



Our love of pets is fuelling innovation and growth

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Larry has a Twitter account and is the “Chief Mouser to the Cabinet Office” in the UK.

He greets guests, tests antique furniture for napping quality and provides security defences against rodents. His current strategy against the mouse occupancy problem is in the tactical planning stage. But there is no risk of him getting fired if he fails to catch a mouse. The reason for this is simple. He’s a pet!

Our love affair with pets has created a booming market

Let’s start with some background. When we first domesticated animals, we used them as living tools. They were a source of food, clothing and free labour. An ox could plough a field and a cow provide milk, while their hides could be used for clothing. Meanwhile, horses gave us transport, dogs hunted and protected us, while cats – like Larry – caught mice.

But in modern times, our relationship with animals has changed. They have become our companions and much-loved family members. We worry about their health, safety and wellbeing as much as our own. Consequently, we also spend on them like we would on ourselves. Thus, creating a booming market for the pet economy.

The growing pet economy is a long-term trend



Retailers, manufacturers and entrepreneurs are all vying for a share of this **lucrative pet market**, which is likely to continue growing in the decades to come.



This is a **long-term trend** that is being shaped by a combination of shifting demographics, technological change and rising disposable incomes.



From **pet-loving millennials** who have chosen to delay or forego parenthood to elderly people in search for companionship, the pet economy is a reflection of the far-reaching changes we are now seeing as the global economy evolves.

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Economic and demographic change are fuelling spending

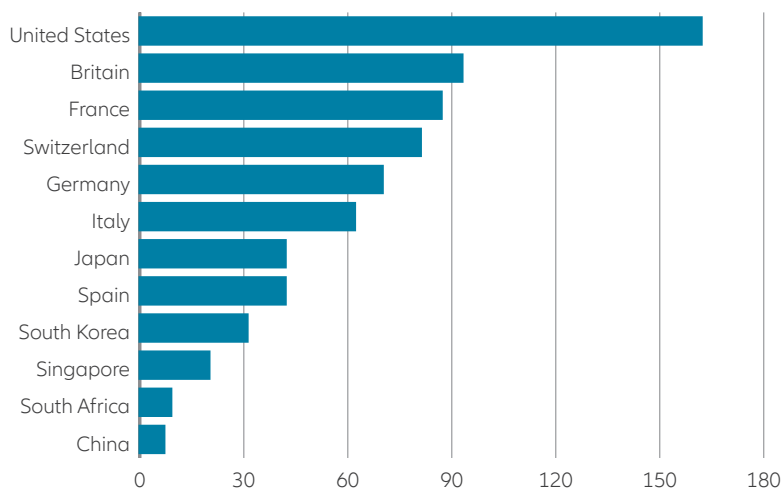
It is the role that pets play in their owners' lives that is driving this increase in spending.¹ Changing lifestyles and demographics have intensified this relationship.

There are many drivers of this trend, but let's look at what we see as the three most impactful. Firstly, a growing middle class globally has made the fostering pets a lot more affordable, redefining their role from tool to family member. This has shifted the view of 'pet ownership' to 'pet parenting' thereby increasing demand for pet products and services. Secondly, aging populations, coupled with an increase in people choosing to remain single or to have children later in life, has meant that animals are playing a more important role as a companion. And finally, in an increasingly busy and ever more digital world, for many people pets are helping to alleviate feelings of loneliness and isolation. In effect, these changes will continue to fuel spending on our furry friends for decades to come, growing the pet economy further.



Global pet care spending per capita by country 2019

Average expenditure on pet care products per capita in select countries worldwide in 2019 (in US dollars)



The rise of e-commerce has made it easier for owners to spend on their pets. It has given access to niche products and services, which were previously unheard of. The increasing propensity to consume, in this technology-driven world, has not only created a growing market for companies dedicated to the wants and needs of our pets but also a new market for traditional retail companies that see significant potential in the pet economy and wish to innovate and expand their product offering.

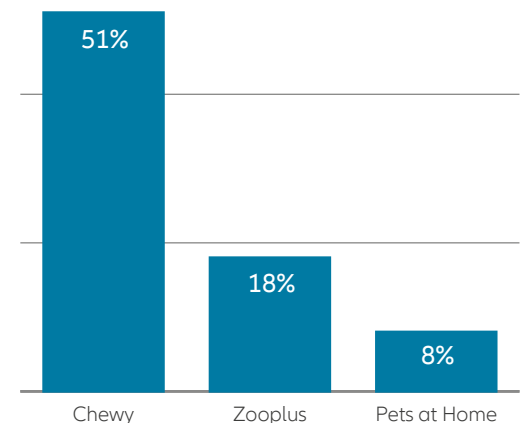
For instance, your canine companion can now share in the delights of dessert: dog friendly cakes and 'ice-creams' are growing in popularity and availability. And for those pets who like the finer things in life, fashion houses are selling luxury fine leather or diamond encrusted leashes, branded blankets and there is even a company selling pocket spring beds.

Consumers in the United States spent the most on pet care worldwide in 2019 - Americans spent 162 US dollars on a per capita basis on such products in that year. Britain ranked in distant second place, where consumers on average spent 93 US dollars per capita.

Source: Euromonitor; Statista estimates; The Economist

Pet retailers are thriving

Three year average growth rate



Source: Bloomberg, Allianz Global Investors 30/04/2021. Chewy and Zooplus are online pet retailers with Pets at Home having a combination of stores and an online platform.

Pet parents are not just spending more on their pets, they are also seeking out high-quality premium products.



New and innovative segments in the pet market are developing

The trend to humanise pets has led to new segments of the pet industry developing, which offer new opportunities to generate revenue.

Food

“You are what you eat” is a common phrase used by nutritionists. Owners are applying the same philosophy to the food they give their pets.

One company that has benefited from this has been US group **Freshpet***. This company supplies fresh food for pets, offering products that are healthier than dried or canned food. The strategy appears to be paying off. The Freshpet brand is now present in many grocery stores across the US.

In Europe, **Zooplus*** is one of Europe's leading online retailers for pet food. During the coronavirus pandemic the business performed well as it was able to increase its profitability, cut costs and improve logistics. However, it's the way the business is positioned, that is really interesting. Its customer base was already moving towards its higher-end and higher-margin products before the coronavirus pandemic. This trend that has been reported in the company's previous financial reports and points to being a long-term structural trend.

Healthcare

The pet health sector is also set to expand significantly in the coming decades.

IDEXX Laboratories* in the US, is a leading manufacturer of clinical diagnosis tools for cats, dogs and livestock. It is experiencing increasing demand from veterinary practices for its products, as there is a need for higher-tech health solutions, which is in strong demand from pet owners.

Another company benefiting from this trend in higher-end veterinary care is **Heska***. The company has a broad portfolio of veterinary products. It is offering technology such as advanced urine analysis and immunodiagnostic equipment. It has also expanded the cloud data and AI services that it offers. It's a good example of where the demand for high-quality pet care is being facilitated by the new digital era.

Insurance

The love that owners have for their pets is driving demand for comprehensive and lifelong insurance coverage.

Trupanion* is an industry-leader in providing pet insurance products for the North American market. It offers no payout limits and is the only pet insurance brand that has software that can enable direct payments to veterinarians at the time of checkout.

The company has experienced 53 straight quarters of revenue growth of over 20% (to March 2021, on a constant currency basis). It continues to rapidly expand and establish its position. Indeed, our increasing emotional attachment to our pets has encouraged a greater number of owners to take out insurance. As the number of and improvements in treatment options become available, rising health costs mean that pet owners want to protect against being caught short should something happen.



A pet is for life

Our behaviour towards our pets and how we treat them reflects how we see them – as loved members of our family. This relationship is only set to intensify. Powerful structural forces such as demographics and technological change are likely to increase our emotional need to have pets in our lives.

The pet economy is therefore expected to continue to expand significantly in the decades to come.

Allianz Pet and Animal Wellbeing strategy



Allianz Pet and Animal Wellbeing is a pure thematic investment strategy with an exclusive focus on the global pet market. Driven by the megatrend of Demographic Change, we invest in companies across the globe that are directly participating in and benefiting from the pet economy.

Pet economy: robust growth, crisis resistant

- Robust earnings growth: 5% CAGR⁴
- Broadly considered a recession-proof market as pets are part of the family and as such are guaranteed food and medical care regardless of the state of the economy

High degree of purity

- Around 30 stocks, mostly pure play
- Investing globally
- Mostly small- and mid-caps, with some diversification into large caps
- Investing in pharmaceuticals, healthcare, insurance, food and many other areas benefitting from the pet economy

Experts in thematic investing

- Extensive experience in managing thematic investments
- Integration of Allianz Global Investors' research platform including Investment Chatter and Grassroots® Research, helping to identify new trends
- Exposure to innovative young companies as well as established providers

For more information, please contact your local AllianzGI representative or visit updates.allianzgi.com



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