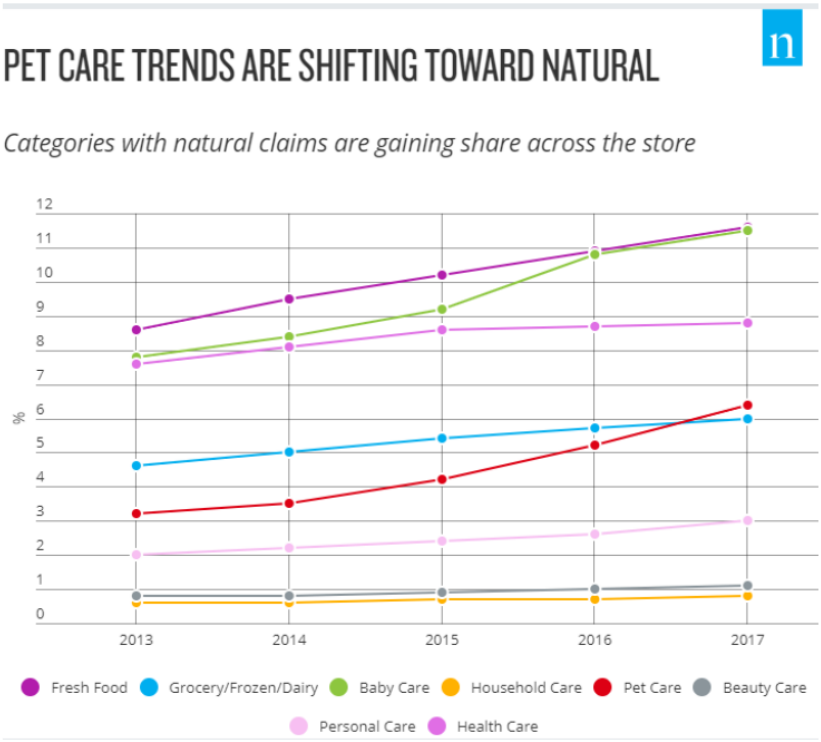
Who needs kids when we have Fluffy and Rex – The $125 billion growing Megatrend

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Global pet care surpassed US$125 billion in 2018 (Euromonitor International). 73% of that was on pet food. What's more, when recession hits, pet food is the last item on the shopping list to be traded down to a lesser perceived quality or brand. Pet food is marketed to owners not the pets. It's growing at 6% compound annual growth rate (CAGR) since 2013 with strong tailwinds for the decade ahead, well ahead of global nominal GDP growth.

"Pet humanisation" whereby pets are being treated more like humans than animals – is becoming increasingly common. It's a global trend across developed and middle-income nations everywhere. Their owners seek out higher quality foods, high-end accessories and more expensive medical treatments, even insurance! They are increasing their willingness to spend more on pet healthcare including the preventative type too. Pets are living longer, pushed by their owners desires, requiring more complex and extended medical care.



Source: Nielsen

Pets go Organic: Health and wellness is key driver of success in pet innovation, and pet trends are closely following human ones. In some cases, they're even getting there first.

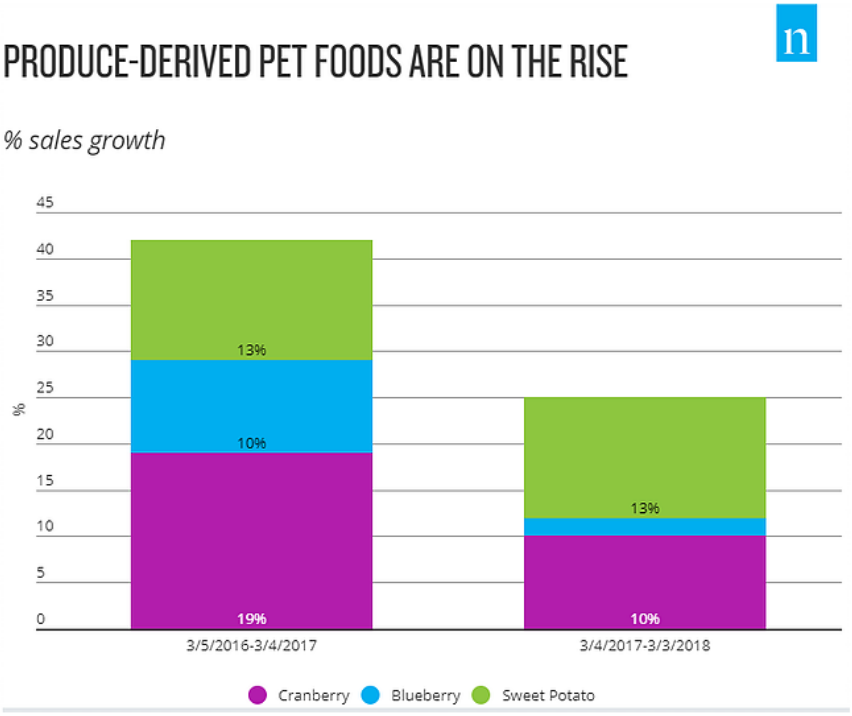
Products that make natural claims are driving notable share gains, particularly in the personal care and beauty categories. Looking at trends that were starting to appear in 2013, share gains among pet care products with natural claims have been on pace with those in the baby care and personal care categories.

Good news for manufacturers as they can charge more too; and just like pet food its marketed to owners tastes and beliefs- not Rex or Fluffy!

Take the UK for example; Mintel research highlighted the fast-growing trend for humanising pets and dogs in particular. Consumers are adjusting their daily lives to accommodate pets as part of their families.

- 24% of UK's pet owners say it's important to keep up to date with the latest styles of accessories.
- 56% of owners say that pets 'like' being given new accessories, rising to 62% of owners aged 16-44.
- 51% of 16-34s say it's important to buy gifts for their pets to celebrate occasions. 30% of 16-24s bought a Christmas stocking for their pets.
- 35% of owners splashed out on beds, baskets and bedding within the past 12 months as demand for stylising grows as people want their pet accessories to fit with their décor.
- 51% of owners are interested in wearable activity monitors; 27% believing they would also improve their pet's activity levels too.
- 21% of owners either have used or would be interested in trying restaurants with special pet menus

Perhaps you might write this trend off to an induced 'Brexit distraction', but its global. Try taking your lovely mutt to the Vet next time without being told he needs $100+/month in pills, and undergoing diagnostic tests etc. Look at the merchandising in the Vet surgery, pet insurance banners, the expensive foods and toys. Notice how human the pet food adds on TV tonight are as if the food was for your consumption.



Remarkably, the trend towards superfoods, similar in humans, can be seen in this chart where there has been significant growth in pet foods that include produce-derived superfoods like blueberries, cranberries and sweet potatoes.



Source: Nielsen

An age group agnostic trend - Demographics pushes higher spending for longer: In almost all spending categories, spending declines once a person reaches 55 years of age – but pet spending is peaking between the ages of 55 and 64. At the other end, millennial's and Gen Zer's are probably the first generation to grow up thinking of pets more like humans than animals. They are finding their independence and have disposable income – and they are buying pets and spoiling them. Great for the industry – these folks will be loyal customers for decades.

This Megatrend is supported by predictable growth drivers including population growth, a rising middle class and increasing global urbanisation. Strong tailwinds.

Which company? Insync's identification of decade plus Megatrends with strong tailwinds, is one major prerequisite in our search for excellent companies to invest in wherever they reside. It is not enough to simply be operating within a Megatrend and understand the influences of disruption on their industry. They also need to be positioned well to benefit from it as a business, have the managerial and financial prerequisites for success, as well as a proven track record of achievement. To be a Future-focused enterprise is a must. Insync is searching for the one or two best firms in one or more Megatrends that meets our stringent criteria.

zoetis

As the global leader in animal health Zoetis is a major beneficiary of the pet humanisation Megatrend. Zoetis operates across 100 countries, boasts more than 300 product lines, ranging from vaccines to medicated feed additives, and generates US$5.8 billion in annual revenue. Zoetis meets all the Insync tests: strong balance sheet, generates prodigious amounts of free cash flow, a long runway of growth and high returns on invested capital (ROIC).

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