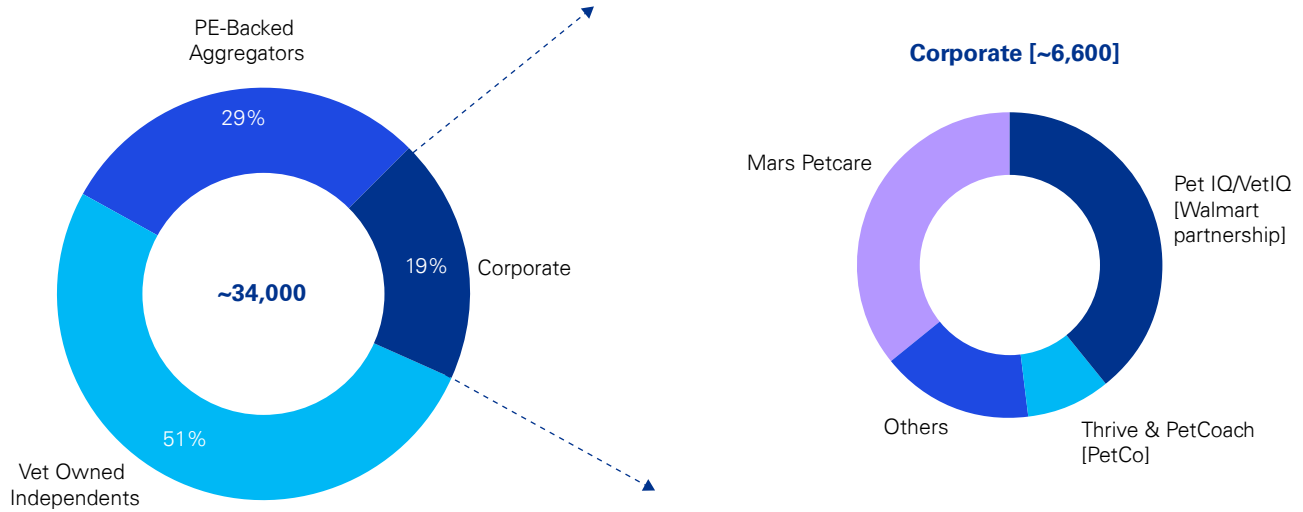


Financial
 ■ Add-On
 ■ Platform

Strategic
 ■ Public
 ■ Private

Half of the veterinary clinic market is still independently owned by veterinarians and there are ~20,000 clinics that can potentially be fetched. Currently, there are an estimated ~50 aggregators that own platforms with ~10+ units. Mars Petcare dominates corporate clinic ownership as insight into pet and pet parent data is seen as the new currency to drive more targeted interventions.

Veterinary market ownership [# of clinics] – 2023^(3,5)



The winning formula will trigger the ‘acquisition zoomies’ for Aggregators when the market recovers

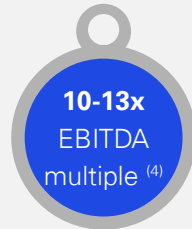


First half of 2022



In the first half of 2022, EBITDA multiples for large, multi-unit (10+) platform acquisitions ranged between 18-20x EBITDA multiple.

Second half of 2022 and onwards



Beyond the second half of 2022, capital is being funneled into accelerating the one-off acquisitions growth within each platform which are smaller, single clinic (2-3 DVMs) practices generally trading between 10-13x EBITDA multiple.

Through significant operational improvement efforts, PE funds are able to bring down the effective multiple – and thereby increase revenues and profit which enables further acquisitions, allowing the process to repeat and ultimately generating a far higher resale value. Most investors, who have entered the vet sector, have performed very well, which will continue to attract PE based aggregators and increase competition.

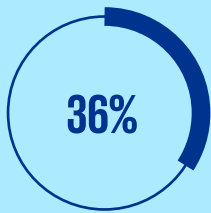
The number of veterinary offices has been increasing year over year given growing demand for veterinary care. The top 5 states, with highest number of offices, account for around one third of total offices and are mostly concentrated along the US

coasts. Veterinary expenditures directly correlate with veterinary office locations making California, Texas, Florida, New York and Pennsylvania very attractive target markets.

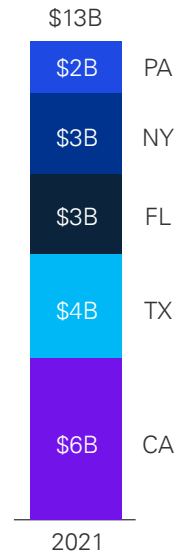
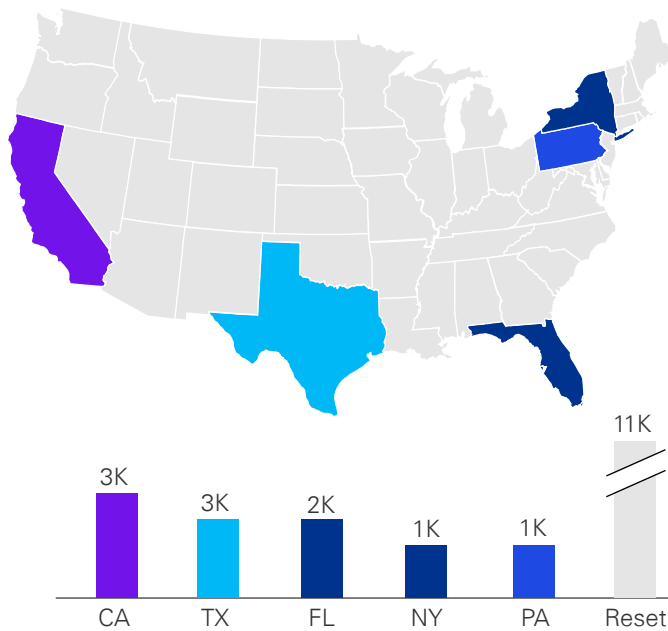
US veterinary clinic landscape – locations and expenditures 2021 ⁽³⁾

Top 5 states with highest vet expenditure (\$B)




Top 5 States account for \$18B in veterinary expenditures - mostly concentrated around coastal states...




...and correlated with highest number of veterinary clinics



As acquirers continue to drool over the veterinary sector, there are systemic challenges which progressed from being supply issues to a concerning demand challenge. Shortages of veterinary professionals on the one hand causing challenges with wait times, combined with the rising cost of care and relatively few pets being insured, is turning into an issue of pet parents deciding whether they can even afford going to the vet.

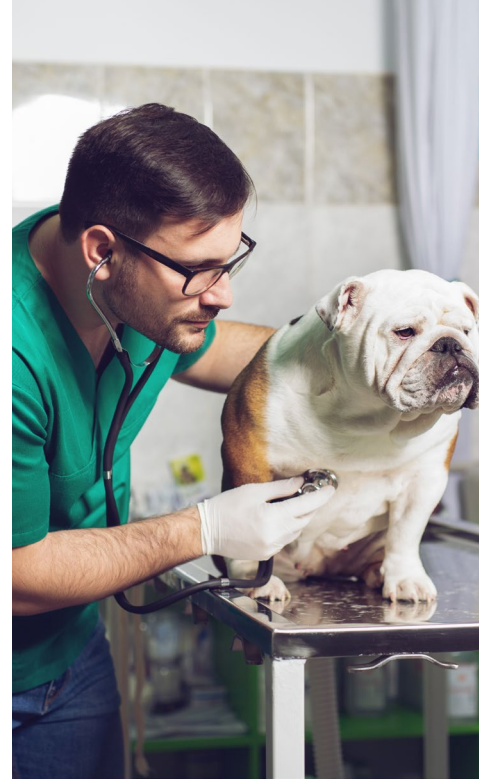
<p>By 2030, 75% of pets are at risk not receiving care ^(6,7)</p>	<p>Veterinary services increased 2x of CPI ^(8,9)</p>	<p>Only 2.5% of pets are insured in the US [4 of 160 million pets] ⁽¹⁰⁾</p>	<p>“</p> <p>Vet clinics saw an average of 80% more revenue from pet parents with [nationwide] pet insurance coverage”. ⁽¹¹⁾</p>
<p>Veterinary shortage</p>	<p>Rising cost of care</p>	<p>Decreasing treatment affordability</p>	
<p></p> <ul style="list-style-type: none"> • Demand for veterinary service significantly exceeds veterinary staff supply • Insufficient amount of people entering the veterinary profession and class sizes aren't big enough 	<p></p> <ul style="list-style-type: none"> • “Pet Products & Services” index rose to 10.9% with veterinary services jumping nearly 2 percentage points to 10.3% - which is twice as high as the CPI of 6% 	<p></p> <ul style="list-style-type: none"> • Veterinarians are offering a broader and more high-end menu of services, including CAT scans, MRIs, root canals, and cancer surgery • With increasing sophistication of services coupled with low insurance coverage, care becomes an affordability issue 	

 Aggregators can address many of these challenges through the benefits of a **network of clinics**, e.g. for load balancing of appointments and more timely care, **connected data and insights**, e.g. to derive adequate, consistent pricing structure and services per demand profiles.



Big data - the high value kibble of veterinary practices

It is well known to veterinary practice owners and managers that data is the backbone of any successful hospital. Whether clinical data on pets, financial data on the practice, or operational data on staffing and utilization, it all tells a story. With big data, that story can go deeper. It can provide a more targeted experience for pets, pet parents and clinic teams.



Big data is the next evolution of how veterinary clinics leverage information. It involves, and often requires, stringing together several unconnected data sets to tell an insightful story. And once consolidated, big data can include internal data, such as clinic-level transaction or appointment information, and external data, such as Google review ratings or publicly available sales information from competitor clinics. Augmenting and applying big data will increase the confidence level of operators and aggregators for **practice management** and placing **growth bets**.

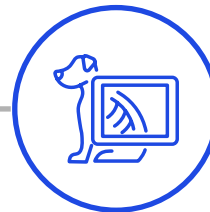
Practice management



Moving beyond the standard outputs provided by practice information management systems or financial software, savvy clinic managers have become aware of the wealth of granular, big data-driven insights available to practices.⁽¹²⁾

- **Pet spending** and ownership and resident psychographics (e.g. Experian's Mosaic)
- Level of **competition** and the features of competing clinics
- Aggregator considerations, such as the percentages of **corporate-owned** clinics and **independents**.
- DVM and staff **tenure** and online **review scores** for nearby clinics
- **Foot-traffic** information using publicly available cell phone location data

- **Pricing** – actual prices paid, minus discounts or coupons, for products and services
- **Bundling opportunities** – bundling routine veterinary visits with other services, such as dental cleanings or prescriptions
- **Appointment efficiency** – quantifying degree of scheduling visits within a reasonable time and new pet parents churn to competitors due to scheduling delays.
- **Fully loaded costs** – visibility into labor and products cost including direct and indirect costs
- **Trending** – insights into medical procedure frequencies, seasonal impacts, and other operational and financial developments



Growth 2.0

When exploring the acquisition of an additional clinic, gaining insights into the level of spending on pet care or the ratio of people to pets in a given trade area is enormously helpful in deciding where to open a hospital. While such information is readily available and used by clinics during expansion efforts, big data can take those discrete data elements a step further by stringing together otherwise separate variables.⁽¹²⁾

Emerging trends that may become high value treats for veterinary services

Emerging trends as a direct response to the growing humanization of pets and human healthcare-like expectations of pet parents.

New pricing models	Integrated telemedicine	At home diagnostics ⁽¹³⁾	Pet parents engagement platforms ⁽¹³⁾
<p>Subscription based veterinary clinics with a set menu of basic care and simple surgery service offering with clear, standard pricing structure.</p> <p>As part of the subscription fee, many include free access to televet services and help with referrals to specialized clinics/hospitals (e.g. radiology, diagnostics, chiropractic, etc.)</p>	<p>Integration of telemedicine, either as own or partner service, is intended to help triage and alleviate capacity constraints at clinics</p>	<p>VC backed start ups are placing bets around urine or blood sample based screening test (e.g. cancer screening) for at-home use – offering convenient, affordable prevention options.</p>	<p>Help veterinary practices build tailored experiences and gain data insights to offer curated pet parent experience - blending pet health, lifestyle and broad specific content</p>

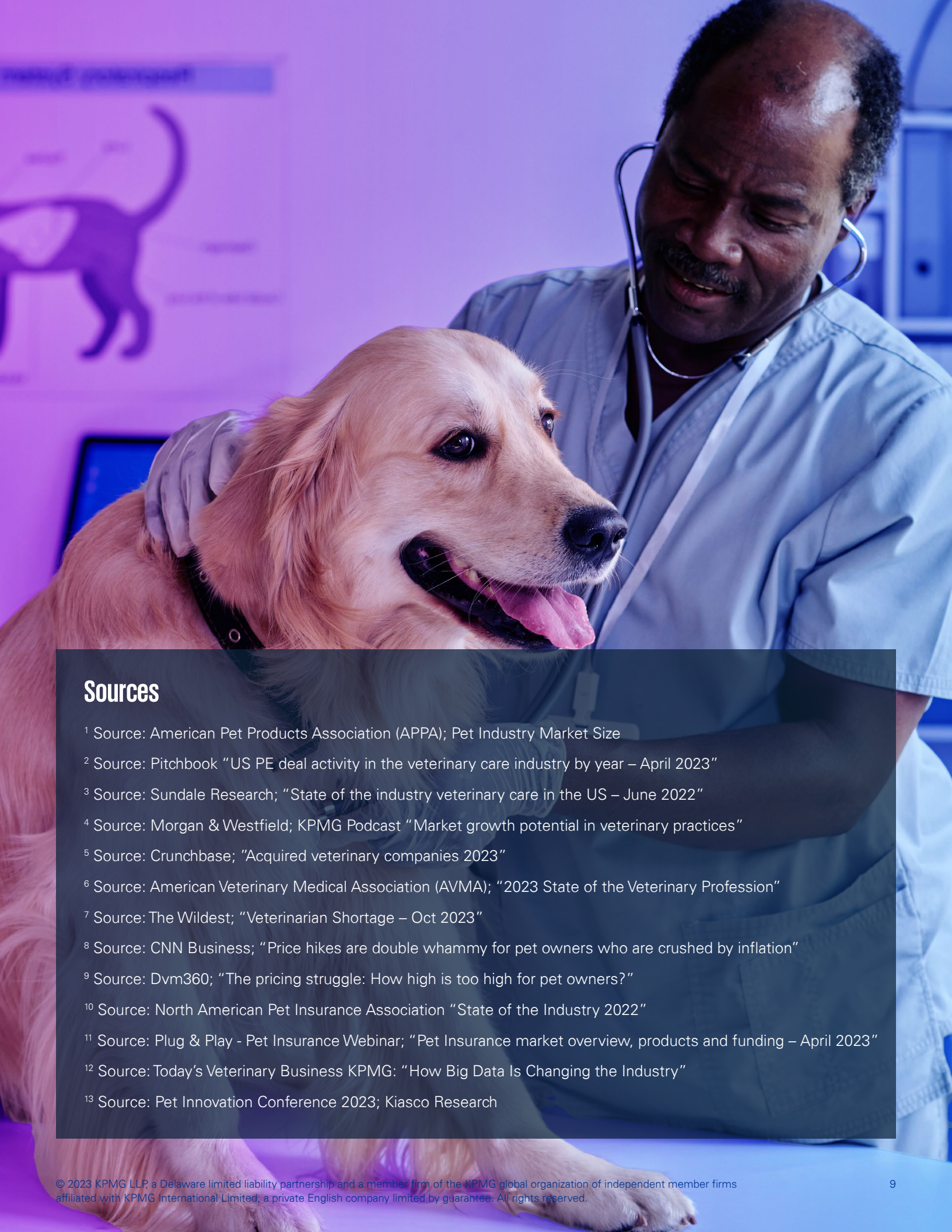


How can KPMG help?

KPMG’s Deal Advisory & Strategy Pet Sector team has decades of experience advising companies throughout the pet ecosystem. For companies or sponsors seeking to maximize the value of their current portfolio and the opportunities that lie ahead of them, we bring a wealth of experience across performance improvement, market strategy, pricing and assortment, buy- and sell-side due diligence, and transaction execution and value creation.

We have codified our experience in improving helping PE funds during buy side, sell side and operational value creation. Our operational value creation approach applies within and across clinics with a powerful combination of levers that address foundational practice capabilities, productivity acceleration and amplification of revenue.





Sources

- ¹ Source: American Pet Products Association (APPA); Pet Industry Market Size
- ² Source: Pitchbook "US PE deal activity in the veterinary care industry by year – April 2023"
- ³ Source: Sundale Research; "State of the industry veterinary care in the US – June 2022"
- ⁴ Source: Morgan & Westfield; KPMG Podcast "Market growth potential in veterinary practices"
- ⁵ Source: Crunchbase; "Acquired veterinary companies 2023"
- ⁶ Source: American Veterinary Medical Association (AVMA); "2023 State of the Veterinary Profession"
- ⁷ Source: The Wildest; "Veterinarian Shortage – Oct 2023"
- ⁸ Source: CNN Business; "Price hikes are double whammy for pet owners who are crushed by inflation"
- ⁹ Source: Dvm360; "The pricing struggle: How high is too high for pet owners?"
- ¹⁰ Source: North American Pet Insurance Association "State of the Industry 2022"
- ¹¹ Source: Plug & Play - Pet Insurance Webinar; "Pet Insurance market overview, products and funding – April 2023"
- ¹² Source: Today's Veterinary Business KPMG; "How Big Data Is Changing the Industry"
- ¹³ Source: Pet Innovation Conference 2023; Kiasco Research

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