

Long-Term Secular Growth in the U.S. Pet Industry

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I personally identify with a trend towards the humanization of pets as I think about my relationship with my dogs. Both of our dogs sleep with us at night. We've adopted higher quality pet food and pay more attention to the ingredients. They very much became a part of our family and a part of our family discussion. Working at Alger, it's exciting to be able to stay on the pulse of what is happening in this market that directly affects me and the products that I'm purchasing.

The U.S. pet care industry is as large as a dog's insatiable appetite. In 2018, the U.S. pet care industry was approximately \$78 billion and grows at about 5% per year. In the U.S., about 67% of households own a pet, which is an increase of 11 percentage points vs. 30 years ago.

Within the industry, the largest category is pet food, which accounts for about 40% of the market; veterinary services accounts for about 25 and then supplies, toys account for about 22% and then there's 8% that is other services like grooming, boarding, pet-sitting.

The increase in pet ownership has been driven by a stronger bond between pet owners and their pets. Pet owners now view the pet as an essential member of their family. There have been demographic trends that have driven this increase, including increased



urbanization, married couples without children, many couples referring to their dog as their "fur baby."

More pet parents are willing to spend more on their pet, which has led to more vet visits for preventative care services. Veterinary diagnostics has been an area of strong growth, identifying new biomarkers to meet unmet needs.

Animal health pharmaceutical companies are focused on making medications easier to administer. Pharmaceutical companies are also investing in unmet medical needs, which have resulted in significant improvement in the quality of life of pets.

In pet food, we've seen a shift towards a more premium assortment of products, including fresh food and less processed food with clearly recognizable ingredients.

We believe the outlook for growth continues to be strong. Pet owners no longer view the spending on their pet as discretionary. This makes the U.S. pet care industry significantly more resilient in periods of economic weakness.

At Alger, we feel the U.S. pet care industry very much aligns with Alger's focus on Positive Dynamic Change, with the clear secular drivers in this market.

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