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

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2019</th>
<th>$ CHG</th>
<th>% CHG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pet Food and Treats</td>
<td>42.0</td>
<td>38.3</td>
<td>$3.7</td>
<td>9.7%</td>
</tr>
<tr>
<td>Supplies, Live, and OTC Meds</td>
<td>22.1</td>
<td>19.2</td>
<td>$2.9</td>
<td>15.1%</td>
</tr>
<tr>
<td>Vet Care &amp; Product Sales</td>
<td>31.4</td>
<td>29.3</td>
<td>$2.1</td>
<td>7.2%</td>
</tr>
<tr>
<td>Other Services</td>
<td>8.1</td>
<td>10.3</td>
<td>$(2.2)</td>
<td>-21.4%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>103.6</td>
<td>97.1</td>
<td>6.5</td>
<td>6.7%</td>
</tr>
</tbody>
</table>
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

- 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

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<tr>
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<th>2021 Estimate %</th>
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<tbody>
<tr>
<td>Pet Food and Treats</td>
<td>5%</td>
<td>$44.1</td>
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<tr>
<td>Supplies, Live, and OTC Meds</td>
<td>6%</td>
<td>$23.4</td>
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<tr>
<td>Vet Care &amp; Product Sales</td>
<td>3%</td>
<td>$32.3</td>
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<tr>
<td>Other Services</td>
<td>20%</td>
<td>$9.7</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5.8%</strong></td>
<td><strong>$109.6</strong></td>
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