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US Pet Care | North America

Welcome to the Petriarchy

With tailwinds from a Covid-led surge in pet acquisition, we see the pet care industry inflecting to an 8% topline CAGR, reaching $275 billion in 2030. Our Economics, Housing & AlphaWise teams collaborate to show how demographics, household formation, and consumer behavior are driving acceleration.

We expect pet care industry growth to rise to the high single digits over the next few years. After a decade of ~3% CAGR topline growth, a confluence of trends is fueling higher spending on pets. Our work indicates that the industry will grow from $100 billion in 2019 to $275 billion in 2030, with demographics playing a major role as Millennials form new households. Also sustaining growth is the increasing resilience of pet spending to changes in disposable income, based on analysis by our economists. And our surveys indicate that nearly 70% of pet owners see their pets as family members, meaning they will seek to improve the quality and length of their lives. Animal Health spending reached nearly $40 billion in 2019 and is poised to overtake Food/Treats as the largest subsector.

Pet ownership growth more than tripled during the pandemic, and Millennial households should sustain it. After averaging ~1% annual growth in household pet ownership over the last decade, our Housing Strategists estimate that ownership jumped by 3.6%Y in 2020. We estimate the number of households owing pets will rise 14% by 2030. The Millennial generation is currently moving through the age cohorts with the fastest household formation, and 65% of 18- to 34-year-olds plan to acquire or add a pet in the next five years, vs. 43% of others surveyed by AlphaWise. Based on their responses, they are also likely to spend more on pets than older consumers.

Animal Health may become the most important segment of US Pet Care. After Food and Treats, Animal Health is the biggest sub-segment, and Vet Care could be the fastest growing sub-segment in the industry over the next decade. Drivers include expected advances in pet healthcare, favorable demographic trends, and pet owners' increasing focus on their pets' well-being. Our AlphaWise survey work found that veterinarian visits were relatively unaffected by the pandemic, underscoring that veterinarians remain at the center of the pet ecosystem.

Pet spending has been resilient through Covid, and much of the shift online looks permanent. In an October 2020 survey of pet owners (conduced by the American Pet Products Association), two-thirds of respondents said their spending had not changed in the previous month, and 72% indicated they would not alter spending on pet food regardless of their finances. Our 2019 AlphaWise survey found that consumers purchased 23% of pet food/supplies online; this rose to 30% in 2020, and respondents planned to spend even more online going forward. Our surveys showed retailers with scale generally gaining share during

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the pandemic, led by Target in pet food/supplies and PetSmart (private) in prescriptions, but our surveys suggest only prescription gains are unsustainable.

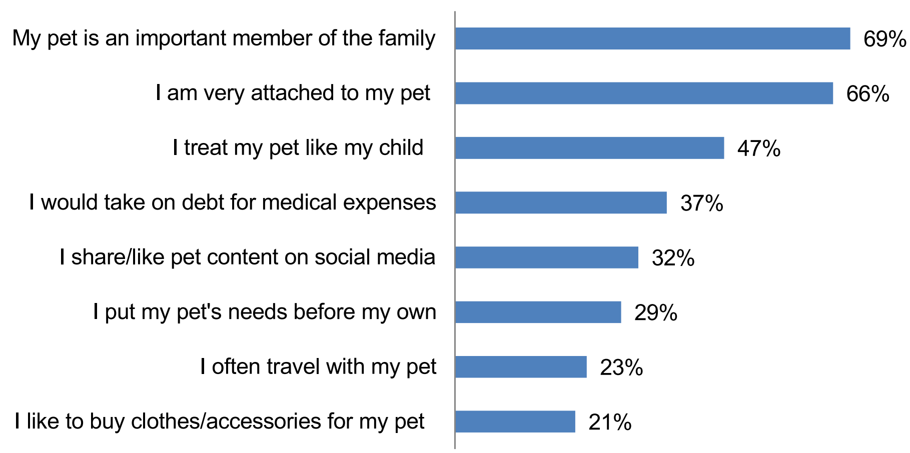
How to play it? We like **Chewy's** (CHWY.N, EW, PT $76) position as the Number 1 online pet player in a secularly growing TAM, coupled with predictable, consistent revenue growth, but we struggle with valuation. We have higher confidence in the growth outlook at **Tractor Supply** (TSCO.O, EW, PT $156) growth outlook given approximately 50% of its business is generated from Livestock & Pet, but believe near-term upside is priced into the stock. **Nestlé** (NESN.S, OW, PT SFr112) is the US leader in pet food and Number 2 globally behind Mars (private). Pet Care makes up 17% of Nestlé's revenues and contributes 23% of our Nestlé LFL growth over the next 4 years. It is a top pick in European Food. **Colgate-Palmolive** (CL.N, EW, PT $90) is well positioned to benefit from pet segment tailwinds through its Hill's pet nutrition business (currently ~17.5% of sales), which we see growing at a 6.3% CAGR over the next 3 years. While we are positive on Hill's, we remain EW CL given high valuation vs. history. Blue Buffalo, which **General Mills** (GIS.N, EW, PT $57) acquired in 2018, currently represents 9.6% of sales and should grow at a HSD% CAGR long term given its premium portfolio positioning and multiple levers to gain share. We remain EW on GIS as we see below-consensus corporate growth and margins in FY22. **J.M. Smucker** (SJM.N, UW, PT $107) should benefit less than peers from pet industry growth given continued share losses in dog food and pet treats and competitive risk in cat food. **Elanco Animal Health** (ELAN.N, OW, PT $41) plans to launch 3 new pet health products in 2021, and we expect pet health to be a robust source of growth in coming years. At **Zoetis** (ZTS.N, EW, PT $174), a compelling long-term outlook appears priced in, but Companion Animal outperformance could drive upside to our numbers.

Executive Summary

Pet Care Spending Poised to Accelerate

Faster growth in pet ownership should provide a tailwind to industry spending growth. Our AlphaWise survey suggests pet ownership grew ~5%, or roughly 6 million new pets, through July 2020 (similarly, 5% of respondents cited COVID-19 as the reason for getting a pet). By December 2020, ~10% of respondents to the American Pet Product Association's COVID-19 Pulse Studies got a new pet during COVID-19, equating to approximately 11 million pets that found a new home in the US during the pandemic. Assuming it costs $1,000+ per year to care for each new pet, 11m new pets imply an incremental $11b+ of annual pet care spend.

Exhibit 1: Nearly 70% of pet owners strongly agree their pets are important members of the family



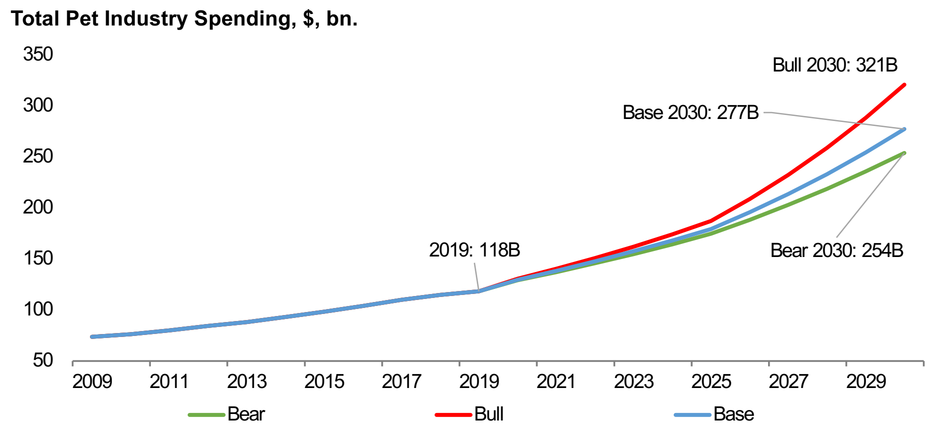
Source: AlphaWise, Morgan Stanley Research

Pets are increasingly considered family members, and a focus on improving the quality and length of their lives underpins the Pet industry's strong growth. Our AlphaWise survey indicates 66% of US households have at least one pet (1.7 on average, translating to ~130 million pets in the US); 47% have a dog (the most popular pet) and 34% have a cat. Importantly, 69% of respondents "strongly agree" their pets are important members of the family, 37% would take on debt to pay for a pet's medical expenses, and 29% would put a pet's needs before his/her own.

Annual Pet Care spend exceeds $100 billion per year and grew at a 3.3% CAGR in 2009-19. Consumers spent ~$108 billion on pet care in 2019, up from ~$78 billion in 2009. We split total spending into seven categories: Food and Treats ($39b in 2019), followed by Vet Care ex. Prescription Medicines ($25b), Supplies ($16b), Services ex. Vet Care ($13b), Prescription Medicines ($10b), Live Animals ($2b), and Over the Counter (OTC) Medicines ($2b). In total, pet owners spend the most on Food and Treats ($39b), followed by Animal Health (collectively $38b). Overall, goods accounted for 64% of spend ($69b) in 2019, while services made up 36% ($39b).

Pet care spending is set to grow at an 8% CAGR through 2030. Our Housing and Economics Strategists have collaborated to forecast growth in total US Pet Care spend over the next decade. Overall, they estimate that US Pet Care spend will grow to $277b by 2030 (bear $254b/bull $321b), reflecting an 8% CAGR (7.2% bear/9.5% bull) in 2019-30. In our baseline forecast, we expect household spending per pet to reach $1,292 by 2025, growing further to $1,909 by 2030. An outcome in line with this expectation would increase total industry spend by 134% over the next decade. We expect growth to be led by pet services, which has steadily increased in share over the last decade. Indeed, pet services spend is expected to increase 163% from $48b to $127b in 2030. We expect pet products spend to increase 115% over the next decade from $70b in 2019 to $151b in 2030.

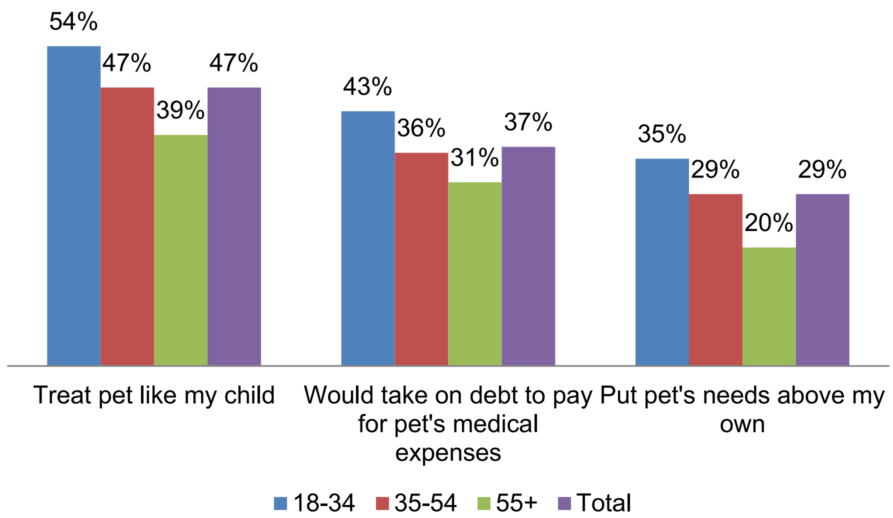
Exhibit 2: Total Pet Industry Spend



Source: Bureau of Economic Analysis, Morgan Stanley Research

Household formation is poised for growth over the coming decade, and considering where that growth is coming from, so is pet ownership. The Millennial generation is moving through the age cohorts that typically see the most rapid household formation. When we combine the coming growth in households with the increasing rate of pet ownership across demographics and particularly within the Millennial generation, we see an even larger rise in the number of pet-owning households. Between the end of 2019 and 2030, we expect the number of households that own pets to increase by 14%. What's more, Millennials appear likely to spend more on pets than older cohorts, based on AlphaWise data.

Exhibit 3: Adults aged 18-34 seem more willing to spend a relatively high portion of income on pets vs. older generations



Source: AlphaWise, Morgan Stanley Research

Our household pet ownership projections suggest that Covid-19 had a sizeable impact on pet ownership in 2020. After averaging ~1% annual growth in household pet ownership over the last decade, our Housing Strategists estimate that ownership jumped by 3.6%Y in 2020. Incorporating the American Veterinary Medical Association's estimate for the number of cats/dogs per household (1.7), we calculate that the total number of pets owned in 2019 was ~130 million.

Pet Spending Is Becoming Less Discretionary

The real disposable personal income elasticity of demand for pet spending reflect how sensitive pet spending is to changes in real personal disposable income. Over 1990-2006, elasticity averaged 3.6, i.e. for every $1 less in real disposable income, nominal spending on pets declined by $3.60. Fast forward to 2014-19 and elasticity has declined to 1.7 for all pet spending, meaning pet spending as a whole has become almost perfectly elastic, and thus consumers are increasingly less willing to cut pet spending as a whole when real personal disposable income declines.

What are the drivers of elasticity changes over the last half century? As shown below, the most significant decline in elasticity is among "supplies" and "other services" (Exhibit 99). These are the two most discretionary areas of pet spending, including prescription drugs, grooming, dog walkers, and other goods and services you purchase on behalf of your pet that fall outside core products (food) and services (health care). It would be expected that for the core pet necessities, food and veterinary services, elasticities have not varied significantly over time. However, the elasticity decline in discretionary pet spending shows that consumers view "supplies" and "other services" as more of a pet necessity today than ever before.

Vets Are a Key Link in the Pet Care Value Chain

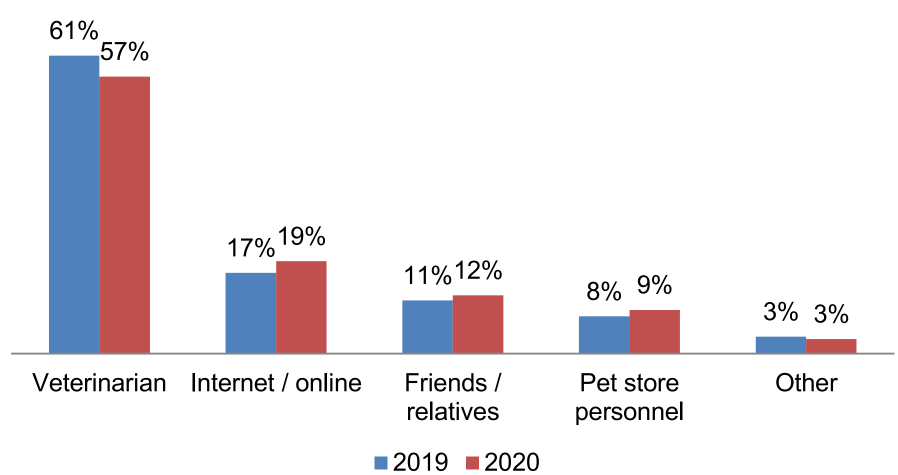
Pet owners did not change their permanent behavior much in relation to vet visits during COVID-19. A full 93% of pet owners' veterinarian appointments were largely unaffected by COVID-19. AlphaWise survey respondents indicated around 60% of vet visits were unaffected amidst the pandemic, and only 7% were canceled with no plans to reschedule; approximately 30% of appointments were postponed or canceled with an intention to reschedule.

Our AlphaWise study provides evidence that the US Pet Care industry revolves around veterinarians. Key findings:

1. Vets are clearly the most important resource for all aspects of pet care;
2. Vets directly influence pet owners' spending on food/treats (biggest expense);
3. Pet owners interact with vets regularly and intentionally (not just for illness);
4. Vets play a central role in fulfilling pet prescriptions; and
5. Structural barriers face competitors trying to fulfill prescriptions in place of vets.

Spending on Animal Health reached nearly $40b in 2019 (~2.5% CAGR over the past decade), making it the second biggest segment of US Pet Care behind Food/Treats. Growth should accelerate over the next decade, driven by favorable demographic and industry trends plus advances in pet healthcare. This should help cement the status of vets at the center of the pet ecosystem. Due to the industry's growth trajectory and the importance of vets, Animal Health may be the most important segment of US Pet Care for investors to focus on over the next decade.

Exhibit 4: Around 60% of pet owners cite their vet as the most important source of information for pet care



Source: AlphaWise, Morgan Stanley Research

Vets are by far the most important source of information for pet care. In our survey, roughly 60% of pet owners cite their vet as the most important source of information for their pet's care (including health, food and supplies). A distant ~20% regard the internet as their most important source, followed by friends/relatives (~10%) or pet store personnel (~10%). Supporting these findings, the American Veterinary Medical Association's surveys have found that ~90% of dog/cat owners have a "regular" vet.

Key COVID Lessons: Shift Online Looks Sticky Ex Prescriptions

E-commerce share gains are likely to be the most significant and lasting effects of the COVID-19 pandemic on the pet care industry. This should provide a revenue growth tailwind to online retailers and a headwind to primarily brick and mortar retailers. Our 2019 AlphaWise survey suggested consumers purchased 23% of pet food/supplies online; this rose to 30% in 2020, representing ~$5b of spending shift online. Respondents planned to spend even more online going forward, indicating 36% of their spend on pet food/supplies would be online in the six months following the survey vs. 30% in the six months preceding it (another potential ~$4b of spend shifting online).

Retailers with scale gained share during COVID-19 (in general, with the exception of Walmart). These share gains likely came from smaller/independent players (many not captured in our surveys) and could be sustainable. There were clear traffic/shopping frequency gainers/losers during COVID-19 according to our survey.

- **For pet food/supplies, Target led gains** (23% of respondents shopped on the platform in 2020 vs. 17% in 2019), followed by Amazon (26% in 2020 vs. 21% in 2019), club stores (Costco, Sam's Club, and BJ's all gained 4%), and Chewy (21% in 2020 vs. 18% in 2019). Walmart technically lost the most traffic according to our survey (48% of respondents shopped there in 2020 vs. 51% in 2019), but its losses were marginal and it remains the largest seller by far.

- **For fulfillment of prescriptions online, PetSmart led share gains** (29% of respondents used the platform in 2020 vs. 13% in 2019), followed by Amazon (30% in 2020 vs. 15% in 2019), Walmart (24% in 2020 vs. 10% in 2019), and Petco (23% in 2020 vs. 13% in 2019). Chewy gained 4% of share (29% in 2020 vs. 25% in 2019), while 1800-Pet-Meds lost 14% of share (29% in 2019 vs. 15% in 2020).

Share gains for online prescription fulfillment look unsustainable. Like the purchase of pet food/supplies, the fulfillment of pet prescriptions also sharply moved online during COVID-19. However, only a portion of this shift is expected to be permanent, and vets' leading market share in prescription medicines seems largely defensible. Pre-COVID-19, 10% of pet owners fulfilled prescriptions online; this jumped to 21% during the six months leading up to July 2020, but respondents indicated it would fall back to 17% in the following six months. 46% of pet prescriptions were fulfilled at vet offices before COVID-19; this fell to 35% in the six months leading up to July 2020 (equal to online share gains), but was expected to rise back up to 41% in the following six months.

COVID-19 may have provided a significant boost to the burgeoning pet insurance industry. Pet insurance penetration rose significantly during COVID-19. According to our survey, 27% of respondents had pet insurance in 2020 vs. 18% in 2019. By age group, 47% of 18- to 34-year-olds had pet insurance in 2020, which should provide a strong tailwind for the emerging industry over time.

Stock Implications

Chewy (CHWY.N, EW, PT $76)

We like CHWY's position as the Number 1 online pet player in a secularly growing TAM coupled with predictable, consistent revenue growth. Even after 2020, ~$53b, or 70% of US pet product spending, still occurs in brick & mortar stores, suggesting still a long runway for eCommerce, and CHWY, share gains. While we don't assume that CHWY takes incremental share of online spend (29% vs. 31% over the last 5 years), the channel shift alone implies ~$18b of eCommerce spend up for grabs over the next five years vs. CHWY's revenue base of $7.1b today. Additionally, this doesn't take into account the white space within pharmacy/telehealth/healthcare that we remain confident CHWY can continue to grow at a 20%+ rate, ultimately garnering ~10% share (~20% ex. vaccines) of the US pet pharmacy market in 2025.

While we continue to like the multiyear CHWY story, we struggle with valuation. At these levels, we think the stock is pricing in ~$20b in 2025 revenue (MS at $14.6B) at a 10-12% EBITDA margin (vs. management's long-term target of 5-10%), assuming a ~25x EBITDA multiple for ~30% EBITDA growth and discounted back at 6.7%. To deliver that magnitude of revenue and EBITDA margin upside, the stock already appears to be pricing in the pharmacy, telehealth, international, and services bull case, despite no proof of concept in two of the four areas (international and services).

Tractor Supply (TSCO.O, EW, $156 PT)

Higher confidence in TSCO's growth outlook. Approximately 50% of TSCO's revenue is generated from Livestock & Pet, and our Economists' forecasts increase our confidence TSCO can sustain mid-single-digit (or better) revenue growth in the medium to long term. The bigger Pet "pie" we now foresee also 1) reduces the (historic) bear case risk of share losses to competitors like Amazon and Chewy and 2) could point to a better than anticipated growth outlook for its chain of Petsense specialty stores. While we see TSCO as a core holding for longer-term Retail investors, we remain Equal-weight on a 12-month horizon given the stock's premium valuation, which appears to be pricing in a continuation of COVID-19 driven market share gains across all areas of its business.

Nestlé (NESN.S OW, PT SFr112)

Leading player in US Pet Food. Nestlé is the leading Pet Food player in the US and Number 2 globally behind Mars. In 2020 Nestle's business reached $15.6b in revenue and profits of $3.4b (22% margin). Pet Food represents one of Nestlé's 5 strategic focus categories and its second largest exposure behind coffee at 17% of group sales. During 2020, Nestle's Pet Care division has been a clear beneficiary from elevated pet adoption and ecommerce acceleration. The category was Nestle's largest contributor to growth and saw strong performances in premium brands Purina Pro Plan, Purina ONE and Felix. New acquisitions like Tails.com and Lily's Kitchen grew at double-digit rates. Veterinary products under Purina Pro Plan also grew strongly.

Accelerating trends. In our forecasts we expect Pet Care growth to remain elevated following the step up in consumer engagement and pet adoption in 2020. We now forecast ~6% LFL over 2021-25 for the division, driven by share gains in the ecommerce channel leveraging Nestle's digital expertise and leading brand positions. Pet Care makes up 17% of Nestle's revenues and contributes 23% of our Nestle LFL growth over the next 4 years. Increasing category engagement, premiumization trends and a shift to online sales all benefit Nestle's leading positions in key Pet Markets. Nestle continues to be amongst our top picks in European Food.

Colgate (CL.N, EW, PT $90)

Colgate is well positioned to benefit from Pet segment tailwinds through its Hill's Pet Nutrition Business (currently ~17.5% of sales), which we see growing at a 6.3% CAGR over the next 3 years, conservatively below its ~8% last three year historical pace. In 2020, Colgate benefited from increased pet adoptions, with Hill's posting 14.4% organic revenue growth. Looking forward, growth should be driven by (1) improved internal execution, (2) increased ad spend with greater premium innovation (with Hill's seeing the largest increase in ad spending in the last 3 years vs other CL segments), and (3) strong e-commerce growth, as well its growing DTC business Hill's to Home.

Longer term, we see further ability for the Hill's brand to expand given it only has ~10% brand awareness and low penetration rates. Overall, we estimate Hill's has ~3% market share in the US, with further opportunity to expand as consumers trade up in the US and as CL takes advantage of its large international runway. Net, while we are positive on Hill's, we remain EW on CL given higher valuation vs historical levels suggest that CL's growth potential and defensive mix are likely priced into the stock.

General Mills (GIS.N, EW, PT $57)

General Mills purchased Blue Buffalo in 2018 (9.6% of sales in its latest FY ending in May). We see Blue growing at a HSD% CAGR LT given its premium portfolio positioning. Going forward, Blue could gain share within pet food with its: (1) premium status, (2) further shelf space expansion, (3) continued e-commerce momentum , (4) LT, international expansion given ~98% of Blue's sales are in the US, and (5) expanding the brand through innovation. Blue launched its cat food product recently, entering a $10b segment (vs. $25b in dog food), and also is pushing into pet treats, wet dog food, and the natural products segment with its Tastefuls line. Net, while we see several growth opportunities for Blue, we remain EW on GIS as we see below consensus corporate growth and margin in FY22 as GIS cycles a COVID-related demand boost.

J.M. Smucker (SJM.N, UW, PT $107)

SJM should benefit less than peers from pet industry growth. Continued Pet category growth should benefit SJM (~37% of company sales), but to a lesser degree than its competitors given its continued share losses. SJM has seen ongoing share losses in dog food (40% of Pet sales, -70 bps L12W in scanner data) reflecting soft Nutrish sales due to heightened competitive pressure as GIS (Blue Buffalo) and Mars share are increasing +120 bps and +130 bps. SJM may also see competitive risk in cat food (30% segment sales) as GIS is growing +18.3% L12W (vs. SJM/category 7.2/3.5%). Further, SJM pet treats (30% of segment sales) continue to lose share (-100 bps L12W) as SJM underperforms the category (+4.4% vs. category +9.7%).

Can SJM reinvigorate Pet growth through its initiatives? These include: 1) building brand awareness (only high 30%'s) through increased marketing efforts and leveraging the connection with Rachael Ray; 2) investing in the consumer value proposition through managing price gaps/lower price/trial size packaging; and 3) planned innovation including the "Big Life" initiative (January 2021) with a differentiated formulation focused on large dog breeds (>50% of category dollar and volume sales). More broadly, SJM is actively trimming its Pet portfolio and trying to improve its go-to-market strategy. We believe SJM's performance in Pet should remain challenged given heightened competition and an inconsistent execution track record. We model Pet segment sales -0.8% FY20-22, slightly below its historical organic growth average of -0.5% FY18-FY20.

Elanco (ELAN.N, OW, PT $41)

We are Overweight Elanco shares. We anticipate improving prospects in 2021+, Bayer transaction benefits, and compelling long-term EPS growth. Margin expansion, driven by efficiencies and Bayer merger synergies plus deleveraging, should drive very strong EPS growth (est 35% 2-yr CAGR between '21-'23). Additionally, the pipeline should progress over the long term and add new growth drivers. Elanco expects 8 new product launches in 2021 (5 farm animal and 3 pet health). We expect pet heath to be a robust source of growth in coming years given the outlook forecast by the economist team and AlphaWise studies demonstrating pet ownership appears to have risen significantly during COVID-19, creating a tailwind for growth in pet care spending in the US.

Zoetis (ZTS.N, EW, PT $174)

Zoetis has compelling long-term prospects, but we believe the market is pricing this in given the stock's high valuation. We project 3-yr CAGR ('20-'23) organic rev. growth of 7% and EPS growth of 12%. There could be upside to our numbers given Zoetis' continued strong revenue growth is supported by Companion Animal outperformance. The economist team views reinforce our view that consumer demand for pet-related products will remain robust for many years to come. We are projecting ZTS 2021e rev and EPS growth of +9% (13% from Companion Animal and 4% from Livestock) and +14%, respectively.

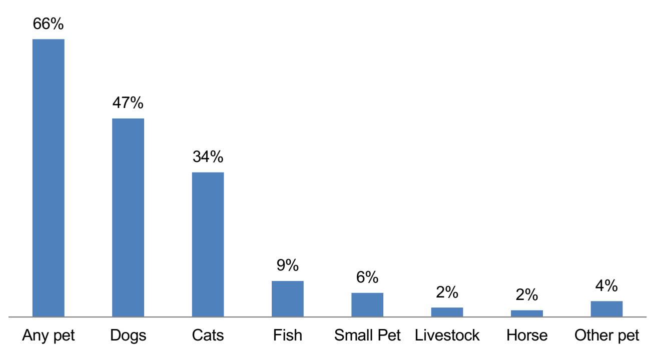
A Dog Is Growth's Best Friend

The rising importance of pets has contributed to the formation of a >$100b industry with robust growth characteristics (3.3% 2009-19 CAGR) and favorable economic/spending trends including declining elasticity of demand. Favorable long-term demographic trends and the persistent themes of humanization and premiumization have driven the industry's growth over the past decade, making US Pet Care an attractive segment for investors.

US Pet Care: A >$100 Billion Industry

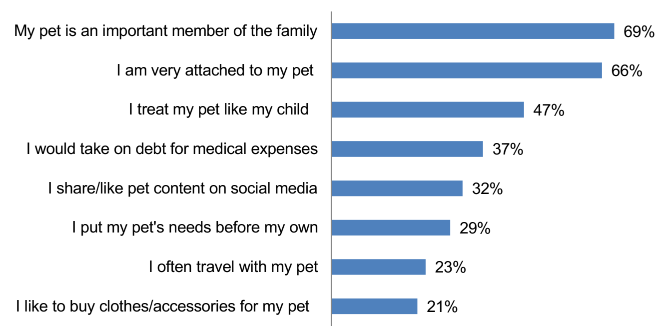
The themes of humanization and personalization are driving outsized growth in US Pet Care. Pets are increasingly considered core members of the family and a focus on improving the quality and length of their lives underpins the Pet industry's strong growth. Our AlphaWise survey indicates 66% of US households have at least one pet (1.7 on average, translating to ~130 million pets in the US); 47% have a dog (the most popular pet) and 34% have a cat. Importantly, 69% of respondents "strongly agree" their pets are important members of the family, 37% would take on debt to pay for a pet's medical expenses, and 29% would put a pet's needs before his/her own.

Exhibit 5: Two-thirds of US households have at least one pet



Source: AlphaWise, Morgan Stanley Research

Exhibit 6: Nearly 70% of pet owners strongly agree their pets are important members of the family

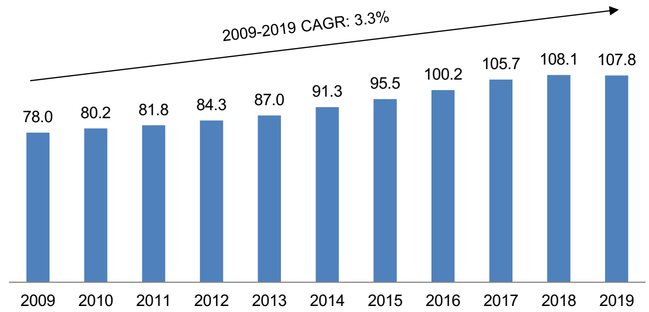


Source: AlphaWise, Morgan Stanley Research

US Pet Care spend amounts to more than $100 billion per year and has grown at a 3.3% CAGR in 2009-19. Consumers spent ~$108 billion on pet care in 2019, up from ~$78 billion in 2009.

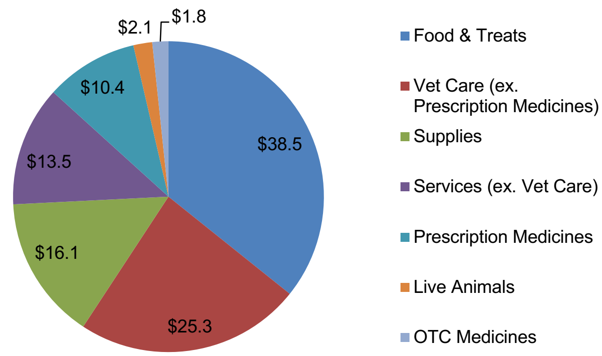
We split total spending into seven categories: Food and Treats is the largest ($39b in 2019), followed by Vet Care ex. Prescription Medicines ($25b), Supplies ($16b), Services ex. Vet Care ($13b), Prescription Medicines ($10b), Live Animals ($2b), and Over the Counter (OTC) Medicines ($2b). In total, pet owners spend the most on Food and Treats ($39b), followed by Animal Health (collectively $38b). Overall, goods accounted for 64% of spend ($69b) in 2019, while services made up 36% ($39b).

Exhibit 7: Total US Pet spend has grown to over $100b per year (3.3% 10Y CAGR)



Source: Bureau of Economic Analysis, American Pet Products Association, Morgan Stanley Research

Exhibit 8: Breakdown of 2019 US Pet Care spend by category ($b)



Source: Bureau of Economic Analysis, American Pet Products Association, Morgan Stanley Research

Demographic Tailwinds Underpin Pet Spending Growth

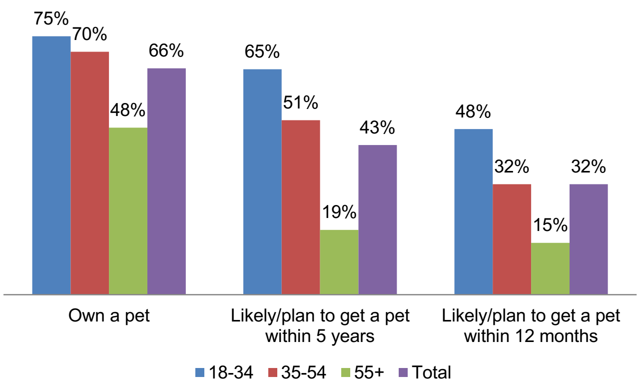
Favorable long-term demographic shifts have underpinned growth in pet spend over the past decade (and should continue to support it going forward). Three such trends revolve around the evolving behavior of Millennials, who have waited longer to get married/form families and are more likely to live at home with parents vs. prior generations. Changes in Millennial behavior should continue to have a long-term impact on the trajectory of US Pet Care as Millennials have greater pet ownership and spending intentions vs. prior generations.

1) Parents waiting longer to have children: According to the Centers for Disease Control and Prevention, women in America have their first child at around 28 years old (on average), a significant increase from 21 years old in 1970. In addition, women aged 30-34 now have slightly more children than women aged 25-29 (103 births per 100,000 people for women aged 30-34 vs. 102 for women aged 25-29). This trend of parents waiting longer to have children is a tailwind for pet ownership; nearly 30% of respondents in our AlphaWise survey cited nurturing/wanting to take care of something (24%) and substitute/practice for raising a child (5%) as reasons for getting a pet.

2) New household formation and a shift away from multi-generational living: Per Census data, a record number (64m+) of Americans live in multi-generational households. This living arrangement is most common among younger adults, applying to 33% of those 25-29 years old. The number and share of Americans living in multi-generational households rapidly increased following the Great Recession in 2007-2009, and has remained high since then. Over time, a "mean reversion" in the 25- to 29-year-old group (~20% lived in multi-generational households pre-2007) could spur significant new household formation and, with it, pet ownership.

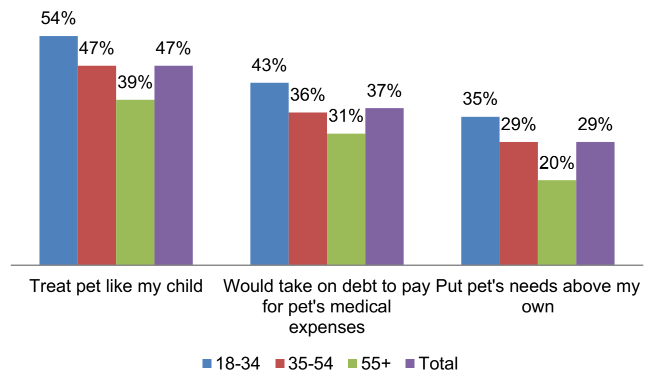
3) Millennials becoming the largest generation: This is the most impactful of the three demographic trends discussed. According to Census data as of July 2019, Millennials (those aged 24-39 in 2020) have overtaken Baby Boomers (aged 56-74 in 2020) to become the largest generation with ~72m members (vs. slightly under 72m for Baby Boomers). This should underpin long-term growth in pet ownership and spending. Our AlphaWise survey shows 75% of respondents aged 18-34 own a pet vs. 66% of overall respondents, and 65% of those aged 18-34 are likely or currently plan to get a pet (or another pet) within five years vs. 43% of overall respondents (48% of those aged 18-34 are likely or currently plan to get a pet in the next 12 months vs. 32% of all respondents). In addition, those aged 18-34 seem more likely to spend a greater portion of their incomes on pets than older adults: 54% strongly agree they treat pets like their children vs. 47% of respondents overall; 43% strongly agree they would take on debt to pay for a pet's medical expenses vs. 37% overall; and, 35% strongly agree he/she would put a pet's needs before his/her own vs. 29% overall.

Exhibit 9: Adults aged 18-34 display the highest propensity for pet ownership



Source: AlphaWise, Morgan Stanley Research

Exhibit 10: Adults aged 18-34 seem more willing to spend a relatively high portion of income on pets vs. older generations



Source: AlphaWise, Morgan Stanley Research

COVID-19 Callout: Pandemic Pet Ownership Trends

According to the American Pet Product Association's COVID-19 Pulse Studies, ~10% of respondents got a new pet during COVID-19 (through December 2020, with 6% growth through June 2020). This equates to approximately 11m new pets homed during the pandemic, adding another tailwind to growth in pet spending. Our AlphaWise survey appears to support this data, suggesting pet ownership grew ~5% (roughly 6m new pets) through July 2020. We discuss these findings in more detail in How Changing Behaviors May (or May Not) Disrupt the Pet Value Chain.

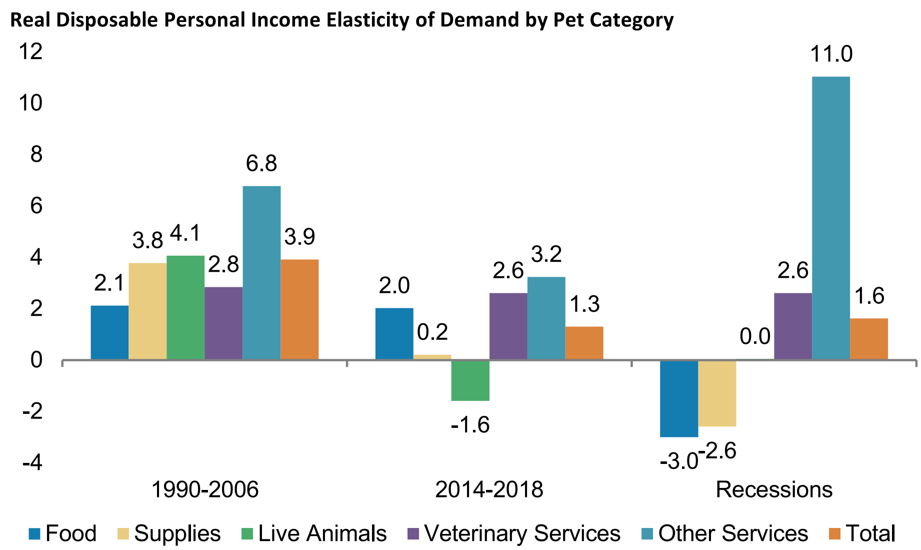
The Elasticity of Pet Spending Has Fallen Over Time

The real disposable personal income elasticity of demand for pet spending is how sensitive pet spending is to changes in real personal disposable income. Over the 1990-2006 period, on average, elasticity of demand was 3.6, which means for every $1 less in real disposable income, nominal spending on pets declined by $3.60. Fast forward to the 2014-19 period, elasticity of demand has declined to 1.7 for all pet spending, meaning pet spending as a whole has become almost perfectly elastic, and thus consumers are increasingly less willing to cut pet spending as a whole when real personal disposable income declines.

What are the drivers of elasticity changes over the last half century? As shown below, the most significant decline in elasticity of demand is among “supplies” and “other services” (Exhibit 99). Supplies and other services are the two most discretionary aspects of pet spending, these include prescription drugs, grooming, dog walkers, and other goods and services you purchase on behalf of your pet that is outside of the core products (food) and services (health care). It would be expected that for the core pet necessities, food and veterinary services, elasticities have not varied significantly over time. However, the elasticity decline in discretionary pet spending shows that consumers view "supplies" and "other services" as more of a pet necessity today than ever before.

Recessions change elasticities. During a recession, other services becomes extremely elastic, while spending of food and supplies become inelastic. Veterinary services does not display cyclical sensitivity but it also does not prove to be a core item for pets during a recession, otherwise it would be income elastic.

Exhibit 11: Real DPI Elasticity of Demand over time



Source: BEA

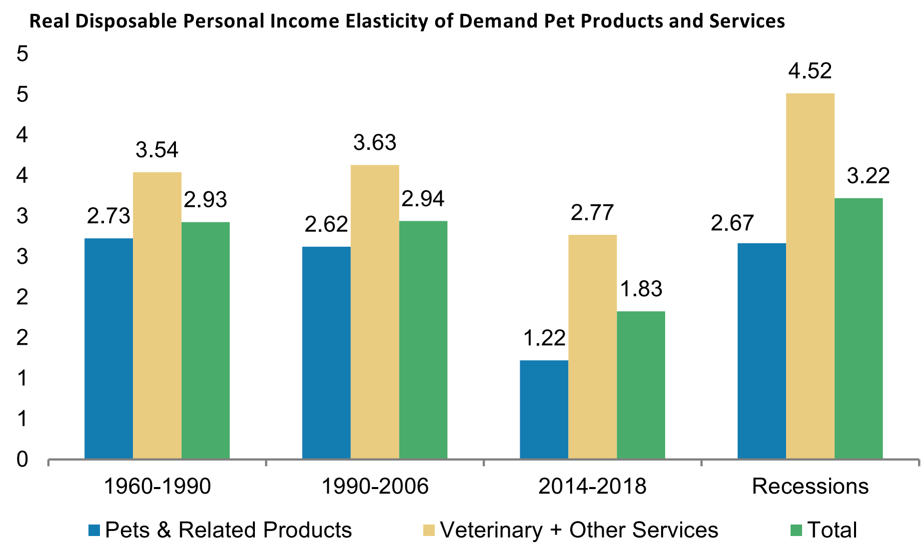
The data available to calculate elasticity of demand by five categories only dates back far enough to include the 2008/09 recession, whereas we have data available back to 1960 that breaks pet spending by "pets and related product" (which includes foods, supplies, and live animals) and "veterinary and other services." Over a longer time frame, pet spending as a whole becomes more elastic during a recession, though this is driven mostly by veterinary and other services spending.

COVID-19 Callout: Pet Owners Less Willing to Cut Spending

According to the APPA Covid-19 Pulse Study released in October 2020, two-thirds of pet owners noted their spending had not changed much in the past month. The study found that 72% of pet owners agree their "pet's diet is very important so they do not plan to make any changes regardless of their financial circumstances." This corroborates our findings that food becomes inelastic during recessions, and is the least like to see spending cut when income declines. Less than 25% of pet owners plan to spend less money on food/supplies given the current economic conditions, also in line with our findings that supplies are inelastic during recessions.

Only 19% of pet owners said they changed their use of veterinarian during Covid-19, while 60% said they did not change this. Veterinarian care is more susceptible to income changes than food spending, though, it is not highly elastic.

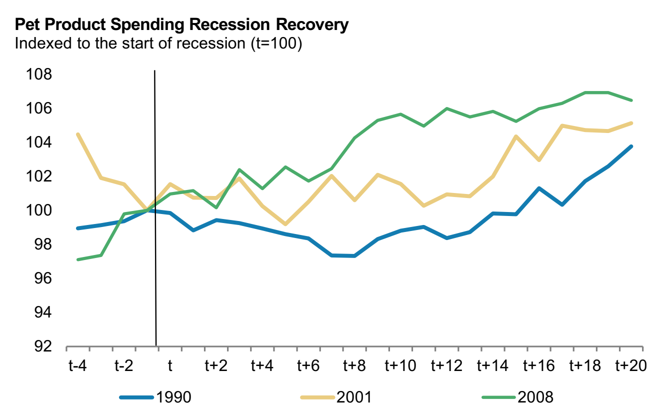
Exhibit 12: Real Disposable Personal Income Elasticity of Demand



Source: BEA

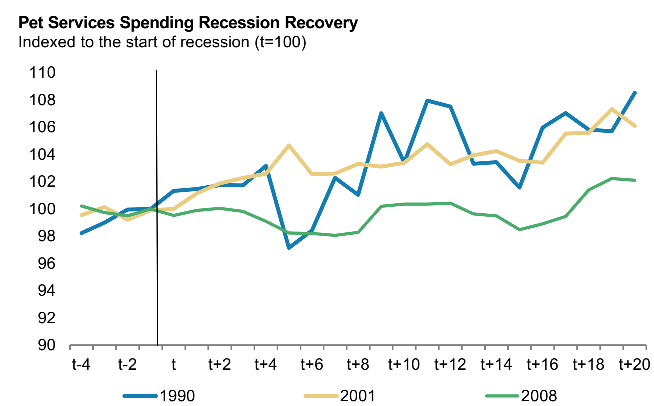
The post-recession recovery in pet spending by category corroborates this findings. Over time, the post-recession recovery for pet product spending has become increasingly fast as we move through economic cycles. The opposite is true for services spend, which is showing a weaker and weaker recovery (Exhibit 101& Exhibit 102).

Exhibit 13: Strengthening recession recovery for pet product spending



Source: BEA

Exhibit 14: Weaker recession recovery for pet services spending



Source: BEA

The growth trend over the last 20 years in each category shows that spending on veterinary care along with food and treats is poised to grow the fastest in the coming years. However, during a recession spending on services is hit the hardest and takes the longest to recover. These finds on elasticities and recession recovery time drive our forecast for spending growth over the next decade, which is still robust given that pet product spending makes up a greater share (62%) of total spending.

Key Conclusions:

The growing importance of pets has contributed to strong industry growth (3.3% 10Y CAGR), making US Pet Care an attractive segment for investors.

Favorable long-term demographic trends and the persistent themes of humanization and premiumization have underpinned the industry's growth over the past decade and should continue to support it over the next decade.

The elasticity of pet spending has clearly fallen over time, indicating consumers view pet spend as less discretionary and more necessary.

US Pet Care Forecasts: $277 Billion Industry by 2030

Our Housing and Economics Strategists collaborated to forecast growth in total US Pet Care spend over the next decade. Their methodology and views are clearly delineated in this section and they are not opining on any equity securities. Overall, US Pet Care spend is estimated to grow to $277b by 2030 (bear $254b/bull $321b), reflecting a 8% CAGR (7.2% bear/9.5% bull) in 2019-30.

Household & Total Pet Spend Forecasts

Background

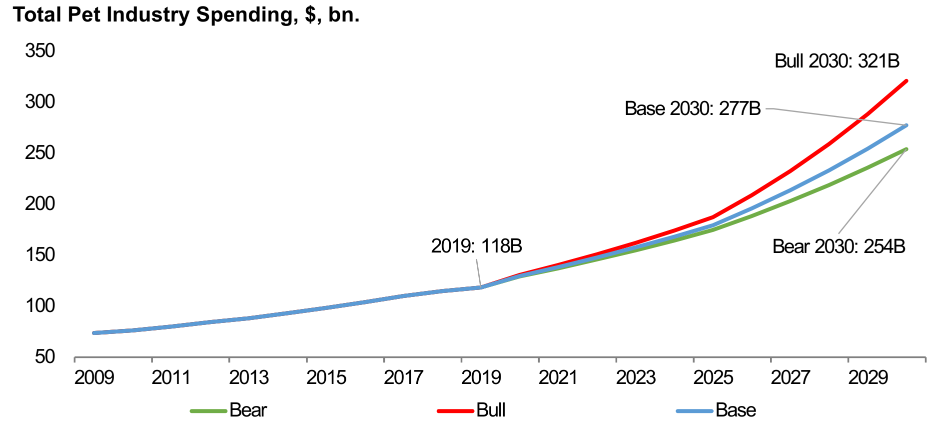
Household formation is poised for growth over the coming decade, and considering where that growth is coming from, so too is pet ownership. The Millennial generation is currently moving through the age cohorts typically characterized by the most rapid household formation. Headship rates, or the percentage of this age cohort that heads their own household, have been driven to near 50-year lows because of a number of dynamics including the propensity of this generation to live in multi-generational households. However, because of the sheer size of the population moving through this critical age range, we do not even need to see headship rates increase for household formation to exceed long run averages. In fact, this dynamic has been on display since 2018 as growth in households have been driven by the younger generations. When we combine this growth with the increasing rate of pet ownership across the demographic range — but particularly within the millennial generation — we see an even larger rise in the number of pet owning households. Between our estimates for pet ownership at the end of 2019 and 2030, we expect the number of households that own pets to increase by 14%.

Our household pet ownership projections suggest that Covid-19 had a sizeable impact on pet ownership in 2020. After averaging ~1% annual growth in household pet ownership over the last decade, our Housing Strategists estimate that ownership jumped by 3.6%Y in 2020. Incorporating the American Veterinary Medical Association's estimate for the number of cats/dogs per household (1.7), we calculate that the total number of pets owned in 2019 was ~130 million. The Bureau of Economic Analysis' (BEA) personal spending report estimated that total pet industry spend in 2019 was $118 billion. Combining estimates for total pets owned and total pet spending suggests that the average spend per pet in 2019 was $926, ~42% higher than $652/per pet in 2009.

Pet Industry Spend Forecasts

We estimate total industry spending, broken down by pet services and pet products under three scenarios of trend spending per pet (see Methodology).

Exhibit 15: Total Pet Industry Spend



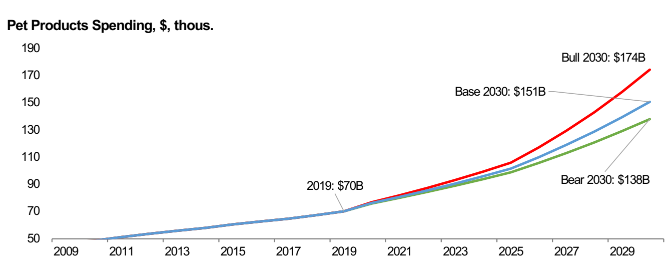
Source: Bureau of Economic Analysis, Morgan Stanley Research

Baseline forecast — increasing trend: We expect household spending per pet to reach $1,292 by 2025, growing further to $1,909 by 2030. An outcome in line with this expectation would increase total industry spend by 134% over the next decade from $118b to $277b by 2030 (8% CAGR 2019-30). Within total industry spend, we expect growth to be led by pet services, which has steadily increased in share over the last decade. Indeed, pet services spend is expected to increase 163% from $48b to $127b in 2030.We expect pet products spend to increase 115% over the next decade from $70b in 2019 to $151b in 2030.

Bear case forecast — reversion to prior trend: Our bear case envisions household spending per pet to reach $1,258 by 2025, rising further to $1,748 by 2030. In this scenario total industry spend would increase 114% over the next decade from $118b to $254b by 2030 (7.2% CAGR 2019-30). Within this estimate we expect pet products spend to increase 97% over the next decade from $70b in 2019 to $138b in 2030. Pet services spend is expected to increase 141% from $48b to $116b in 2030.

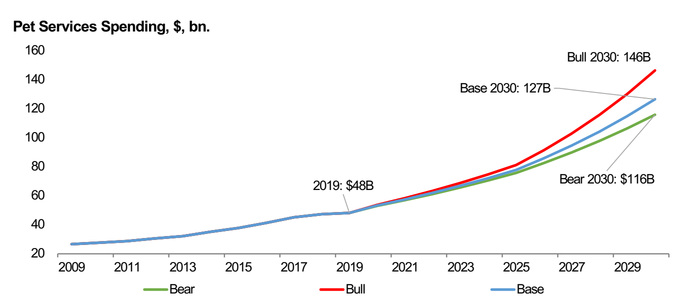
Bull case forecast — non-linear increasing trend: In our bull case, we expect household spending per pet to reach $1,348 by 2025, growing further to $2,209 by 2030. Total industry spend would increase 171% over the next decade from $118b to $321b by 2030 (9.5% CAGR 2019-30). We expect pet products spend to increase 148% over the next decade from $70b in 2019 to $174b in 2030. Pet services spend is expected to increase 204% from $48b to $146b in 2030.

Exhibit 16: Total Pet Products Industry Spend



Source: Bureau of Economic Analysis, Morgan Stanley Research

Exhibit 17: Total Pet Services Industry Spend



Source: Bureau of Economic Analysis, Morgan Stanley Research

Key Conclusions:

We believe Covid-19 caused an inflection in the number of households who own pets as well as the trend growth in household spend per pet. Our base case forecasts incorporate this higher momentum in pet spending triggered by Covid-19, with a bullish skew. In all three scenarios we look for pet services spend to outperform pet products.

Methodology

The number of households that own a pet and the number of pets per household remains constant in all three scenarios. After jumping by 3.6%Y in 2020, the number of households that own a pet then averages 0.9-1.0%Y growth in 2021-30. The number of pets per households is held constant at 1.7 as the AW and AVMA surveys indicate (cats & dogs).

Each scenario has different assumptions for growth in household spend per pet over the next decade.

Exhibit 18: Methodology Table

	Bear		Base		Bull	
Description	Covid-19 had no impact on household spend per pet trend and we return to pre-Covid y/y growth trend in spend per pet. Average y/y growth in 2020-2030 equals momentum in average annual growth from the last decade.		Covid-19 accelerated the momentum in household spending per pet growth. On top of the bear case, we add 0.5 standard deviations to y/y growth in 2020-2025 and again 2025-2030.		Covid-19 accelerated the momentum in household spending per pet growth even more. On top of bear case, growth is a full standard deviation higher over next decade.	
Average Annual Growth in HH Spend Per Pet	**2010-2014**	**3.1%**	**2010-2014**	**3.1%**	**2010-2014**	**3.1%**
	2015-2019	**4.0%**	**2015-2019**	**4.0%**	**2015-2019**	**4.0%**
	2020-2025	**5.2%**	**2020-2025**	**5.7%**	**2020-2025**	**6.4%**
	2026-2030	**6.8%**	**2026-2030**	**8.1%**	**2026-2030**	**10.4%**

Source: Bureau of Economic Analysis, Morgan Stanley Research estimates

The Pet Value Chain Revolves Around Animal Health

Spending on Animal Health reached nearly $40b in 2019 (~2.5% CAGR over the past decade), making it the second biggest segment of US Pet Care behind Food/Treats. Growth should accelerate over the next decade, driven by favorable demographic and industry trends plus advances in pet healthcare. This should help cement the status of vets at the center of the pet ecosystem. Due to the industry's growth trajectory and the importance of vets, Animal Health may be the most important segment of US Pet Care for investors to focus on over the next decade.

Animal Health may become the most important segment of US Pet Care for investors to focus on over the next decade. Two possible reasons why:

1. ***Its size and growth profile.*** Animal Health is nearly the biggest segment in US Pet Care and Vet Care could be the fastest growing sub-segment in the industry over the next decade. This view is supported by expected advances in pet healthcare, favorable demographic trends, and the rising willingness of pet owners to spend more to improve the lifespan and quality of life for their pets.

2. ***The importance of veterinarians.*** Our survey work proves vets are at the center of the US Pet Care ecosystem. Beyond their critical role in the Animal Health sub-segment, vets exert significant influence over spending in Food and Treats, the only segment in the US Pet Care industry bigger than Animal Health.

Our AlphaWise study proves the US Pet Care industry revolves around vets. Key findings:

1. Vets are clearly the most important resource for all aspects of pet care;

2. Vets directly influence pet owners' spending on food/treats (biggest expense);

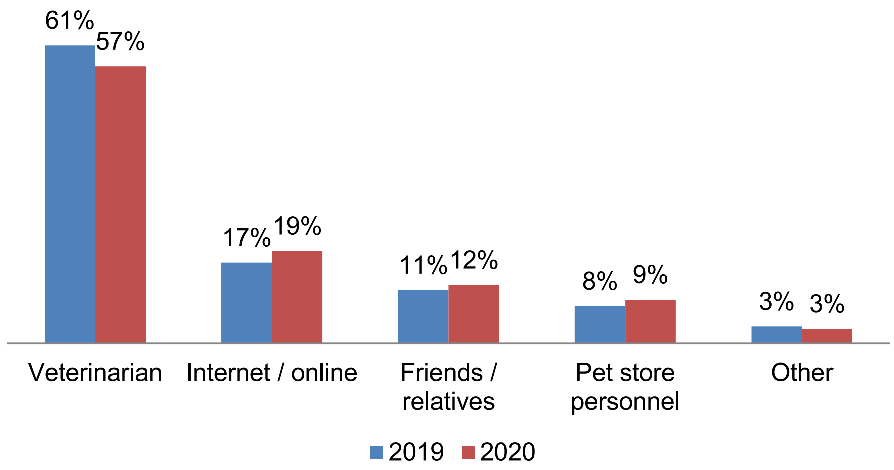
3. Pet owners interact with vets regularly and intentionally (not just for illness);

4. Vets play a central role in fulfilling pet prescriptions; and,

5. Structural barriers face competitors trying to fulfill prescriptions in place of vets.

Vets are by far the most important source of information for pet care. In our survey, roughly 60% of pet owners cite their vet as the most important source of information for their pet's care (including health, food and supplies). A distant ~20% regard the internet as their most important source of information, followed by friends/relatives (~10%) or pet store personnel (~10%). Supporting these findings, the American Veterinary Medical Association's surveys have found that ~90% of dog/cat owners have a "regular" vet.

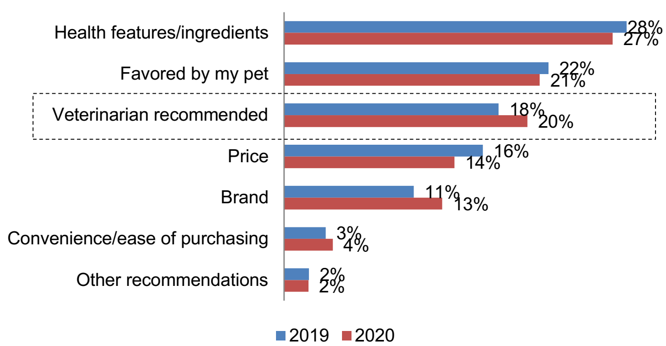
Exhibit 19: Around 60% of pet owners cite their vet as the most important source of information for pet care



Source: AlphaWise, Morgan Stanley Research

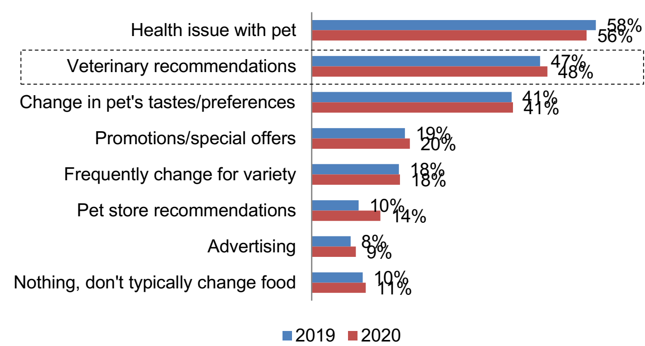
Vets directly influence the key shopping behaviors of pet owners. 20% of pet owners said vet recommendations were the most important factor in their food/treat purchases, and ~50% would change a pet's food/treats following a vet's recommendation (the second most impactful factor behind only direct health issues). Food/treats make up ~35% of all pet spending ($39b in 2019), meaning vets directly influence up to ~$8b (and may indirectly influence up to ~$20b) of pet care spend above and beyond what pet owners spend on Animal Health.

Exhibit 20: Vet recommendations are the third most important factor in pet food/treat purchases



Source: AlphaWise, Morgan Stanley Research

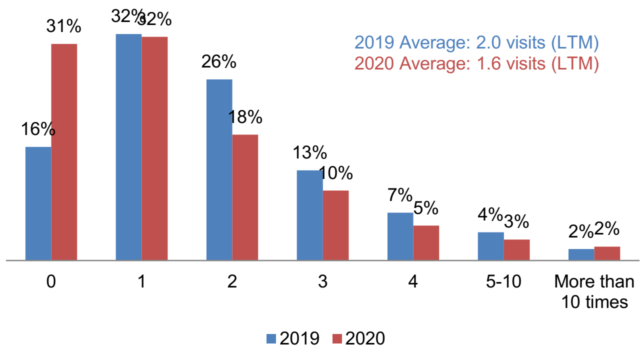
Exhibit 21: Vet recommendations are the second most important factor in changing a pet's food



Source: AlphaWise, Morgan Stanley Research

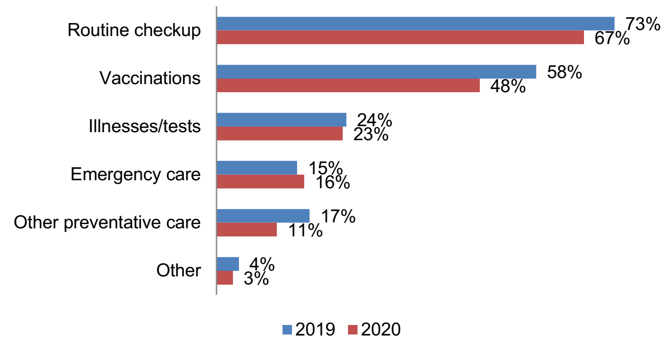
Pet owners interact with vets regularly. Pre-COVID-19, 85% of pet owners had visited the vet at least once in the past 12 months. Roughly 70% of pet owners went to the vet 1-3 times during the period, and pet owners visited the vet twice on average. A vast majority frequented the vet for routine/preventative care: 73% of respondents took pets for routine checkups, 58% for vaccinations, and 17% for other preventative care (24%/15% for illnesses/emergencies).

Exhibit 22: Pet owners visited vets 1.6 times on average in the past 6 months (2.0 times in the 12 months pre COVID-19)



Source: AlphaWise, Morgan Stanley Research

Exhibit 23: The vast majority of vet visits are for routine/preventative care



Source: AlphaWise, Morgan Stanley Research

COVID-19 Callout: Vet Visits Surprisingly Resilient

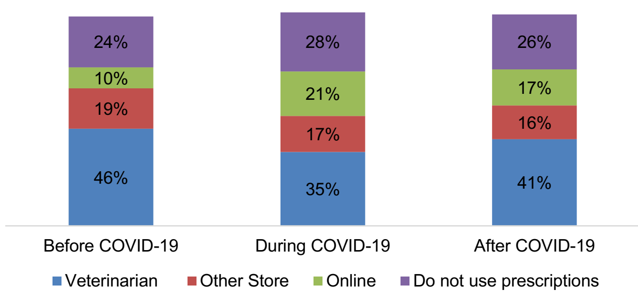
A full 93% of pet owners' vet appointments were largely unaffected by COVID-19. Per our survey, 61% of respondents maintained their appointments, 17% postponed them, and only 15% canceled but planned to reschedule. Just 7% of pet owners canceled their vet appointments without making plans to reschedule them during COVID-19. We discuss these findings in more detail in How Changing Behaviors May (or May Not) Disrupt the Pet Value Chain.

Vets (logically) play a central role in dispensing medication for pets. 75% of pet owners typically use prescription medications for their pets. Pre COVID-19, 46% of pet owners (~60% of those that use prescription medications) fulfilled their prescriptions at the vet's office; 19%/10% of pet owners did this in a retail store/online (25%/13% of prescription medication users).

During COVID-19 72% of pet owners used prescription medications for their pets. 35% of pet owners (~49% of those that use prescription medications) fulfilled their prescriptions at the vet's office; 17%/21% of pet owners did this in a retail store/online (24%/29% of prescription medication users).

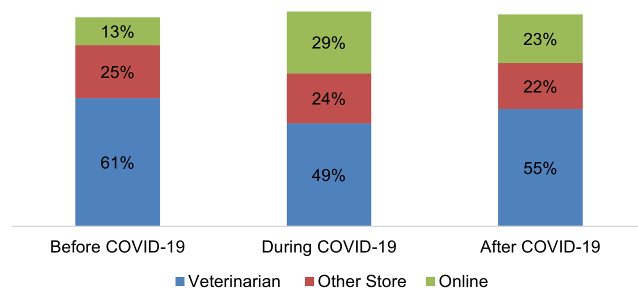
We also asked pet owners how they plan to fulfill prescription medications post COVID-19. 74% of pet owners expect to use prescription medication for their pets. 41% (55% of those that plan to use prescription medication) intend to fulfill at the vet's office; 16%/17% intend to do this at a retail store/online (22%/23% of expectant prescription medication users).

Exhibit 24: Over 40% of pet owners typically fulfill prescriptions at the vet...



Source: AlphaWise, Morgan Stanley Research

Exhibit 25: ...Equating to 55-60% of pet owners who use prescription medicines typically fulfilling orders at the vet



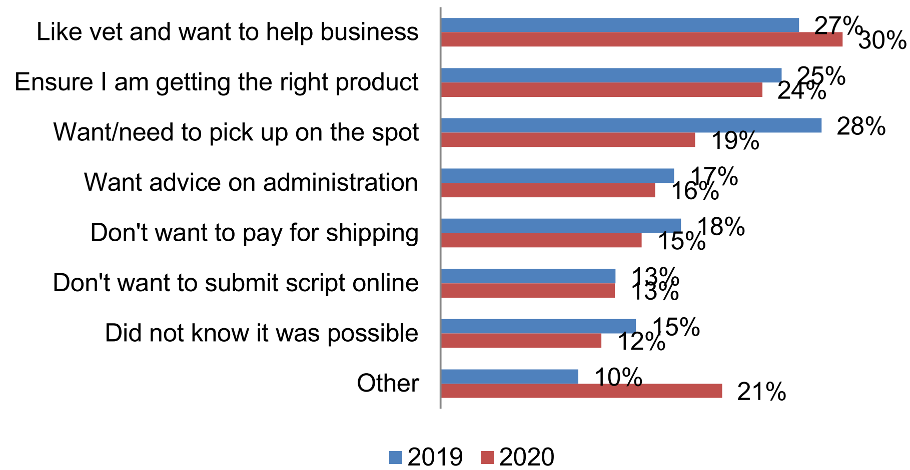
Source: AlphaWise, Morgan Stanley Research

COVID-19 Callout: Unsustainable Share Gains for Online Prescription Fulfillment

Online prescription fulfillment is the clear beneficiary of COVID-19 (rising from 13% share of prescription fulfillment to 30%), but the gains made by this channel during the pandemic do not appear to be sustainable. Our survey indicates the vet is likely to claw back half the prescription fulfillment share lost to online retailers post COVID-19. We discuss these findings in more detail in How Changing Behaviors May (or May Not) Disrupt the Pet Value Chain.

Goodwill, trust, immediacy and reliance are key factors helping vets defend their share of prescription fulfillment. Roughly 30% of pet owners choose to fulfill prescriptions at the vet (despite it often being more expensive than other channels) because they like their vet and want to help his/her business. Around 25% of pet owners eschew other channels in favor of the vet because they want to ensure they are getting the right product. Nearly 20% of pet owners want to pick up the medication on the spot, and another ~15% want advice from the vet on how to administer the medication. Only 10-15% of pet owners are currently fulfilling prescriptions at the vet because they do not want to pay for shipping, do not want to submit prescriptions online, or did not know online fulfillment is possible (reasons that online competitors may be able to overcome given enough time).

Exhibit 26: Helping vets is the number one reason pet owners do not fulfill prescriptions online



Source: AlphaWise, Morgan Stanley Research

Key conclusions:

Vets are at the center of the pet care ecosystem and influence the behavior of pet owners beyond healthcare.

COVID-19 has not meaningfully/negatively affected the importance of vets.

How Changing Behaviors May (or May Not) Disrupt the Pet Value Chain

Through the lens of our proprietary AlphaWise surveys, we examine how common behaviors/attitudes of pet owners changed during the COVID-19 pandemic and which effects (if any) may prove to be permanent. Not surprisingly, overall pet ownership increased; a significant chunk of the pet industry's brick and mortar retail sales moved (and should stay) online; and, the vet segment might face the fewest lasting impacts.

AlphaWise Survey Methodology

Online survey conducted in July 2020 among ~2,500 U.S. 18+ year old consumers. Out of the total sample, consumers who currently have dog(s) and/or cat(s) and have a sole or joined responsibility for pet care (n=1,499), qualified for the main survey. The total sample is representative of the U.S. population in terms of age, gender and region. The margin of error on the total sample is +/- 1.5% at a 90% confidence level. Where applicable findings are compared to the October 2019 survey.

Pet Ownership Trends

Behavioral changes: More than 10 million new pets may have found homes during COVID-19. Our AlphaWise survey suggests pet ownership grew ~5%, or roughly 6 million new pets, through July (similarly, 5% of respondents cited COVID-19 as the reason for getting a pet). By September, ~9% of respondents to the American Pet Product Association's COVID-19 Pulse Studies got a new pet during COVID-19, equating to approximately 11 million new pets homed during the pandemic.

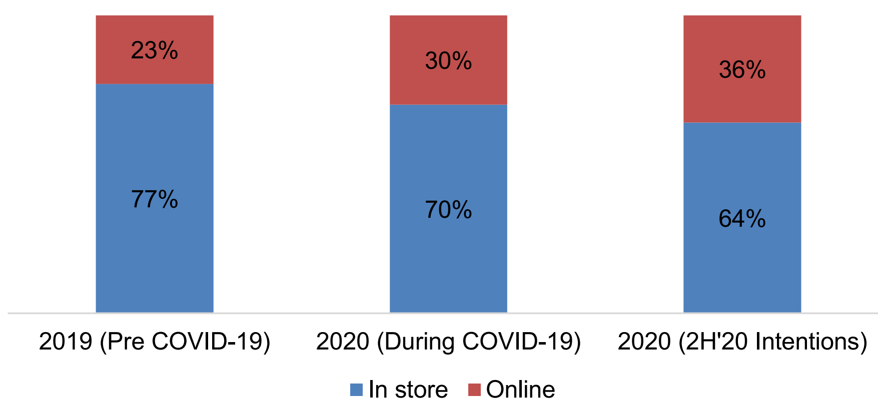
Implications: Faster growth in pet ownership should provide a tailwind to industry spending growth. Assuming it costs $1,000+ per year to care for each new pet, 11m new pets illustratively yield an incremental ~$11+ billion of annual pet care spend.

Pet Food/Supplies: Online vs. Offline

Behavioral changes: Our 2019 survey suggested consumers purchased 23% of pet food/supplies online; this rose to 30% in 2020, representing ~$5b of spending shift online. Respondents planned to spend even more online going forward, indicating 36% of their spend on pet food/supplies would be online in the six months following the survey vs. 30% in the six months preceding it (another potential ~$4b of spend shifting online).

Implications: E-commerce share gains are likely to be the most significant and lasting effects of the COVID-19 pandemic on the pet care industry. This should provide a revenue growth tailwind to online retailers and a headwind to primarily brick-and-mortar retailers.

Exhibit 27: E-commerce is expected to continue gaining share at the expense of brick & mortar sales



Source: AlphaWise, Morgan Stanley Research

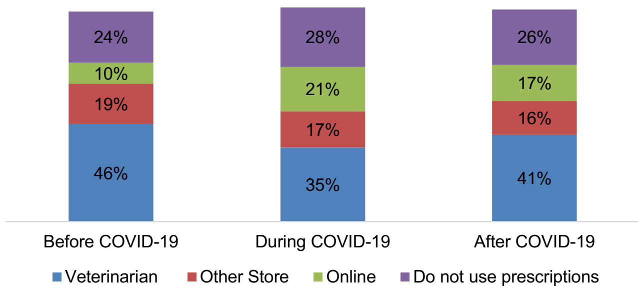
Pet Prescriptions: Online vs. Offline

Behavioral changes: Like the purchase of pet food/supplies, the fulfillment of pet prescriptions also sharply moved online during COVID-19. However, only a portion of this shift is expected to be permanent. 10% of pet owners fulfilled prescriptions online pre COVID-19; this jumped to 21% during the six months leading up to July 2020, but respondents indicated it would fall back to 17% in the following six months. Vets were expected to reclaim share lost to the online channel during the pandemic. 46% of pet prescriptions were fulfilled at vet offices before COVID-19; this fell to 35% in the six months leading up to July 2020 (equal to online share gains), but was expected to rise back up to 41% in the following six months.

For those who do not fulfill prescriptions online, ~30% like and want to support their vet, ~25% want to be sure they are getting the right products, ~20% want to pick up medicine on the spot, ~15% want advice on how to administer the medicine, ~30% do not want to pay for shipping or submit prescriptions online, and ~30% did not know it was possible to fulfill prescriptions online or had other reasons for avoiding it.

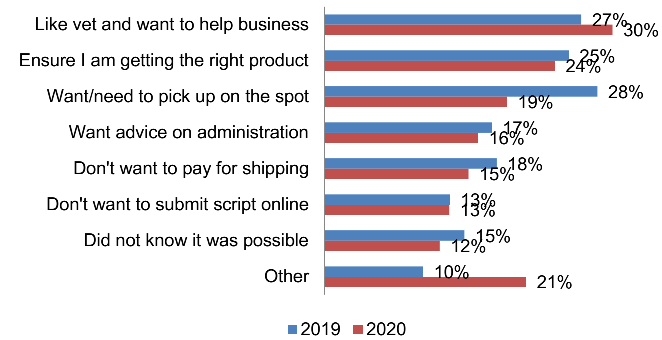
Implications: The leading market share vets have in prescription medicines seems (at least partly) defensible vs. e-commerce encroachment. This is also supported by the trust pet owners place in vets (see detail in Pet Care Revolves Around Vets & They Will be Hard to Displace) and survey results indicating vet visits were mostly unaffected by COVID-19 (detailed below).

Exhibit 28: Online fulfillment of pet prescriptions is expected to lose momentum post COVID-19



Source: AlphaWise, Morgan Stanley Research

Exhibit 29: The main reason pet owners do not fulfill prescriptions online is a desire to help their vets



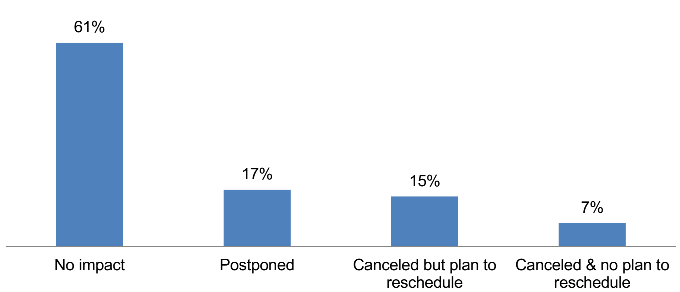
Source: AlphaWise, Morgan Stanley Research

Vet Visits

Behavioral changes: Pet owners did not change their permanent behavior much in relation to vet visits during COVID-19. Survey respondents indicated around 60% of vet visits were unaffected amidst the pandemic, and only 7% were canceled with no plans to reschedule; approximately 30% of appointments were postponed or canceled with an intention to reschedule. In the 12 months leading up to the July 2020 survey, 67% of respondents took their pet(s) to the vet for a routine checkup, 48% for vaccinations, 23% for illnesses/tests, 16% for emergency care, and 14% for preventative care or other reasons.

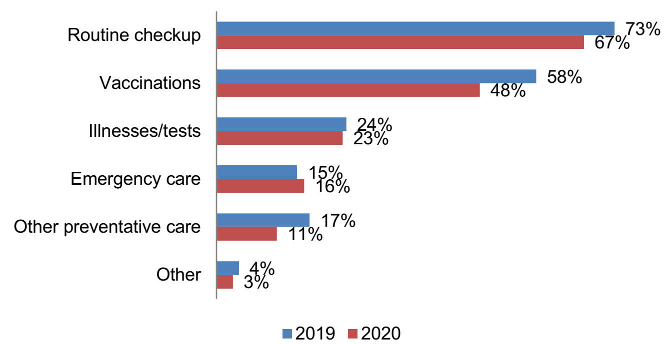
Implications: Vets remain at the center of the pet ecosystem and vet care is still administered almost entirely in person. This should help vets defend sales of products closely linked to the vet clinic (mainly prescription medicines) against e-commerce encroachment.

Exhibit 30: Only 7% of respondents canceled vet appointments with no plans to reschedule



Source: AlphaWise, Morgan Stanley Research

Exhibit 31: The vast majority of vet visits are related to routine care



Source: AlphaWise, Morgan Stanley Research

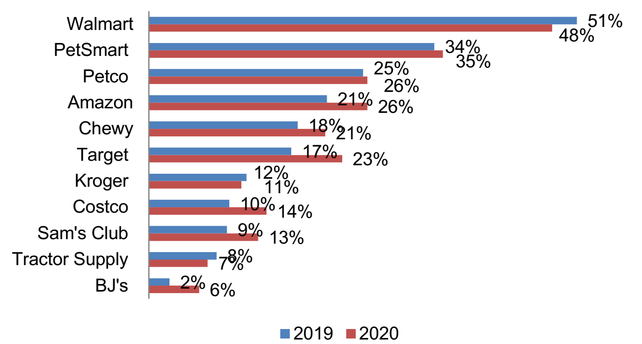
Retailers Gaining vs. Losing Traffic/Shopping Frequency

Behavioral changes: There were clear traffic/shopping frequency gainers/losers during COVID-19 according to our survey. For pet food/supplies, Target led gains (23% of respondents shopped on the platform in 2020 vs. 17% in 2019), followed by Amazon (26% in 2020 vs. 21% in 2019), club stores (Costco, Sam's Club, and BJ's all gained 4%), and Chewy (21% in 2020 vs. 18% in 2019). Walmart technically lost the most traffic according to our survey (48% of respondents shopped there in 2020 vs. 51% in 2019), but its losses were marginal and it remains the largest seller by far.

For fulfillment of pet medications online (both prescription and over the counter medicines), PetSmart led share gains (29% of respondents used the platform in 2020 vs. 13% in 2019), followed by Amazon (30% in 2020 vs. 15% in 2019), Walmart (24% in 2020 vs. 10% in 2019), and Petco (23% in 2020 vs. 13% in 2019). Chewy gained 4% of share (29% in 2020 vs. 25% in 2019), while 1800-Pet-Meds lost 14% of share (29% in 2019 vs. 15% in 2020).

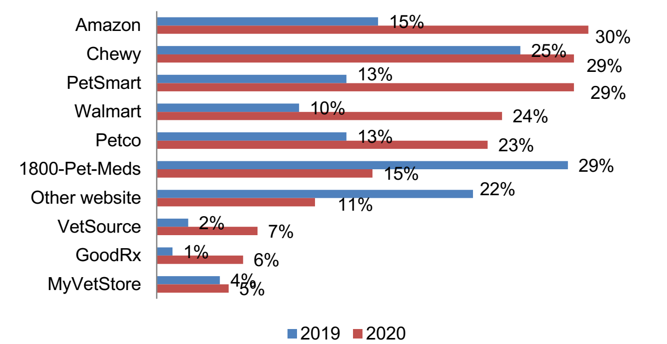
Implications: Retailers with scale gained share during COVID-19 (in general, with the exception of Walmart). These share gains likely came from smaller/independent players (many not captured in our surveys) and could be sustainable.

Exhibit 32: Percent of respondents that shopped at retailer within the past 6 months (2020) or 12 months (2019)



Source: AlphaWise, Morgan Stanley Research

Exhibit 33: Percent of respondents who have fulfilled pet prescriptions at each website



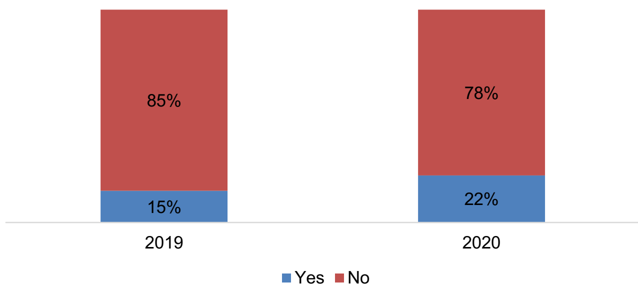
Source: AlphaWise, Morgan Stanley Research

Auto-ship Subscriptions

Behavioral changes: There was a significant uptake of Auto-ship subscriptions during COVID-19. According to our survey, 22% of pet owners (38% of online shoppers) were signed up for an auto-ship subscription in 2020 vs. 15% of pet owners (31% of online shoppers) in 2019. The composition of auto-ship subscriptions did not change much: ~80% of users purchase food, ~50% buy treats, ~33% toys, ~30% pharmacy/healthcare products, and ~10% other pet supplies.

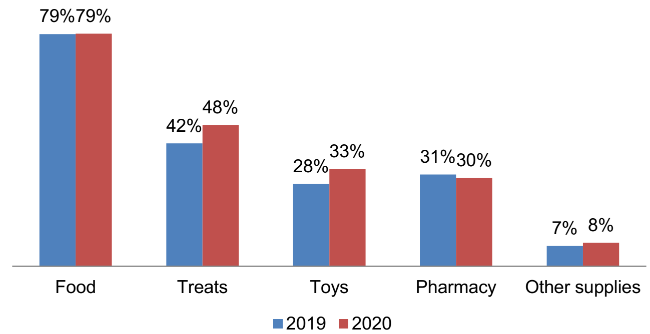
Implications: The rising penetration of auto-ship subscriptions should help sustain the lift in the pet care industry's e-commerce penetration and improve the unit economics for retailers benefiting from the trend.

Exhibit 34: Approximately 20% of pet owners have an auto-ship subscription (up from 15% in 2019)



Source: AlphaWise, Morgan Stanley Research

Exhibit 35: Food is the most commonly bought product via auto-ship subscriptions



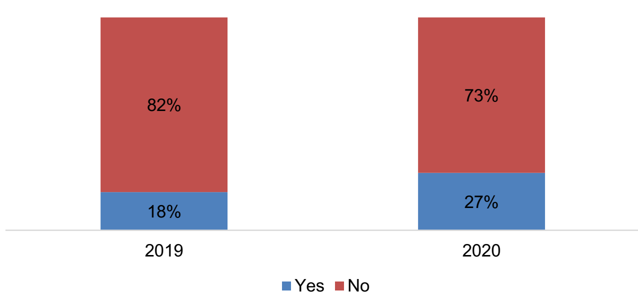
Source: AlphaWise, Morgan Stanley Research

Pet Insurance

Behavioral changes: Pet insurance penetration rose significantly during COVID-19. According to our survey, 27% of respondents had pet insurance in 2020 vs. 18% in 2019. By age group, 47% of 18-34 year olds had pet insurance in 2020, which should provide a strong tailwind for the emerging industry over time.

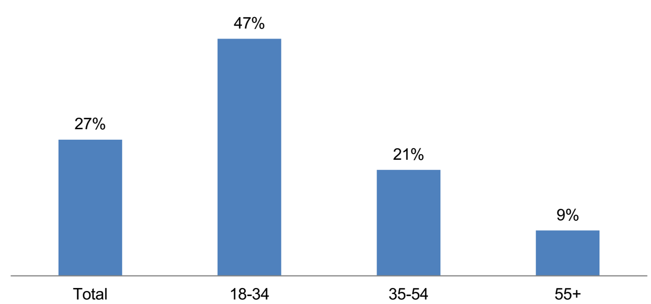
Implications: COVID-19 may have provided a significant boost to the burgeoning pet insurance industry.

Exhibit 36: 27% of pet owners had pet insurance in 2020 vs. 18% in 2019



Source: AlphaWise, Morgan Stanley Research

Exhibit 37: Pet insurance adoption is highest among younger pet owners



Source: AlphaWise, Morgan Stanley Research

Key conclusions:

Pet ownership appears to have risen significantly during COVID-19, creating a tailwind for growth in pet care spending in the US.

E-commerce share gains appear to be sustainable in some cases (pet food/supplies) but not others (pet prescription fulfillment).

The provision of vet care does not seem to have been meaningfully disrupted by COVID-19, highlighting the stability and defensiveness of the segment.

Relatively Advantaged/Disadvantages Companies, and Stock Implications

Chewy's (CHWY.N, EW, PT $76)

We like CHWY's position as the Number 1 online pet player in a secularly growing TAM coupled with predictable, consistent revenue growth. Even after 2020, ~$53b, or 70% of US pet product spending, still occurs in brick & mortar stores, suggesting still a long runway for eCommerce, and CHWY, share gains. While we don't assume that CHWY takes incremental share of online spend (29% vs. 31% over the last 5 years), the channel shift alone implies ~$18b of eCommerce spend up for grabs over the next five years vs. CHWY's revenue base of $7.1b today. Additionally, this doesn't take into account the white space within pharmacy/telehealth/healthcare that we remain confident CHWY can continue to grow at a 20%+ rate, ultimately garnering ~10% share (~20% ex. vaccines) of the US pet pharmacy market in 2025.

While CHWY clearly was a "COVID trend beneficiary" as pet spend migrated online and pet ownership accelerated, we continue to believe CHWY has the greatest opportunity to 1) retain the 5.3M net new buyers it acquired in 2020 given the habitual, staples-like nature of the business and superior value proposition to brick & mortar shopping, and 2) CHWY's historically strong (35-60% revenue growth net of churn) year 2 cohort spending. Additionally, CHWY has not only attracted larger new cohorts in 2020, but is better retaining them, and capturing greater wallet share early on… meaningfully improving LTVs. For example, the 2Q20 cohort was 50% larger than 2Q19, retention improved more than 600 bps YTD, plus the net sales per active customer of the 2020 cohort was 10% higher than 2Q19's. This is in part driven by COVID, but also given a larger addressable TAM, specifically pharmacy (~$7b of spend), telehealth offerings, and more.

While we continue to like the multiyear CHWY story, we struggle with valuation. At these levels, we think the stock is pricing in ~$20 2025 revenue (MS at $14.6) at a 10-12% EBITDA margin (vs. management's long-term target of 5-10%), assuming a ~25x EBITDA multiple for ~30% EBITDA growth and discounted back at 6.7%. To deliver that magnitude of revenue and EBITDA margin upside, the stock already appears to be pricing in the pharmacy, telehealth, international, and services bull case, despite no proof of concept in two of the four areas (international and services).

Tractor Supply (TSCO.O, EW, $156 PT)

Higher confidence in TSCO's growth outlook. Approximately 50% of TSCO's revenue is generated from Livestock & Pet, and our Economists' forecasts increase our confidence TSCO can sustain mid-single-digit (or better) revenue growth in the medium to long term. The bigger Pet "pie" we now foresee also 1) reduces the (historical) bear case risk of share losses to competitors like Amazon and Chewy and 2) could point to a better than anticipated growth outlook for its chain of Petsense specialty stores. While we see TSCO as a core holding for longer-term Retail investors, we remain Equal-weight on a 12-month horizon given the stock's premium valuation, which appears to be pricing in a continuation of COVID-19 driven market share gains across all areas of its business.

Nestlé (NESN.S, OW, PT SFr112)

Leading player in Pet Food. Nestlé are the leading Pet Food player in the US and the Number 2 player globally behind Mars. In 2020 Nestle's business reached $15.6b in revenue and $3.4b of profits (22% margin). Pet Food represents one of Nestlé's 5 strategic focus categories and its second largest exposure behind coffee at 17% of group sales. During 2020, Nestle's Pet Care division has been a clear beneficiary from elevated pet adoption and ecommerce acceleration. The category was Nestle's largest contributor to growth and saw strong performances in premium brands Purina Pro Plan, Purina ONE and Felix. New acquisitions like Tails.com and Lily's Kitchen grew at double digit rates. Veterinary products under Purina Pro Plan also grew strongly.

Accelerating trends. In our forecasts we expect Pet Care growth to remain elevated following the step up in consumer engagement and pet adoption in 2020. We now forecast ~6% LFL over 2021-25 for the division, driven by share gains in the ecommerce channel leveraging Nestle's digital expertise and leading brand positions. Strategic investments in D2C platforms, personalisation and natural Dog and Cat food are increasing Nestle's exposure to the fastest parts of the broader pet category. New market opportunities in regions with a rapidly growing middle class such as China and India, also offer Nestle a long term runway for growth with global premium brands like Purina.

The Nestlé Advantage. In our view the buy case for Nestlé can be summed up in 3 words: category growth advantage. This is the Nestlé Advantage; ~60% of revenues come from structural growth categories where they hold no.1 or no.2 positions. Pet Care makes up 17% of Nestle's revenues and we view it as a key driver of LFL growth going forward. Indeed it contributes 23% of our Nestle LFL growth over the next 4 years. Increasing category engagement, premiumization trends and a shift to online sales all benefit Nestle's leading positions in key Pet Markets. Nestle continues to be amongst our top picks in European Food.

Colgate (CL.N, EW, PT $90)

Colgate is well positioned to benefit from Pet segment tailwinds through its Hill's Pet Nutrition Business (currently ~17.5% of sales mix), which we see growing at a 6.3% CAGR over the next 3 years, which is conservatively below its ~8% last three year historical pace. In 2020, Colgate experienced strong benefits from increased pet adoptions, with 14.4% Hill's org revenue growth, but we note Hills already was experiencing strong growth pre-COVID, with 7.5% FY19 growth, and CL noting the majority of 2020 growth came from increased investment and improved execution, rather than increased pet adoptions.

Looking forward, growth should be driven by (1) improved internal execution, (2) increased ad spend with greater premium innovation (with Hill's seeing the largest increase in ad spending in the last 3 years vs other CL segments), and (3) strong e-commerce growth, as well its growing DTC business Hill's to Home. We expect category growth to remain strong post COVID with increased pet adoptions, and Hill's should be aided by vet offices opening back up. Longer term, we see further ability for the brand to expand given it only has ~10% brand awareness and low penetration rates. Overall, we estimate Hill's has ~3% market share in the US, with further opportunity to expand as consumers trade up in the US and as CL takes advantage of its large international runway. Net, while we are positive on Hill's, we remain EW on CL given higher valuation vs historical levels suggest that CL's growth potential and defensive mix are likely priced into the stock.

General Mills (GIS.N, EW, PT $57)

General Mills purchased Blue Buffalo in 2018, which currently represents 9.6% of sales in its latest FY (ending in May). We see Blue growing at a HSD% CAGR LT given its premium portfolio positioning. Going forward, we see further opportunity for Blue to gain share within pet food with its: (1) premium status, noting they see the premium category growing 6-7%, with their goal to further expand share in that category, (2) further shelf space expansion, noting that while they have an ~80% ACV, they see an opportunity to offer more SKUs given several of their customers carry only a few SKUs, (3) continued e-commerce momentum (up DD+% in last fiscal quarter and currently 1/3rd of business), (4) expanding internationally given ~98% of Blue's sales are in the US, but this is more of a longer term goal, and (5) expanding the brand through innovation. Relating to innovation, Blue launched its cat food product recently, entering a $10bn segment (vs. $25b in dog food), and also is pushing into pet treats, wet dog food, and the natural products segment with its Tastefuls line. Net, while we see several growth opportunities for Blue, we remain EW on GIS as we see below consensus corporate growth and margin in FY22 as GIS cycles a COVID-related demand boost.

J.M. Smucker (SJM.N, UW, PT $107)

SJM should benefit less than peers from pet industry growth. Continued Pet category growth should benefit SJM (~37% of company sales), but to a lesser degree than its competitors given its continued share losses. SJM has seen ongoing share losses in dog food (40% of Pet sales, -70 bps L12W in scanner data) reflecting soft Nutrish sales due to heightened competitive pressure as GIS (Blue Buffalo) and Mars share are increasing +130 bps and +130 bps. SJM may also see competitive risk in cat food (30% segment sales) as GIS is growing +17.0% L12W (vs. SJM/category 7.5/3.6%). Further, SJM pet treats (30% of segment sales) continue to lose share (-100 bps L12W) as SJM underperforms the category (+5.6% vs. category +10.9%).

Can SJM reinvigorate Pet growth through its initiatives? SJM is implementing several initiatives to accelerate Nutrish dry dog food sales, including: 1) building brand awareness (only high 30%'s) through increased marketing efforts and leveraging the connection with Rachael Ray; 2) investing in the consumer value proposition through managing price gaps/lower price/trial size packaging; and 3) planned innovation including the "Big Life" initiative (January 2021) with a differentiated formulation focused on large dog breeds (>50% of category dollar and volume sales). More broadly, SJM is actively trimming its Pet portfolio (SKU rationalization, Natural Balance divestiture) and is attempting to improve its go-to-market strategy (dedicated Pet sales team). We believe SJM's performance in Pet should remain challenged given heightened competition and inconsistent execution track record.

Elanco (ELAN.N, OW, PT $41)

We are Overweight Elanco shares because we anticipate improving prospects in 2021+,

Bayer transaction benefits, and compelling long-term EPS growth. Margin expansion, driven by efficiencies and Bayer merger synergies plus deleveraging, should drive very strong EPS growth (est 35% 2-yr CAGR between '21-'23). Additionally, the pipeline should progress over the long term and add new growth drivers. Elanco expects 8 new product launches in 2021 (5 farm animal and 3 pet health). We expect pet heath to be a robust source of growth in coming years given the outlook forecast by the economist team and AlphaWise studies demonstrating pet ownership appears to have risen significantly during COVID-19, creating a tailwind for growth in pet care spending in the US.

Zoetis (ZTS.N, EW, PT $174)

Zoetis has compelling long-term prospects, but we believe the market is pricing this in with high stock valuation. We project 3-yr CAGR (2020-23) organic rev. growth of 7% and EPS growth of 12%. There could be upside to our numbers given Zoetis' continued strong revenue growth is supported by Companion Animal outperformance. The economist team views reinforce our view that consumer demand for pet-related products will remain robust for many years to come. We are projecting ZTS 2021e rev and EPS growth of +9% (13% from Companion Animal and 4% from Livestock) and +14%, respectively.

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Global Stock Ratings Distribution

(as of February 28, 2021)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	IBC % OF TOTAL IBC	IBC % OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	MISC % OF TOTAL OTHER MISC
Overweight/Buy	**1493**	**43%**	**400**	**47%**	**27%**	**664**	**43%**
Equal-weight/Hold	**1439**	**42%**	**359**	**42%**	**25%**	**651**	**42%**
Not-Rated/Hold	**6**	**0%**	**1**	**0%**	**17%**	**5**	**0%**
Underweight/Sell	**518**	**15%**	**87**	**10%**	**17%**	**214**	**14%**
TOTAL	**3,456**		**847**			**1534**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Hardline/Broadline/Food Retail

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
Simeon Gutman, CFA		
Advance Auto Parts Inc (AAP.N)	O (06/23/2014)	$164.84
Albertsons Companies, Inc (ACI.N)	U (01/20/2021)	$16.65
At Home Group Inc (HOME.N)	E (06/10/2019)	$26.90
AutoZone Inc. (AZO.N)	O (03/16/2020)	$1,180.00
Bed Bath & Beyond Inc. (BBBY.O)	E (10/28/2020)	$27.73
Best Buy Co Inc (BBY.N)	E (01/19/2016)	$102.52
BJ'S Wholesale Club (BJ.N)	E (07/23/2018)	$38.83
Costco Wholesale Corp (COST.O)	O (03/16/2020)	$328.46
Dick's Sporting Goods (DKS.N)	O (08/26/2020)	$72.95
Dollar General Corporation (DG.N)	O (02/16/2016)	$186.50
Dollar Tree Inc (DLTR.O)	E (02/16/2016)	$98.95
Driven Brands Holdings Inc (DRVN.O)	E (02/09/2021)	$29.72
Five Below Inc (FIVE.O)	O (06/30/2019)	$194.49
Floor & Decor Holdings Inc (FND.N)	E (11/12/2018)	$92.77
Grocery Outlet Holding Corp (GO.O)	E (07/15/2019)	$36.14
Home Depot Inc (HD.N)	O (02/23/2017)	$260.29
Kroger Co. (KR.N)	U (01/20/2021)	$32.56
Leslie's, Inc. (LESL.O)	E (11/23/2020)	$24.00
Lowe's Companies Inc (LOW.N)	O (01/21/2015)	$163.05
Lumber Liquidators Holdings Inc (LL.N)	U (01/21/2020)	$23.82
National Vision Holdings Inc. (EYE.O)	O (11/20/2017)	$47.80
O'Reilly Automotive Inc (ORLY.O)	O (04/01/2020)	$451.36
Ollie's Bargain Outlet Holdings Inc (OLLI.O)	U (01/20/2021)	$84.06
Party City Holdco Inc (PRTY.N)	E (01/19/2016)	$7.88
Sally Beauty Holdings Inc (SBH.N)	E (01/20/2021)	$17.96
Target Corp (TGT.N)	E (05/20/2019)	$173.49
The Michaels Companies, Inc. (MIK.O)	U (01/20/2021)	$18.02
Tractor Supply Co (TSCO.O)	E (07/24/2020)	$158.91
Ulta Beauty Inc (ULTA.O)	E (08/29/2019)	$336.82
Valvoline Inc. (VVV.N)	E (10/18/2016)	$25.27
Walmart Inc (WMT.N)	O (01/23/2019)	$130.11
Wayfair Inc (W.N)	E (02/25/2021)	$320.07
Williams-Sonoma Inc (WSM.N)	E (01/20/2021)	$135.72

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
Brian Nowak, CFA		
Activision Blizzard Inc (ATVI.O)	O (09/23/2016)	$96.75
Airbnb Inc (ABNB.O)	E (01/04/2021)	$189.90
Alphabet Inc. (GOOGL.O)	O (08/11/2015)	$2,064.48
Amazon.com Inc (AMZN.O)	O (04/24/2015)	$3,094.53
Blue Apron Holdings Inc (APRN.N)	E (07/24/2017)	$8.80
Booking Holdings Inc (BKNG.O)	E (01/09/2019)	$2,282.21
Criteo SA (CRTO.O)	E (01/26/2016)	$34.46
Despegar.com Corp (DESP.N)	E (10/16/2017)	$13.14
eBay Inc (EBAY.O)	E (12/12/2018)	$56.99
Electronic Arts Inc (EA.O)	E (01/12/2018)	$136.82
Expedia Inc. (EXPE.O)	E (01/09/2019)	$160.27
Facebook Inc (FB.O)	O (04/27/2016)	$259.00
Groupon, Inc. (GRPN.O)	E (03/05/2018)	$57.59
GrubHub Inc. (GRUB.N)	E (04/18/2018)	$64.05
Jumia Technologies AG (JMIA.N)	E (08/19/2019)	$44.27
Lyft Inc (LYFT.O)	E (10/24/2019)	$57.06
Pinterest Inc (PINS.N)	O (08/09/2020)	$81.17
Playtika Holding Corp (PLTK.O)	O (02/09/2021)	$29.99
Quotient Technology Inc. (QUOT.N)	U (12/19/2019)	$13.75
Snap Inc. (SNAP.N)	O (02/21/2021)	$64.51
Take-Two Interactive Software (TTWO.O)	O (02/01/2018)	$188.17
TRIVAGO NV (TRVG.O)	E (09/28/2017)	$4.56
Twitter Inc (TWTR.N)	E (04/17/2018)	$73.67
Uber Technologies Inc (UBER.N)	O (06/04/2019)	$54.65
Yelp Inc (YELP.N)	U (01/10/2019)	$37.14
Zillow Group Inc (Z.O)	E (04/18/2018)	$161.86
Lauren Schenk		
Casper Sleep Inc (CSPR.N)	E (03/02/2020)	$9.06
Chewy Inc (CHWY.N)	E (04/16/2020)	$98.86
Etsy Inc (ETSY.O)	U (12/05/2019)	$238.43
Farfetch Ltd. (FTCH.N)	O (11/17/2020)	$59.02
GoHealth Inc (GOCO.O)	E (08/09/2020)	$13.58
Match Group Inc (MTCH.O)	++	$152.51
Poshmark Inc (POSH.O)	E (02/08/2021)	$59.05
RealReal Inc (REAL.O)	E (11/17/2020)	$26.63
SelectQuote Inc (SLQT.N)	E (06/15/2020)	$28.58
Stitch Fix Inc (SFIX.O)	U (11/17/2020)	$77.29
WW International Inc (WW.O)	O (03/27/2020)	$34.53
Matthew Cost		
Glu Mobile Inc (GLUU.O)	++	$12.56
SciPlay Corporation (SCPL.O)	E (05/28/2019)	$18.02
Zynga Inc (ZNGA.O)	O (02/05/2020)	$11.39

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INDUSTRY COVERAGE: Household & Personal Care

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
Dara Mohsenian, CFA		
Church & Dwight Co., Inc. (CHD.N)	E (02/05/2019)	$79.22
Clorox Co (CLX.N)	U (04/19/2018)	$179.02
Colgate-Palmolive Co (CL.N)	E (07/22/2020)	$75.42
Coty Inc (COTY.N)	E (11/07/2018)	$7.95
Edgewell Personal Care (EPC.N)	E (06/04/2015)	$30.17
elf Beauty (ELF.N)	O (12/16/2019)	$26.14
Energizer Holdings Inc. (ENR.N)	O (05/18/2020)	$42.16
Estee Lauder Companies Inc (EL.N)	O (08/21/2020)	$289.54
Kimberly-Clark Corp (KMB.N)	E (01/24/2019)	$129.13
Newell Brands Inc. (NWL.O)	E (01/25/2018)	$24.05
Procter & Gamble Co. (PG.N)	O (12/13/2018)	$123.90

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INDUSTRY COVERAGE: Household & Personal Care Products

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
Richard Taylor		
Beiersdorf AG (BEIG.DE)	U (04/07/2020)	€84.12
Henkel AG & Co. KGaA (HNKG_p.DE)	U (07/25/2018)	€83.36
L'Oreal S.A (OREP.PA)	O (03/01/2021)	€308.90
Reckitt Benckiser (RB.L)	O (06/29/2017)	6,118p
Unilever PLC (ULVR.L)	U (04/07/2020)	3,812p
Sanath Sudarsan, CFA		
Essity AB (ESSITYb.ST)	E (05/04/2020)	SKr 261.60
Ontex Group NV (ONTEX.BR)	U (06/21/2018)	€8.63

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INDUSTRY COVERAGE: Food

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
Dara Mohsenian, CFA		
General Mills Inc (GIS.N)	E (09/17/2018)	$55.07
Hershey Co (HSY.N)	E (04/20/2020)	$145.35
Kellogg Co. (K.N)	E (09/17/2018)	$57.23
Kraft Heinz Co (KHC.O)	E (03/03/2019)	$37.32
Mondelez International Inc (MDLZ.O)	O (08/07/2019)	$53.68
Pamela Kaufman, CFA		
BellRing Brands Inc. (BRBR.N)	O (11/11/2019)	$23.10
Campbell Soup Co (CPB.N)	E (04/20/2020)	$45.62
Conagra Brands (CAG.N)	E (05/20/2019)	$34.31
Hostess Brands Inc (TWNK.O)	E (09/25/2017)	$14.57
J. M. Smucker Co (SJM.N)	U (08/19/2020)	$113.03
Simply Good Foods Co (SMPL.O)	O (09/22/2020)	$28.97
Vital Farms Inc. (VITL.O)	E (08/25/2020)	$27.81

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INDUSTRY COVERAGE: Specialty Pharmaceuticals

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
David Risinger		
Alkermes Plc. (ALKS.O)	E (09/05/2019)	$19.19
Amneal Pharmaceuticals Inc (AMRX.N)	E (12/14/2018)	$5.06
Bausch Health Companies Inc (BHC.N)	E (04/02/2020)	$32.28
Elanco Animal Health Inc (ELAN.N)	O (08/20/2020)	$32.34
Endo International plc (ENDP.O)	U (07/15/2019)	$7.23
Horizon Therapeutics Plc (HZNP.O)	++	$94.49
Jazz Pharmaceuticals PLC (JAZZ.O)	E (01/29/2021)	$165.75
Perrigo Co. (PRGO.N)	E (12/03/2015)	$42.09
Phibro Animal Health Corp (PAHC.O)	U (08/06/2020)	$22.16
Royalty Pharma Plc (RPRX.O)	E (07/13/2020)	$46.95
Teva Pharmaceutical Industries Ltd. (TEVA.N)	U (07/15/2019)	$10.73
Viatris Inc (VTRS.O)	E (11/07/2019)	$14.29
Zoetis Inc. (ZTS.N)	E (03/19/2018)	$157.05

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INDUSTRY COVERAGE: Food Producers

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/02/2021)
Graham Hunt, CFA		
Bakkavor Group Plc (BAKK.L)	E (06/23/2019)	87p
Barry Callebaut AG (BARN.S)	U (06/30/2020)	SFr 2,032.00
Glanbia PLC (GL9.I)	O (08/09/2019)	€11.20
Kerry Group PLC (KYGa.I)	O (09/17/2020)	€106.70
Lindt & Sprungli (LISP.S)	O (09/08/2019)	SFr 8,050.00
Lindt & Sprungli (LISN.S)	O (09/11/2018)	SFr 84,300.00
Pinar Ergun, CFA		
Danone (DANO.PA)	E (02/26/2021)	€56.12
Danone (DANOY.PK)	E (02/26/2021)	$13.61
Nestle SA (NESN.S)	O (02/26/2021)	SFr 97.78
Nestle SA (NSRGY.PK)	O (02/26/2021)	$107.18
Richard Taylor		
JDE Peet's BV (JDEP.AS)	E (11/01/2020)	€33.22
Sanath Sudarsan, CFA		
Orkla ASA (ORK.OL)	E (12/14/2020)	NKr 80.96

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