Trends and Insights on the U.S. Pet Retail Market

Growth Drivers and Opportunities for the Industry

AGENDA

1. **About GfK**
2. **The Pet Specialty Landscape**
3. **Pet Retail - 2013 Trends**

    Natural Growth

    Grain-free

    Fresh

    Special Needs

4. **Summary**

About GfK

GfK is the 4th largest research company in the world

Sales

- 2012: $1.9 billion USD, +6.2% growth YOY
- 4th largest research company, worldwide

Employees

- 13,000 full-time staff
- Over 1,000 in the U.S.; approximately 80% outside Germany

Global Coverage

- Operating in over 100 countries

Services

- **Consumer Choices** focuses on **syndicated research**
  - Comprehensive information services on consumer goods, healthcare, media and services markets
- **Consumer Experiences** focuses on **primary research**
  - Ad hoc research to address client business issues
  - Marketing consultancy

Pet Industry Partnership Model

Our Independent Position in the Pet Specialty Industry

Retailers

- Send GfK their data
- Receive market and bench-mark reports

Data-based Discussions

Manufacturers

- Subscribe to market reports
- Make informed business decisions using data

Data Exchange Relationship

Data-based Consultancy

GfK

- Receive data from retailers
- Produce market reports, analyse, & consult on market insights

petsense

bomgaars

PETSMART

PETCO

WELLNESS

Hill's

Merrick

BLUE

Delivering Trends and Insights

- Sales tracking in key pet specialty channels:
  - Pet Retail
  - Veterinarian Clinics
  - Farm & Feed Stores
- Product coverage includes:
  - Dog and Cat Food
  - Snacks/Treats
  - Cat Litter
  - Flea & Tick products
- Our insights are a common currency for the Petfood Industry

Applications: How the Industry utilizes our data

Market Sizing
units, dollars or pounds

Feature Trends
natural, organic, freeze-dried, grain-free

Pricing
sales per unit / per pound

Brand Trends
manufacturer, brand or sub-brand

Bench-marking
my performance compared to competitors / market

Retail Negotiations
shelf space

Promotional Activities

Forecasting

Product Development

Distribution
weighted & unweighted

The Foundation

Robust Product Coding

Manufacturer
Nature's Variety

Brand
Instinct

Consistency
Dry

Species
Cat

Flavor
Chicken

7 69949 65741 5

UPC
6994965741

Weight
15lbs

Food Type
Full Meal

Container
Bag

Grain-free
Other

Special Need
General Health

Preservation
Freeze-Dried

Storage
Refrigerated

Life Stage
All Life Stages

The Pet Specialty Landscape

The Pet Specialty Landscape

A channel that continues to grow…

Pet Food $11.8bn*

*Year End December 2013

Pet Retail
$7.3Bn
+6.5% YOY

Vet Clinics
$1.5Bn
+7.6% YOY

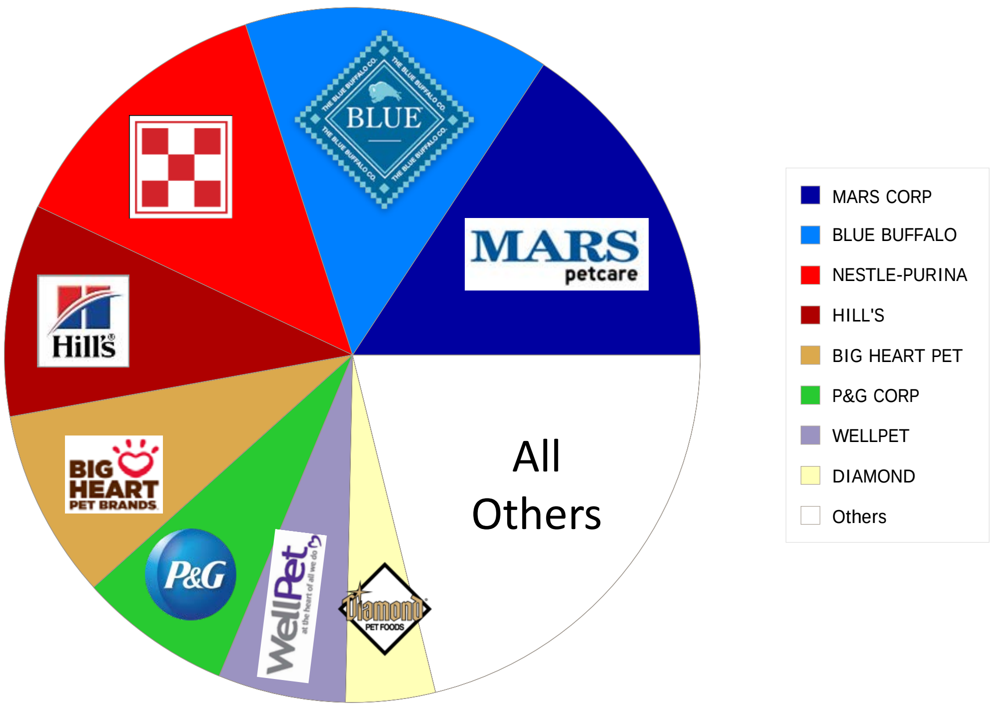
Farm Feed
$3Bn
Estimate only

Pet Retail – 2013 Trends

Narrowing the Focus – Pet Retail 2013

The Key Players

2013 Pet Food Manufacturer Landscape $ Share



- 8 Pet Food Companies generate 80% of all volume in Pet Retail
- Mars Petcare, Blue Buffalo, Purina and Hill's Pet Nutrition account for more than 50% of market share
- The remaining 20% consists of a highly fragmented manufacturer landscape with many small manufacturers & brands

Pet Food Sales in Pet Retail 2013 -- $7.3Bn

By Species

$1.5Bn, +3.6%
572MM Pounds, **-3.0%**

$5.8Bn, +7.2%
2.9MM Pounds, **-1.2%**

By Food Type

$5.2Bn, **+6.0%**
2.9Bn Pounds, **-1.4%**

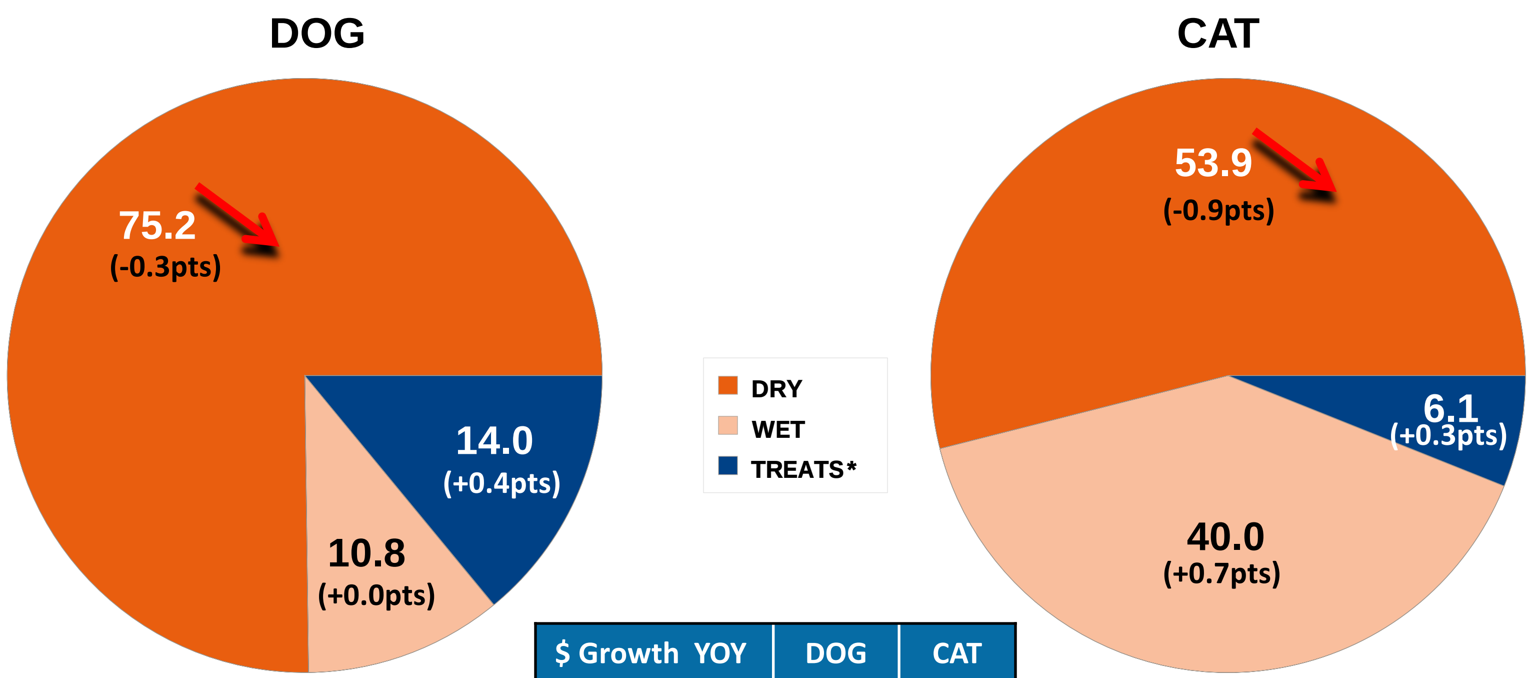
$1.2Bn, **+6.2%**
443MM Pounds, **-1.2%**

$868MM, **+9.9%**
101MM Pounds, **-3.0%**

$38MM, **+13.0%**
1MM Pounds, **+16.5%**

All segments drive growth, most especially treats and wet foods.
Cat Dry is the segment which contributes the least growth to the overall category.

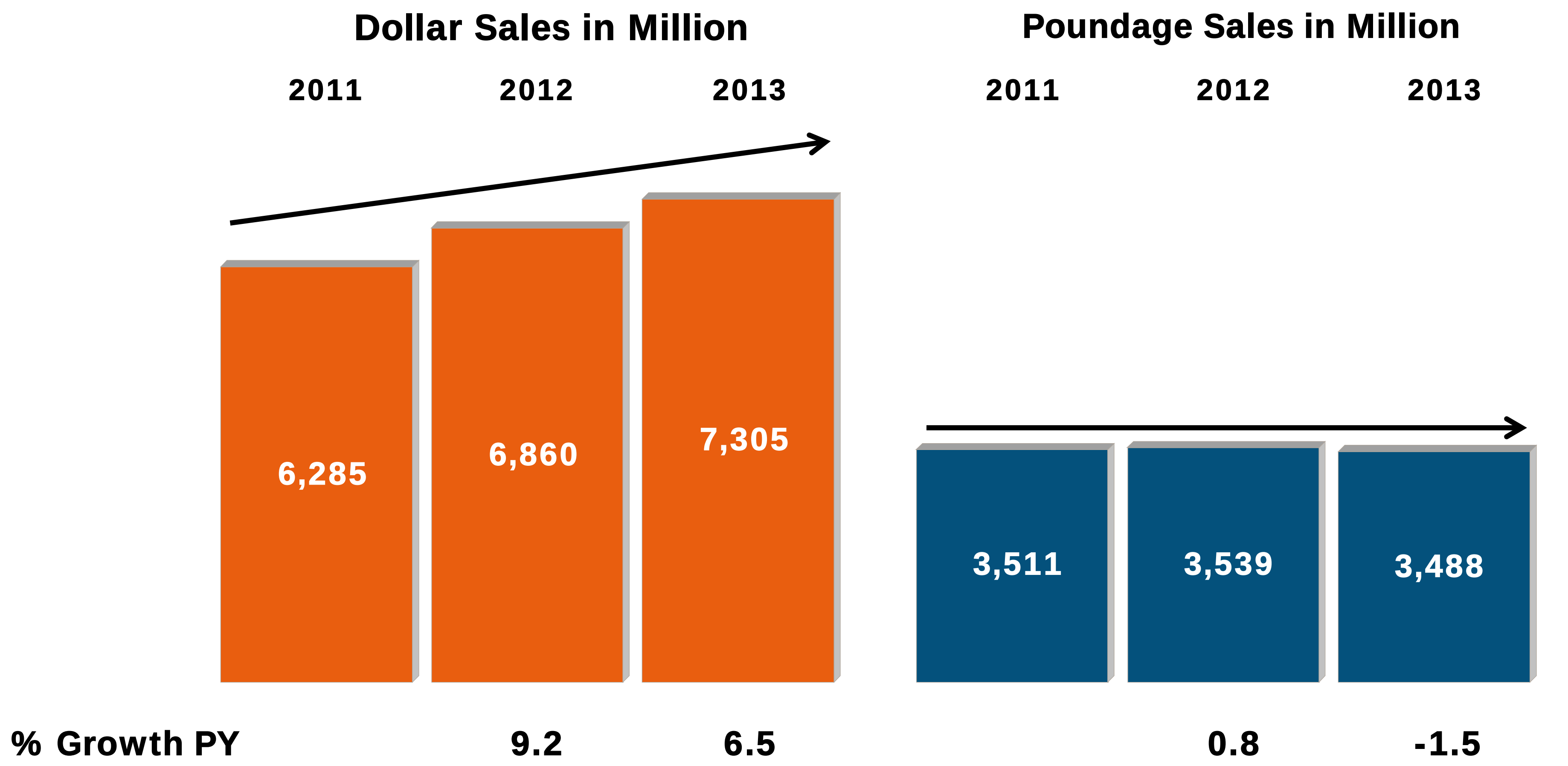
2013 Segment Dollar Share + YOY Growth



$ Growth YOY	DOG	CAT
TOTAL	7.2%	3.6%
DRY	6.7%	2.0%
WET	7.1%	5.4%
TREATS*	10.3%	7.9%

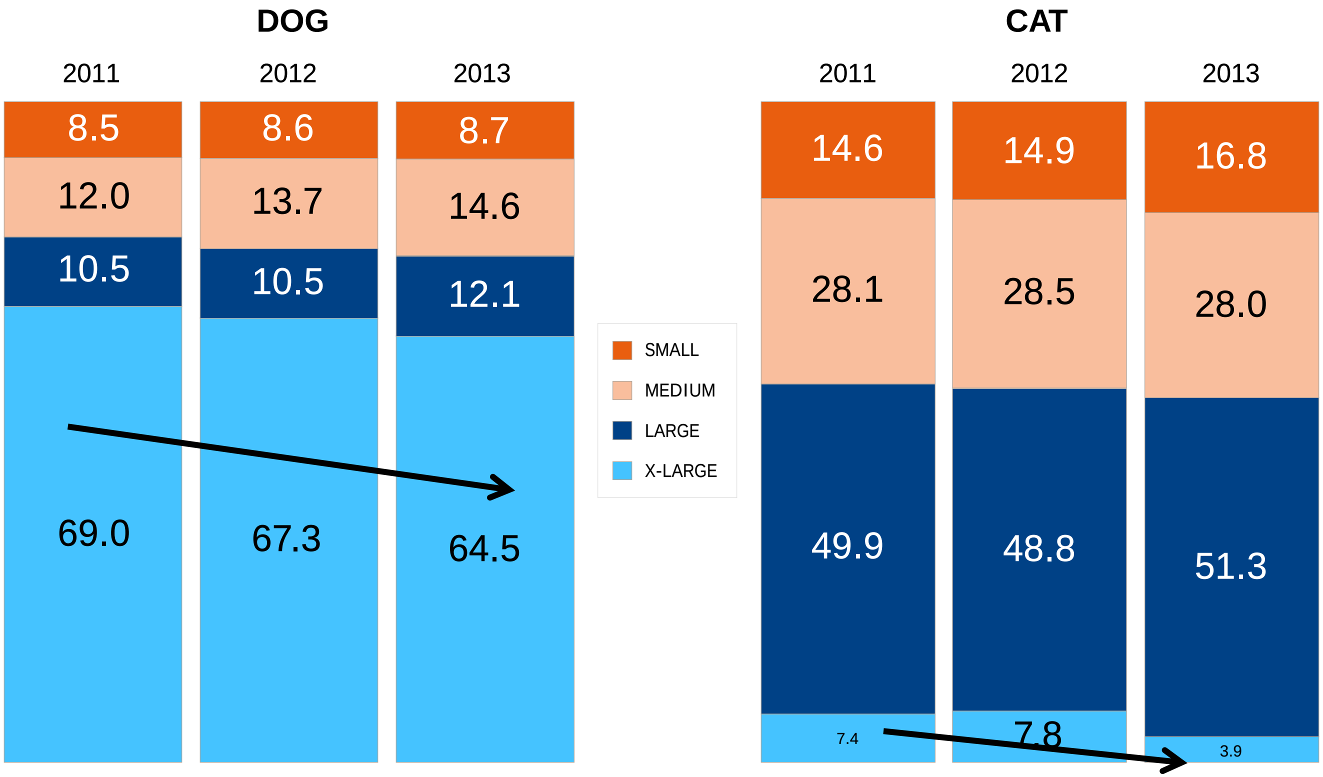
Treats*: Pill Pocket sales included in Treat Sales

Premium products continue to drive $ value growth in Pet Retail, while poundage sales declined in 2013 YOY.



Decline of extra large bags is one of the reasons for flat/negative poundage sales growth

Sales Trend by Bag Size by Species (Dry Food Only) - Poundage Share

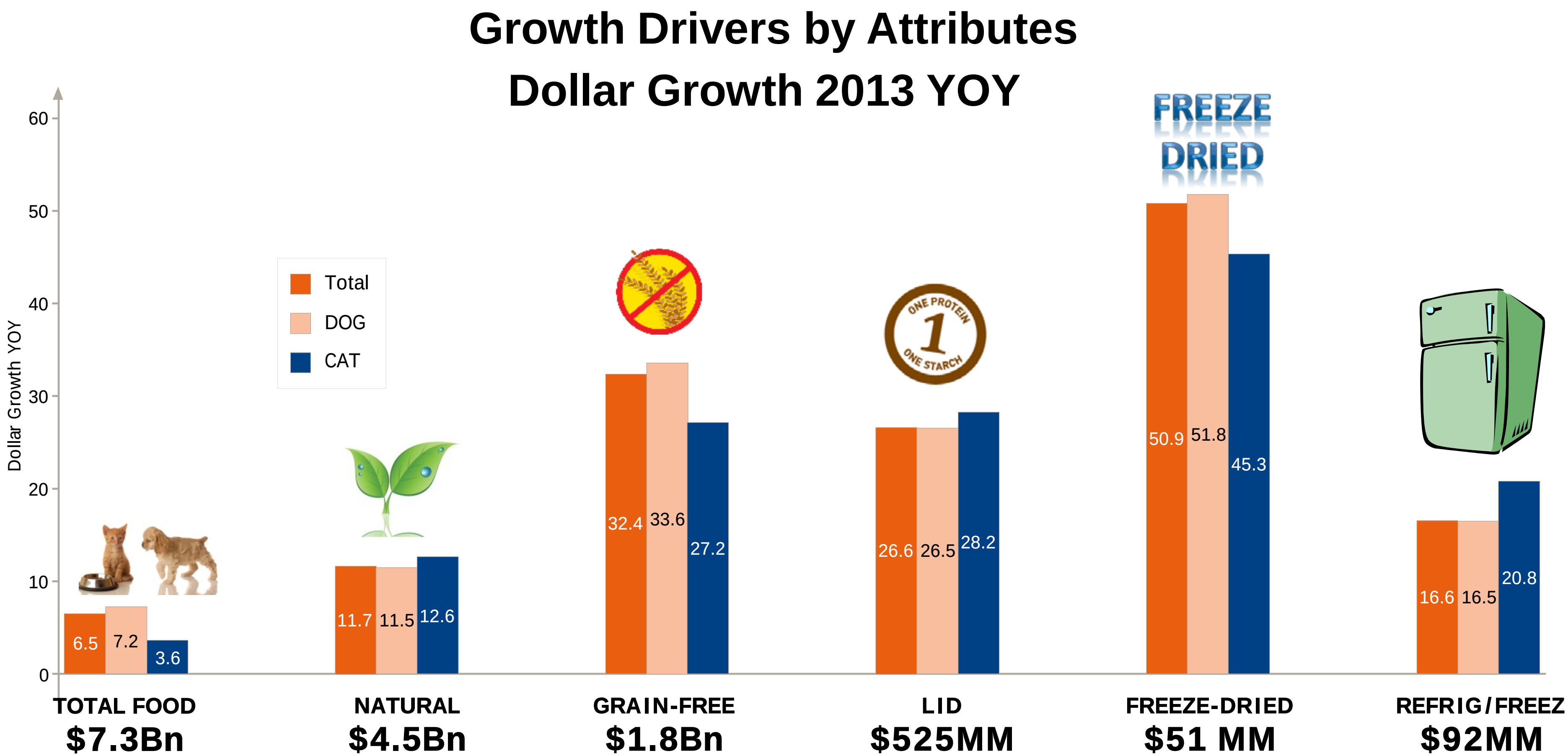


DOG
Small: 0 – 7.5 lbs
Medium: 7.5 – 15.5 lbs
Large: 15.5 lbs – 25 lbs
X-Large: > 26 lbs

CAT
Small: 0 – 5 lbs
Medium: 5 – 10 lbs
Large: 10 lbs – 18 lbs
X-Large: > 18 lbs

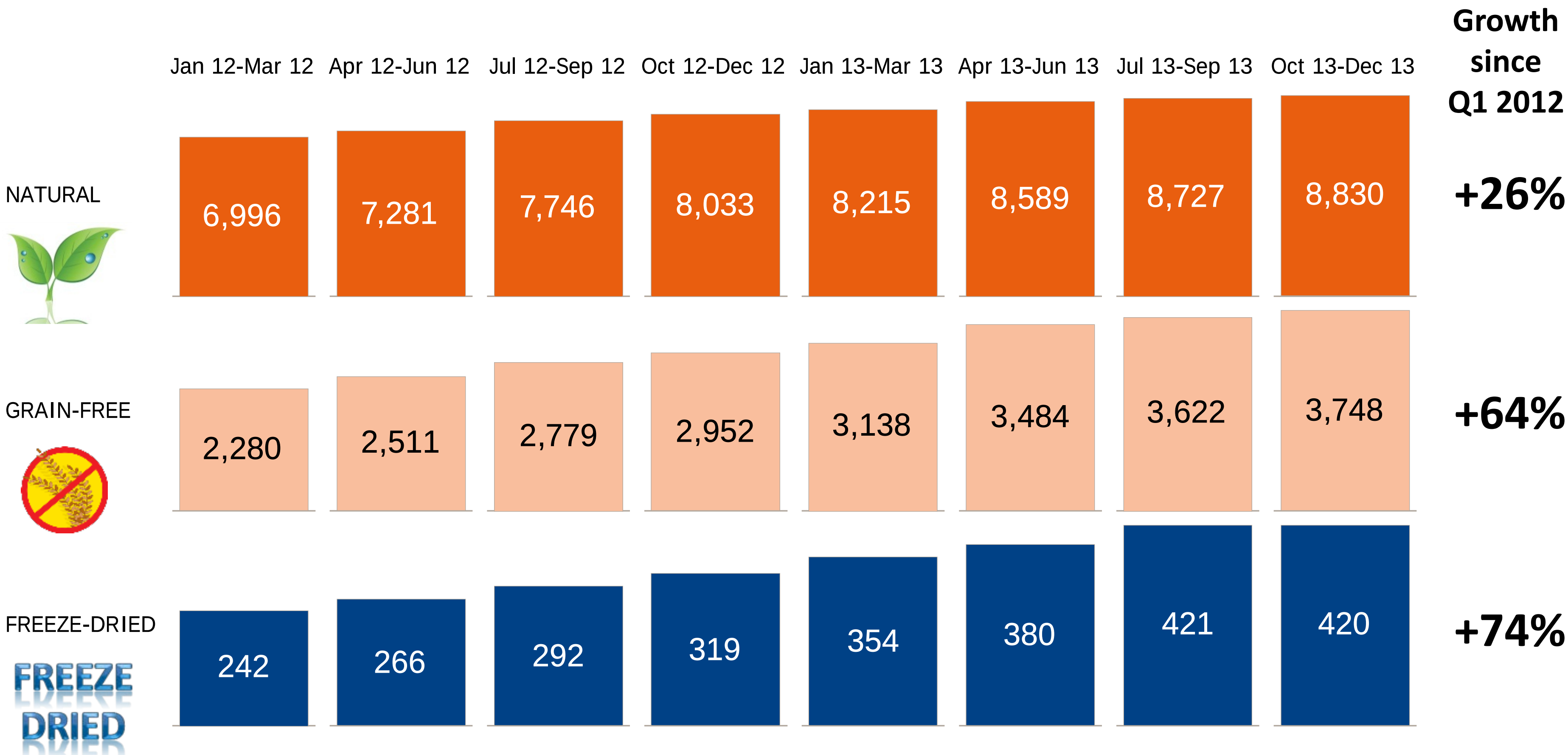
PRJ 114710 - RG 3856404 - RP 21464889 - ID 406038971

Natural, grain-free, limited ingredient diets and freeze-dried products are driving $ sales growth for pet food.



of Items by Attribute

The market is seeing rapid growth for grain-free and freeze-dried items



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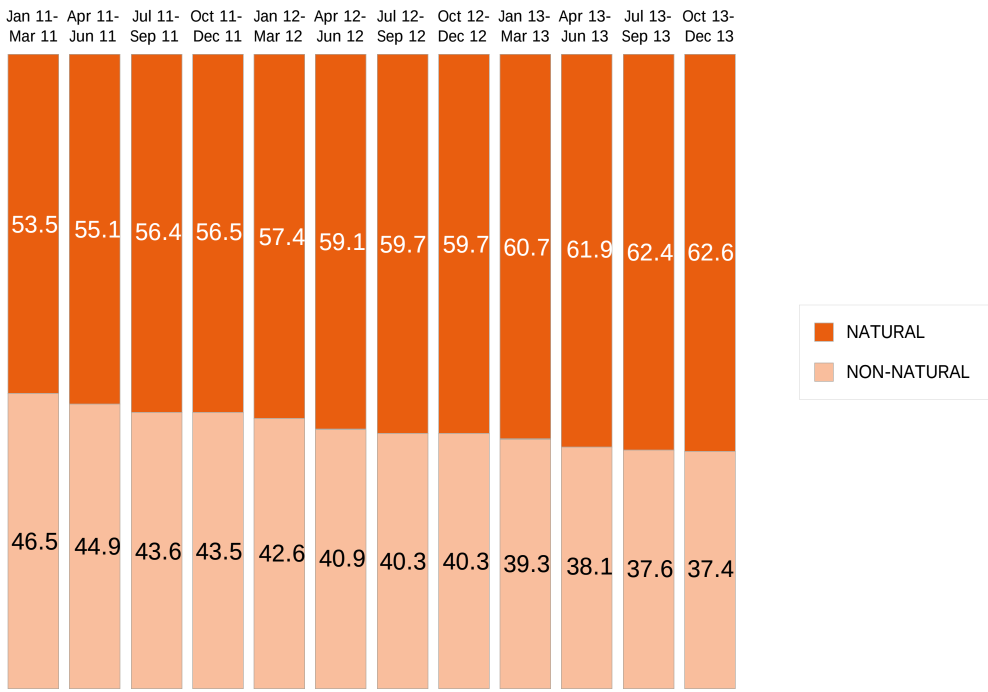
Natural Growth

Natural products are driving category growth at 11.7% YOY and account for $4.5Bn in sales annually. While more than 2/3 of all dog food sales are natural, only 41% of cat food sales are natural.

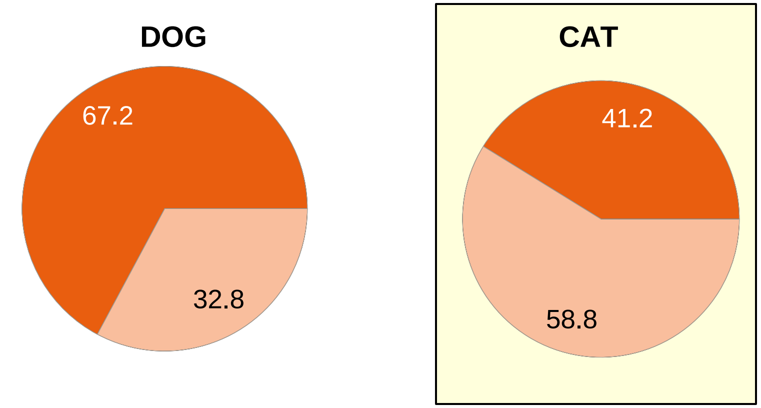
Natural vs. Non-Natural $ Share Quarterly



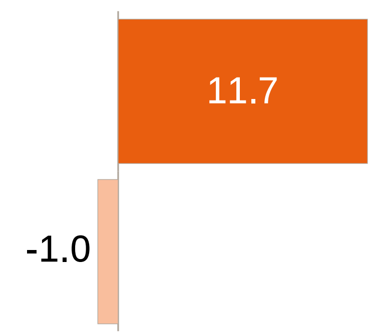
812	833	869	967	966	994	1,017	1,072	1,099	1,117	1,127	1,179	$ in MM NATURAL
707	679	672	745	716	688	685	722	712	688	680	704	$ in MM NON-NATURAL

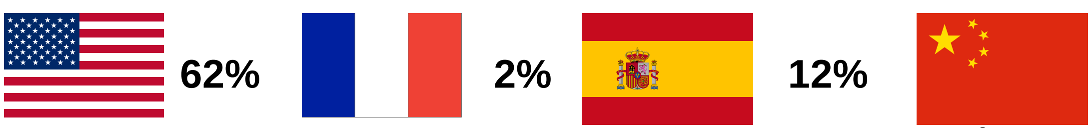
$4.5 Bn

2013 Natural vs. Non-Natural Share by Species



$ Growth Rate 2013 YOY



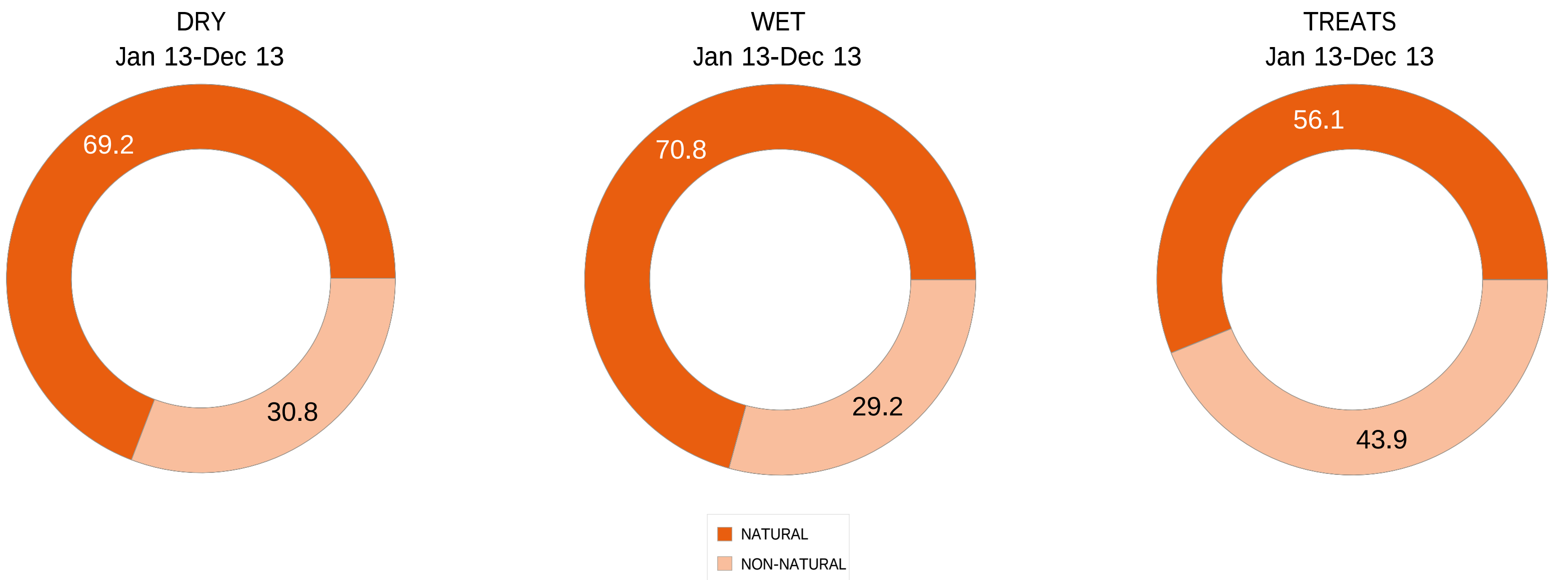


USA 62% **France** 2% **Spain** 12% **China** 8%

DOG FOOD – Natural vs. Non-Natural

Natural brands generate the majority of sales within the Dog Dry and Dog Wet segment

Natural Dog Treats represent a sales opportunity for the industry



Rank	Brand (Dog Dry)
1	Blue
2	Science Diet
3	Natural Choice
4	Natural Balance
5	Pro Plan

Rank	Brand (Dog Wet)
1	Science Diet
2	Blue
3	Natural Balance
4	Wellness
5	Merrick

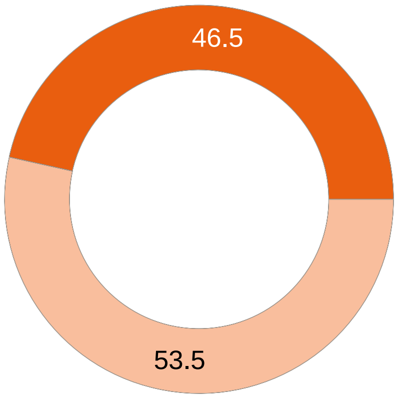
Rank	Brand (Dog Treats)
1	Greenies
2	Dogswell
3	Blue
4	Milk-Bone
5	Pedigree

CAT FOOD – Natural vs. Non-Natural

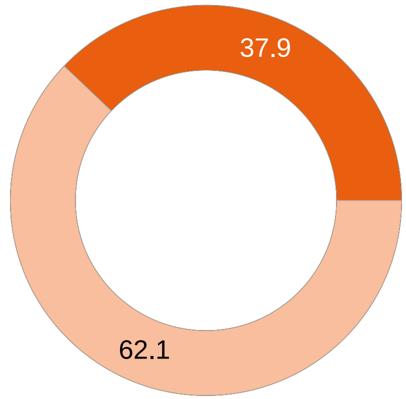
Non-Natural brands still generate the majority of sales

There is a larger opportunity for Natural Cat food sales to grow in all segments

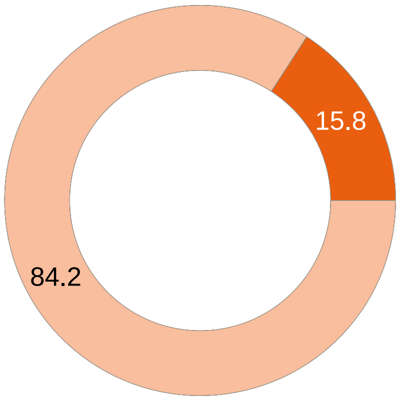
DRY
Jan 13-Dec 13



WET
Jan 13-Dec 13



TREATS
Jan 13-Dec 13



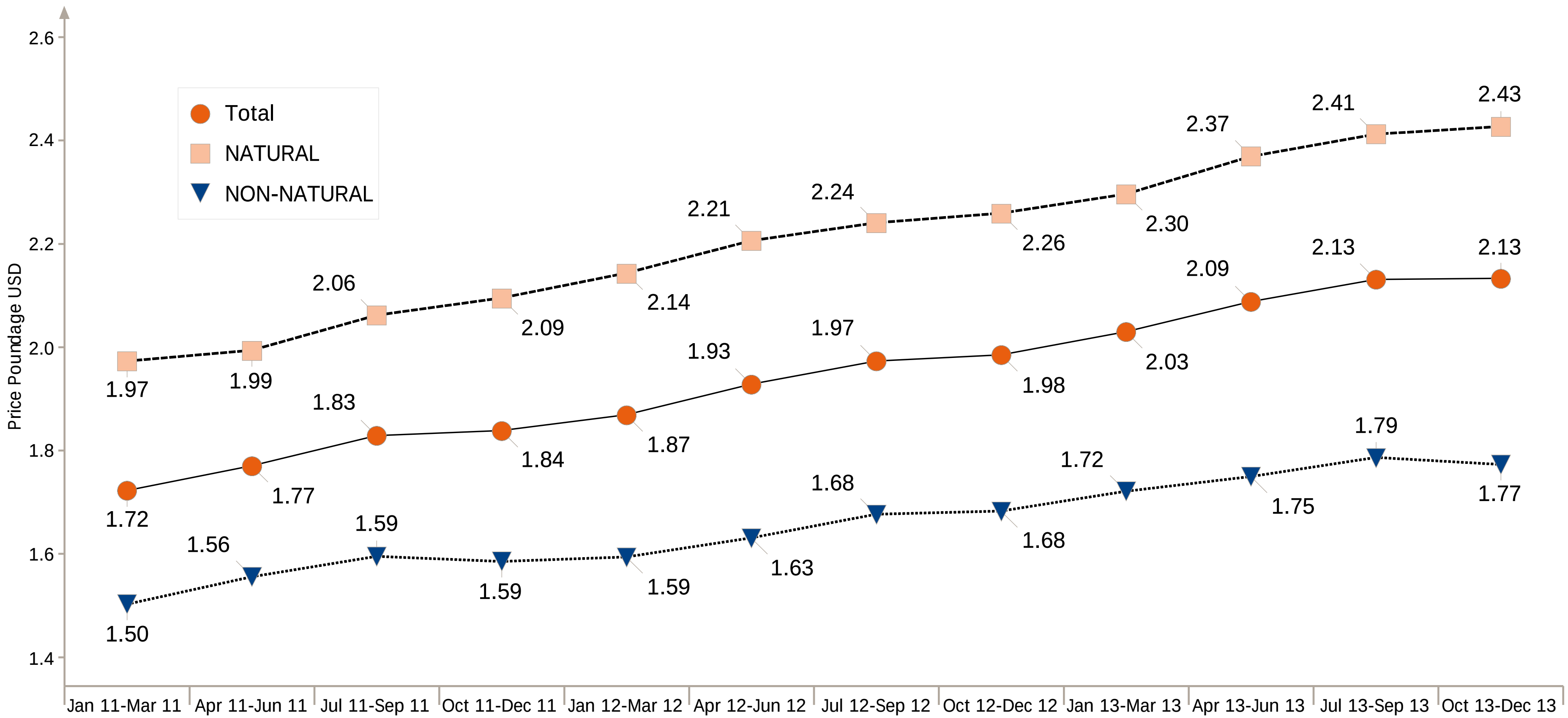
NATURAL
NON-NATURAL

Rank	Brand (Cat Dry)
1	Science Diet
2	Blue
3	Iams
4	Blue Wilderness
5	Royal Canin

Rank	Brand (Cat Wet)
1	Fancy Feast
2	Friskies
3	Wellness
4	Pro Plan
5	Science Diet

Rank	Brand (Cat Treats)
1	Whiskas
2	Greenies
3	Friskies
4	Fancy Feast
5	Whisker Lickins

Premium, natural products have driven up the **average price per pound** for pet food by **24% since 2011** (7.5% since Q4 2013). Even **non-natural products** have become **more premium** – at a 17% price increase.

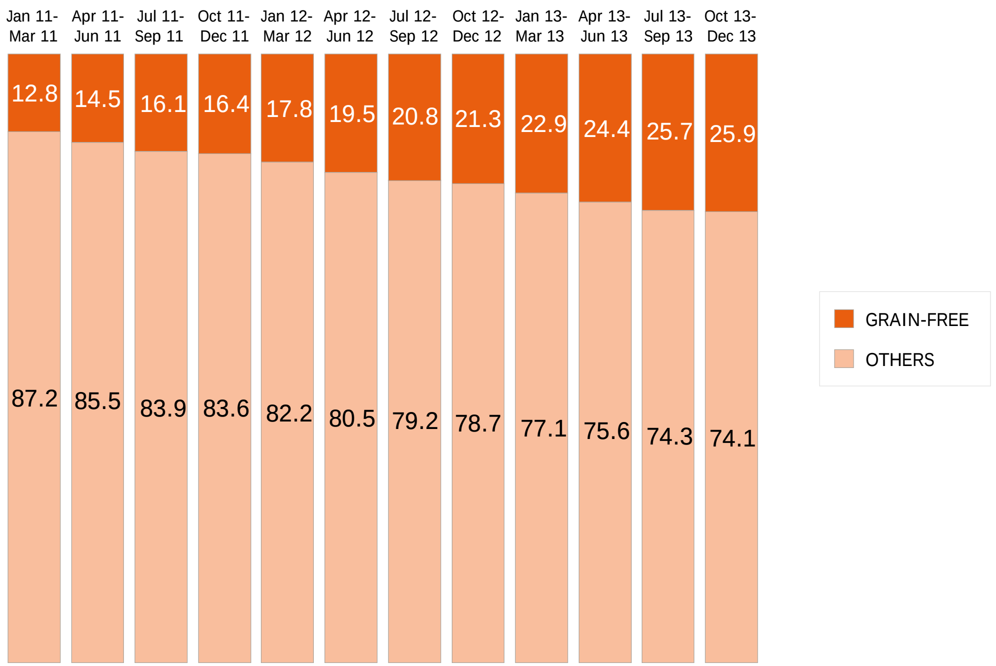


PRJ 114710 - RG 3856404 - RP 21048604 - ID 402014448

Grain-free

Sales for grain-free pet food diets are growing rapidly; at 32.4% YOY and account for $1.8 Billion annually. More than a quarter of all pet food sales are generated by grain-free products.

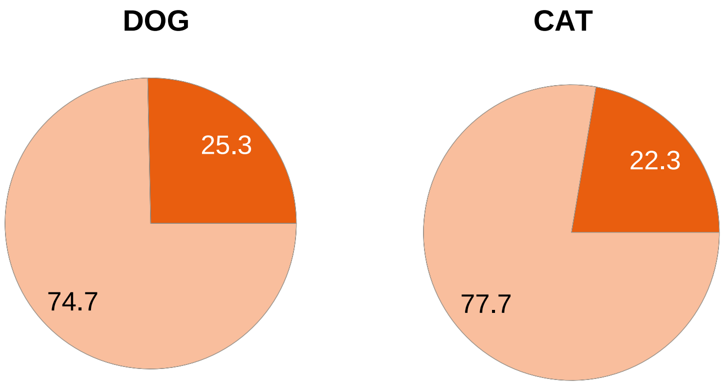
Grain-free vs. Not Grain-free $ Share Quarterly



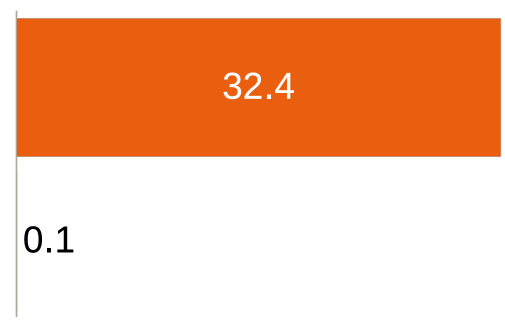
195	219	247	280	299	328	354	383	414	439	464	488	$ in MM GRAIN-FREE
1,324	1,293	1,294	1,432	1,382	1,353	1,348	1,411	1,397	1,365	1,343	1,395	$ in MM OTHERS

$1.8 Bn

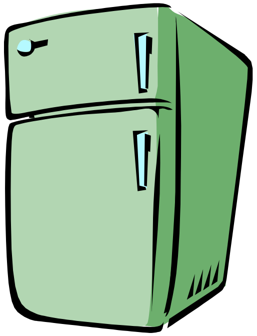
2013 Grain-free vs. Not Grain-free by Species



$ Growth Rate 2013 YOY

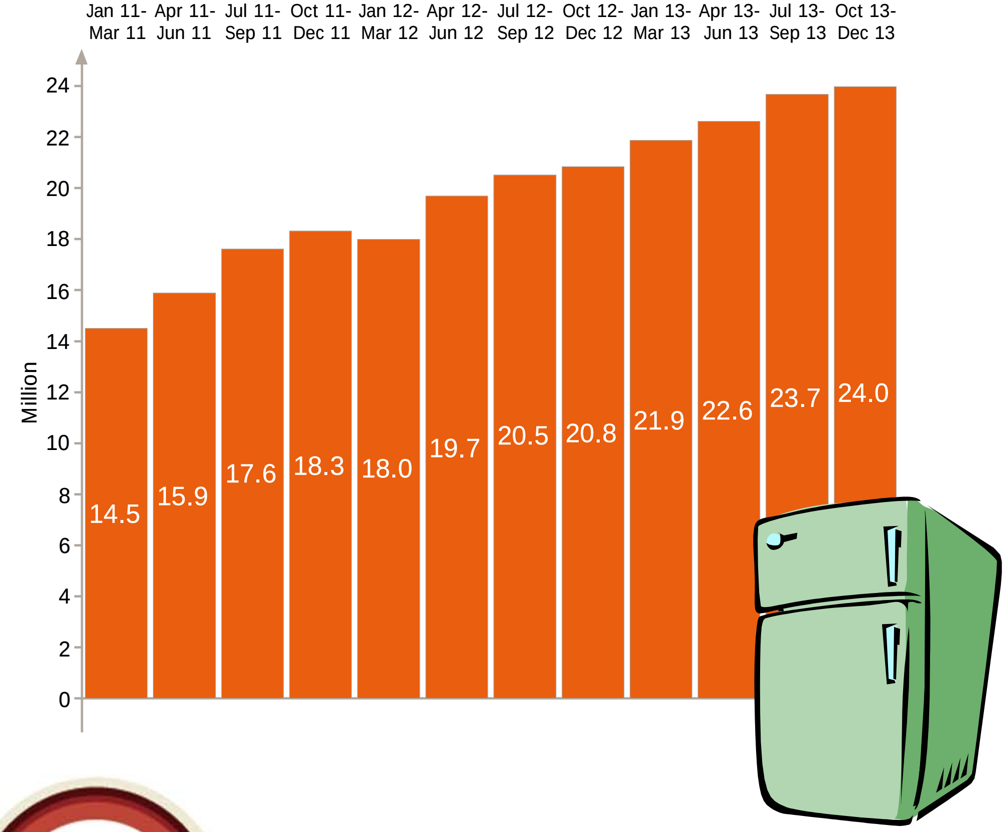


Fresh

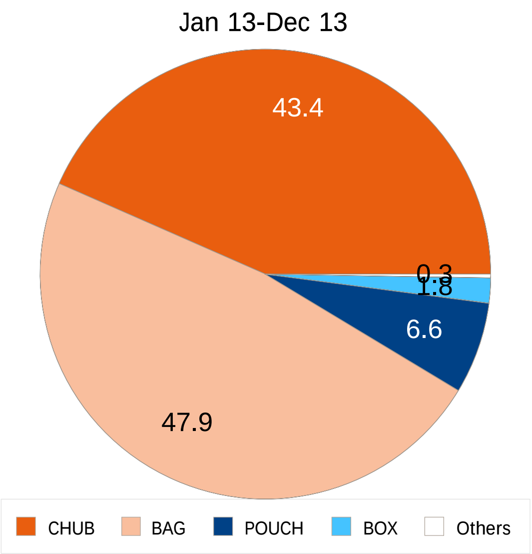


Refrigerated pet food racked up about $92MM in 2013 compared to $34MM in 2011. The size of the market has nearly tripled over the last 3 years, underlining the importance of this segment. Chubs/food rolls account for about 43% of all sales.

Growth of Refrigerated Pet Food In Pet Retail



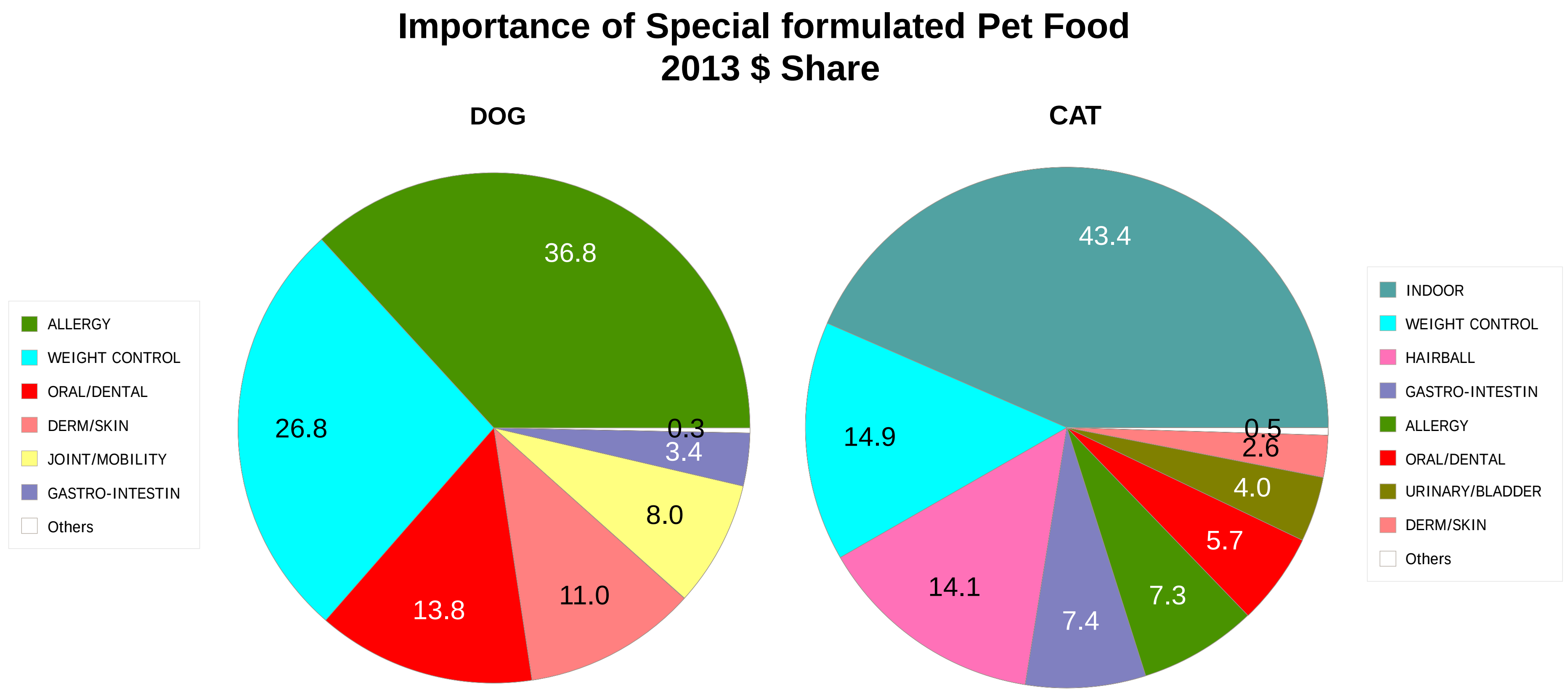
Best-Selling ($ Share 2013) Type of Refrigerated Food



PRJ 114710 - RG 3856404 - RP 20989552 - ID 401041312

Special Needs

Dog foods formulated to treat allergies are the most purchased special need product for dogs. For Cat foods, Indoor diets rack up the most Dollars. Weight Control formulas account for the second largest sales in Pet Retail for both species.



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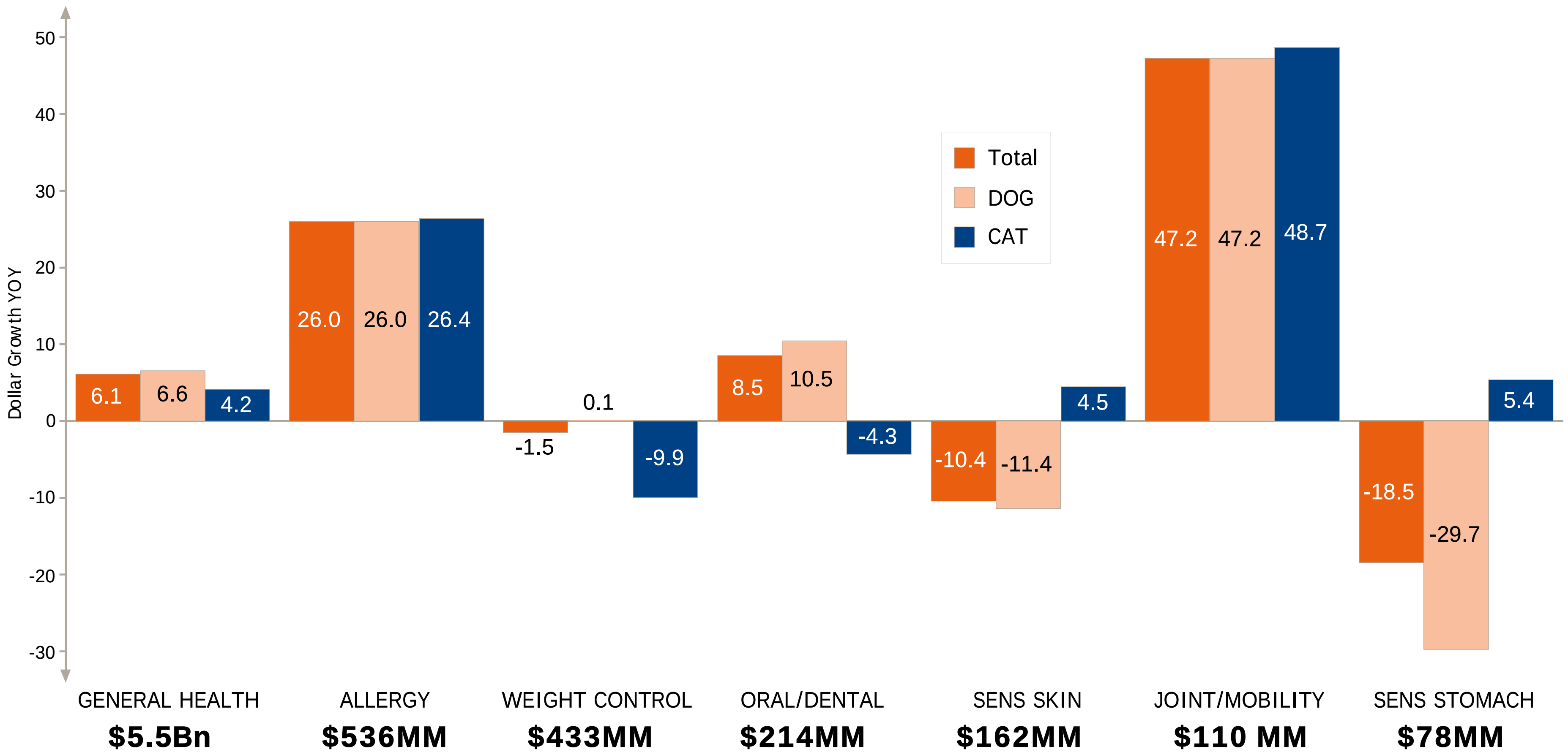
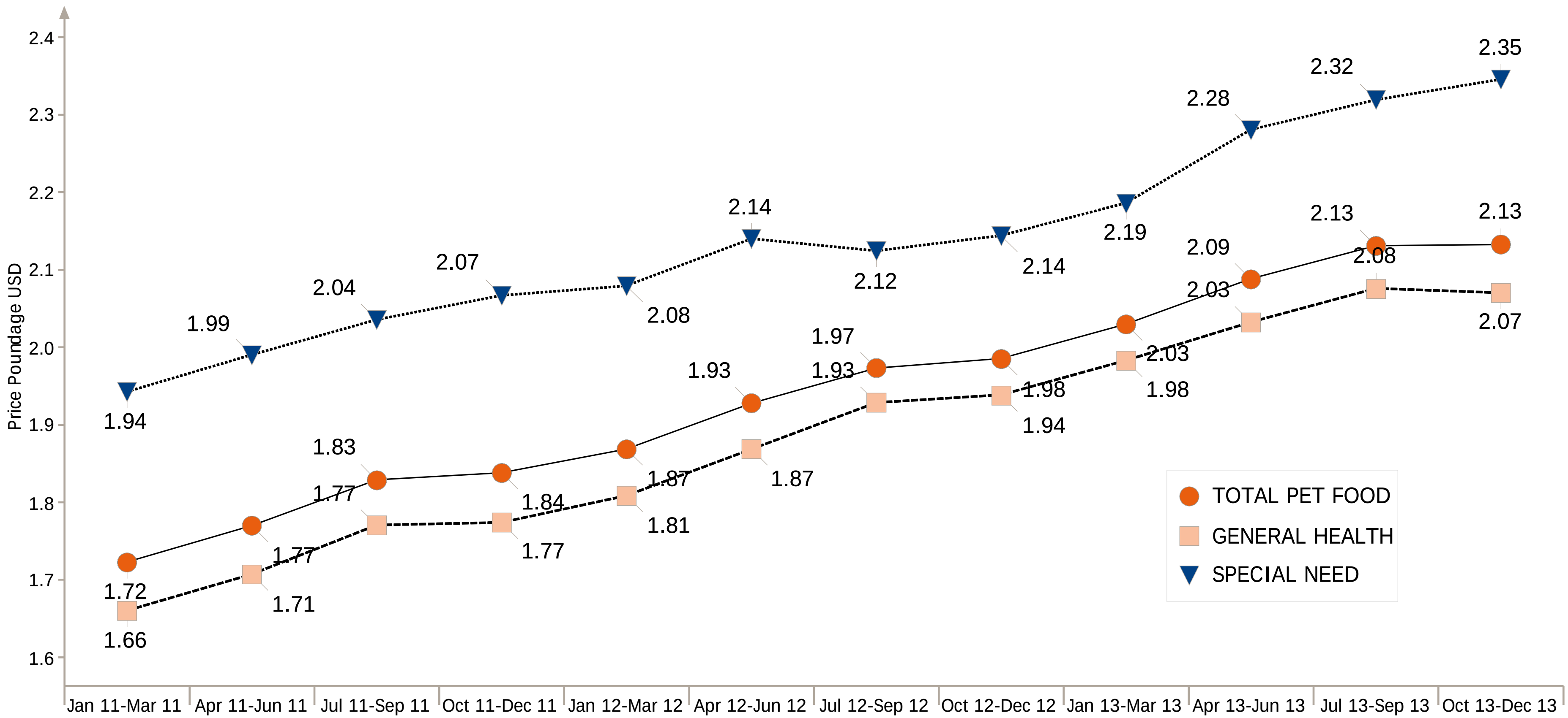
Sales for Dog and Cat products that treat specific allergies are growing at 26% YOY. Joint & Mobility formulated diets, although a very small market, have shown the strongest growth in sales YOY.

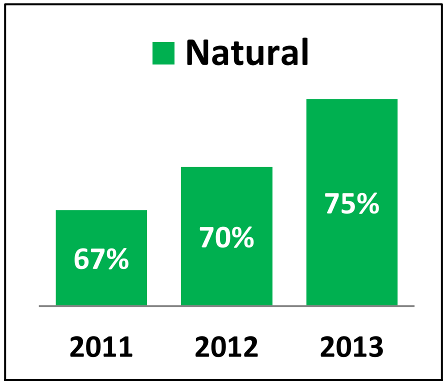


Food that is formulated to support a special need sells for about 14% more than “General Healthy” pet food diets.

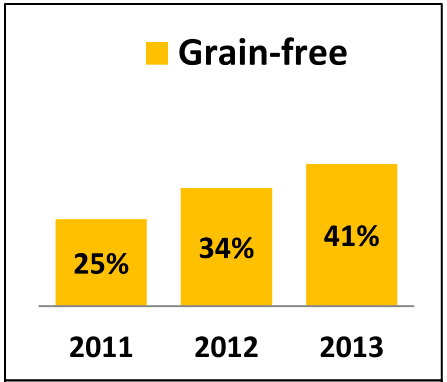


PRJ 114710 - RG 3856404 - RP 21115601 - ID 402571841

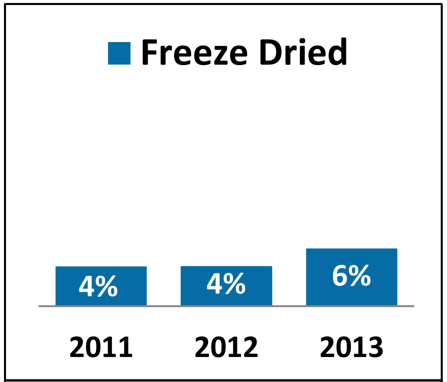
New Item Trends
The growing premium market



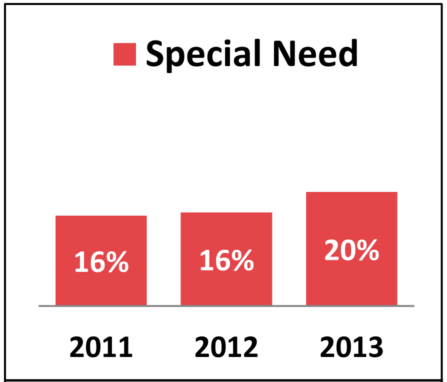
Natural



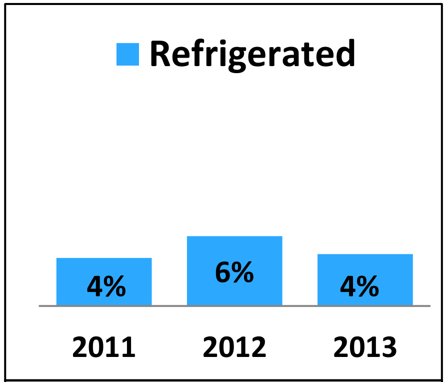
Grain-free



Premium

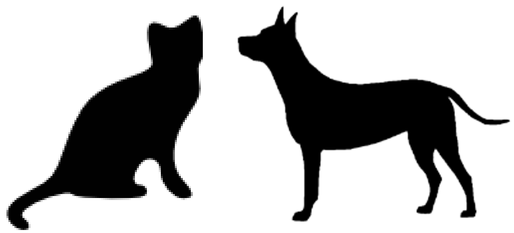


Specialized



Fresh

2013 Pet Retail Trends

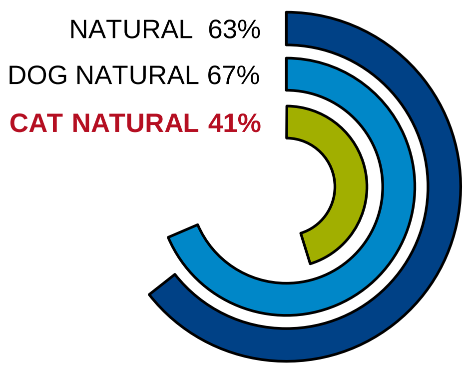


$1.5Bn

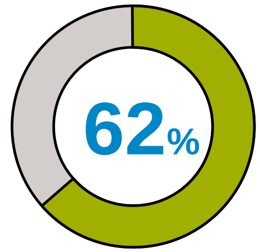
Cat food sales in Pet Retail account for **21%**

$5.8Bn

Dog food sales in Pet Retail account for **79%**

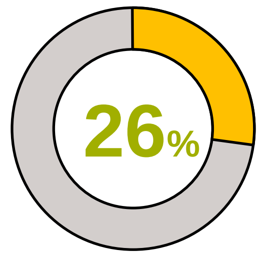


Great **opportunity** to grow **Natural Cat** food sales in Pet Retail.



NATURAL

growing at 11.7% YOY



GRAIN-FREE

growing at 32% YOY

Pet Food sales in Pet Retail

$7.3Bn

... growing at ...

7.6%

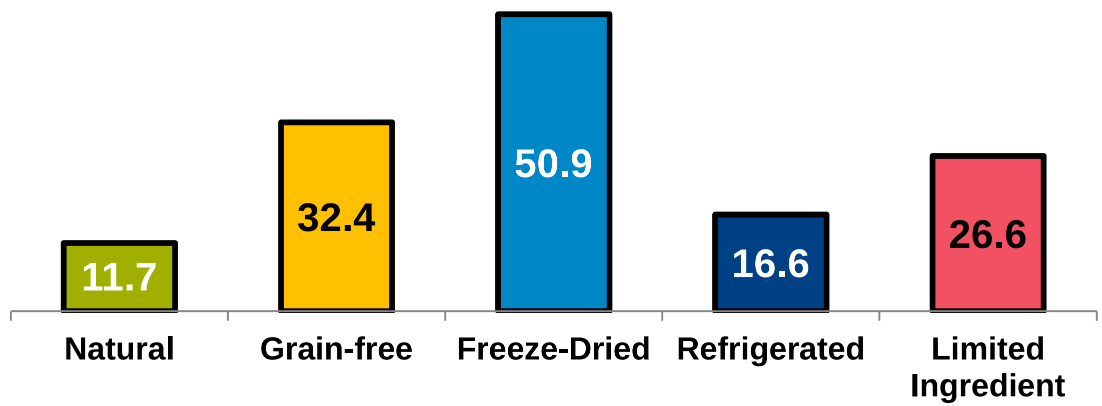
$ Growth for Special Needs

26 % **ALLERGY**

47 % **JOINT SUPPORT**

Natural – Grain-free – Premium – Fresh – Specialized

Rapid $ Growth in 2013 YOY



Thank you!

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