

# Differentiated Pet Food Brands Fetch High Multiples: Guidance for Sector Entrepreneurs



For investors, the recession resilient nature of the pet sector and its strong performance through multiple economic cycles has long been notable. Most recently, the pandemic solidified the sector’s resilience through strong tailwinds in pet ownership and pet spending—including the humanization of pets as owners spent more time with them and a growing middle class that is willing to spend more.

From branded food to consumables to pet services, investors are actively pursuing opportunities from early-stage growth of all scale including both early-stage growth brands and mature pet platforms. For entrepreneurs with a desire to sell, a range of factors can help set branded food businesses apart from the crowd.

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- 1 | Staying true to the brand ethos**  
As the barriers to entry lower and the branded pet food market grows more crowded, brands that will emerge as true winners are those who stay true to their brand ethos and long-term vision. Ensuring consistent brand positioning across channels and markets and leveraging marketing spend that builds brand recognition are key drivers for early success.
- 2 | Maintaining supply chain transparency**  
More than ever before, pet owners are paying close attention to the products that their companion pet ingests. Consumers are demanding access to information about the quality of products, where they come from (i.e., traceability) and the facilities in which they are manufactured. As many brands explore contract manufacturing, it is critical to maintain a level of transparency, from the sourcing of the ingredients to how it reaches the bowl, for consumers who understand that their pet's ingestibles are directly tied to lifespan and the quality of their pet's life.
- 3 | Ability to win online**  
With the acceleration of the shift online driven by the pandemic, brands that demonstrate they have the team and ability to win online and compete on Amazon and Chewy will be well-positioned and can set themselves apart from competitors. Brands that are truly differentiated exhibit attractive online metrics, including impressive customer review scores, subscriber bases, return on ad spend, weekly sell-through, buy box percentage and number of customer reviews compared to competitors.
- 4 | Proprietary direct-to-consumer**  
Brands that invest in their own D2C infrastructure can often have a leg up over brands reliant on platforms like Amazon. Though an investment in D2C can be material, brands with these capabilities can get access to better and more timely consumer data, ultimately leading to more efficient marketing, accelerating the growth of a brand and higher profitability in the long-term.
- 5 | Penetrating key international geographies**  
Having meaningful revenue across a few geographies is typically more attractive to buyers than having lower sales across many geographies. As brands attempt to expand globally and unlock new markets, many are using a distributor model. Partnering with reputable and trustworthy distributors that can support your brand as it grows is critical and securing non-exclusive distribution agreements provides flexibility for buyers during negotiations in an M&A process.
- 6 | Exhibiting sustainable long-term growth**  
The growth of a pet food brand will evolve over time. Brands will often experience high growth in their earlier years as they invest in growing their brand and building their consumer base. As brands reach a certain scale, buyers will focus in on long term sustainable growth that signals the brand is poised to continue to grow its market share. When marketing efforts are dialed back, brands must be able to retain attractive revenue growth combined with an expanding, loyal consumer base (i.e., attractive LTVs). Understanding that many high growth pet food brands have high marketing spend and as a result, lower profitability, investors will need to see a credible path to sustainable EBITDA margins in excess of 20% in the near term to maximize value today.
- 7 | Proven channel expansion strategy**  
Depending on the stage of a pet food brand's growth, expansion into new channels will be an important growth strategy. Demonstrating to investors that new channel expansion will not disrupt demand in current channels can help mitigate risk and also add credibility to a brand's long-term forecast, ultimately driving transaction valuation. For example, implementing initiatives such as exclusive product launches / lines for incumbent channel partners can mitigate their concerns as a brand seeks to penetrate additional channels to broaden its distribution.

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