Surprise ending of the takeover battle: Hellman & Friedman allies with rival EQT to acquire Zooplus

Introduction

On October 25th, Hellman & Friedman and EQT announced a partnership to make a joint public takeover offer for all outstanding shares of Zooplus. With the joint offer, the two private equity groups ended the bidding war for the online pet supplies retailer that occurred in the previous months. It all started in August, when H&F made an offer to acquire Zooplus for €390 per share. This bid was raised after other PE firms as KKR and EQT announced their interest to take over control of the company, resulting in a bidding competition. After EQT's latest bid of €470 a share, the two firms decided to make an offer as partners. Their current bid values the firm's equity at €3.7bn, offering €480 per share. The offered price is 85% higher than a three-month trading benchmark before the bidding war. Under the deal, which is supported by Zooplus management and supervisory board, EQT will join Hellman & Friedman's bidding vehicle, Zorro Bidco, with equal governance rights. The deal needed approval from more than 50 per cent of Zooplus shareholders, which it finally obtained.

About Zooplus

Zooplus AG is an online retailer of pet food and pet supplies with headquarters in Munich, Germany. Founded in 1999, the e-commerce company now sells a range of over 8,000 products to 30 countries in Europe. It currently counts around 770 employees and achieved €1.8bn of sales in 2020. In 2008, the firm was listed through an IPO on the Frankfurt Stock Exchange [XETRA: ZO1]. The company's characteristic that attracts private equity firms is the substantial opportunity for leverage. At the end of June, Zooplus reported a net cash position of €164m as a consequence of risen sales during the pandemic crisis as more people bought pets during the lockdown. Although the rise in revenues of 18% in 2020 resembles considerable rates of growth, they are less than half those of Us competitors as the online retailer Chewy. Nevertheless, Zooplus targets to achieve a 10% market share of the online pet care market by 2025. The e-commerce segment accounts for 17% of the sector's total revenues, a proportion that is expected to grow considerably over the next years.

About Hellman & Friedman and EQT

Hellman & Friedman is one of the oldest and most experienced private equity firms operating today. Founded in 1984, it has offices in San Francisco, New York, and London. The firm targets successful businesses in selected sectors, such as software & technology, financial services, healthcare, and consumer & retail. Over its investing history, it has invested in more than 100 companies. H&F is currently operating its tenth fund, with $24bn of committed capital. As of July 1st, 2021, the company had over $90bn in assets under management.

EQT is a Swedish global investment organization. The company currently counts 27 active funds with a total of €70bn in assets under management. With total sales of around €29bn and more than 175,000 employees, EQT has portfolio companies in Europe, Asia-Pacific, and the Americas. EQT has been delivering consistent and attractive returns for three decades aiming at achieving sustainable growth, operational excellence, and market leadership. In September 2019, EQT went public with an IPO on Nasdaq Stockholm Stock Exchange [NASDAQ STOCKHOLM: EQT].

Industry overview

As the pandemic left people feeling progressively lonelier, the number of pets started soaring and the pet care industry rocketed. With a global market size of $232.3bn in 2020, the pet market could exceed $350bn by 2027 with an estimated CAGR of 6.1%. Pets are indeed becoming much more than just companions, they are part of the family, and are being treated as such, driving sales of pet products and services. As a matter of fact, 80% of American pet owners declared to consider their pets as family members, and related luxurious expenses are growing accordingly. While 60% of total spending on outfits and accessories comes from high-income households, new opportunities are opening up within the industry and more families are becoming highly receptive to products and services that resemble the ones they use. Pet grooming has indeed grown at an annualized rate of 4.3% to $9.2bn over the past five years and pet insurance and pet spas are becoming increasingly popular. The pet humanization phenomenon is also driving the growth of the industry with companies investing in R&D to create new and interesting products.

The companies driving this stellar growth fall in one of several categories of the pet industry: Pet Food & Treats, Supplies, Live Animals & OTC Medicine, Vet Care & Product Sales, or Other Services. While the percentage expenditure on the Pet Food & Treats category is expected to remain rather constant, pet obesity is driving growing demand for natural pet food as an estimated 55% of dogs and cats in the US are overweight. It is hence reasonable to expect an increase in future expenditure on this latter segment.

Overall, the market is rather consolidated with a few big brands like Mars Petcare, Freshpet and Nestlè Purina PetCare running the business by means of acquisitions. However, as the pandemic fostered online sales, e-commerce in the pet care industry went up from 16% to 23% of sales and online pet care companies like Zooplus and its main competitors Chewy and Pets at Home found room for immense growth. In 2020, Zooplus sales totaled over €1.8bn, capturing around 7% of the European pet supplies market. Nevertheless, North America is the most developed market along with Oceania and India. The European region and South America come in second, with production volume being highly dependent on infrastructures like veterinarians in the former and aquaculture facilities in the latter.

It is also fundamental to note that the pet care industry was one of the most positively impacted by the coronavirus pandemic. In the UK, more than 3m households have bought a pet during the pandemic, probably in search of a companion during isolated times of lockdowns and closures. As people stayed home, they also started to take increasingly better care of their pets - and caring for them is big business. In order to reflect the growing spending on pets in the UK, the Office for National Statistics added dog treats to its inflation basket. Similarly, in the US, pet ownership rose to 70% of US households - from 67% registered by APPA's survey in 2018 - and owners spent 11% more on pet food. Indeed, total expenditure on pets in America went from $72bn in 2018 to an estimated $109.6 in 2021. What is left to determine is whether this boom will last. While some believe the trend is only a transitory consequence of the need for affection caused by the pandemic, Tancredi Cordero, chief executive of investment advisory boutique Kuros Associates, thinks pet mania is here to stay. "After all, the dogs purchased now will live at least a decade".

Deal structure

Following 2 months of negotiations, the bidding war for Zooplus has finally ended as Hellman & Friedman and EQT put in a joint tender offer that values the German pet care company's equity at €3.7bn, representing a 58x EV/EBITDA or a 1.6x EV/sales multiple. The partnership between H&F and EQT will finance an offer for all outstanding shares of Zooplus at the increased final price of €480 per share. The 85% premium to the three-month weighted average share price prior to the initial offer - and the stellar EBITDA multiple - place the deal on the crest of the record premiums wave. Under the deal, EQT will join H&F's bidding vehicle, Zorro Bidco, as a jointly controlling partner enjoying equal governance rights in a parent of the holding company. Chief executive of Zooplus Cornelius Patt will remain at the helm. The settlement of the deal is expected to take place by mid-November 2021 after the offer reaches a minimum acceptance threshold of 50 percent plus one share. Management strongly suggests accepting the offer. The likelihood of the success of the deal is high, as both the Management Board and the Supervisory Board of Zooplus intend to support it.

Deal Rationale

The deal comes as a solution the current deadlock in the tender process between Hellman & Friedman and EQT, constituting an improved offer with a highly attractive price and at the same time bringing an end to an almost 3 months long battle for the control of German petcare retailer. In addition to the value creation for Zooplus's shareholders, company's Management Board together with the Supervisory Board are welcoming "the complementary expertise of both partners as well as their financial and strategic commitments to the company and its stakeholders".

Following the global trend in numerous industries, the European market for pet supplies started shifting from offline to online in recent years. Being further accelerated by changing consumer habits and rising expectations during the pandemic, it put Zooplus in a position where significant adaptation and accelerated organic and inorganic investments became crucial in order to secure the company's title of a leading European online pet platform and guarantee sustainable long-term growth. Besides major investments in digital solutions, the additional capital will be used to develop "best-in-class logistics and a broad and innovative product and service portfolio" according to Zooplus's Management and Supervisory Boards. As a result, the company is expected to gain further market shares and strengthen its competitive lead.

Partnership between two private equity companies can be seen as a strategy allowing funds to pool their resources and therefore take on even more ambitious targets in the world of high valuations and large premiums. In fact, in June, Blackstone, Carlyle, Hellman & Friedman and Singapore's GIC Pte bought a majority stake in Medline Industries Inc. in a deal exceeding $30bn. In February, Blackstone and Global Infrastructure Partners ended a similar takeover battle for the UK-listed private jet services company Signature Aviation with a joint £3.5bn bid. Now, EQT Partners brings its proven expertise with investments in pet supplies to the table (the fund has in its portfolio IVC Evidensia, a veterinary network, Musti Group, a Scandinavian pet supplies retailer, and the UK pet insurance provider Bought By Many) to partner with Hellman & Friedman, which has recently raised one of the biggest-ever buyout funds with $24.4bn, on the offer constituting 85 percent premium. Zooplus constitutes an interesting target for both funds being European market leader in its sector, having low leverage (even negative net debt), low capex requirements, attractive market growth perspectives and trading at comparably low multiples to its US peers.

Market Reaction

On Monday, October 25th, Zooplus's management and supervisory boards strongly recommended its shareholders to accept the offer from Hellman & Friedman and EQT. Additionally, shareholders were supposed to do so before the offer's expiration date on Nov. 3rd, after which the two PE funds intended to delist the company. On Nov. 4th, it was announced that the minimum acceptance threshold was exceeded in support of voluntary public takeover offer and thus more than 50% of the total share capital have been tendered. The final result is expected to be published on November 8th, 2021.

The final offer of €480 per share is €10 higher than previous separate offers from the two private equity companies and Zooplus's share price increased by 1.4% to €479.80 on the news that the deal had been approved. This compares with the share price of €278.2 on the day before Hellman & Friedman launched its first offer in August. Throughout the takeover battle the company's share price was consistently going up even topping the offers such as when it reached €471 after €460 a share proposal from Hellman & Friedman in September.

Financial Advisors

Goldman Sachs acted as a financial advisor to Zooplus while GLNS Rechtsanwälte Steuerberater assisted as a legal advisor. EQT Partners chose Deutsche Bank as its financial advisor and was supported by Milbank as its legal advisor. Hellman & Friedman opted for JP Morgan as financial advisor and Freshfields Bruckhaus Deringer as legal advisor.

TAGS: Zooplus, Hellman&Friedman, EQT, Retail, E-Commerce, LBO, Private Equity