

# Global Veterinary Services Market: On Cloud Canine

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Pets are no longer just man's best friend, but an increasingly integral member of the family unit. Owners are humanizing their pets, aspiring to provide the best comfort and health as they would any family member. Consequently, there is an increasing propensity to spend on veterinary products and services while ancillary offerings such as insurance, premium organic pet food and nutritional supplements are also thriving.

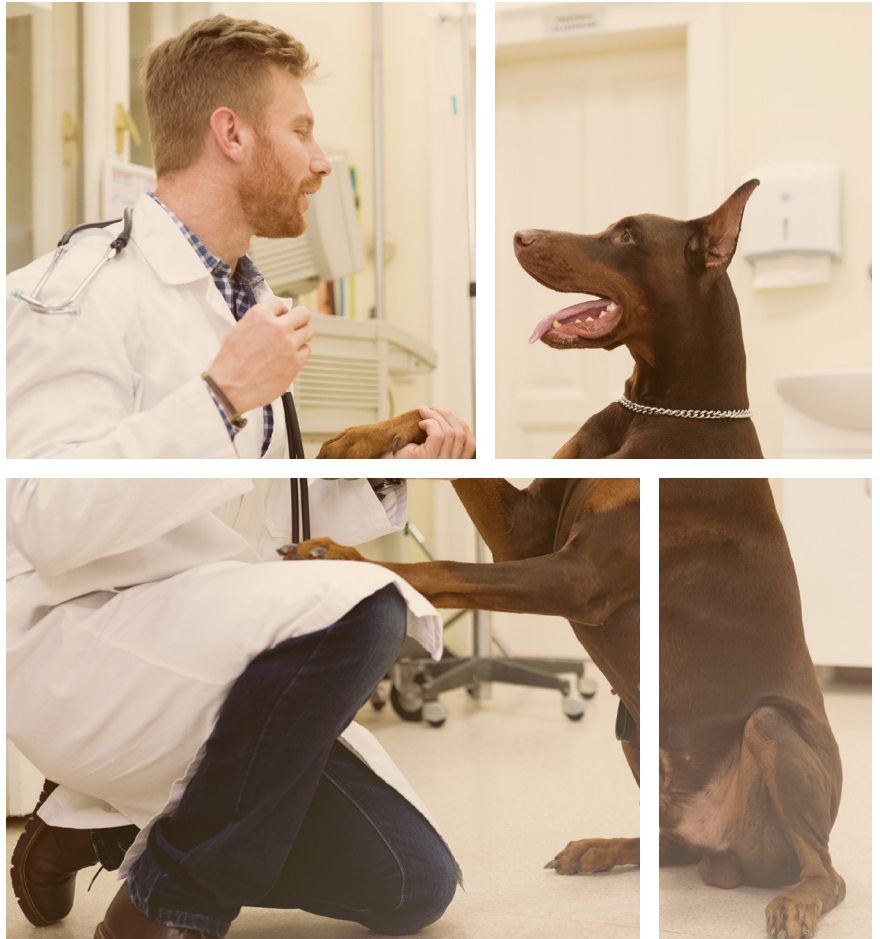
Medical advancements, including more complex treatments, complementary therapies, professional specialization and the increased use of diagnostics, are more readily available for animals—leading to better care. This, combined with owners' desires to keep their pets alive for as long as possible, increases the life expectancy of pets.

The theme of humanization continues following the passing of pets, with businesses, like August Equity owned Pet Cremation Services, providing owners with special ways to commemorate their pet's life. Further, with customers generally paying in cash, there is a low reimbursement risk and a short cash conversion cycle. These factors set the scene for an attractive investment thesis, explaining why the veterinary clinics sector continues to experience significant corporate and investor interest.

As a result, private equity investors and PE-backed groups have cast their sights on the veterinary care space in recent years, helping drive the pace of consolidation in the U.K. and more recently in the U.S. —with Europe likely to follow. With private equity dry powder at record levels, PE firms are driving higher M&A activity and valuations.

## U.K. PET VETERINARY SERVICES M&A MATURES—WITH EUROPE THE NEXT FRONTIER

While pet populations have not risen significantly in the U.K., market growth has been underpinned by several key macro factors including: the humanization of pets, advanced medical procedures, changing profiles of breeds to pedigree and designer dogs and the proliferation of pet insurance. These factors all support price inflation on top of demand growth. As a result, the first opinion practice (FOP or GP) market is forecast to grow at 6.4% CAGR until 2022 and the specialist referral market is expected to grow even more quickly—at a CAGR of 9.1% through 2022.



Consolidation has been rapid in recent years, particularly in small animal practices. In 2013 in the U.K., the largest players held ~15% of the overall veterinary services market. That has grown to 50% ownership by the top 6 corporates today. Despite the high level of consolidation, the U.K. veterinary market remains attractive. For example, in April 2019 Nestlé bought a minority stake in IVC at a valuation believed to be north of 16x Pro Forma EBITDA. Additionally, in 2018 VetPartners was snapped up by BC Partners for a mid-teens EBITDA multiple.

For incoming interested parties, Medivet now represents one of the few remaining scale platforms within the U.K. likely to transact in the medium term. While not showing their hand yet, Asian PE backed trade buyers are also keeping an eye on the U.K. and Europe, although they remain currently focused on domestic market consolidation given a rapidly changing market driven by improving living standards and cultural changes that are boosting pet ownership and care.

However, the hectic rate of consolidation in the U.K. in recent years is now slowing. Consolidators are digesting their recent purchases and are increasingly looking to Europe for opportunities given markets there are comparatively less mature and bolt-on acquisitions tend to trade for lower, single digit, multiples. This is evidenced by CVS' expansion into the Netherlands, IVC's merger with Evidensia—which is predominantly focused in northern Europe, VetPartners' public interest in France and Mars' acquisition of AniCura. Although there remain some regulatory challenges in relation to corporate ownership restrictions in a number of European countries such as France and Belgium, where vet-owned models dominate, these markets are starting to open up.

Brexit has undoubtedly caused uncertainty in the veterinary services market in relation to the employment status of EU veterinarians in the U.K. because EU nationals make up a significant number of U.K. based veterinarians. Despite that, recent developments suggest potential good news is around the corner for the industry. With vacancy rates reportedly at 10-15% in the small animal sector, the Migration Advisory Committee's (MAC) July 2019 review of the Shortage Occupation List (SOL) reported that due in part to Brexit, veterinarians were facing "significant recruitment difficulties." As a result, the MAC recommended that vets be reinstated on the SOL, which should make it easier to recruit vets when the amendments are made in the Autumn Immigration Rules changes.

**There remain attractive targets for consolidators looking to feed their acquisition appetites, given 50% of the market remains unconsolidated, which leaves many more years runway for consolidation. What's more, there remains a runway for M&A for a number of years.**

## U.S. MARKET EXHIBITS STRONG GROWTH POTENTIAL AS CONSOLIDATION ACCELERATES

The small animal veterinary services market is demonstrating strong, consistent growth in the U.S. with the value growth forecast at a CAGR of 4.5% over the period 2016-2021. Unlike the moderate pet population growth in the U.K., the U.S. pet population is projected to steadily grow, heavily influenced by socio-demographic factors—including an increasingly ageing population who are more likely to own a pet than slightly younger generations. At the other end of the spectrum, millennials represent the largest pet-owning demographic, according to the American Pet Products Association, helping fuel growth in U.S. veterinary care spending, which is forecasted to reach \$18.9 billion in 2019.

The increasing attractiveness of the U.S. pet industry has been reflected by a flurry of deals involving U.S. players in 2019. In July, Blue River PetCare, an operator of veterinary hospitals based in Illinois, received "significant equity investment" from Partners Group. MedVet Medical & Cancer Centers, a specialty veterinary care provider located in Ohio, received investment from Goldman Sachs Merchant Banking. Additionally, JAB, a historically consumer-focused investor, acquired both Compassion First in February 2019 and National Veterinary Associates (NVA) in June 2019. Lastly, in 2019, Henry Schein completed the spin-off and merger of its animal health operations with Vets First Choice, creating Covetrus—which is listed on the Nasdaq and offers supply chain, software and prescription management solutions. The increased activity from both trade and financial sponsors further underpins the forecast consolidation in the fragmented U.S. veterinary market.

## LINCOLN PERSPECTIVE:

The global vet market is changing rapidly as the humanization of pets plays out across the services, pharma and medical device markets. Lincoln's animal sector index is down (3.4%) on an LTM basis, but double digit EV/EBITDA multiples remain common in the majority of sub-sectors.

Lincoln International believes the outlook for investors who support strong management teams is bright over the long term. As the animal sector continues to see strong investor appetite, PE and corporate players should keep these four key takeaways in mind.

### Veterinary sector is a long-term growth market

Given market dynamics and consolidation opportunities, the veterinary market remains extremely attractive to investors. In recent years, market participants have paid premium prices to gain access to, or increase their footprint in, the veterinary services sector. The vet sector is one with a significant long-term runway for consolidation and organic growth as the professionalization of the sector continues.

### Recession resilient industry

Even though consumer spending has declined as a whole, expenditure on pets and their health is often prioritized above human health. The U.K. FOP veterinary market experienced only a small and short, two quarter, decline during the economic downturn of 2008 to 2012, whereas industries such as dentistry and acute care suffered revenue declines approaching 10%.

Additionally, medical advancements and the humanisation of pets has increased spending on superior products and services as owners try to align their pets' standard of living with their own. This creates an increased demand for veterinary services, which means that growth in the sector has not historically been, and is unlikely to be, materially sensitive to economic cycles.

### U.S. market is fragmented but poised for growth

A strong growth trajectory is being driven by positive macro factors. Even with strong historical growth, the U.S. vet clinics market currently remains fragmented with corporate consolidation estimated at 15%. However, recent M&A activity suggests the market will change rapidly emulating the activity in the U.K. as it has more advanced consolidation levels.

### Consolidation set to increase in Asia and Europe

Although the pet population is currently smaller in China than in the U.S., it is growing rapidly, reinforced by urbanization and increased standards of living, which in turn is increasing pet spending. As a result, the veterinary services market is in its infancy relative to its potential, when compared to similar sized markets. Some corporates are beginning to consolidate the market and are supported by PE involvement. Nestlé and JAB entered the fray in the U.K. and U.S., and APAC investors will follow shortly.

In Europe, U.K. consolidators are looking to fragmented European markets, in which multiples for add-on acquisitions are relatively lower and the market is less mature. While there are some local geographic complexities across Europe, markets will mature and open up.

## GLOBAL LINCOLN TRANSACTIONS



has been sold to



a portfolio company of



Sell-Side



Lincoln International has been very active in the veterinary space, having this year advised Scarsdale Vets on their sale to Independent Vetcare Group (IVC), a portfolio company EQT Partners. The sale increased IVC's ownership to roughly 1,270 clinics internationally with about 18,000 employees.



has sold




to



Sell-Side




In 2018, Lincoln advised Sovereign Capital Partners, a U.K. private equity investor, on its sale of Linnaeus Group, a leading U.K. provider of veterinary services, to Mars Petcare, a U.S. provider of animal care services and subsidiary to Mars Inc. At the time, Linnaeus operated five well-respected, multidisciplinary referral centres—which are attractive to consolidators given the higher margins achievable at referral practices. As the market leader in veterinary services in the U.S., the transaction provided Mars with a platform in the U.K. market.



has been sold to an undisclosed strategic acquirer

Sell-Side



In the U.S., Lincoln also advised on the sale of Roadrunner Pharmacy, a specialty compounding pharmacy for vets, to Vets First Choice in 2017.