

U.S. PET/VET/ANIMAL HEALTH SPACE-2020 YEAR-END REVIEW

- As more people sought solace and comfort from their pets during the pandemic, this space thrived in 2020. Pet expenditures continue to be viewed as non-discretionary staples. As a result, while many other industries were challenged, the pet, vet, and animal health sector reinforced its reputation as a good place to invest and make money—as well as not to lose money.
- According to the American Pet Products Association’s Covid-19 study, 72% of pet owners said spending time with their pet helped reduce stress, and in return for their soothing presence, pet parents treated their companions as part of the family, just as they have done for years. Here’s a quick look back at the pet industry in 2020.
- In March, April and May, at the onset of the full impact of Covid-19, a few overarching dynamics dominated the U.S. pet space:
 1. **Pantry stuffing** – Humans stockpiled food for themselves and their pets. In addition, much like toilet paper, puppy pads and waste bags were in high demand.
 2. **Channels** – Product companies selling through grocery stores or with strong e-commerce strategies thrived. Conversely, those selling through small independent (“neighborhood” pet), channels performed poorly, largely due to staffing issues and overall reduced store traffic. Large, differentiated chains/big box pet specialty recouped lost ground against “neighborhood” pet during the pandemic as these stores remained open. Given their large and diverse inventory, these stores were considered “one-stop shops” by consumers, thus minimizing the need for multiple store visits, while and also providing e-commerce options for buyers.
 3. **Services** – Grooming, training, doggie daycare/walking and hosting performed poorly because pet parents were under stay-at-home orders and worked from home. Sharp reductions in professional and personal travel decreased demand for services early in the pandemic, with occupancy at pet-hosting facilities plummeting by 90% in places. By summer, however, many hosting facilities had rebounded somewhat, but were still operating at only ~50% capacity. These numbers have continued to tick higher, particularly in certain attractive geographies/cities, although services remain somewhat challenged. Dog walking as a service has gained momentum as it’s viewed as a “non-discretionary” responsibility of pet parents and isn’t affected as much by travel plans.
 4. **Covid pets** – as a means to counter the isolation and decreased social interaction wrought by Covid, adoptions and the placement of pets with foster pet parents ticked up significantly and the placement of new pets into households will expand the overall market for years to come. Somewhat related, with more professionals working from home going forward, the interactive bonds between pets and their pet parents will only increase the strong “humanization” trends already in place, likely providing further organic lift to pet the space broadly speaking.

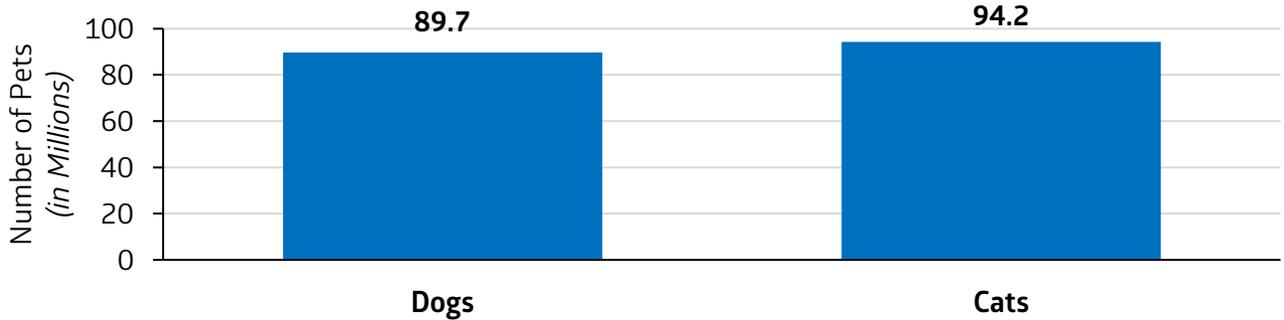
U.S. PET/VET/ANIMAL HEALTH SPACE-2020 YEAR IN REVIEW (CONT'D)

- Beginning in June, many sectors normalized:
 1. In terms of demand and supply (which was a real issue early on), pantry stuffing subsided, and many vendors and retailers reverted to “new normal” levels – in many cases with higher sustainable levels of performance.
 2. Channels still play a large role in successes and failures. Larger chains/big box pet specialty continues to fare well due to aforementioned factors (including in-house services resuming). Smaller independents (“neighborhood” pet) however, continue to struggle particularly with new “stay-at-home” mandates across the country.
 3. E-commerce in the pet space, as in other consumer sectors, has been a huge winner broadly speaking, and there’s no reason to see this abetting. Total U.S. e-Commerce sales, according to Digital Commerce 360 and U.S. Department of Commerce data, e-commerce sales in 3Q2020 jumped 37.1% YOY (down slightly from 44.4% YOY in 2Q2020 as brick and mortar re-opened), equating to 19.3% of U.S. total retail sales. Cowen estimates total U.S. eCommerce sales of \$876B in 2020, an increase of 47% YOY. Pet products, and particularly consumables, in the U.S. have moved sharply online and will remain there. While COVID can be viewed as the tipping point for many smaller independent store closures in the U.S., the real attributable factor is their lack of e-commerce capabilities.
 4. In terms of the holidays, a recent PWC survey found that U.S. consumers planned on spending 21% more on their pets this past holiday season than they did in 2020.
- According to Packaged Facts, overall pet sector growth was, at the onset of Covid, reduced to 4%-5% for 2020, largely due to supply-side issues. Subsequently, pet food, by far the largest subsegment of the sector (projected to reach ~\$31 billion in 2020), saw an increased growth rate, from 6% to 7%.
- Not surprisingly, many of the above dynamics characterize the Canadian pet space as well, with the caveat that given the large land size and small population (relative to the U.S.) of Canada, distribution is significantly different north of the border, and e-Commerce is less prevalent.
- From a transactional perspective, the pet space has been very active. While many deals, similar to the broader M&A markets, were placed on hold in Q2, to the extent that sellers performed (and most did) they bounced back quickly. Multiples have largely remained steady at pre-pandemic levels, though some debate what “normalized” earnings are, as sophisticated investors ponder the interplay of Covid-related addbacks (e.g., lost sales, safety-related expenses) with “reversion to the mean” interpretations. Chinese tariffs, while a hot topic in Q1, quickly became just another diligence topic, though still relevant; to the extent sellers were/are performing strongly, tariffs are less of a focus.

3 THINGS THAT TELL YOU MOST OF WHAT YOU NEED TO KNOW IN THE PET SPACE

#1 NUMBER OF PETS IN THE U.S.

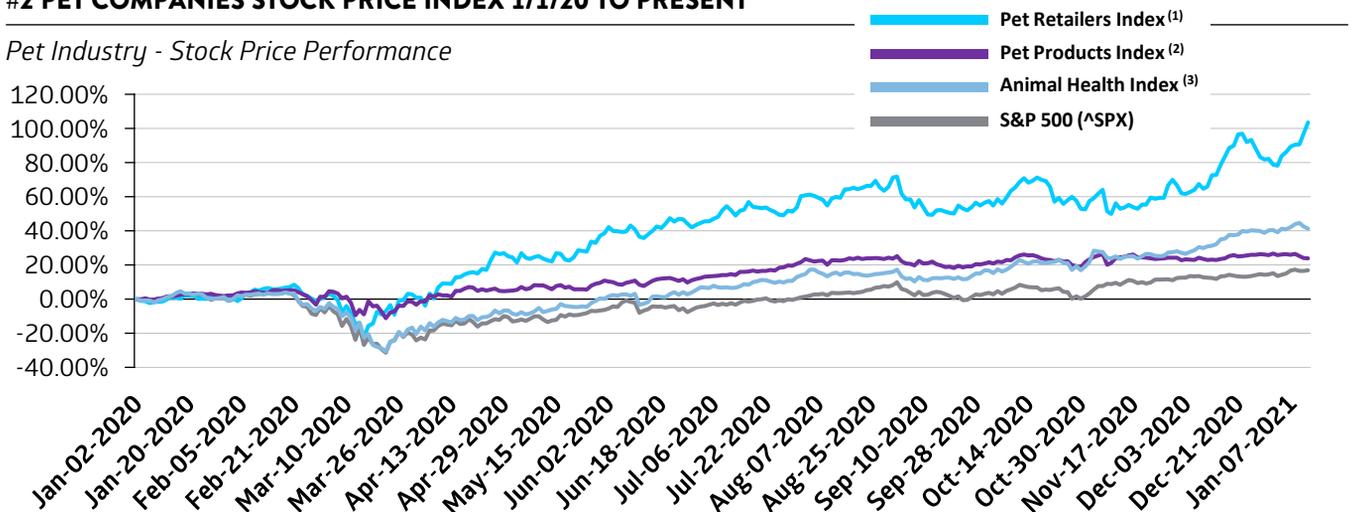
Pets in the U.S.



- 1) National Pet Owners Survey 2019-2020.
- 2) During the Covid-19 pandemic, U.S. pet ownership has increased roughly 4%, or about 7 to 8 million cats and dogs, according to LEK Consulting Consumer Survey published in April 2020.
- 3) According to Packaged Facts Survey conducted in April and May 2020, 10% of pet owners bought or adopted a new pet from March – May of 2020; of the new pets 5% were dogs and 4% were cats.

#2 PET COMPANIES STOCK PRICE INDEX 1/1/20 TO PRESENT

Pet Industry - Stock Price Performance



- 1) CHWY – Chewy Inc.; PETZ3 – Pet Center Comércio e Participações S.A.; TSCO – Tractor Supply Company; PETS – PetMed Express, Inc.; LSE: PETS: Pets at Home Group Plc
- 2) CL – Colgate-Palmolive Company; SJM – The J.M. Smucker Company; FRPT – Freshpet, Inc.; CENT – Central Garden & Pet Company; SPB – Spectrum Brands Holdings, Inc.; CLX – The Clorox Company; CHD – Church & Dwight Co., Inc.; ODC – Oil-Dri Corporation of America; JCTC.F – Jewett-Cameron Trading Company Ltd.; 4452 – Kao Corporation
- 3) PETQ – PetIQ, Inc.; IDXX – IDEXX Laboratories, Inc.; CVET – Covetrus, Inc.; ZTS – Zoetis Inc.; ELAN – Elanco Animal Health Incorporated; NEOG – Neogen Corporation; TRUP – Trupanion, Inc.; PAHC – Phibro Animal Health Corporation; HSKA – Heska Corporation; CEVA – CEVA, Inc.; MRK – Merck & Co., Inc.; LLY – Eli Lilly and Company; RIBT – RiceBran Technologies; JAGX – Jaguar Health, Inc.; SNOA – Sonoma Pharmaceuticals, Inc.; VIRP – Virbac SA; PFE – Pfizer Inc.

3 THINGS THAT TELL YOU MOST OF WHAT YOU NEED TO KNOW IN THE PET SPACE (CONT'D)

#3 PETS BACK IN THE WHITE HOUSE!



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