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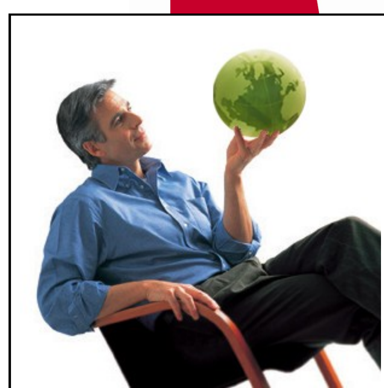
Canada

International Markets Bureau

MARKET INDICATOR REPORT | MAY 2010

Pathfinder Report
Global Pet Food Trends





Growing Forward

Canada

EXECUTIVE SUMMARY

The global retail market for dog and cat food continues to see overall positive growth, driven mainly by exceptional performance in a number of emerging markets such as Brazil and Russia.

Increased consumer awareness of the benefits of quality pet food, as well as rising incomes, are driving the growth in both emerging and traditional markets. Consumption is expected to continue to rise in Latin America and Asia due to increased pet ownership.

A recent report by Euromonitor International suggests that pet humanization and premiumization continue to drive global pet food and pet care products sales. Similar to human food trends, health and wellness solutions are becoming the focus of the pet food industry, with significant opportunities for manufacturers with solid scientific claims, product innovations and effective marketing.

The relatively mature markets of North America and Western Europe account for over 70% of global dog and cat food volume and value sales. In the Asia Pacific region, the majority of sales are currently concentrated in a mature Japanese market, leaving opportunities for growth in the rest of the region.

The greatest growth opportunities are in Latin America and Eastern Europe, which have demonstrated phenomenal retail sales with a compound annual growth rate (CAGR) of 14% and 17% between 2003 and 2008. Russia is the primary engine of growth in Eastern Europe, while Brazil and Mexico represent the most dynamic markets in Latin America.

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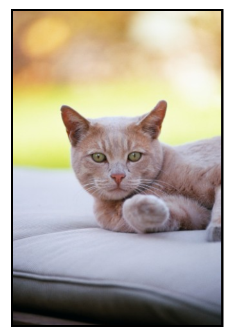


“***The greatest growth opportunities are in the Asia Pacific region, Latin America and Eastern Europe.***”

GLOBAL TRENDS

Global pet food manufacturers are responding to consumer demand for better quality and healthier products as pet owners in a growing number of markets now believe that the food they give their pets should be as good as that which they themselves consume.

In turn, health and wellness solutions are gaining pace across the industry, with significant opportunities for manufacturers with the research and development budget, products innovation and marketing savvy to exploit them.

Tightening regulations globally for human food and beverages may also impact health and wellness pet food, further highlighting the importance of food safety for both humans and animals alike.

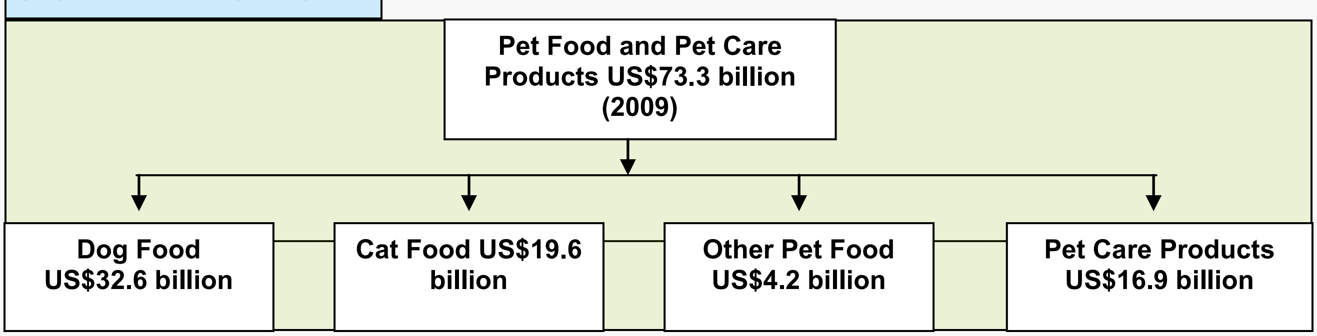
This trend is already well established in the U.S. and elsewhere, and is now becoming increasingly prominent in global markets. Consequently, pet owners are treating their pets more like any other member of the family, both in terms of providing them with safe, high-quality food that enhances quality of life, and looking after their health through nutrition.

Functional ingredients are becoming more prominent in labels of new products. Functional claims are at the centre of formulations, geared to specific pet problems, such as urinary track problems and hairballs. Health claims are also mirroring those seen in the human food market. As a consequence, functional pet food claims focus on areas such as digestion, immune system and joint health, as well as brain development. Ingredient use and branding patterns are the same as those found in the human nutrition market, as brand loyal consumers will likely adopt similar behaviour with respect to pet products.

Pet ownership is on the rise around the world for a variety of reasons. Many markets, particularly in the developed world, are seeing their populations age. With children having left home, many of these consumers are turning to pets for companionship. On the other end of the age spectrum, younger consumers are staying single and/or childless longer and view pets as a viable alternative to a partner and/or children.

The strong emergence of pet superstores have made the premium health and wellness-oriented pet food and pet care products demanded by consumers more readily available from the U.S. to Brazil to China to Germany.

GLOBAL RETAIL SALES



Pet owners appear to be more inclined to purchase natural products than non-pet owners. This coincides with the growing number of new pet products that are labelled *organic* or *natural*. From 2004 to 2009, the number of new products carrying the organic or natural label nearly tripled, according to the latest data from Mintel.

Manufacturers of organic and natural pet food products have started using fresh fruits and vegetables as natural food colorant. Research has been done on the value of natural food colorants, which are essentially very potent antioxidants beneficial to overall health. Beets are used most often, but cranberries are also being used, especially in domestic and wild poultry food products.

Focusing research and development on products that address human concerns and duplicating them in new pet food products is clearly the direction being taken by many manufacturers in the pet food industry.

Premium pet food continues growing apace, in spite of the economic downturn, with many products aimed at indulging pets with fine dining menus inspired by the world's top restaurants. These pet menus are characterized by the use of high-quality cuts of meat and luxury ingredients, as well as offering full meals featuring meat/fish with vegetables, or ingredients in broth or sauce.

▶ TRADITIONAL MARKETS STRONG

The largest traditional pet food retail markets are mainly located in North America and Western Europe. Value sales of dog and cat food in the U.S. are expected to register a modest retail sales compounded annual growth rate (CAGR) of less than 3% from 2008 to 2013, mostly because the U.S. is the largest mature market with one of the highest prepared gap ratios for dog and cat food.

Premium pet food and other pet care products continue to drive industry growth, with both the U.S. and Canada expected to register retail sales CAGRs of over 2% between 2008 and 2013, a major increase compared to the 2003 to 2008 period.

Number of European households that own a pet: 62 (millions)

Bird	35
Cat	60
Dog	56
Aquaria	9
Others	40

***Source**: European pet food industry*

Number of U.S. households that own a pet: 71.4 (millions)

Bird	5.3
Cat	38.2
Dog	45.6
Equine	3.9
Freshwater Fish	13.3
Saltwater Fish	0.7
Reptile	4.7

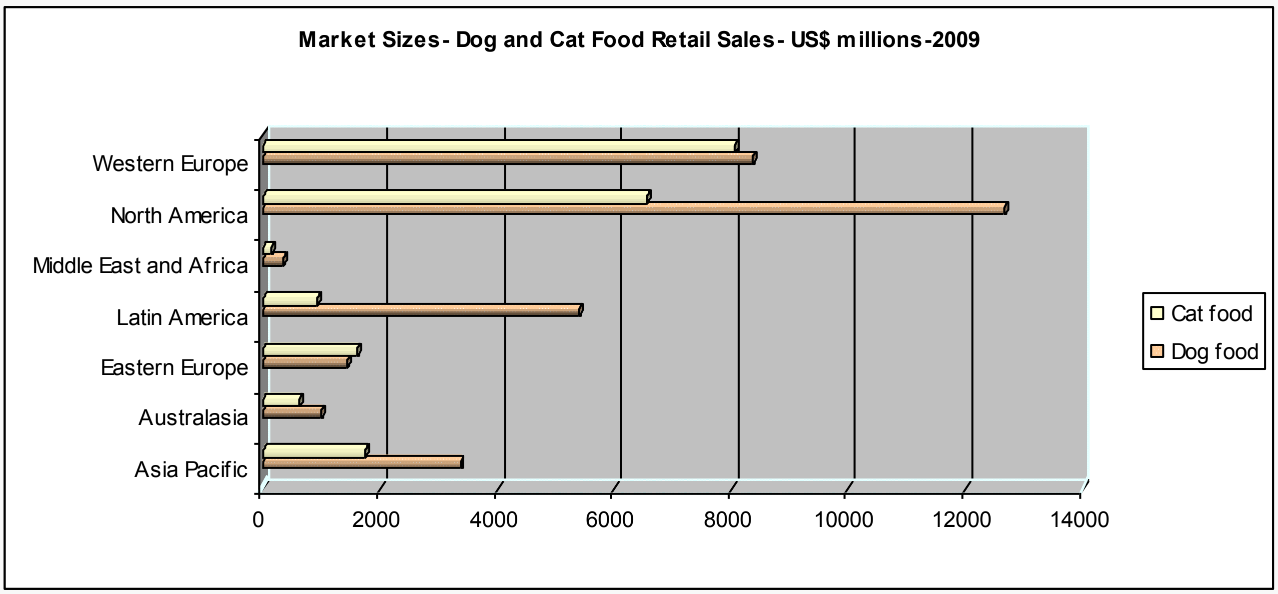
***Source**: American Pet Products Association, Inc.*

▶ EMERGING MARKETS: UNTAPPED POTENTIAL

Russia is expected to be the fastest emerging market for pet food in future years. This is no doubt due to the important shift to prepared pet food. Prepared dog food and cat food soared by 10 % from 2003 to 2008. While the ratio of prepared versus non prepared dog food and cat food, is still low by developed country standards, it far exceeds all emerging markets.

Regionally, the fastest-growing markets are mainly concentrated in Eastern Europe and Asia Pacific. Prepared gap ratios reveal some emerging superpowers, such as India and China, with current ratios less than 5% for prepared versus non prepared dog and cat food in 2008,which presents huge opportunities. Manufacturers continue to encourage pet owners to trade up to more convenient, prepared pet food. Manufacturers have undertaken initiatives that target relatively rich urban dwellers, such as providing consumer education and making pet food more widely available in first and second-tier cities.

Key emerging markets, such as Russia, Brazil and Mexico, are also among the 10 largest markets in the world, but these markets have much lower prepared gap ratios than the developed markets. This can translate into more untapped opportunities, as cultural changes can lead to significant growth in the consumption of prepared pet food.



***Source**: Euromonitor International*

Pet food and pet care products Growth 2004-2009		
	2004-09 %	2004-09 CAGR %
Western Europe	21.1	3.9
Asia Pacific	26.8	4.9
North America	29.4	5.3
Middle East and Africa	33	5.9
Latin America	101.4	15
Eastern Europe	116	16.6

***Source**: Euromonitor International*

COMPETITIVE LANDSCAPE

Consolidation
Large food companies have bought both national brand names and small regional brands, increasing their domination of the industry. Nestle added Purina to its Friskies and Alpo brands; Procter & Gamble bought Iams and Eukanuba. With advantages in marketing and distribution, large companies will further squeeze small manufacturers.

Private Label
A significant number of retailers stock private label pet foods, which are often more profitable for retailers than branded products. Wal-Mart's private-label products represent over 10% of the total U.S. pet food market, according to *Pet Product News*.

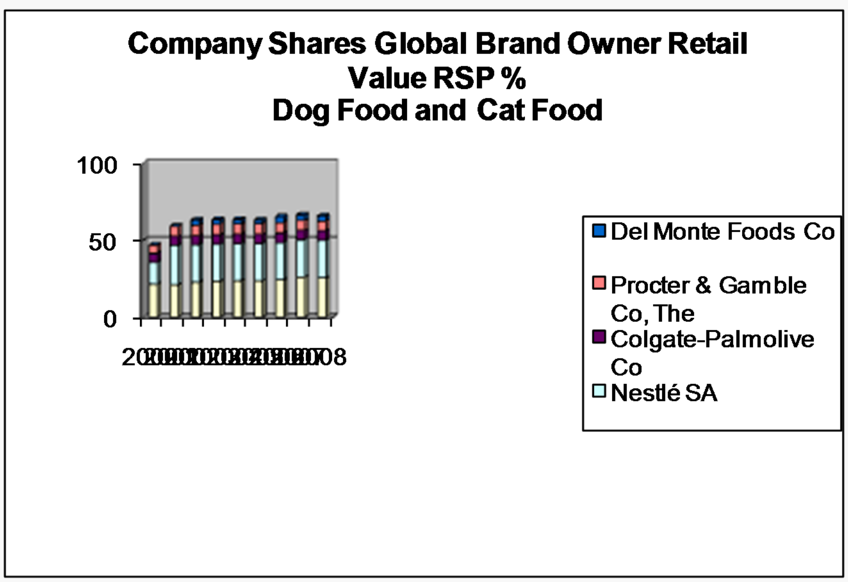
Premium Pet Food Available Outside of Pet Stores

Historically, premium pet foods have been available only through pet stores and veterinarians. After Procter & Gamble bought Iams, the brand had significant volume gains due to distribution in supermarkets. As large food companies expand their portfolio of pet food brands, the number and type of distribution channels for pet food will increase.

Health and Nutrition at Premium Prices

Premium pet foods account for 35% of the market and are expected to continue an upward trend. Premium products have life stage appropriate health benefits and command high prices. By eating better foods, pets live longer and therefore need special diets and supplements. Both the cranberry industry, whose product can be used to treat cat urinary tract infections, and the salmon industry which supplies omega-3 fatty acids, are looking to the pet food market to fuel growth.

The global pet food and pet care product market is very consolidated with the five largest companies (Mars, Nestle, Colgate-Palmolive, Procter & Gamble and Del Monte) accounting for 66% of retail value sales in 2008. Smaller players include Merial, Spectrum Brands, Agrolimen, Bayer AG and Clorox Co, which account for a total of 4.6% of the world's company share in this sector.



Source: *Euromonitor*

OPPORTUNITY FOR CANADIAN PET FOOD INDUSTRY

Source: *Planet Retail LTD*

Anticipated increases in the number of pet-owning households will also add to the demand for pet food and other pet-related products. Private label products with premium claims may benefit as pet owners reconsider their budgets. Some may seek a combination of premium positioning and lower pricing.

Canada still exports over 60% of its pet food to the U.S., however, this number is down significantly from the 70% recorded in 2007. Although U.S. pet food imports from Canada declined in 2008, its total imports from the world increased 21%.

Innovative products and packaging development is the key to taking advantage of the growing pet market. Pet owners are constantly searching out new products by browsing store shelves and observing television advertisements, according to the American Pet Product Manufacturers Association. Packaging not only improves the pet food shopping experience, but can also play a large role in consumer loyalty to a brand.

Canadian pet food exports to countries other than the U.S. have grown considerably over the past four years, up 36% in 2008 alone. Key emerging market such as Brazil and Mexico are also among the 10 largest markets in the world. This can translate into more untapped opportunities, as changes in culture and an increase of disposable income can lead to significant growth in the consumption of prepared pet food.

Source: *Planet Retail LTD*

Russia has seen dramatic socioeconomic changes this past decade. This coupled with the rise of the middle class, presents vast untapped opportunities in Russia's pet food and pet care products market. Industry sales in this market are expected to reach a retail compound annual growth rate of 13% from 2009 to 2013.

Regionally, other fast-growing markets are mainly concentrated in Eastern Europe and the Asia Pacific. Some emerging superpowers, such as India and China, present huge opportunities.

Pet ownership continues to increase in Europe and developing countries. Countries like Japan, which have historically fed table scraps to pets, are becoming more educated as to the benefits of premium pet foods.

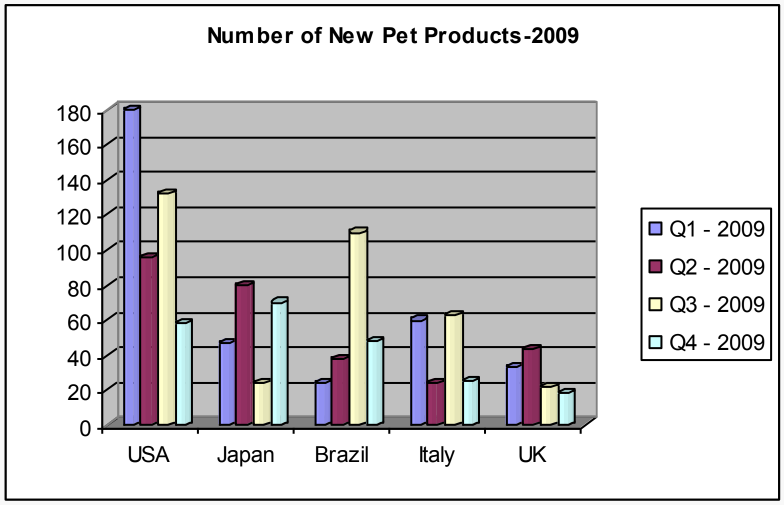
New Pet Products by Claims (Global 2009)

	Vitamin/ Mineral Fortified	No Additives/ Preservatives	Teeth & Tartar Prevention (Functional Pet)	Digestion & Urinary Tract (Functional Pet)	Skin & Coat (Functional Pet)
Q1 - 2009	171	155	143	119	101
Q2 - 2009	157	117	118	118	103
Q3 - 2009	155	151	148	142	145
Q4 - 2009	168	128	140	141	155

Source: *Mintel*

Dog Food, Cat Food, Pet Healthcare, Pet Dietary Supplements Retail Value Performance 1998-2009		
Category	**1998-2009 Global Retail Value % CAGR**	**1998-2009 Global Retail Value Gain (US$ million)**
Cat treats and mixers	8.2	446
Premium dog food	7.9	6,829
Pet healthcare	6.5	1,661
Dog treats and mixers	6.1	2,316
Premium cat food	5.9	3,929
Pet dietary supplements	4.5	363
Economy dog food	4.0	1,734
Mid-priced dog food	3.3	3,165
Mid-priced cat food	2.7	1,972
Economy cat food	2.5	654

Source: *Datamonitor*



Source: *Datamonitor*

DISTRIBUTION CHANNELS

The global pet food supply chain to retailers remains fragmented, with a huge number of mass merchandisers, supermarkets and independent and speciality retailers accounting for the main routes to market. This is especially true of the pet food and supplies retail channel in the U.S., with over 15,000 independent pet supply stores and only two national specialty retailers, PetSmart and PETCO. These two pet superstore chains have been growing rapidly. Pet products have also become a growing category in mass merchandisers, discounters and grocery outlets.

Source: *Planet Retail*

Source: *Planet Retail LTD*

PetSmart and PETCO typically offer the broadest product selection with competitive prices and a growing array of pet services. Mass merchandisers, supermarkets and discounters have historically carried a limited product assortment that primarily features pet food. However, many vendors have reported that these retailers are devoting more shelf space to premium pet supplies to meet increased consumer demand. Independent pet stores typically have a relatively broad selection of product and attempt to differentiate themselves by offering premier brands and knowledgeable services.

Source: *Planet Retail*

TOP TEN PET FOOD MANUFACTURERS

Mars Inc.
World headquarters: McLean, Virginia, U.S.A (Mars Petcare: Franklin, Tennessee, U.S.A.)
Approximate 2008 global retail sales: US$13.6 billion
Top brands: Pedigree, Cesar, Goodlife Recipe, Nutro, Whiskas, Royal Canin
New products: Cesar Canine Cuisine Bistro Entrees, Cesar Canine Cuisine Softies Treats, Pedigree and Premium Ground Entrees, Pedigree Good Bites Senior, Whiskas Purrfectly Dry Food, The Goodlife Recipe Wholesome Bites
Websites: www.mars.com, www.cesar.com, www.pedigree.com, www.whiskas.com, www.thegoodliferecipe.com

Nestlé SA
World headquarters: Vevey, Switzerland (Nestlé Purina PetCare: St. Louis, Missouri, U.S.A.)
Approximate 2008 global retail sales: US$12.8 billion
Top brands: Purina, Purina One, Alpo, Beneful, Busy Bone, Chew-rific, Deli-Cat, Dog Chow, Fancy Feast, Friskies, Gourmet Gold, Mon Petit, HiPro, Kibbles and Chunks, Kit 'N Kaboodle, Mighty Dog, Pro Plan, TBonz, Purina Veterinary Diets, Whisker Lickin's
New products: Chef Michael's Canine Creations (Dry, In Sauce and Pate), Alpo Chophouse, Mighty Dog Select Menu Seared Filets, Pro Plan Shredded Blend, Purina One Natural Blends Dog and Cat Food
Websites: www.nestle.com; www.purina.com

Colgate-Palmolive
World headquarters: New York, New York, U.S.A. (Hill's Pet Nutrition: Topeka, Kansas, U.S.A.)
Approximate 2008 global retail sales: US$3.3 billion
Top brands: Hill's Science Diet, Hill's Prescription Diet
New products: Hill's Science Diet Culinary Creations Cat Food, Hill's Science Diet High Energy, Science Diet Indoor Cat, Hill's Science Diet Lamb Meal & Rice Adult Dog, Nature's Best Dog and Cat

4. Procter & Gamble
World headquarters: Cincinnati, Ohio, U.S.A. (P&G Pet Care: Dayton, Ohio, U.S.A.)
Approximate 2008 global retail sales: US$3.27 billion
Top brands: Eukanuba, Iams
New products: Eukanuba and Iams newly formulated petfoods with prebiotics, Eukanuba Adult Sensitive Stomach Cat Formula, Eukanuba Healthy Extras Dog Biscuits, Eukanuba Custom Care, Iams Savory Sauce for Puppies, Iams Savory Sauce Active Maturity
Websites: www.pg.com; www.eukanuba.com, www.iams.com

5. Del Monte Foods
World headquarters: San Francisco, California, U.S.A.
Approximate 2008 global retail sales: US$1.78 billion
Top brands: Meow Mix, Kibbles n' Bits, 9Lives, Milk-Bone, Pup-Peroni, Pounce, Gravy Train, Jerky Treats, Canine Carry Outs, Snausages, Nature's Recipe (Cat and Dog), Meaty Bone
New products: Snausages Breakfast Bites, Milk-Bone Essentials Plus Biscuits and Treats, Nature's Recipe Farm Stand Selects Wet Food, Nature's Recipe Healthy Treats, Meaty Bone Chew-lotta treats, Kibbles n' Bits Wholesome Medley, Pounce Lickittys Treats, Pup-Peroni Ribs Treats

6. Agrolimen SA
World headquarters: Sant Cugat del Vallés, Spain (main plants/facilities: El Monjos, Spain; La Chapelle Vendomôise and Moulins, France)
Approximate 2008 global retail sales: US$0.72 billion
Top brands: Affinity, Ultima, Brekkies, Brekkies Excel, Advance, Advance Veterinary Diets, Premium Dog, Rubadub (treats)
New products: Brekkies Excel Delice, Brekkies Excel Cat Rolls

7. Uni-Charm Corp.
World headquarters: Tokyo, Japan
Approximate 2008 global retail sales: US$0.37 billion
Top brands: Aiken Genki, Neko Genki, Gaines
New products: Silver Dish-Yummy, Low Calorie for dogs and cats, Aiken Genki Best Balance, Silver Spoon Premium Gourmet
Website: www.unicharm.co.jp; www.uc-petcare.co.jp

8. Nutriara Alimentos Ltda.
World headquarters: Arapongas, Paraná State, Brazil
Approximate 2008 global retail sales: US$0.34 billion
Top brands: Foster, Freddy's, Bybos, Dog Show, Blog Dog, Dog Friends, Tommy, Fulldog, Floop, Dunga, Ringo, Pitoko Mix, Pitty, Bidu, Street Dog, Pitukão Pitukinha, Gatto, Pitukats, Mingau, Bancook, Show Dog
New products: Blog Dog Al Dente, Tommy Seleta Mix, Pitukats Snake Cat Food

9. Total Alimentos SA
World headquarters: Três Corações, Brazil
Approximate 2008 global retail sales: US$0.32 billion
Top brands: Família Max, Big Boss, Lider, K&S, Equilíbrio, Naturalis, Natural treats
New products: Naturalis Dry Dog Food for Small Breed Dogs, K&S Oral Care, Equilíbrio Treats Especial
Website: www.totalalimentos.com.br

10. Nisshin Seifun Group
World headquarters: Tokyo, Japan
Approximate 2008 global retail sales: US$0.23 billion
Top brands: Run, Carat, Lovely
Websites: www.nisshin.com

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