February 28, 2012

Dear clients and colleagues,

Based on data from the American Pet Products Association (APPA), pet spending has seen robust growth even in periods of economic slowdowns. Over the last 11 years spending per household with a pet has grown at 4.4% although during the last recession owners have been less likely to take their pets in for routine check-ups and emergency care. With the economic recovery well on the way in the US and with favorable demographics, we believe that Vet industry growth will reaccelerate.

We recently initiated a position in VCA Antech (WOOF US) to participate in this important part of the economy.

Business Overview

VCA Antech was founded in 1986 with the purchase of an animal hospital in Los Angeles. Today, the company operates 575 hospitals in 41 States and Canada and 55 laboratories in the US and Canada providing diagnostic services to over 14 000 independent hospitals.

Stock Data

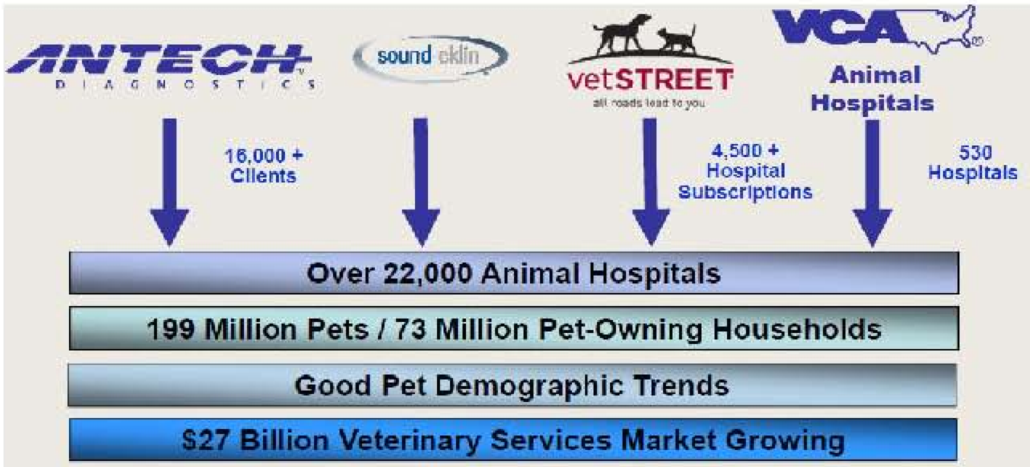
WOOF US, www.vcaantech.com $22.40. Market cap US$1.95B, P/E (12/2012): 15.6x, ev/ebitda (12/2012) 8.5x, no dividend, Debt/EBITDA: 2.2x, Ebitda margin: 19%, annual sales growth: Last 4 years: 6.5%, Next 4 years: 12%, annual profit growth next 4 years: 18%.

Target Market

The market for veterinary services in the US and Canada is around $30 Billion and growing at 4% per year. It is highly resilient. A study done by the American Pet Association revealed that:

- 94% of pet owners believe their pet has human personality traits;
- 93% of pet owners would risk their own life for their pet;
- 86% include their pet in holiday celebrations;
- 67% take their pet on vacations with them;
- 65% sing or dance for their pet;
- 53% spend more on their pet than three years ago;
- 52% prepare special meals for their pet.

Figure 35 – VCA Antech Overview



Source: Company Reports

Competitive Advantages

With over 575 hospitals and 55 labs, the company has the leading industry position. It is a logical choice for veterinarians who want to partner with the company, allowing them to concentrate on animal care while leaving VCA to manage the administrative and marketing side of the business. It is also a preferred buyer for vets wanting to sell their practice.

The industry is characterized by high fixed costs. The company has the advantage that it can leverage this fixed cost base with its scale and vertical integration.

Competition

There are over 24 000 animal hospitals in the US and Canada. There are also two other laboratory companies. The market, however, is stable and rational.

Growth Strategy

Since its inception, the company has been the industry consolidator. Already the largest player but with less than 3% of the market in hospitals, the company has a large opportunity.

In addition, in the last few years, the company has made investments and acquisitions in the software and online space for vets and pet owners. Today, its web site www.vetstreet.com is the most used site in the space and similar to WebMD.

Management

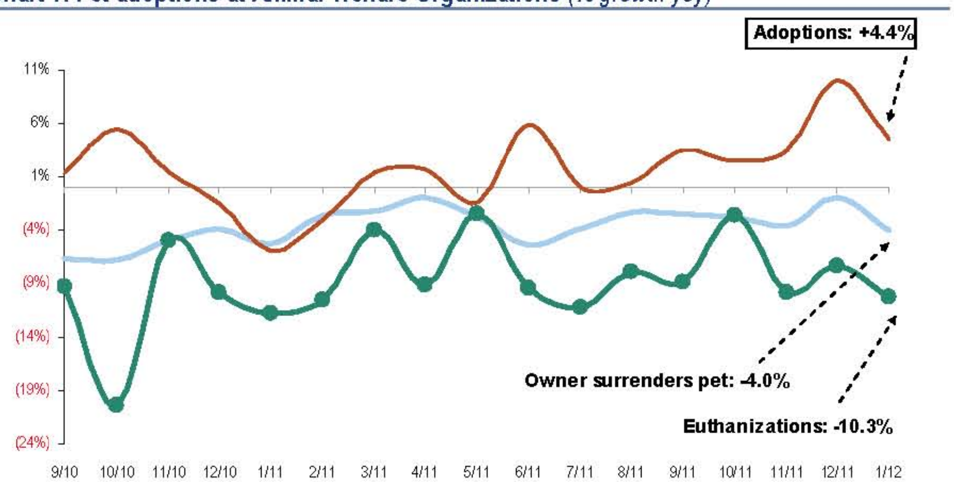
The Founder Bon Antin is CEO, President and Chairman; his co-founder, Arthur Antin, is COO; while Neil Tauber, another co-founder, is Senior VP of Development. The CFO, Tomas Fuller, joined in 1988 and has been CFO since November 1990. Together they own 5% of the company and have increased their ownership in the last six months.

Why BUY Now?

Industry growth is re-accelerating with the improving US economy.

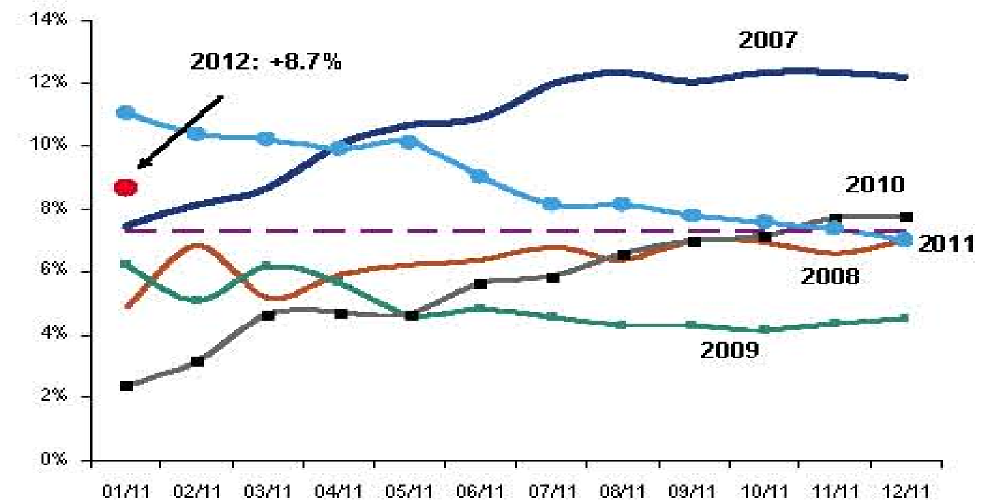
VCA, after years of investments in the business, has just returned to same-hospital sales growth. In a high fixed cost model, earnings growth should be quite strong.

Chart 1: Pet adoptions at Animal Welfare Organizations *(% growth yoy)*



Source: PetHealth, BofA Merrill Lynch Global Research

Chart 2: YTD Rx prescribed by veterinarians



Source: IMS HEALTH, BofA Merrill Lynch Global Research

Risks

- The economy remains fragile.
- The company carries debt and has substantial goodwill on the balance sheet.
- Two new laboratory companies may be aggressive in winning share and cutting prices.

Valuation

Target price = US$35, using DCF model at growth rate of 12% for the next 8 years, 5% at maturity, risk premium of 8%, and payout at maturity of 50%.

Have a nice week.

The Global Alpha Team