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Mercanti Group Report Says Pet Owners Spend Heavily, Making the Industry One of the Nation's Fastest Growing Consumer Retail Sectors

MINNEAPOLIS, MN, March 31, 2008 – The economy may be in sluggish shape, but investment banking firm The Mercanti Group is bullish on the multi-billion dollar pet industry. In its current monthly issue of its newsletter, the *Mercanti Chronicle*, the report shows that pet industry sales, including products and services, dipped fractionally in 2006, compared to 2005, the first decrease in 10 years, and then bounced back almost 4% last year, to over \$39 billion.

Jim D'Aquila, managing director of Mercanti and author of the report, isn't counting out some impact from a recession on pet industry volume in 2008, but he expects that any dip would be slight, as growth in various sectors – herbal supplements and grooming aids – more than take up the slack.

Moreover, the report points out, not only will affinity by owners of their pets win out, with over half of pet expenditures made by higher income households of \$70,000 or more, the outlook remains very bright. "We're still incredibly optimistic about the pet sector," says D'Aquila.

While pets remain very dear to their owners – more American households (two-thirds) have a pet, while only one-third have a child – Mercanti notes that the driver in the industry's steady, basic growth remains high wage earners. That group, in addition to the basics of food and supplies, is increasing its spending on sophisticated veterinary care and pet services, including grooming and elaborate high-end pet hotels that continue to proliferate.

"Veterinary care is becoming high tech and people are increasingly willing to spend money on both preventive pet healthcare and rehabilitative care, such as joint replacement and cancer treatments. The pet services sector is growing dramatically as upper income owners send their pets for grooming more frequently and four-star pet hotels spring up around the country," comments D'Aquila.

The *Chronicle* report also says that the industry is benefiting from merchandisers actively converting what were "food-only" shoppers into customers for supplies, including fancier pet beds. "Over-the-counter pet nutritional supplement aisles are beginning to look a bit like the center aisles of Whole Foods Market," the report comments.

Along with more active pet product sales by mass merchandisers like Wal-Mart and Target, specialty pet retailers, such as Petco and PetSmart, are creating their own dynamics in the field. "Petco and PetSmart's grooming services now comprise a meaningful portion of the business," says D'Aquila, "while Petsmart and VCA Antech (Veterinary Centers of America) are major players on a national basis directly or through attrition in veterinary care."

Spending on veterinary care services has been especially pronounced among pet owners with household incomes of over \$100,000 annually, who in 2006 accounted for 35%, or \$3.9 billion of this segment, up from 27%, or \$2.3 billion, in 2003. And, veterinary service spending increased more than 6% between 2005 and 2006, versus the 0.7% decline in overall pet expenditures. "As willing as owners are to adopt advanced screening, diagnostics and

treatment options for their pets, they also have been embracing more esoteric veterinary services such as chemotherapy, linear accelerators, artificial joints and organ transplants,” the Mercanti report says.

The fastest-growing segment of this industry in terms of percentile growth is expected to remain pet services, particularly grooming and boarding, the *Chronicle* adds. Spending in this segment totaled \$1.74 billion, or 43% percent of the category, up from \$1.05 billion, or 37%, in 2005. The report notes that Aussie Pet Mobile, founded in California in 1996, now has locations in 17 states. And boarding companies like Camp Bow Wow, a franchisor that started in 2000 in Denver, today has 52 locations in the U.S. and Canada, offering “doggy day care” and “overnight camps,” representing a \$500 million business. An additional 150 sites are in the planning stage. Other pet service providers include Best Friends Pet Care with 44 locations in 18 states and Pet Paradise, currently operating at the Jacksonville International Airport and opening soon in New Orleans and Houston. Airports in San Diego, Portland and Seattle have opened pet hotels and one is underway in Minneapolis.

“The pet industry remains a demographically strong market with good growth trends,” says D’Aquila. Mercanti expects it to remain the fastest growing retail sector after electronics.

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