

VALUE FOCUS

Animal Health Industry



SEGMENT FOCUS
Veterinary Care

2016

Veterinary Care

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Q1: Veterinary Care

Q2: Retail & Pet Services

Q3: Veterinary Care

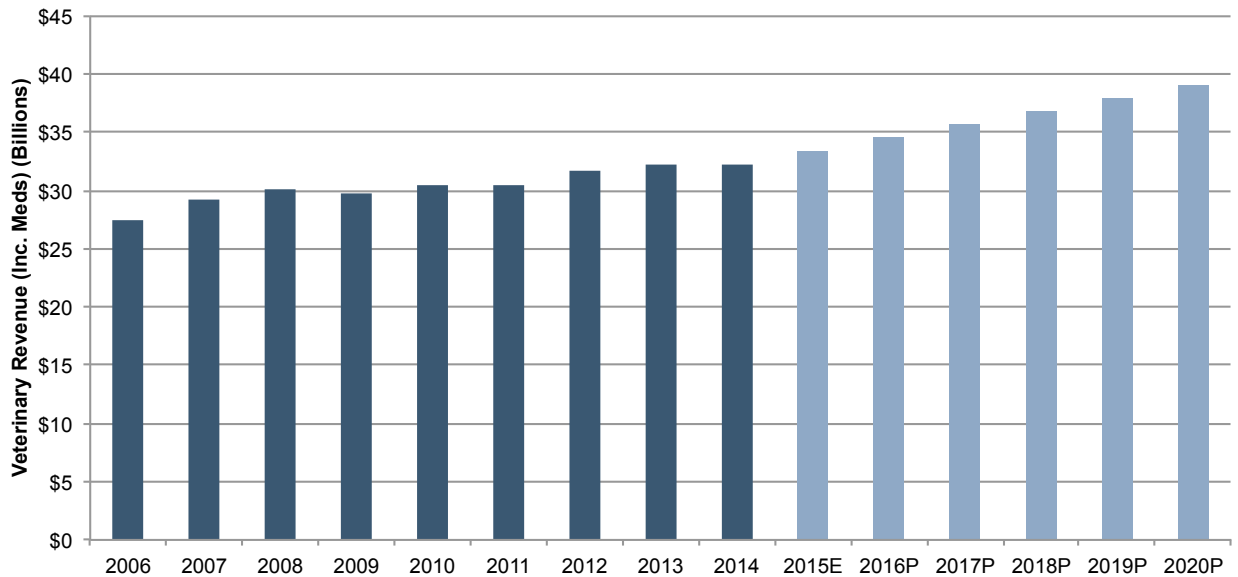
Q4: Pharmaceutical
& Biotechnology

Industry Overview

In 2015, pet owners spent just under \$16 billion on veterinary services, plus an additional \$14 billion on veterinary supplies and medicine. Pet ownership is the main driver of veterinary services and has grown at an annualized rate of 2.3% in the five year period ending in 2015. According to the 2015-2016 APPA National Pet

Owners Survey, over 65% of US households own a pet. Rising income and falling unemployment are expected to lead to continued growth in the number of pets. The following chart shows the levels of veterinary care spending (including medicine) over the last several years and estimated future levels.

Veterinary Revenue



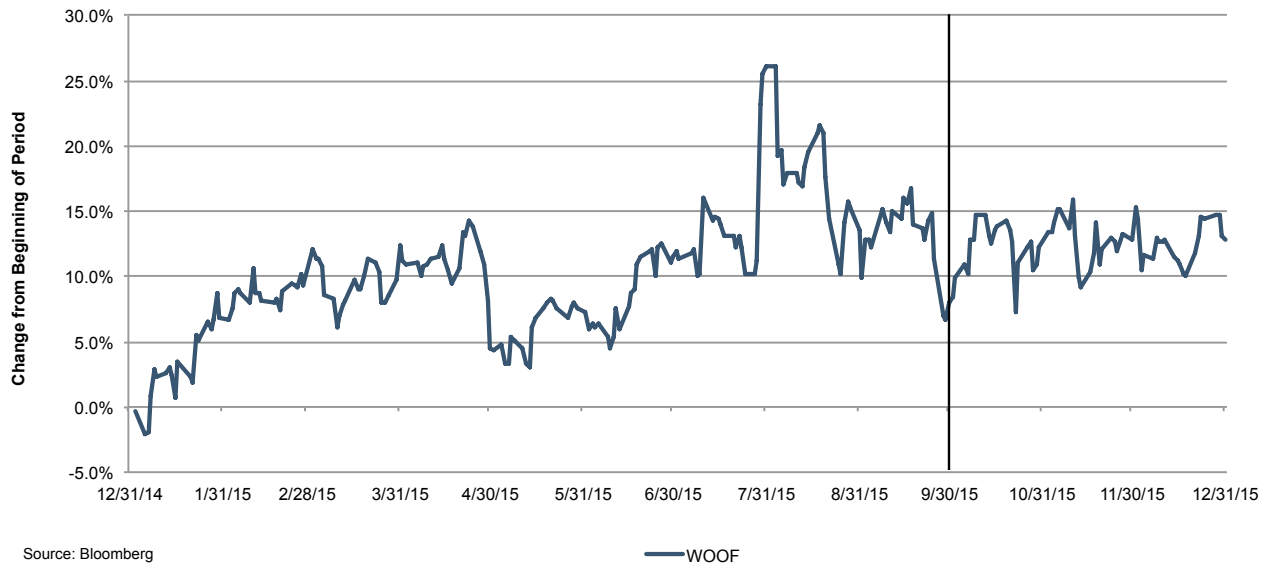
Source: IBIS

Equity Market Overview

VCA Antech, Inc. ("WOOF") is a major provider of veterinary laboratory services and operates 682 animal hospitals (employing 3,000 veterinarians) in the United States which provide general medical services, surgical services, and specialty services. VCA also has 60 veterinary laboratories, which provide testing and consulting for veterinarians regarding chemistry, pathology, endocrinology, and other diseases. They operate the largest network of freestanding animal hospitals and veterinary labs in the US. VCA also sells radiography and ultrasound equipment and licenses 126 Camp Bow Wow dog day care franchises. VCA's share price, which

ended the fourth quarter at \$55.00, posted total gains of 4.5% and 12.8% over the quarter and year, respectively. VCA's pricing gains were driven by ongoing acquisitions and continuing revenue growth. Animal hospital revenue grew 12% year over year. Animal hospital same location revenue increased 6.1% in fiscal 2015. The number of same-store orders increased 3.1% and average revenue per order increased 2.8%. In July 2015, VCA's price was boosted by larger than anticipated earnings per share, driven largely by increasing revenue growth.

Veterinary LTM Stock Performance



M&A Activity

The majority of M&A activity in the veterinary services industry revolves around the consolidation of smaller veterinary practices. Information concerning pricing and multiples for these transactions is not often available. The recovering economy and changing technology will contribute to continued M&A activity in the veterinary services sector of the animal health industry. The most attractive targets offer consistent work

hours and an increased client base. Additionally, specialists will often combine resources, with many specialists (either in the same specialty or across a variety of specialties) merging in order combine market bases or purchasing power. These consolidation trends are expected to continue through at least the next five years, resulting in potential cost efficiencies that may increase profits at the surviving companies.

Trends in EBITDA Pricing Multiples

	1Q 2015	2Q 2015	3Q 2015	4Q 2015
VCA, Inc. (WOOF)	14.66	13.96	13.08	12.83
PetMed Express (PETS)	9.96	9.82	8.81	9.20
Heska, Inc. (HSKA)	22.38	22.43	17.58	22.33
Zoetis, Inc. (ZTS)	19.51	19.60	16.49	18.97
IDEXX Laboratories (IDXX)	24.96	20.91	23.19	20.35
Abaxis, Inc. (ABAX)	32.03	24.86	19.80	24.90
Phibro Animal Health (PAHC)	15.75	16.61	14.48	13.54

Source: Capital IQ

Presented pricing multiples represent enterprise value relative to EBITDA from the prior twelve months
EBITDA: Earnings before interest, taxes, depreciation, and amortization

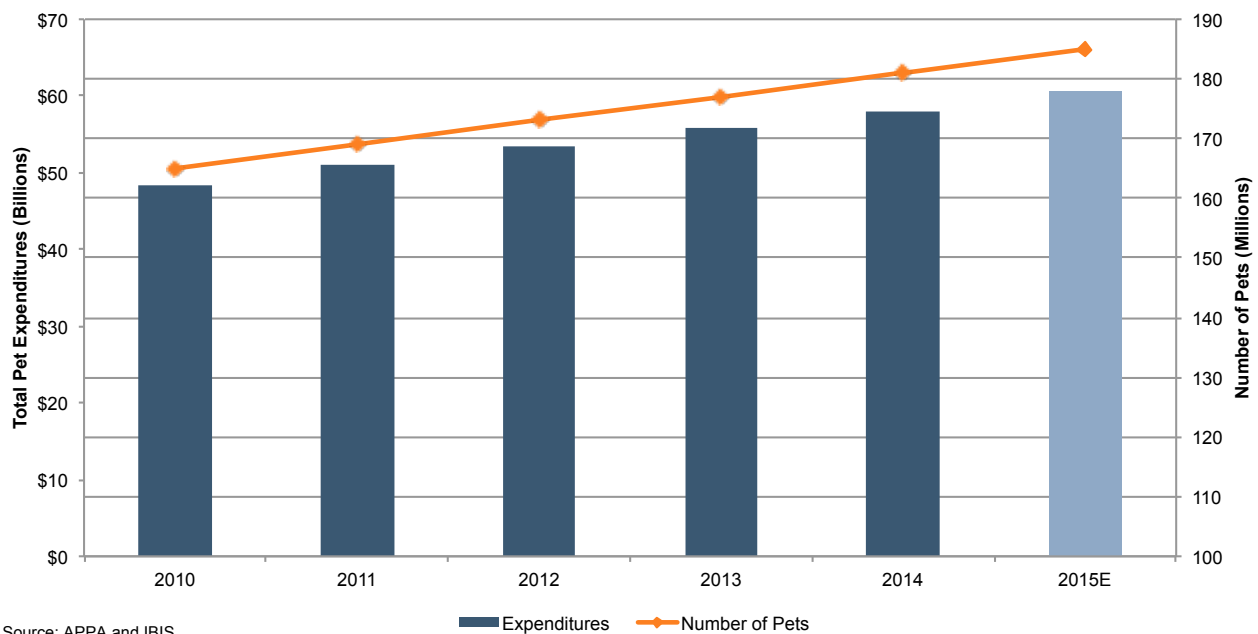
Sector Outlook

The traditional care veterinary industry faces competition from retail stores such as PetSmart, which are increasingly offering full-service veterinary hospitals in existing storefronts. As traditional vets expand their practices to compete with in-store clinics, emergency and specialty vets face increasing competition. The improving economy has increased households' demand for services. While increasing specialization should drive margins higher, competition is expected to provide downward margin pressure. Based on industry reports, veterinary services revenue

is expected to grow at an annualized rate of 3.2% over the five year period ending in 2020.

Innovations in commercial animal health continue as well. The application of GMO practices to animals will result in new areas of application for animal pharmaceuticals and biotechnology. Increasing use of human equipment and medicine for pet treatment will also expand the reaches of the animal pharmaceutical and biotechnology industry.

U.S. Pet Expenditures



Source: APPA and IBIS

Publicly Traded Animal Health Companies

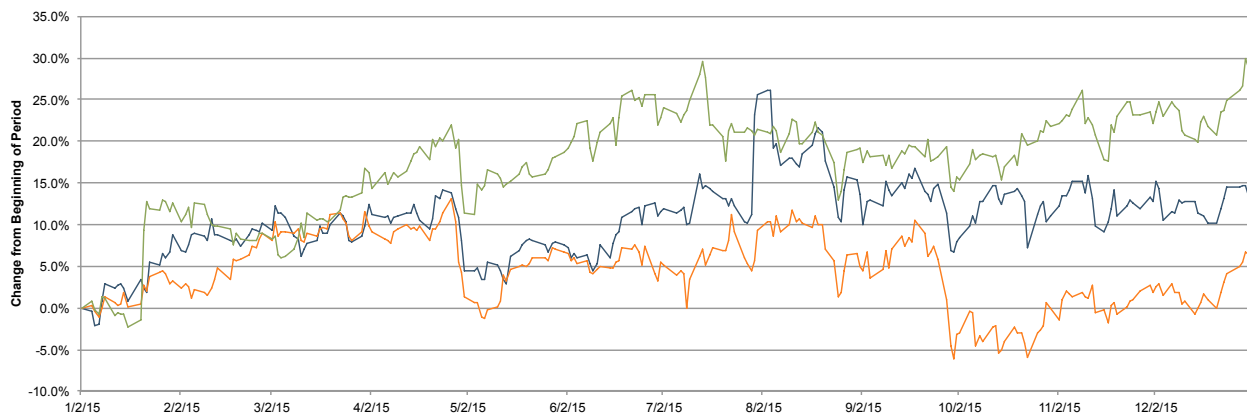
Company Name	Ticker	12/31/15 Price (\$)	52 Wk Perform (%)	Sales (\$)	Enterprise Value (\$M)	Debt/Mart. Cap	EBITDA Margin	EV/EBITDA (x)	EV / Next Yr EBITDA (x)	P/E (x)
Veterinary Services										
VCA Inc.	WOOF	55.00	12.8%	80.64	5,307.78	16.4%	19.3%	12.90	10.67	21.48
Pet Retail										
PetMed Express Inc	PETS	16.96	24.5%	229.29	344.76	0.0%	14.10%	10.66	10.98	16.96
Animal Pharmaceuticals and Biotech										
Heska Corp	HSKA	38.68	113.3%	99.16	247.25	0.8%	11.20%	22.27	13.22	66.69
Zoetis Inc	ZTS	47.82	12.2%	4,765.00	28,651.24	17.0%	19.92%	30.19	15.17	70.32
IDEXX Laboratories Inc	IDXX	72.92	-1.6%	1,601.89	7,732.52	15.1%	23.03%	20.96	18.21	35.57
Abaxis Inc	ABAX	55.68	-1.2%	213.96	1,266.07	0.0%	23.17%	25.54	22.21	47.59
Aratana Therapeutics Inc	PETX	5.58	-68.7%	0.86	207.19	7.2%	nm	nm	-5.27	nm
PetMed Express Inc	PETS	16.96	24.5%	229.29	344.76	0.0%	14.10%	10.66	10.98	16.96
Parnell Pharmaceuticals Holdings Ltd	PARN	3.88	-6.5%	9.91	21.36	94.6%	nm	nm	nm	nm
Phibro Animal Health Corp	PAHC	30.13	-3.4%	751.34	1,487.53	20.5%	14.52%	13.64	11.90	15.29
Jaguar Animal Health Inc	JAGX	2.25	nm	0.00	24.34	24.9%	nm	nm	nm	nm
Kindred Biosciences Inc	KIN	3.40	-54.4%	0.00	67.29	0.0%	nm	nm	nm	nm
Median - Animal Pharmaceuticals		23.55	-1.6%	156.56	296.01	11.2%	17.2%	21.61	13.22	41.58

Source: Bloomberg

Note: Aratana, Parnell, Jaguar, and Kindred current income results in nonmeaningful multiples.

Note: PetSmart and MWI Veterinary no longer included due to acquisitions in the first quarter of 2015.

Median Percent Change in LTM Stock Prices by Industry Segment



Source: Bloomberg

— Vet (Woof) % Change — Pharma (Market-Cap Weighted) % Change — Retail (PETS) % Change

Mercer Capital

Animal Health Industry Services

Mercer Capital has expertise providing business valuation and financial advisory services to companies in the animal health industry.

Industry Segments

Mercer Capital serves the following industry segments:

- General, Specialty, and Emergency Care
- Pharmaceutical & Biotechnology
- Retail and Pet Services

Services Provided

- Valuation of animal health companies and veterinary practices
- Transaction advisory for mergers and acquisitions
- Valuations for purchase accounting and impairment testing
- Fairness and solvency opinions
- Litigation support for economic damages and valuation and shareholder disputes

Contact a Mercer Capital professional to discuss your needs in confidence.

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