AP CAPITAL RESEARCH

M&A Deal of The Week

BLACKSTONE X ROVER GROUP

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Executive Summary

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Deal Summary

- On Wednesday, 29th November, pet-sitting marketplace Rover Group (ROVR) announced that Blackstone's Private Equity funds were acquiring it for $2.3 billion in an all-cash deal. ROVR stock surged more than 30% on Wednesday following news of this acquisition and closed at $10.96 on 29th November 2023.
- This deal includes a 30 day “go shop” clause to consider other acquisition proposals.
- This acquisition is valued at $11.00 a share, a 61.4% premium above ROVR's 90 Volume Weighted Average Price of $11.00 a share and 29.4% above Wednesday's closing price.
- This comes after Blackstone and Permira expressed an interest in mid-November to acquire eBay-backed firm Adevinta for $15 billion.
- The rationale behind this is that the global pet industry is expected to grow to $500 billion by 2030, up from $320 billion this year, yielding a 7.7% YOY market growth.
- Rover Group Co-Founder and CEO Aaron Easterly remarks on the deal was "This transaction delivers immediate and compelling value to Rover stockholders" and that they "look forward to the partnership with the Blackstone team".
- The deal is expected to close in the first quarter of 2024.

Deal Advisors

Blackstone:
Lead Advisor: Evercore
Secondary Advisor: Moelis & Co

Rover Group:
Lead Advisor: Goldman Sachs
Secondary Advisor: Centerview Partners

Key Figures

- Offer Premium: 29.4% [$11.00/share]
- Blackstone AUM: $1.007 trillion
- Blackstone Market Cap: $159 billion
- Rover Market Cap: $1.97 Billion
- Rover EV: $1.99 Billion
- Rover 2023 Adjusted EV/EBITDA Estimate: 110x

Company Information

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Blackstone

- Blackstone (BX- NYSE) is an Alternative Investment company with over $1 trillion in AUM. It is mainly known for its Private Equity (PE) division, with global holdings in all sectors and a focus on four areas: Real Estate, PE, Credit and Insurance, and Hedge fund solutions.
- Founded in 1985 by Peter G Peterson and current CEO Stephen A. Schwarzman, Blackstone has grown to be the largest private equity name in the world, with headquarters in New York and offices across the world.
- Their 2023 Q3 YTD revenue is $6.7 billion, down 1.1% from 2022's Q3 $6.8 billion. 2023 Q3 earnings yielded a Net Income of $552 million and an EPS of $0.94, which missed analyst expectations of $0.99.

Rover Group Inc

- Founded in 2011, Rover Group is a pet sitting marketplace that connects pet owners with various pet care services such as overnight sitting, in-home pet sitting, dog walking and many other services.
- In 2017, Rover acquired rival DogVacay in an all-stock deal and then later went public via a SPAC in August 2021 by merging with the shell company Nebula Caravel Acquisition Corp. onto the NASDAQ for a valuation of $1.35 billion. Since their inception in 2011, more than 93 million services have been booked on Rover, making them the largest global network of pet services. They operate in 10 countries, including the US, Canada and Europe.
- Rover's 2023 Q3 Earnings yielded a revenue of $66,2 million, up 30% YoY with an EPS of $0.05. Their 2023 Q3 Adjusted EBITDA is $17.5 million, increasing 65% from 2022 Q3's $10.6 million.
- Their latest P/E is 181.4x, which places them in the 99th percentile compared to other firms.
- The Consumer Discretionary P/E ratio is 6.3x.

Deal Rationale

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High Market Growth and Large Potential

- One of the reasons behind this acquisition is the high predicted growth of the global pet care market. According to Bloomberg Intelligence, this market is expected to grow to $500 billion, up from $320 billion, a 7.7% CAGR until 2030. This acquisition gives Blackstone access to a fast-growing global market, leading to higher revenues and increased profitability for its Private Equity Portfolio.
- Another reason Blackstone acquired Rover Group is that they have high growth potential in a rapidly growing market. When they went public via a SPAC in 2021, they were valued at $1.35 billion, which has now increased to $2.3 billion, adding almost a billion dollars of value in just over two years, not to mention the 30% increase in YOY revenues. This shows the high growth potential that private equity companies like Blackstone seek. Tushar Gupta, a Principal at Blackstone, said, “We believe Rover has a significant runway for growth”.
- Furthermore, many pet owners demand high-quality, flexible and convenient pet care as too many families, pets are seen as part of the family, which places a premium on high-quality pet care. This means Rover’s business model is most likely more stable in times of economic instability, as seen in their increase in YOY revenues.

Risks

- As with any acquisition, there is always an element of risk involved. For this deal, macroeconomic factors hold the most risk as if there is a fall in real incomes; there will be less spending on travel and, therefore, a fall in demand for services Rover offers. This was evident in 2021 when Rover laid off 41% of their workforce during lockdown, citing a fall in demand in their pet-sitting business.
- The other risk this acquisition poses is the debt Rover will hold in the future. Rover’s current D/E Ratio is 7.8%, which is very low compared to other firms, meaning it is not an issue now, but according to Reuters, Blackstone plans to add debt to Rover down the line, which may lead to complications if interest rates continue to remain high throughout 2024.

Final Thoughts

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I believe Blackstone taking Rover Group private via acquisition is a good strategic decision as Rover has a good potential for growth in new markets. They currently operate in only 10 countries (US, Canada, and Europe), which leaves an opportunity for expansion into more international markets. Blackstone will leverage their expertise and networks to fund and expand Rover's digital business, building upon Rover's leading online marketplace. Also, they will utilise Rover's low debt to fund their expansion, as taking up debt will be cheaper than using equity, as their current cost of debt is 5% compared with the cost of equity of 7.09%. Utilising debt financing will also preserve existing shareholders' claims.

The only potential downside to this acquisition is that the current intrinsic value of Rover is only $5.13 a share, a 54% overvaluation when compared to the offer premium of $11.00 a share. This means that Blackstone is significantly overpaying for Rover; however, this may be rationalised by the growth potential that Rover offers.

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