



Pet Essential Nutrition Quarterly

Q2 2017



CBNA Congress Brazil

I recently attended the 16th CBNA congress in Brazil, one of the largest pet industry events held in this country. It was organized by Brazilian College of Animal Nutrition.



This focus was a clear indication that the humanization trend is becoming stronger in the Brazilian pet food market, driven by pet owners focused on better health and longevity for their pets.

It was a great opportunity to meet pet food manufacturers and colleagues from the pet industry and exchange market insights and opinions.

Sincerely,
Emily Baskerville,
Account Manager, Pet Nutrition, Brazil

The congress was held on May 10-11 in Campinas, São Paulo and had attendees from Brazil and other South America countries. It was a great pleasure to sponsor the event and attend the speech of our colleague Dr. Shiguang Yu on the subject of vitamin losses in the pet food process. Besides the congress there was also a trade show with exhibits from ingredients suppliers.

Overall, there was a focus on discussing what will be the new technologies and functional ingredients for pet nutrition of the future.



Sustainability as a DSM Strategy

DSM is aiming to improve peoples’ lives and environmental impact, through the way we take care of our people and own operations, and how we translate this into products and innovations.

The world has joined forces in 2015 by defining 17 common Sustainable Development Goals (SDGs), adopted by the United Nations. The SDGs cover a 15 year time frame to 2030 and include 169 targets. DSM contributes to all goals but particularly focusses on the following SDGs: SDG 2: No Hunger, SDG 3: Good Health, SDG 7: Renewable Energy/ SDG 13: Climate Action and SDG 12: Responsible Consumption and Production.

SUSTAINABLE DEVELOPMENT GOALS

Society is faced with challenges, and business has an increasingly important responsibility to contribute by addressing these societal challenges. By anticipating the global trends and societal issues with its portfolio of products and services, DSM wants to create positive societal impact and further develop a sustainable business.

<p>Key Sustainability Focus Areas:</p> <ul style="list-style-type: none"> • Nutrition • Climate Change and Renewable Energy • Circular and Bio-Based Economy 	<p>Securing Sustainable Operations</p> <table border="1"> <thead> <tr> <th>Operation Aspirations</th> <th>Long-Term Goals</th> </tr> </thead> <tbody> <tr> <td>• Leading in reporting benchmarks</td> <td>Gold Class DJSI</td> </tr> <tr> <td>• GHG efficiency improvements</td> <td>40-45% (2008-2025)</td> </tr> <tr> <td>• Energy efficiency improvements</td> <td>>10% (2016-2025)</td> </tr> <tr> <td>• Purchased electricity from renewables</td> <td>50% by 2025</td> </tr> <tr> <td>• Employee engagement favorable score</td> <td>75% by 2020</td> </tr> <tr> <td>• Safety: Frequency recordable index</td> <td><25 by 2020</td> </tr> </tbody> </table>	Operation Aspirations	Long-Term Goals	• Leading in reporting benchmarks	Gold Class DJSI	• GHG efficiency improvements	40-45% (2008-2025)	• Energy efficiency improvements	>10% (2016-2025)	• Purchased electricity from renewables	50% by 2025	• Employee engagement favorable score	75% by 2020	• Safety: Frequency recordable index	<25 by 2020
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<p>Sustainability as Business Growth Driver</p> <ul style="list-style-type: none"> • Brighter Living Solutions: Eco+ and People+ • Profitable Solutions Better for People and Planet • Aspiration: 65% of DSM Products by 2020 															

Our key sustainable focus areas: ‘Nutrition’, ‘Climate change & renewable energy’ and ‘Circular and bio-based economy’ create the right market context in which DSM’s solutions can flourish. Sustainability then becomes a business growth driver and defines operational aspirations.

With Sustainability as a Business Growth Driver at DSM, we offer our customers sustainable and scalable solutions, integrating sustainability benefits in our value propositions and customer engagement.

Our Brighter Living Solutions are measurably better for the planet (Eco+) and people (People+). This strategy is aimed at driving profitable growth through science-based, sustainable solutions addressing the global societal issues of our time. Taking an example from our animal nutrition and health business, new ingredients from our Clean Cow dairy industry initiative demonstrated a 30% plus reduction in methane emissions and increases milk production, with no negative impact on animal welfare. We also strive for 65% of our products to have a measurably better impact on planet or people than competitors, based on standardized sustainability metrics.

DSM’s Sustainability strategy is rooted in securing safe and sustainable operations, and an engaged workforce. Within our sites and factories we aim for substantial greenhouse gas (GHG) emissions and energy improvement, and we aim to reach more renewable electricity and high employee safety and engagement. This is exemplified in our Dalry Scotland vitamin C production facility where the cradle to gate footprint of our product is lower than competing products. The smaller environmental footprint is possible because of superior emission control and waste water management, and an efficient heat and power station that exports electricity to the grid and receives credits for avoided electricity from other sources. DSM is building on strong foundations to secure our position as a sustainable company.

Apart from its focus on action to mitigate climate change, DSM recognizes resource scarcity as an important societal issue. To secure future availability of natural resources, we need to apply principles of careful resource management and unlock more value from the limited resources that are available. DSM has the opportunity to mitigate resource scarcity with solutions that prevent of food waste, including food preservation, increasing the durability of materials, enabling re-use of materials and reducing the use of scarce resources by creating renewables. In order to reduce the demand from our economy on nature’s limited resources, DSM is committed to extending the lifetime of materials and products, and leveraging partnerships.

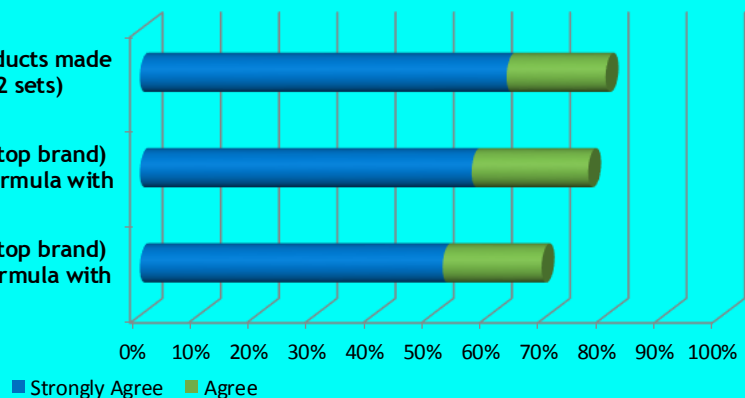
With the large societal issues in mind, we have identified different and distinct levers that drive our product innovation. These levers, help developers and marketers to understand how a measurably better impact can be made for planet and people. The different drivers can all be substantiated with life cycle assessments that address the environmental and social impacts of products impacts along their life cycle. The drivers are also used to review our innovations under development. By doing so we want to steer our full portfolio of products and innovations towards the best positive impact on society.

With our Brighter Living Solutions, Eco+ and People+ we provide products and innovations that are measurably better for people and planet.

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U.S. pet food consumers agree they would spend more for food containing ingredients they believe in!

- I would be willing to spend a little more for products made with more sustainable ingredients. (Avg of 2 sets)
- I would be willing to spend a little more to feed (top brand) ProActive Health New Smart Sustainable Kitten formula with DHAGold and OatWell.
- I would be willing to spend a little more to feed (top brand) ProActive Health New Smart Sustainable Puppy formula with DHAGold and OatWell.



Source: 2015 DSM MetrixLab study

Are pet owners willing to pay for pet foods made with more sustainable ingredients?

According to a 2015 article on Nielsen.com (<http://www.nielsen.com/us/en/press-room/2015/consumer-goods-brands-that-demonstrate-commitment-to-sustainability-outperform.html>) “66% of global consumers say they’re willing to pay more for sustainable brands—Up 55% From 2014. 73% of global Millennials are willing to pay extra for sustainable offerings—up from 50% in 2014”

It is evident that consumer interest in sustainable food products is growing and that the emergence of this growth is being accelerated by younger generations. Market analysts are more frequently discussing food products hitting the market with eco-friendly packaging and ingredients value propositions. Is the consumer interest in sustainability impacting market dynamics in the pet food industry?

The answer is simply “yes”, a fact that can be substantiated by observing the increasing number of pet foods leveraging the term “sustainable” introduced at the world’s largest pet food trade shows. As a global ingredient supplier to the pet food industry, we also see a growing number of requests for information relating to the sustainability of our products.

This interest in sustainable ingredients has compelled us to explore what pet parents think about more sustainable pet foods, leveraging some of our eco-friendly products that are approved for use in dog and cat foods. Like DHAGold, our dried algae product, proven to be a high quality source of DHA for dogs and cats, was a perfect candidate.

Pet food concept testing was conducted in the U.S. because the sustainability topic was more prevalent in the U.S. pet food market. We tested puppy, kitten, mature adult dog, and

mature adult cat top share brand concepts that emphasized sustainability as a key value proposition. This 2015 study conducted by MetrixLabs, explored several aspects of sustainability, including the consumer’s willingness to buy and pay more for the brand.

Overall, the concepts had equal or numerically higher scores than the current top share brand for the key measures: Purchase Intent, Liking, Believability, and Appeal; and all had significantly higher Uniqueness scores. This insights data affirmed that sustainability was driving value with pet parents.

Back to the question “Are pet owners willing to pay for pet foods made with more sustainable ingredients?”, in this study, 60% of the population strongly agreed they would be willing to spend a little more for products made with more sustainable ingredients, while nearly 80% generally agreed with the statement. Similar positive responses were seen when these consumers were asked about the product concepts themselves.

Now in 2017 we see the words “sustainable” and “sustainability” appearing on pet product labels, their promotional materials, and pet food company corporate websites. There is obviously a strong interest within our industry to meet the growing demand for more sustainable pet food products. The question is how this will be done and what will the consumer understand about the measures of sustainability, a challenge that must be faced in this dynamic market.

DSM remains committed to investing in tangible aspects of sustainability, as described on the previous page of this newsletter. Feel free to contact your DSM representative to learn more.

By Jeffrey Alix, DSM Nutritional Products, Global Marketing Manager, Pet Nutrition