



The New Architecture of Animal Health Smart Capital

Applied at the angel stage, operator-led diligence builds the regulatory path, channel economics and workflow evidence for animal health start-ups that later rounds underwrite.

HIGHLIGHTS

- Generic exposure to animal health no longer produces investor confidence
- Operator-led angel capital has become the functional first underwriting layer
- Diligence standards have moved to the operating layer
- Animal health start-ups who secure funding fit a common archetype
- Capital allocation prioritizes clinical efficiency, proprietary biopharma pipeline and recurring, high margin revenue

This reset had multiple causes. In private equity, this reset has triggered a shift toward “consolidators of consolidators” (e.g. mega merger of Mission Veterinary Partners and Southern Veterinary Partners forming Mission Pet health. Mid-tier platforms are merging to achieve scale, while capital flows toward vertical ecosystem convergence, where pharma fulfillment, diagnostics, digital triage and primary clinics integrate into single operating networks (e.g. \$3.5 billion merger of Covetrus and MWI Animal Health facilitated by Cenora). Strategic corporate acquirers (e.g. Zoetis, Elanco, Mars Petcare, Merck, Boehringer Ingelheim) have simultaneously pivoted away from generic commoditization, actively divesting off-patent, low margin assets (e.g. Elanco’s aqua business divestment) while seeking tuck-ins that address clinical capacity constraints or deliver proprietary biological moats (e.g. Zoetis’ Cancer DX).

WHAT ACTUALLY CHANGED

The demand side has moved as well. Companion animal visits have declined four consecutive years around 3% every year since 2022. Practice revenue still grew about 2.5% but was a result of price increases rather than volume. Coupled with the cost of capital reset, what kind of company gets funded changed dramatically. When capital was “cheap”, an investor could underwrite a long runway to revenue and treat time as an inexpensive input. That no longer happens which quietly disqualifies a whole class of promising, slow science and rewards anything that can show a paying customer or consumer sooner.

AFFORDABILITY PRESSURE IS RESETTNG VALUE CREATION

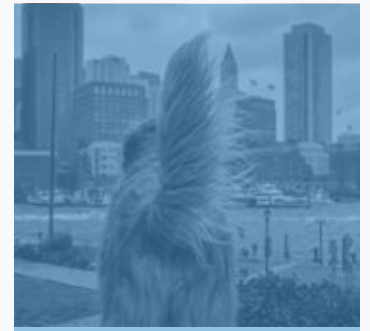
Headwinds



- Cumulative “Vetflation” at 7-8% drives price sensitivity and volume erosion (2.5-3%) with fewer visits, deferred procedures and treatment-plan downgrades
- Minimal insurance buffer as only 4-5% of US pets are insured requiring most care to be funding out of pocket
- Capital and execution risk are raised with higher financing costs, clinician churn and integration strain

Tailwinds

- Lower delivered cost of care with more affordable diagnostics, prevention and chronic-care models
- More output per labor hour through increased AI application for documentation, scheduling, technician leverage and PIMS integration
- Translational biology breakthroughs creating defensible IP and better clinical outcomes.



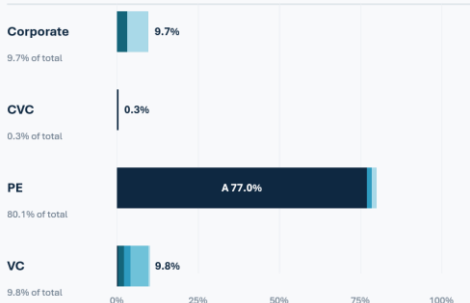
CAPITAL FLOW PATTERN CHANGES

2025 disclosed \$M by Investor Type/Sub-Sector

1 | MIX WITHIN EACH INVESTOR POOL (=100%)



2 | SHARE OF TOTAL 2025 CAPITAL (\$5,321M = 100%)



■ A Therapeutics & Pharma Services
 ■ B Diagnostics, Imaging & Devices (no disclosed capital)
 ■ C Veterinary Clinical Care
 ■ D Enabling Software, AI & Fintech
 ■ E Production Animal & AgTech
 ■ F Specialty Pet Care & Consumer

Animal health remains a structurally attractive category facing an affordability-led demand correction. That distinction materially changes underwriting, valuation and integration risk. The question a buyer or investor asks has moved from how big is this to how much value can you deliver per hour of skilled labor, at a price the customer is willing to pay, through a channel that already exists.

Capital funds are still flowing, however, with an evident pattern shift. The institutional appetite for sub-sectors with heavy technical and regulatory risk, where outcome still depends on a result that nobody has yet proven is minimal. One sub-sector that breaks the pattern is precision livestock farming which absorbed \$289M across 15 rounds. It is an area where evidence is “cheap to observe”, denominated in feed conversion and mortality inside a production cycle the buyer already runs.

Diagnostics sits at the opposite end with a clean clinical logic and without \$s, for example, IDEXX building in-house rather than buying.



ANATOMY OF INVESTABILITY

Every sub-sector has its own test. The most common mistake generalist investors make is running one rubric across six businesses that share a customer and nothing else. The currency is very different in each. For example,

- In **therapeutics**, it is safety data in the actual target species and a real FDA-CVM path, an INAD-to-NADA roadmap, conditional approval, minor use where it fits. A human-validated mechanism adapted to canine biology, administered in the clinic so the practice keeps its margin, with composition-of-matter IP. What kills it is the wellness claim without a trial to validate it.
- In **diagnostics**, it is speed and consumable margin. A result inside the visit time, 90-95% concordance with the reference lab, threshold gross profit for the clinic on each run. High-COGS hardware with a multi-day send-out typically does not get traction.
- In **veterinary software**, it is retention and hours returned. 90-120 minutes freed up capacity per DVM/day, bidirectional sync with the PIMS the clinic already owns/uses, net revenue retention above 115%. Screen-scraping that forces staff to type things twice is a decline every time, and everyone in the room knows it in the first 10 minutes.

SUB-SECTOR	INVESTABLE CHARACTERISTICS	RED FLAGS
Therapeutics	Human-validated mechanisms with FDA-CVM pathways.	Unregulated supplements with zero clinical trial data.
Diagnostics	Central reference lab assays or automated send-outs.	High-COGS sequencing (\$300+ lab costs).
POC Triage	In-exam hardware delivering results during the 20-minute visit.	Proprietary footprints not integrated into lab menus.
Vet Software & AI	PIMS sync and seamless integration; ambient AI scribes eliminating administrative charting.	“Screen-scraping” integrations requiring double-entry.
AgTech	Throughput speed and measurable FCR: automates labor in harsh environments while improving feed conversion or flock mortality.	Systems requiring complex manual calibration by farm labor.
Tech-Enabled Care	DVM-aligned equity ownership: joint-venture models providing 20–50% equity to local medical directors to resolve staffing churn.	High-CAC direct-to-consumer models lacking physical presence.

Fundability turns on validation and integration such as clinical or regulatory proof, native workflow connectivity, and aligned operator economics.

Assets failing those tests are value traps regardless of category momentum.



THE ONES THAT OFTEN DO NOT MAKE IT

Testing that evidence is precisely what operator-led capital is built to do, and it does so on each of the three axes. On **channel alignment**, it tests whether the veterinarian drives adoption rather than being routed around, and whether labor and clinical ROI still hold once the distributor take-rate is priced in. On **regulatory and operational rigor**, it maps the FDA-CVM or USDA path pre-seed, while sequencing is still cheap to change. On exit, it defines the acquirer at the beginning, holds the asset in a position the strategics who own the channel would rather buy than build, and keeps the cap table clean.



1 Channel alignment

A company that routes around the veterinarian triggers resistance from the practices and distributors it needs to reach the patient and forfeits the clinical endorsement that closes the sale. The fundable version aligns with the channel: the practice drives adoption, and labor and clinical ROI carry the value case.



2 Regulatory & operational rigor

Inadequate regulatory work appears later as delayed market entry, when the FDA-CVM or USDA path, that should have been mapped pre-seed, becomes the gating item on the next funding round. Poor PIMS interoperability means staff key data twice, and usage does not survive it.



3 Exit path

Exit path should be defined at the start of diligence. Without a credible acquirer, capital has nowhere to go at maturity. What supports a clean exit: demonstrated labor and clinical ROI, a data/system moat that compounds with use, and, where the asset is therapeutic, translational potential protected by regulatory and IP barriers.

WHAT DID THE FIRST ROUND OF FUNDING BUY

Four example start-ups demonstrate great proof points of the importance of smart capital and operator-led diligence. PawPay's early angels supplied pilot clinics to test whether real-time claims adjudication raised invoice acceptance among owners paying out of pocket. CoVet's pre-seed came from veterinarians who used the scribe themselves and got ninety minutes a day back. The resulting retention numbers are what made an institutional round leadable. Dalan's angels underwrote the biology of a honeybee vaccine long enough to reach a USDA license. Basepaws used angel runway to prove demand for feline genetic profiling and sold to Zoetis.

PawPay

POINT-OF-CARE FINTECH

Backed early by VANE angels to address clinical reality: owners hesitate on high-cost treatments due to 100% out-of-pocket payment. Angel backing provided pilot access, validating real-time adjudication increased invoice acceptance.

Dalan Animal Health

INVERTEBRATE BIOTECH

Early angels underwrote the biological feasibility of the world's first honeybee vaccine. This early backing de-risked the platform to secure a USDA license and position for follow-on agricultural venture rounds.

CoVet

AMBIENT CLINICAL AI

Pre-seed DVM angels deployed capital because testing the tool reclaimed 90 mins of daily charting per doctor. Rapid adoption and near-zero churn created metrics required for institutional VCs to lead priced rounds.

Basepaws

GENOMICS & MICROBIOME

Proved consumer and clinical demand for feline genetic/oral profiling through targeted pre-seed. Angel runway de-risked the dataset, ultimately leading to a successful strategic acquisition by Zoetis.



THE OPERATOR-LED ADVANTAGE

The animal health sector can no longer rely on unguided generalist capital. Raw technological innovation alone cannot bridge the chasm from initial concept to institutional scale.

Networks like the Veterinary Angel Network for Entrepreneurs (VANE) represent organized groups of experienced industry leaders, clinicians, C-suite executives, and M&A practitioners who have spent decades scaling animal health ventures and companies. When operator-led angels invest, they deploy **smart capital**. They provide early-stage equity underwritten with the strategic pattern recognition gained from leading corporate platforms and navigating strict M&A acquisition criteria.

They typically underwrite three things generalist capital structurally cannot assess:

- 01** They pressure-test unit economics against operating reality in diligence, e.g. whether the product addresses a workflow bottleneck or an unmonetizable preference.
- 02** They judge whether the regulatory pathway has been thought through, asking whether target animal safety studies are adequately powered and whether conditional approval and minor-use routes were chosen by intent rather than discovered late.
- 03** And they underwrite M&A readiness early, declining to fund where accumulated SAFEs, irregular voting rights, and unassigned IP have already rendered a company unbuyable.

Underwriting in this sector has moved to the operating layer, and the diligence that clears it is performed by people who have carried responsibility for the outcome.

Operator-led angel investing is the catalyst that powers the modern animal health innovation pipeline. By pairing foundational capital with decades of executive leadership, strategic pattern recognition, and commercial realism, angel networks like VANE de-risk early-stage ventures for the broader market.