

Market Outlook [February 2009]

Game-Changing Acquisitions in 2009?

If past is prologue, then the remainder of the decade will likely see additional pet market consolidation via acquisition. Why now? In part because there's some catching up to do—2008 was a relatively slow year for pet market M&A; in part because there will almost certainly be deals to be had for companies in a position to pounce during the economic downturn; and in part because there are still some compelling competitive bases to be covered within the structure of market-leading conglomerates. Taking a quick look back, key deals hashed since the turn of the decade include:

- August 2008: Berwind Corp. buys Old Mother Hubbard (Wellness Pet Food).
- October 2007: Berwind buys Eagle Pack Pet Foods.
- May 2007: Mars acquires Nutro.
- April 2006: Mars acquires Greenies and Doane Pet Care (U.S. operations).
- March 2006: Del Monte acquires Meow Mix and Milk-Bone.
- March 2005: Rayovac buys Tetra and combines it with United Pet Group to create Spectrum Brands.
- January 2005: Rayovac buys United Pet Group.
- June 2004: Japan's Sumitomo buys Hartz Mountain.
- June 2002: Del Monte purchases Heinz's pet food portfolio.
- July 2001: Mars buys controlling stake in Royal Canin.

Looking ahead, a top prospect for a game-changing purchase is Del Monte, whose pet business revenues leapt 19 percent during second quarter 2008. Most compelling would be the acquisition of Procter & Gamble's Iams unit, which was hard hit by the spring 2007 recalls and which has been rumored to be a candidate for off-loading by P&G. Such a move would leapfrog Del Monte over Hill's, giving Del Monte nearly one-fifth of U.S. pet food sales and placing the company in a dead heat for second place (after Nestlé Purina) with Mars. Another effective move—also giving Del Monte a needed bump on the superpremium side of the aisle—would be a bundled purchase of Wellness and Eagle Pack, both now in the hands of investment management company Berwind. Nor does this column believe that Mars is through. Mars + Iams (or Hill's) would put Mars within swinging distance of Nestlé Purina while preempting a Del Monte coup.

In any case, the battle of the pet market titans will go on in 2009, and if historical patterns hold, the big will get bigger.