



Global Healthcare Advisors, LLC

Building Leading Healthcare Companies

Animal Health M&A Out of the Dog House

Vertical: Animal Health Services, May 2016

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Executive Summary

Market Analysis: The animal health industry is predicted to generate \$62.75B in expenditures by the end of 2016, 4.79% CAGR since 2007. Veterinarians operate either as veterinarians within a large veterinary group or as sole practitioners and earn on average 11.1% in profit margin.

Organic Growth Factors: The economically insulated growth in expenditures toward animal health can be explained by the increase in pet ownership, the trend of humanizing pets as members of the family, the growing awareness of pet health, and the demographic shift in companion animals.

Animal Health Product Supply: Veterinary practices purchase approximately \$150,000 in necessary products annually. Three of the larger animal suppliers, Henry Schein, Patterson Companies, and MWI Veterinary Supplies, are the only companies with a national reach. All others focus on a more limited geography.

Competitive Landscape: The animal health market is highly fragmented, with companies competing with one another on the bases of geographic convenience, brand awareness, operating hours, range and quality of services, marketing, and referral processes.

Acquisition Environment: The animal health services sector is consolidating, with a 71% YoY growth in M&A Activity. Strategic and financial transactions are abundant in this sector as practitioners seek to spread the high cost of technology, access brand reputability, and gain more flexibility and time to practice instead of manage.

Reimbursement: Over 1.4 million pets were covered by animal health insurance at the end of 2014. Animal health insurance, however, is regulated as property and casualty insurance, not health insurance. Accordingly, the sector is fairly insulated from extended payment cycles and tenuous reimbursement schedules as most providers require payment at the time of the service.

Regulation: Animal health services are regulated at the state-level. Government-appointed regulatory bodies establish fee structures and requirements for licensing, periodic inspections, penalties, and mandates.