

BLUE BUFFALO PET PRODUCTS INC.



Analysts:
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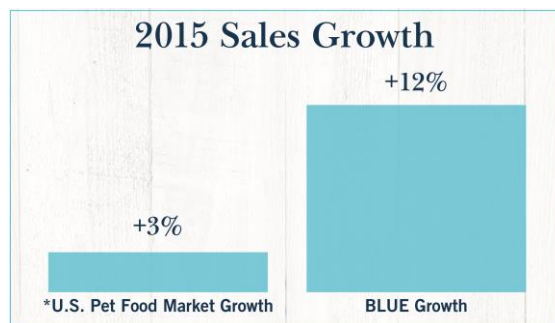


Source: Blue Buffalo 2015 annual report

WHO IS BLUE BUFFALO?

Blue Buffalo is the fastest growing major pet food company in the US. Develops, produces, markets, and sells premium cat and dog food.

- Founded in 2002 in Wilton, CT.
- Incorporated in 2012.
- Went public on July 22, 2015 at \$20.00 per share.



Source: Blue Buffalo 2015 annual report



“Broadest portfolio of products of any natural pet food brand in the United States...” – Blue Buffalo 2015 Annual Report.



2003



2007



2010



2012



Pet food is made with natural ingredients such as whole meats, fruits, and vegetables.

Source: BlueBuffalo.com



MANAGEMENT TEAM

■ Kurt Schmidt – CEO

- Joined Blue Buffalo in 2012
- Former Nestlé Employee
- 14 years of experience in food industry
- MBA at University of Chicago
- US \$1.30M on BUFF's stocks



■ William Bishop Jr. – President & COO

- Joined Blue Buffalo in 2002
- Blue Buffalo Co-Founder
- US \$16.12M on BUFF's stocks



■ Michael Nathenson – CFO

- Joined Blue Buffalo in 2002
- MBA at Harvard Business School
- Former Pepsi and Dean Foods employee



Board of Directors

Board Member	Position
William Bishop	Chairman and Director
Kurt Schmidt	CEO and Director
Philippe Amouyal	Director
Evren Bilimer	Director
Raymond Debbane	Director
Michael A. Eck	Director
Frances Frei	Director
Aflalo Guimaraes	Director
Amy Schulman	Director

*Source: Blue Buffalo

- Average of 4.98 years in their current positions.
- US \$935,000 in stock awards in 2015

MAJOR SHAREHOLDERS

As of 5PM CT on 11/4/16:

- 288 shareholders
- 171.65 M shares owned
- Top 10 shareholders have 64.52% stake in Blue Buffalo



Source: Nasdaq BUFF Market Bell Ceremony

<i>Shareholder</i>	<i>Percentage (%) outstanding</i>
<i>Artal Group SA</i>	44.51
<i>Bishop Family LP</i>	6.18
<i>Vanguard Group</i>	2.70
<i>Goldman Sachs Group Inc.</i>	2.44
<i>Hitchwood Capital Management LP</i>	1.83
<i>Waddel & Reed Financial Inc.</i>	1.59
<i>Capital Group Companies Inc.</i>	1.48
<i>Neuberger Berman Group LLC</i>	1.32
<i>Lord Abbett & Co LLC</i>	1.25
<i>Citadel Advisors LLC</i>	1.24

*Source: Bloomberg

STATE OF THE PET FOOD INDUSTRY

- Since 2001, pet ownership has steadily increased
- 95% of pet owners consider pets part of the family
- Pet "humanization" is the biggest driver for the desire for premium and healthy pet food
- Global pet food retail sales grew 4% in 2015
- Pet food is a \$70 Billion market globally, \$24 Billion in the U.S.
- BUFF is 6th in revenue worldwide
- Wet food, a higher margin product, is a growing market



GLOBAL COMPETITORS AND THEIR PRODUCTS

Company	Significant Brands	Global Market Share
Mars Inc.	Cesar, Greenies, Pedigree, Whiskas, Sheba, Iams, Eukanuba, Natura	22.6 %
Nestle SA	Purina ONE, Fancy Feast, Chef Michael's, Purina Cat/Dog Chow, Friskies	15.5%
Big Heart Pet Brands	Milkbone, Meow Mix, Nature's Recipe, Natural Balance, Kibbles 'n Bits, Pounce	10.2 %
Colgate-Palmolive	Hill's Science Diet, Hill's Prescription Diet, Hill's Science Plan	3.0%
Diamond Pet Company	Diamond, Professional, Nutra	1.5%
Blue Buffalo Inc	Blue	1.3%

*Source: IbisWorld

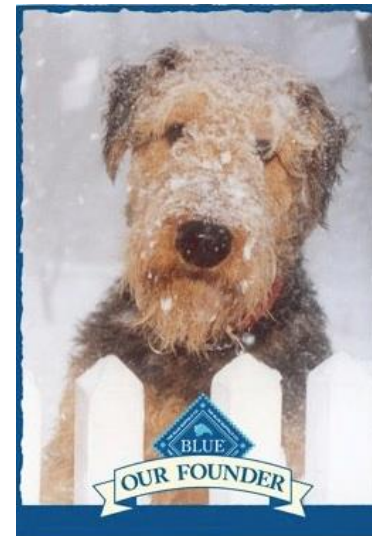
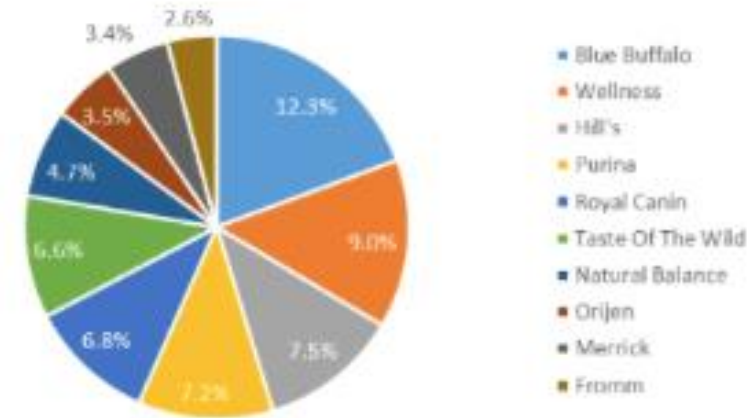
BLUE BUFFALO'S COMPETITIVE EDGE

- Blue Buffalo has been the #1 selling brand on the internet since Q1 2016
- Authentic company that creates loyalty based on good reputation
- Blue Buffalo had 1/3 of the Wholesome Natural market segment and was 4 times as large as the next largest competitor
- Since 2009 BUFF has raised over \$3.2 million to help in the fight against pet cancer

Rank	Brand
1	Blue Buffalo
2	Wellness
3	Hill's
4	Purina
5	Royal Canin
6	Taste of the Wild
7	Natural Balance
8	Orijen
9	Merrick
10	Fromm

Source: 1010data Facts for Ecomm Insights

Top 10 Pet Food Brands Online - Q1 2016



Source: Blue Buffalo Website

OUR CALL



Source: vipetsllc.com

We've set a 5-year \$34 price target:

- We expect to see an increase in gross margins
 - New factory in Indiana to be completed in 2018 will ease reliance on co-packers
 - Increased interest in wet food products
- Continued interest in healthy pet food
 - Pet ownership has increased steadily since 2001
- Continued growth in sales
 - Low market share with steady growth in sales
 - Aggressive advertisement campaign

RISKS IN GOING LONG

- Loss of Consumer Trust:
 - Damage to Buffs reputation as a natural pet food supplier.
 - Reliant upon consumers paying a premium for “Natural” pet food
 - Recent litigation by Nestle over animal by-products in BUFF’s products
- Increased Competition:
 - Competitors Mars and Nestle developed their own Natural pet food products
- Failing to Meet Market Expectations:
 - Failing to bring the new plant online and operational
- Acquisition Premium:
 - Not being acquired within the next 5 years

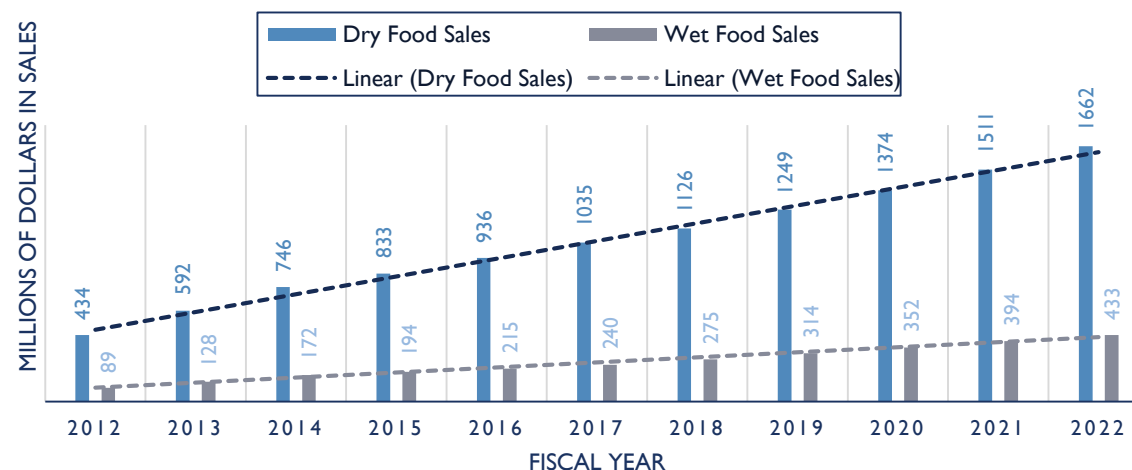


Source: chainimage.com

KEY ASSUMPTIONS IN OUR VALUATION

- Linear sales growth
- Gross profit increasing from 41% to 45% in 2018
- All other costs remain stable as % of sales
- Tax rate stays relatively flat (slight decrease after 2018 due to tax credit from Indiana plant)
- Increase in D&A as new plant ramps up production
- Increase in CapEx over next two years while building new plant

DRY AND WET FOOD SALES BY YEAR



PROJECTED ANNUAL INCOME STATEMENT

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Dry Foods	434	592	746	833	936	1035	1126	1249	1374	1511	1662
Wet Foods, Treats, Other	89	128	172	194	215	240	275	314	352	394	433
Net Sales	523	720	918	1027	1151	1275	1401	1563	1726	1905	2095
Cost of Goods Sold	311	422	551	609	679	752	827	855	940	1030	1100
Gross Profit	212	298	367	418	472	523	574	708	786	875	995
Advertising	33	58	81	84	92	102	112	125	130	135	140
R&D	2	5	8	10	12	13	14	14	14	14	14
Non-Strategic SG&A	60	76	92	115	127	140	154	172	190	210	231
Total Ongoing SG&A	95	139	181	209	231	255	280	311	334	359	385
Operating Profit	117	158	178	158	241	268	294	397	452	516	610
Non-Recurring Items	0	1	8	51	0	0	0	0	0	0	0
Adjusted Operating Profit	117	159	186	209	241	268	294	397	452	516	610
Net Interest Expense	10	37	14	15	16	16	16	16	16	16	16
Other Expense	0	0	0	0	0	0	0	0	0	0	0
Pre-Tax Income	107	121	164	143	225	252	278	381	436	500	594
Income Tax	43	44	63	56	85	98	109	140	160	185	220
GAAP Net Income	64	77	101	87	140	154	169	241	276	315	374
Interest	10	37	14	15	16	16	16	16	16	16	16
Taxes	43	44	63	56	85	98	109	140	160	185	220
Depreciation and Amortization	1	1	5	8	11	14	18	21	25	28	32
EBITDA	118	159	183	166	252	282	312	418	477	544	642
CAPEX	23	64	33	10	65	65	20	20	20	20	20

PROJECTED FREE CASH FLOW, DISCOUNT RATE, AND VALUATION

WACC Calculation	
Market Value of Equity	85780
Market Value of Debt	385000
Interest Paid (Annual)	15091
Equity + Debt	470780
Beta*	0.75
10 year Treasury Bond	0.0162
Market Risk Premium	0.0491
Cost of Equity = Risk Free Rate + Beta * (Market Risk Premium - Risk Free Rate)	0.040875
E/V (% of financing that's equity)	0.18220825
Re (Cost of Equity)	0.040875
D/V (% of financing that's debt)	0.81779175
Rd (Cost of Debt)	0.039197403
I-Corporate Tax Rate	0.77
WACC = E/V * Re + D/V * Rd * (1-Tc)	0.032130353

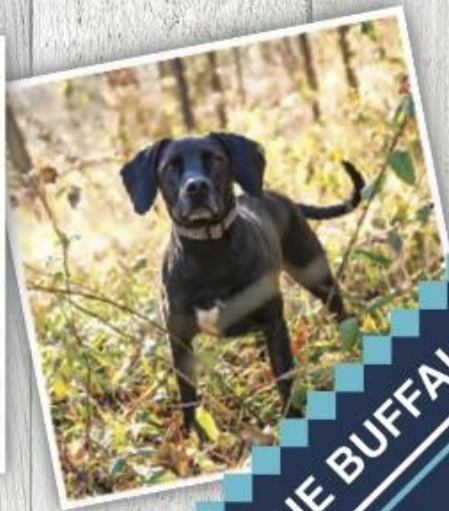
*Amounts in Millions **Industry Average used for Beta

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CONCLUSION



- BUFF is a high growth company in a burgeoning industry
- It has responded well to increased competition from larger companies
- Set to increase its profitability by moving away from foreign co-packers and expanding its in-house manufacturing
- Sales have consistently risen, and should continue to rise, on the back of an aggressive multi-platform ad campaign
- Based on these assumptions, we rate BUFF as a BUY with a 5-year price target of \$34.



Love them like family.
Feed them like family.®

Year to Year Growth

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Dry Foods	N/A	36%	26%	12%	12%	11%	9%	11%	10%	10%	10%
Wet Foods, Treats, Other	N/A	44%	34%	13%	11%	12%	15%	14%	12%	12%	10%
Net Sales	N/A	38%	28%	12%	12%	11%	10%	12%	10%	10%	10%
Gross Profit	N/A	41%	23%	14%	13%	11%	10%	12%	10%	10%	10%
Operating Profit	N/A	35%	13%	-11%	53%	11%	10%	12%	13%	13%	12%
Pretax Income	N/A	13%	36%	-13%	57%	12%	10%	13%	14%	13%	13%
Net Income	N/A	20%	31%	-14%	61%	10%	10%	13%	14%	13%	13%

Gross Profit and Gross Margin of Sales

