Veterinarian Sector: Recent trend data and comparing chains for quality and consistency



# Stax has been working in healthcare for 25 years and on veterinarian-related engagements for 15 years

What we've looked into via commercial due diligence and what we've learned—investment theses have included:

Substantial growth in the pet population and consumers are willing to spend increasingly more on pet care:

- Good M&A pipeline of independents and smaller chains.
- Fewer younger vets want to own their practice.

#### What we've found:

- Macros are still good, and we can already quantify substantive growth in more adopted pets through Covid.
- Supply and demand is local, and quality and satisfaction of the staff matters.
- Quality varies by location and chain, and one can quickly get down to specifics to better understand local market dynamics and relative performance of the practices.

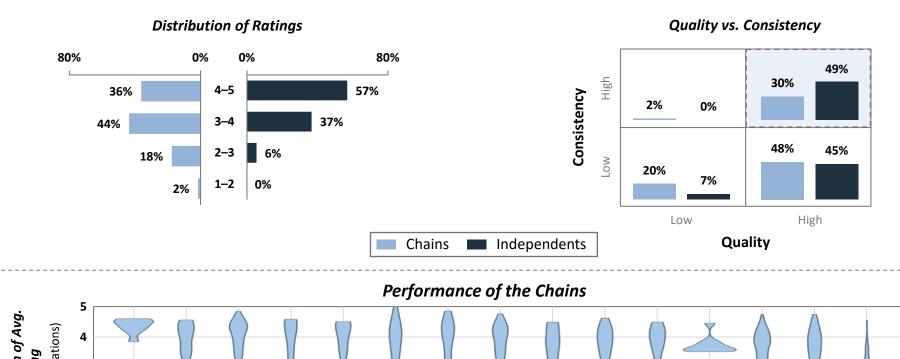
Following are snapshots of how we've identified differences in competitors, followed by updated information in the sector.

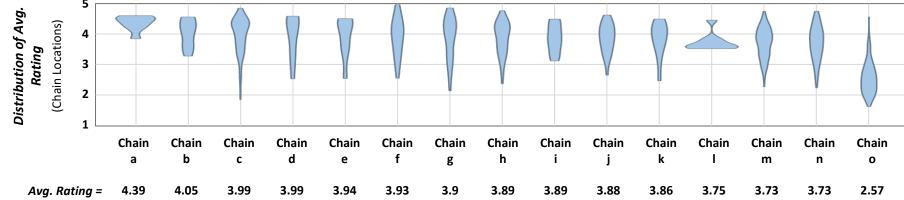
- Discerning chains and independents and their performance in the views of customers.
- Update on macro trends.
- Please inquire for more information and/or examples of local supply/demand.



# Analyzing location performance, Stax's Quality vs. Consistency Index (QCITM) highlights differences and opportunities at a chain level





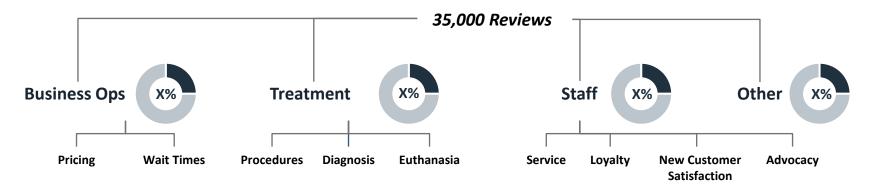


Source: Yelp Reviews via Partnership with Yelp Knowledge, Stax analysis, 2019.

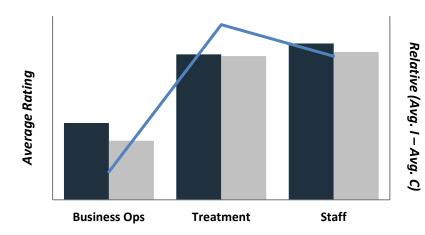


#### A natural language analysis lets customers define what is most important

Stax analyzed over 35,000 reviews from customers to determine 3 key functional areas within the vet industry. While treatment is equal, the rest of the services are not considered equal by consumers.



#### The average independents outperform the average chain:

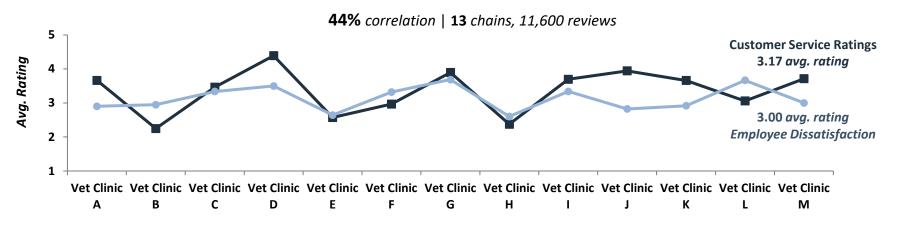


- For each of these areas, there is a next level both quantified and with qualitative support as to why they matter.
- For instance, Pricing in Business Ops accounted for ~60% of reviews highlighting predatory pricing as one of the key issues.
- Based on these in-depth analyses and prior Stax experience, we can support you to build and execute the right strategies and risk mitigation approaches.



### Employee dissatisfaction generally, but not always, correlates with poor customer service





- We only consider clinics that contain reviews that have been categorized as poor service | # of clinics = 72<sup>a</sup>
- Employee dissatisfaction: average ratings of chains from employee-driven social media data<sup>b</sup>
- Poor customer service: average ratings of chains from customer-driven social media data<sup>c</sup>
- Employee dissatisfaction is directly related to poor customer service, with a correlation coefficient of +0.44
- Clinics need to focus on improving their internal employee management methods in order to improve overall customer satisfaction ratings

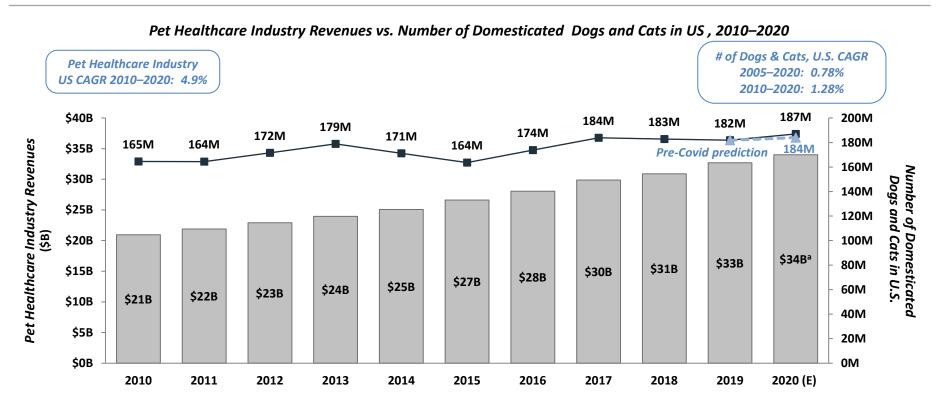
a. We considered clinics that have both Glassdoor and Yelp data.

Ratings obtained from Yelp data.

c. Ratings obtained from Glassdoor data.



# The pet healthcare industry has steadily grown in mid-single digits in the last few years; it is projected to increase further due to Covid



- The overall market of pets (dogs and cats) is huge and largely flat; however, people are fostering more and surrendering less pets due to Covid.
- As a result, a lower number of pets are being euthanized in 2020.
- The CAGR (2010–2020) for domesticated dogs and cats increased from 1.12% to 1.28% due to Covid impact.

Source: ASPCA, IBIS (APPA), Vetnosis.

a. Pre-Covid predictions.



# Increased adoptions, along with decreased surrenders and decreased euthanasia, will lead to an increase ~3M pets (dogs and cats)

Increased # of "Temp to Perm"

Adoptions in 2020a



Decreased # of Surrenders in 2020



Decreased Euthanasia in 2020

Decreased by 30% YOY = .45M

Increased by 20% = .64 M

Decreased by 30% YOY = 1.8M



Total number of dogs and cats further increased due to less surrendering, lower euthanasia, and more adoptions



- Pet owners facing financial burdens are usually visiting food banks and other facilities to take care of their pets and hence surrendering
  has been minimal:
  - "I think people are not surrendering as much because we support them using food banks and other resources when they face financial constraints.
     We quadrupled the food in our food banks. It's a big focus so people can keep their pets, there's increased demand [for that service] and we're also getting increased donations and grants." —Rescue Shelter, OR
- Shelters and rescue centers have attracted more adoption interests and fostering in in the past few months YOY with no clear changes in demographics of applicants before and after Covid:
  - "I would have to say there have been [some changes], we are getting a lot more applications however we as an organization have not changed the way we do adoptions or the screenings in terms that we can tell a bad application from a good application." —Rescue Center, IL
- Vets in states with currently limited/no restrictions have witnessed an increased number of visits:
  - "I have seen more dogs and cats adopted this year than in the past in our area for sure. It is a wealthy area so they are not worries about the costs. We thought we would be slow, but we are very busy, every day we are seeing so many puppies." —Veterinarian, CA
  - Our clinics have seen an increase in new pets especially puppies and kittens that people have adopted and are now bringing in from households and hence we are very busy with new pets and old ones; I think based on rough estimates it was 11%–14% in new pets in the past two months."

     Regional Medical Director, NC

Source: Stax Analysis May 2020 based on Stax interviews of 35 adoption centers, breeders, and vets, Chicago Tribune, Patch.com, Miami Herald, PetPoint, Petfinder, Pethealth Inc.

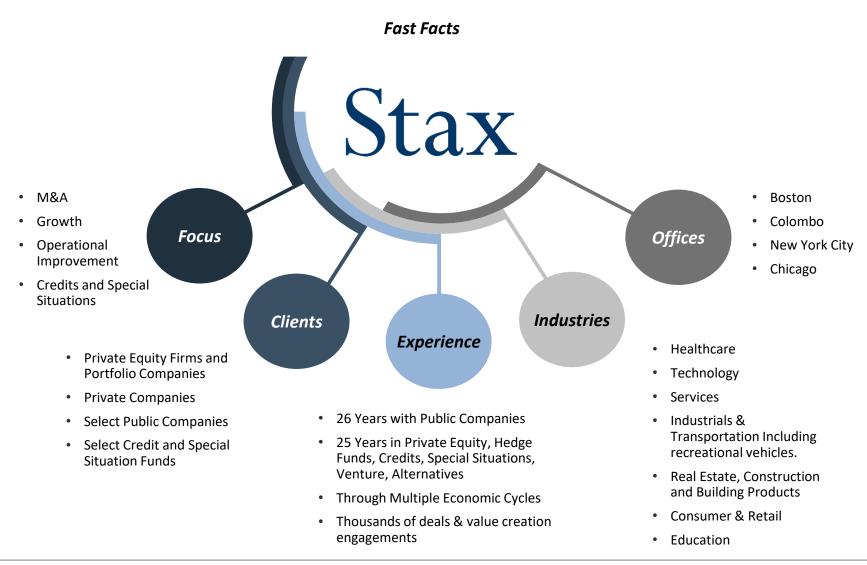
a. Fostering has increased by more than 40% YOY in the first half of the year 2020 and half of the permanent adoptions come through fostering.



#### **About Stax and June 2020 Views on Healthcare**



### Stax is a global strategy and advisory firm with top-tier clients, a long track record of results, and global resources





#### Stax has experience across the entire healthcare ecosystem

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