

BOOM OR BUST: Will The COVID Pet Spike Last?



2020 A Look Back

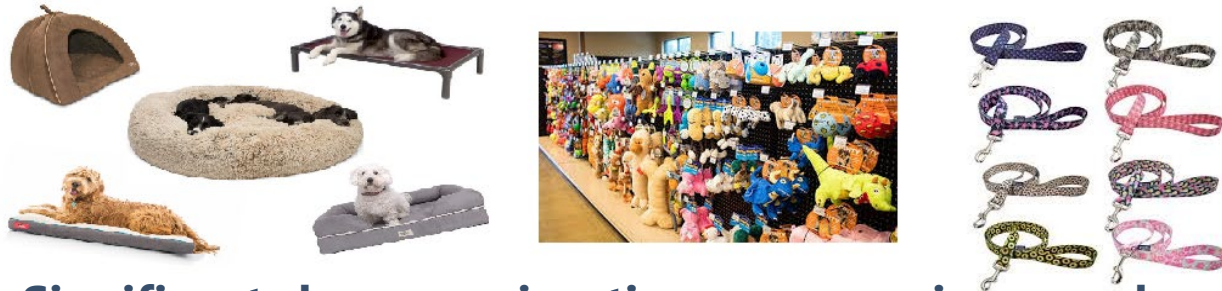
March – May “Emotional Stockpiling”



- **Trust and security shaken by COVID**
- **Demand for pet food spiked and consumption patterns changed**
- **Result: Supply chain disrupted. Shortages and out-of-stock on pet food, as with toilet paper, meat and many other items.**
- **Pet supplies sales dropped 20% March/April—picture looked bleak for non-consumables.**

2020 A Look Back

May – December “Thoughtful Stockpiling”



- Significant shopper migration as convenience and perceived value drove buying decisions.
- Demand still up, but emotional panic buying subsided
- Pet supplies flipped—people spending more time at home with their pets started buying more accessories, treats
- New pets required more supplies—beds, collars, leashes, toys, habitats
- Unprecedented growth beginning 4th quarter—all retail segments ordering more and building inventories

Pet Acquisition

- Real growth in small animal, fish, reptile. Up 30%.
- Stimulus checks used by families to purchase pets for kids at home.
- Double digit growth in this category YOY, even with fill rates down.



Dog & Cat Adoptions Down



- Number of pets adopted declined by 27%
- Fewer pet intakes = fewer pets to adopt
- Shelters/rescues are 32% of dog acquisitions, 35% of cats

- Two-thirds of dog/cat acquisitions are from other sources
 - Families and friends (dog 32%, cat 28%)
 - Breeders
 - Strays/wandered in



Bottom Line:

More Pets Today than Pre-COVID

- **More new pets**
- **AVMA – Vets experienced a 50% increase in new pets per week Mar-Aug. 2020**
- **Banfield reported seeing 9.2% more juvenile dogs & 12.4% more juvenile cats for veterinary visits in 2020 vs. 2019**
- **Overall, Banfield had approximately half a million more pet visits in 2020 vs. 2019 in their more than 1,000 vet hospitals in 42 states**



Size Of The Industry 2020

	2020	2019	\$ CHG	% CHG
Pet Food and Treats	42.0	38.3	\$3.7	9.7%
Supplies, Live, and OTC Meds	22.1	19.2	\$2.9	15.1%
Vet Care & Product Sales	31.4	29.3	\$2.1	7.2%
Other Services	8.1	10.3	\$(2.2)	-21.4%
TOTAL	103.6	97.1	6.5	6.7%

Manufacturing Challenges

Domestic



- **Change in consumption patterns & increased demand—manufacturers could not shift production quickly enough**
- **COVID safety protocols—worker separation, enhanced cleaning, slowing machinery, PPE, physical barriers**
- **Worker shortage—enhanced unemployment benefits and competition from other employers like Amazon has made it hard to fill open positions for production workers.**
- **Spot shortages in packaging and corrugated**

Manufacturing Challenges



Imported Products



- Supply chain challenges, shortages and delays, began in Feb. 2020.
- China extended Lunar New Year break while dealing with early COVID outbreak.
- Demand surged in May and has continued up double digits.
- Challenges continue today:
 - Shortages in ground transportation equipment
 - Fewer ships/containers available
 - Container prices before COVID, \$3,200-\$3,500—today, \$9-10,000
 - West coast ports jammed—can't get product unloaded and onto trucks; 60 day lead times now 120 days.
 - Supply chain disruption likely to continue through 2021 and into '22.

Manufacturing Challenges

Bottom Line

- **Fill-rates dramatically impacted and not likely to improve in short term.**
- **Customer allocations likely to continue.**
- **Increased costs for shipping, raw materials will be passed along.**
- **Demand is real and not abating.**

Distributor Challenges

- Increased stocking levels to buffer out-of-stocks, transportation delays and longer lead times.
- Sales calls curtailed and shifted to Zoom and phone
 - Harder to establish relationships with new accounts
 - Gaining placement on new lines is more difficult. Retailers reluctant to add new lines and take inventory risk as customers spend less time shopping in store



Retail Support

- **Zoom training meetings with multiple stores and a single vendor.**
- **Evening “happy hours” with multiple stores sharing ideas and receiving training.**
- **Helping stores identify and carry products that are not found online or from manufacturers that focus on Brick & Mortar retailers.**
- **Increased online ordering for retailers.**
- **Focus on core fundamentals—strong fill rates, competitive prices, training, new lines.**
- **Overall, the positives are relationships did not change and Distributors’ business has been “strong and steady.”**

Retail Channels

- Every channel is up.
- E-comm, Club, Farm/Fleet, FDM—skyrocketed
 - 47% of pet owners report they increased the number of times they purchased pet products online in 2020
- Pet specialty and independent—good growth
- Total retail sales up 6.7% in 2020
 - 30% of pet owners spent more on their pet/pet supplies in the past year; only 10% say they spent less

2021 Outlook

- **Bullish outlook for this year & next.**
- **Growth projected at 5.8% for the year. Above historical averages.**



How Do You Get Your Share?

Pet Care Driven by Positive Emotion – Pets Make Us Feel Better

- Retailers need to connect with pet owners on an emotional level to keep them coming back.
- “Unified commerce” – ability to engage one-on-one with consumer
- Create “customer stickiness”



Consumers Have Learned That They Don't Need To Shop In A Store – It's A Choice

- But if you give them a reason to, they will be loyal.
- Trends that are likely here to stay:
 - Buy online, pick-up in-store – same day beats most e-comm sites
 - Across all categories, approximate 60%/40% split for purchase item online, pickup up at store vs. delivered to home
 - Loyalty benefits
 - Home delivery options
- Must have functional website to facilitate BOLPUS

Invest In Your Business Now!

- **Be nimble – know what your customers need**
- **Convenience – “Puppy Pack” for new dog owners**
- **Don’t over-extend on inventory, but put big bets on what you need to serve your customers**
- **Services to drive traffic**

Size Of The Industry 2021

	2021 Estimate %	2021 Estimate \$
Pet Food and Treats	5%	\$44.1
Supplies, Live, and OTC Meds	6%	\$23.4
Vet Care & Product Sales	3%	\$32.3
Other Services	20%	\$9.7
TOTAL	5.8%	\$109.6