



# VETERINARY SERVICES MARKET OVERVIEW

*SEPTEMBER 2016*

**Harris Williams & Co.**  
middle market®

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# VETERINARY SERVICES MARKET OVERVIEW

The veterinary services industry benefits from strong fundamentals, consistent growth, recession-resilient characteristics and no reimbursement risk

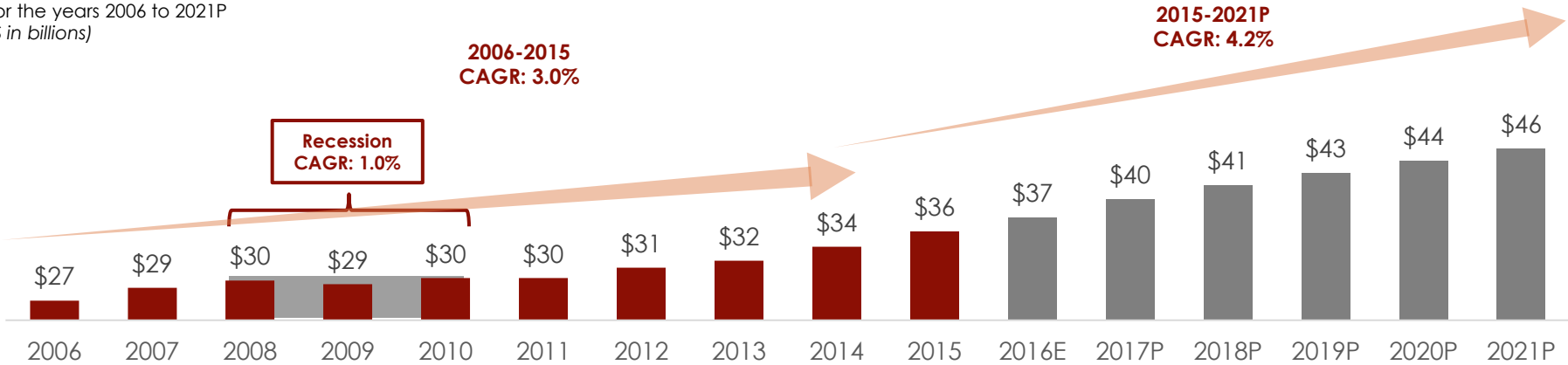
- \$36 billion market with attractive secular fundamentals
  - Consistent historical and projected growth
  - Recession-resilient tendencies driven by inelastic demand
  - Diverse cash-pay customers results in no reimbursement risk and a short cash conversion cycle
- Fragmented industry creates compelling growth and consolidation opportunities for platforms of scale

## INDUSTRY GROWTH DRIVERS

- 1 Increased humanization of pets generates inelastic demand for pet care services
- 2 Aging U.S. population increasing the 45-74 year-old demographic, which has the highest average annual pet expenditures
- 3 Favorable volume trends attributable to growing awareness of pet health and wellness and increased pet life expectancy
- 4 Workforce and demographic shifts as well as value proposition of veterinary practice management companies driving consolidation potential

## U.S. VETERINARY SERVICES EXPENDITURES

For the years 2006 to 2021P  
(\$ in billions)



# 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 14.5% annually from 2012-2014
  - Still 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...

99% of pet owners view pets as family member or companion

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

76% of pet owners would spend any amount necessary to keep pet healthy

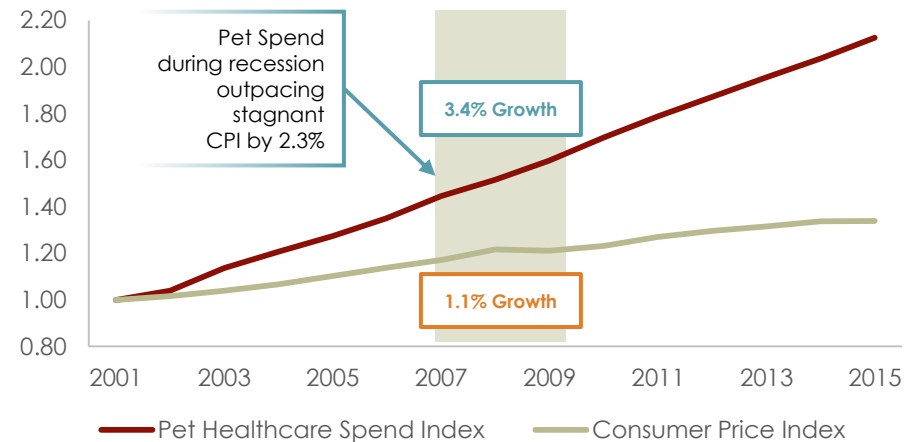
94% of pet owners believe their pet has human personality traits

71% of pet owners let their pet sleep in their bed with them

64% of pets receive presents for holidays and celebrations

## ...CREATES INELASTIC DEMAND FOR PET HEALTHCARE

Pricing indices 2001 to 2015



# MARKET GROWTH DRIVER: PET EXPENDITURES SUPPORTED BY POPULATION AGING TRENDS

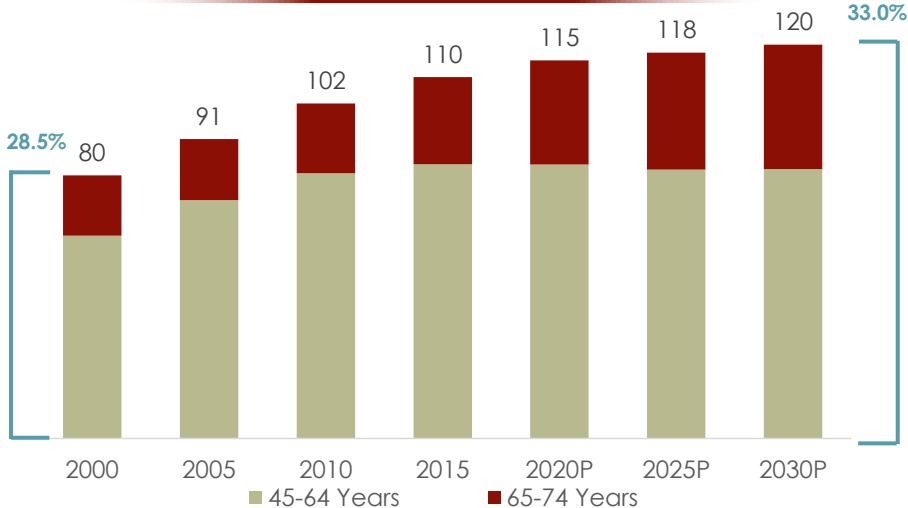
Aging U.S. population has led to an expansion in the highest spending age groups

- The 45 to 74 year-old age group spends on average nearly 60% more on their pets than other age groups
  - Spending \$613 on their pets annually, compared to an average of \$385 for other age groups
  - Increased spending is a result of several factors, including higher disposable income, more free time and "empty nest syndrome"
- As the U.S. population continues to age, the 45 to 74 age group is expected to represent 1/3 of the U.S. population by 2030P

### U.S. POPULATION SHARE FOR KEY DEMOGRAPHIC

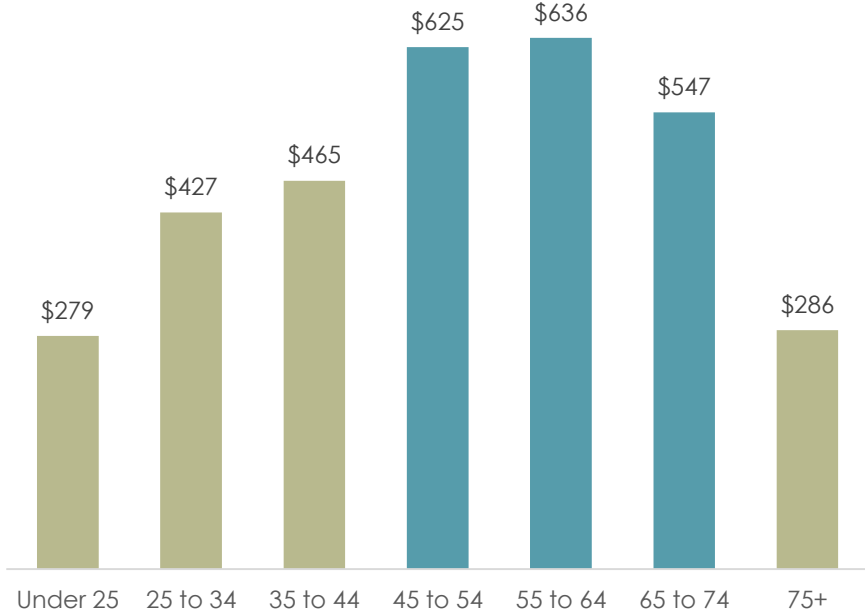
U.S. demographic projections through 2030P  
(Population in millions)

**By 2030P, the 45 to 74 year-old age group will represent 33% of the population**



### PET EXPENDITURE BREAKDOWN BY AGE GROUP

Annual household expenditure on pets by owner age



# MARKET GROWTH DRIVER: GROWING AWARENESS OF PREVENTATIVE AND SPECIALTY PET HEALTHCARE

Increased awareness of preventative care and availability of specialty services has created higher demand for both routine and more sophisticated procedures

- Government and industry organizations have taken the lead on increasing awareness of the benefits of preventative care, highlighting the importance of keeping pets healthy with regular check-ups
  - The Center for Disease Control, the American Veterinary Medical Association and the American Animal Hospital Association have recently developed publications aimed at promoting preventative pet healthcare
  - Studies show that many serious health conditions are easily treatable if proper preventative care is given
  - Growing awareness has caused increased usage of preventative services, such as dentistry and nutritional consulting
- Technological advances and education around specialty services are also fueling growth in higher value, specialty-based procedures

## INDUSTRY COMMITMENT TO RAISING AWARENESS

**AAHA-AVMA Canine Preventive Healthcare Guidelines**

**Frequency of Visits**  
All dogs should have a veterinary examination at least annually. For many dogs, more frequent visits may be appropriate. Decisions regarding specific frequency of visits should be made based on individual needs of the dog.

**Health Evaluation**

**Subjective**  
History, including evaluation of:  
 Life style and life stage  
 Behavior  
 Diet

**Objective**  
Comprehensive physical examination, including:  
 Dental assessment  
 Pain assessment  
 Body and muscle condition scoring

**Assessment**  
On the basis of history and physical examination findings, assessments are made for:  
 Medical conditions  
 Infectious and zoonotic diseases  
 Parasite prevention and control  
 Dental care  
 Genetic, breed and age considerations  
 Behavior  
 Nutrition

**Monitor your pet's health**

- Visit a veterinarian for routine evaluation and care to keep your dog healthy and prevent infectious diseases. Keeping your dog on a monthly preventative for fleas, heartworms, and other parasites, and up to date on vaccinations can help prevent certain diseases.
- Make sure to clean up any urine, feces, or vomit in the house immediately, and disinfect the area well. Use disposable gloves and make sure to [wash your hands](#) thoroughly afterwards.
- Contact your veterinarian if you notice any signs of illness in your pet. Keep in mind that even a dog that appears healthy might spread germs to humans and other animals.

**Centers for Disease Control and Prevention**  
Healthy People  
Dogs

**Overview** Diseases Prevention More Information

Many studies show the health benefits of dog ownership. Dogs not only provide comfort and companionship, but several studies have found that dogs decrease stress and promote relaxation. Dogs have positive impacts on us as we age. They influence social, emotional and cognitive development in children, promote an active lifestyle, and can even be able to detect concerning symptoms or the presence of certain cancers. But for all the positive benefits of owning dogs, pet owners should be aware that dogs can carry germs that make people sick.

Although germs from dogs rarely spread to people they might cause a variety of illnesses, ranging from minor skin infections to serious disease. To protect yourself and your family from germs:

- Wash routine veterinary care for your pet and
- Always wash your hands and the hands of children with running water and soap after

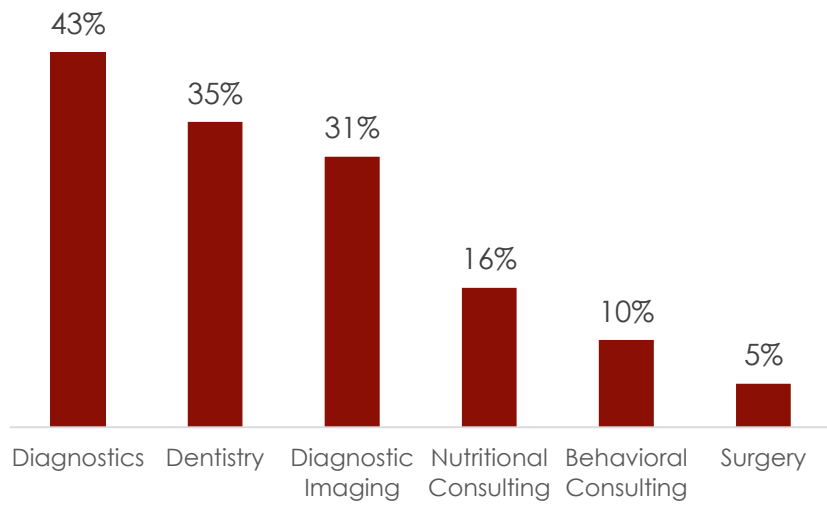
With this, you are less likely to get sick from touching, petting, or owning

Remember people can get from dogs, and information on how to keep

**Veterinarian examining a dog**

## GROWTH IN PREVENTATIVE AND SPECIALTY SERVICES

Survey respondents communicating net volume increases



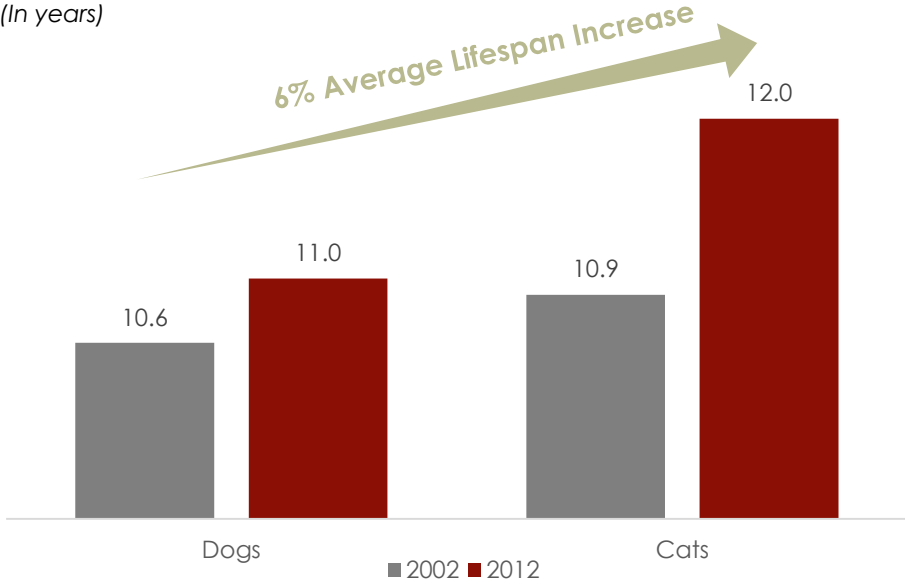
# MARKET GROWTH DRIVER: INCREASING PET LIFESPANS DRIVING HIGHER NEED FOR CARE

An aging pet population will require more frequent and extensive care

- Advanced treatments and usage of preventative care has lengthened pet life expectancy
- Aging pet population requires more costly and frequent care, driving overall growth in veterinary services
  - Geriatric pets typically demand more sophisticated procedures and specialty services, such as surgery and diagnostics
- As pets age, yearly maintenance and ownership costs escalate due to increased visit frequency and the need for special diets and medication
  - Senior cats and dogs cost an average of 25% and 50% more, respectively, on an annual basis

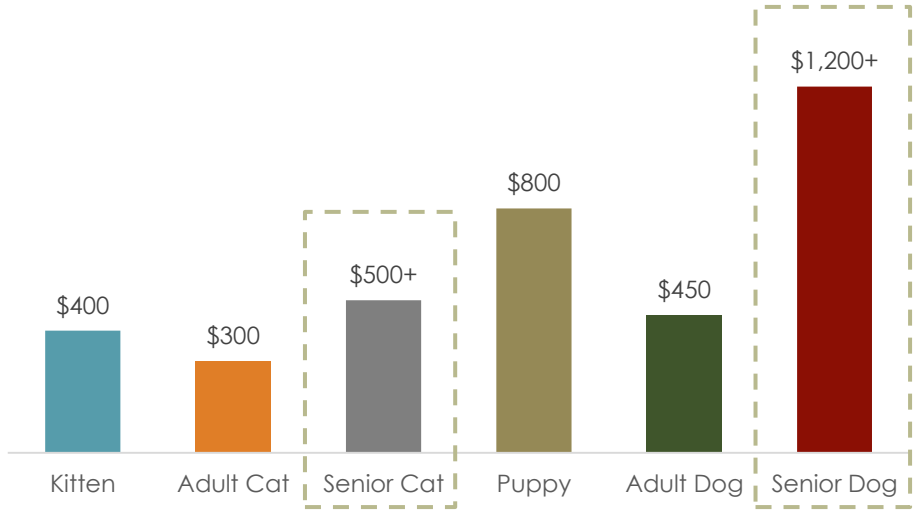
### INCREASING PET LIFESPAN

Average pet lifespan  
(In years)



### MORE COSTLY SENIOR PET OWNERSHIP

Average yearly pet ownership cost, excluding specialty procedures  
(\$ in actuals)

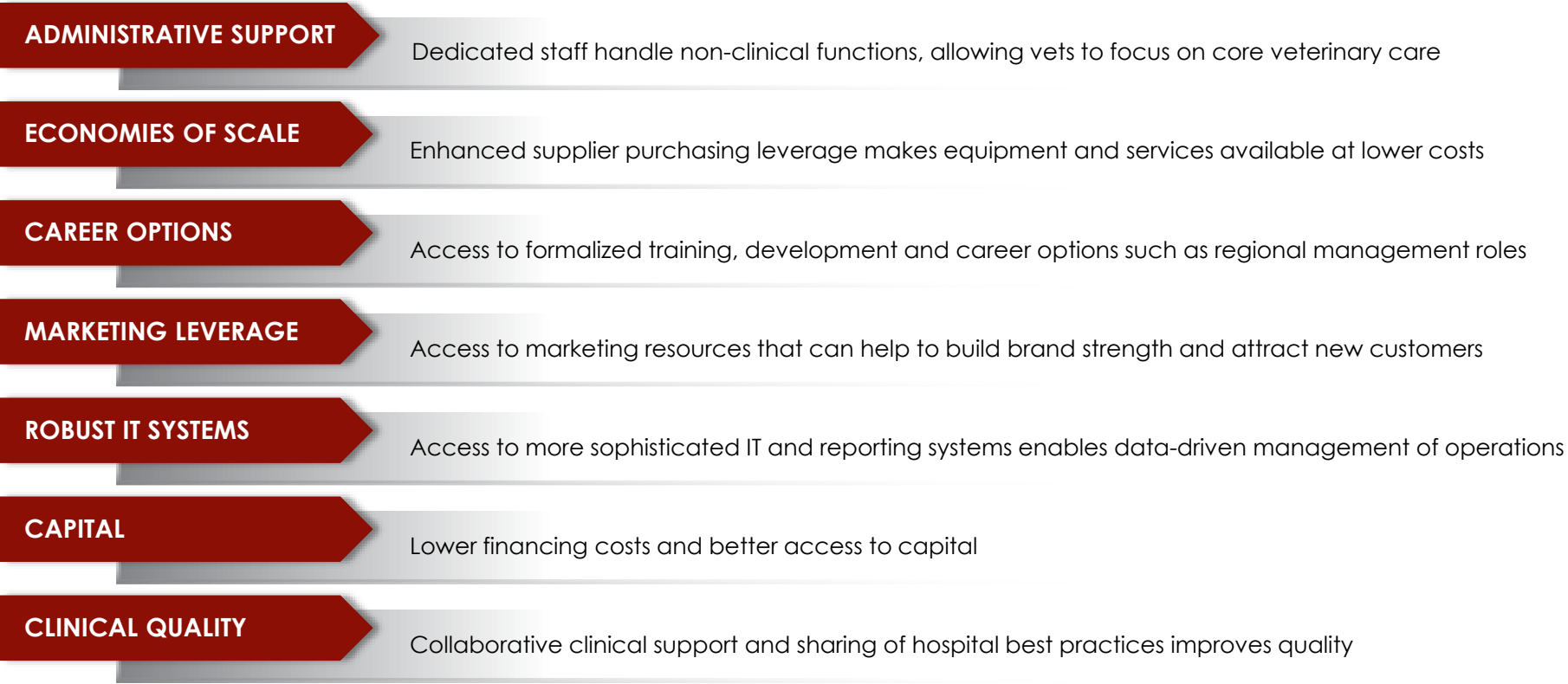


# VETERINARY PRACTICE MANAGEMENT OVERVIEW

Veterinary practice management companies combine scale benefits of a national chain with advantages of a privately-owned practice

- Provide wide range of non-clinical administrative and support functions to affiliated and owned practices, which allows veterinarians to focus on core veterinary services

## KEY VALUE PROPOSITION FROM VETERINARY PRACTICE MANAGEMENT COMPANIES

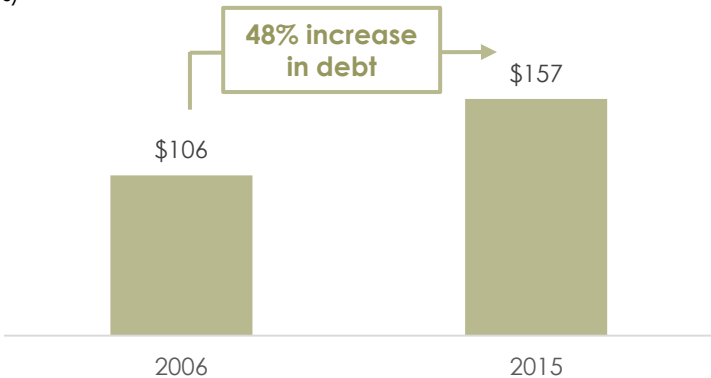


# VETERINARY PRACTICE MANAGEMENT DRIVER: SHIFTING DEMOGRAPHICS AND HOSPITAL OWNERSHIP PREFERENCES

Aging landscape of practicing veterinarians combined with the high accumulation of student debt and the increased desire for work-life balance has created a market imbalance for practice ownership

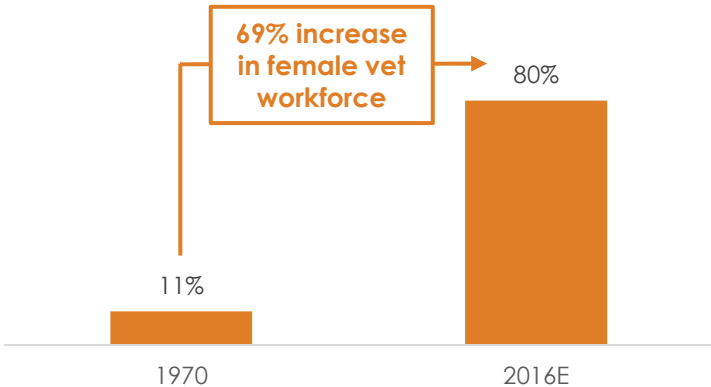
### INCREASING LEVELS OF AVERAGE GRADUATE DEBT...

Average student debt  
(\$ in 000s)



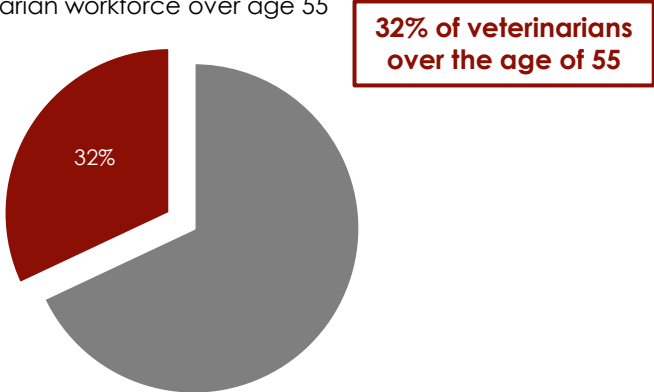
### ...COUPLED WITH EVOLVING DEMOGRAPHICS...

Females enrolled in veterinary medical universities as % of total enrollment



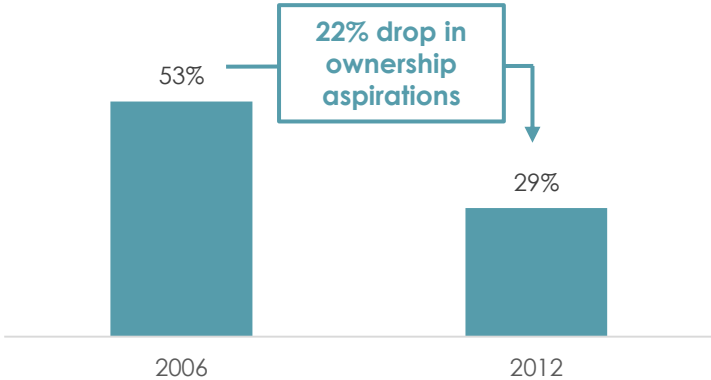
### ...AND AN AGING WORKFORCE...

Percentage of veterinarian workforce over age 55



### ...LEADS TO LOWER DESIRE FOR PRACTICE OWNERSHIP

Survey respondents seeking practice ownership





# VETERINARY PRACTICE MANAGEMENT DRIVER: HIGHLY FRAGMENTED MARKET

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

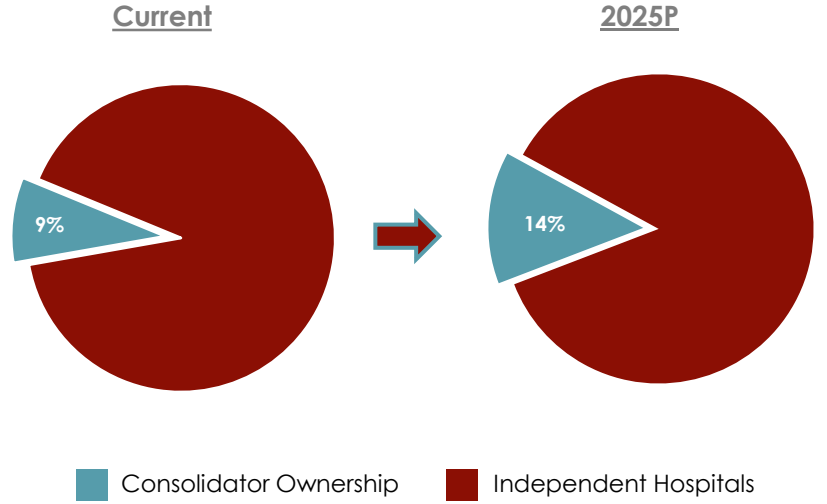
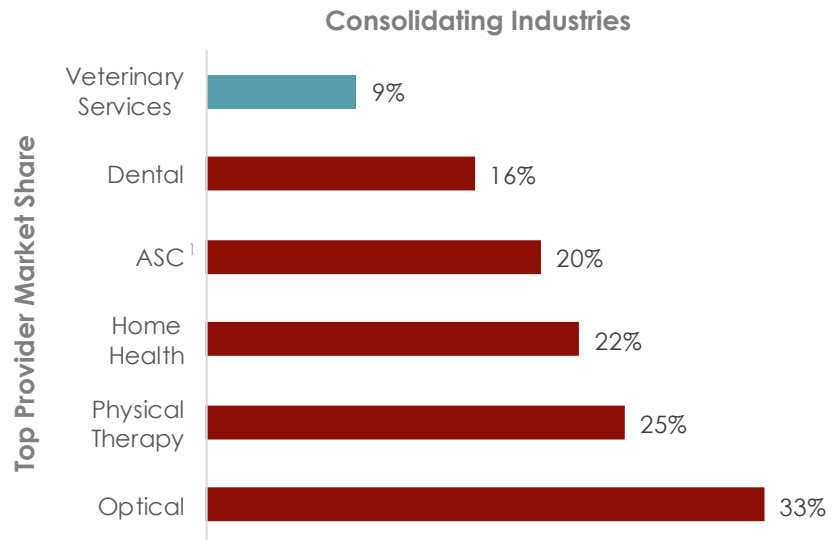
- 90%+ of the 28,000 veterinary hospitals in the U.S. are independently owned
- Veterinary services is in the early stages of consolidation, with consolidator ownership expected to nearly double by 2025P
- Consolidation trends accelerating given aging of veterinarians and a growing preference among graduating 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...**

**...WITH TRENDS DRIVING CONTINUED CONSOLIDATION**

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

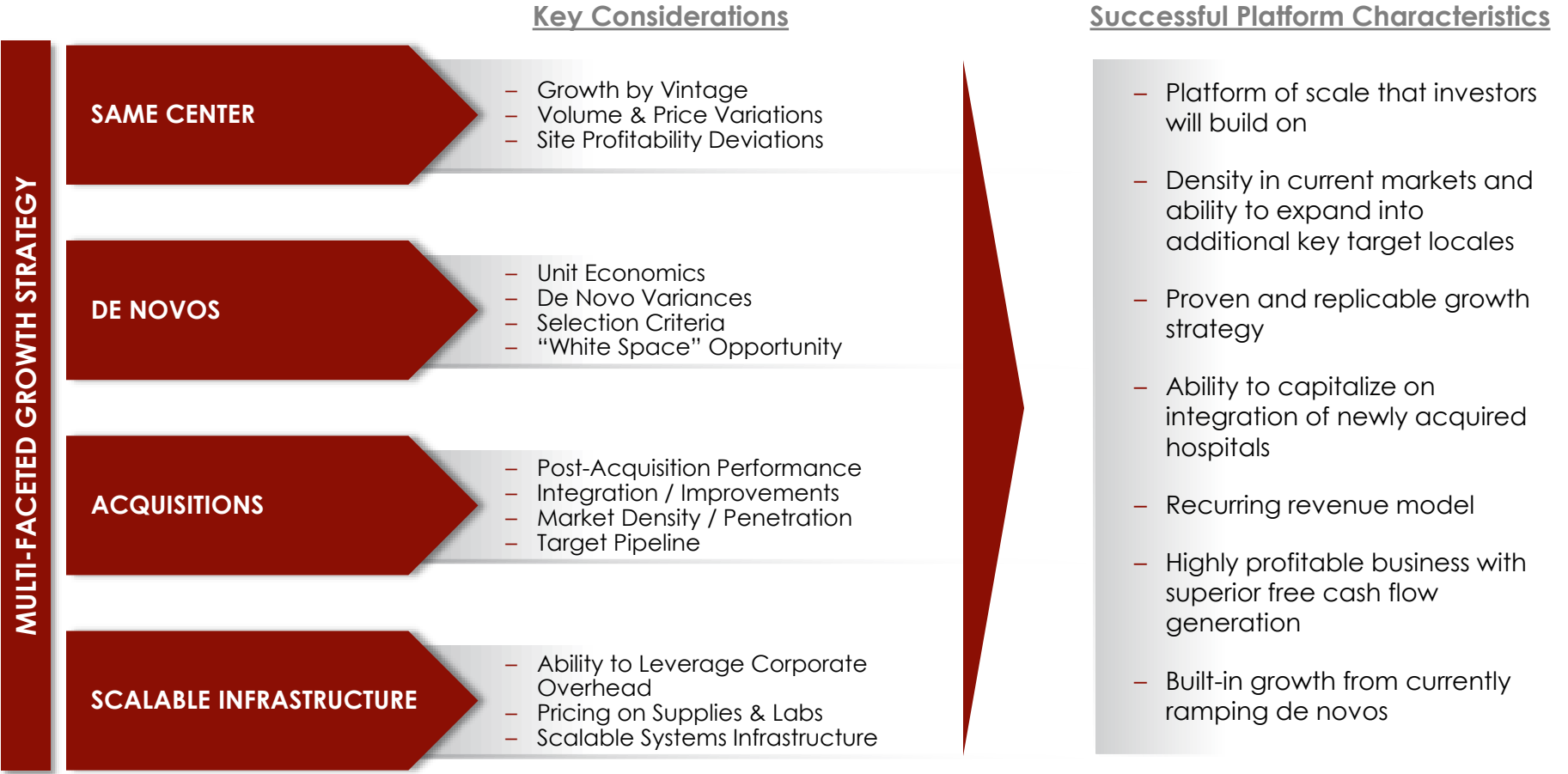
**Expected near doubling of consolidator ownership by 2025P**



# VETERINARY PRACTICE MANAGEMENT DRIVER: WELL UNDERSTOOD INVESTMENT AND GROWTH OPPORTUNITIES






















Investors appreciate and gravitate toward the veterinary space due to the well understood expansionary opportunities inherent in the business model

## SUCCESSFUL PLATFORM DYNAMICS





















# VETERINARY PRACTICE LANDSCAPE: TOP PLATFORMS

## VETERINARY SERVICES PLATFORM LANDSCAPE

Platform	Ownership	Approximate Location Count	Regional Presence						Services		Branding	
			NE	Mid-Atl.	SE	MW	SW	West	Gen. Practice	Specialty	National	Local
<b>Largest 5 Platforms</b>												
 MARS <sup>1</sup>	Private	1,100	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 VCA	Public: WOOF	770	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 NVA	 ARES	390	✓	✓	✓	✓	✓	✓	✓	✓		✓
 VetCor	HARVEST PARTNERS /  Cressey	180	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 PetVet Care Centers	 TEACHERS' PENSION PLAN /  CATTERTON	60	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Other Platforms</b>												
 Best Friends	Belvoir Investments Corporation	53	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 VET STRATEGY <sup>2</sup>	 Imperial Capital	37								✓	✓	✓
 BRP Blue River PetCare	Private	36		✓		✓	✓	✓	✓	✓		✓
 pathway partners VETERINARY MANAGEMENT SOLUTIONS	Morgan Stanley	32	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 Compassion-First Pet Hospitals	 QUAD-C	28	✓	✓		✓	✓	✓			✓	✓
 Community Veterinary Partners	 CORTEC Group	25	✓	✓						✓	✓	✓
 VFP VETERINARY PRACTICE PARTNERS	 PAMLICO CAPITAL	22	✓		✓	✓				✓		✓
 VETS PETS	Private	21			✓					✓	✓	✓

# VETERINARY PRACTICE LANDSCAPE: TOP PLATFORMS (CONT.)

## VETERINARY SERVICES PLATFORM LANDSCAPE

Platform	Ownership	Approximate Location Count	Regional Presence						Services		Branding	
			NE	Mid-Atl.	SE	MW	SW	West	Gen. Practice	Specialty	National	Local
 PetWell Partners	Private	15		✓				✓		✓		✓
 VitalPet	Private	15						✓		✓	✓	✓
 ETHOS VETERINARY HEALTH	Private	13	✓				✓		✓	✓	✓	
 MEDVET	 STONEHENGE PARTNERS, INC. Private Capital Solutions	13			✓		✓				✓	✓
 SVP Southern Veterinary Partners	 SHORE Capital Partners	12		✓	✓					✓		✓
 CityVet	 LEON Capital Group	7						✓		✓		✓
 KREMER Veterinary Services	Private	7					✓			✓		✓
 O'Brien Veterinary Management	Private	7					✓			✓		✓
 THE PET HOSPITALS	Private	6			✓					✓	✓	✓
 American Veterinary Group	 LATTICEWORK CAPITAL MANAGEMENT	5			✓					✓	✓	✓
 innovetive PETCARE	 Prospect Partners Private Equity Expertise. Small Company Focus.	5		✓	✓			✓		✓	✓	✓
 Northern Virginia Veterinary Associates NVVA	Private	4		✓						✓		✓
 gentle care animal hospital	Private	3			✓					✓		✓

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