White Paper

420 Billion Reasons To Invest In Pets

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For those of us who were around in the eighties, who would have thought that owning pets would have created a global industry today approaching US $260Bn?

There are big enduring global forces at work that will drive sales over US $420Bn by around 2030. That's 3x the forecast global GDP growth rate. This massive industry, that's been growing right through all sorts of economic turbulence for over 35 years, creates some very successful and very large businesses.

During the pandemic, ownership grew by 14% in the US, according to a 2020/21 American Pet Products Association Survey and 35% of surveyed pet owners said they spent more on their pet/pet supplies (food, wellness-related products, other pet care items) than in the preceding year.

In Australia, pet ownership increased by around 10% during COVID-19, according to a La Trobe University study. Almost 70% of Australian and American households are now home to pets.

Before delving into the opportunities and the forces far larger and enduring than the pandemic, here are some surprising aspects about pet ownership today compared to the eighties.

1. Designer pets

Before 1989 many families were happy to adopt a dog from the RSPCA or local pound, but according to Statista as at July 2023, almost 44% of Australians acquire their dogs from a breeder.

While breeds like Labradors and Golden Retrievers were obviously available in 1989, 'oodle' dogs were not a big thing. Labradoodles, cavoodles, groodles, schnoodles and goldendoodles were not the phenomena they are today. Wally Conron, a breeding manager for the Guide Dogs Association of Australia, who was asked to breed a non-shedding guide dog for people with allergies, helped make them one and today, the cavoodle is the most popular dog breed in Australia, costing up to $7,000, compared to RSPCA dog adoption fees of around $600.

2. Designer diets

TV ads in the 1980s promoted reasonably priced canned, processed, and dry food for pets, all still available on supermarket shelves. Today, there is also pet food available which is marketed as premium and touted as healthier, at significantly higher prices. Many contain cocktails of 'super foods' like cranberries and sweet potato (at super prices).

Adverts for these designer diets are not to tempt our pets of course, but to tempt us into paying more than we need. And we do! In fact, in hard times, spending on our pets is one of the last things we cut back on.

But if we were to time travel back to 1989, we might find pet owners bemused to learn that we can now subscribe to pet food delivery services providing boxes of frozen and dry food. A curated box of dog food has a price tag of around $150 a month.

3. Designer Day Care

Who in 1989 would have thought pet day-care would be a thing? Back then it was perfectly acceptable to leave pooches at home for hours on end while we were at work, school or play. Now, not so much. These days, it's not unusual for kennels and catteries to have sofas and flat screen TVs with owners accessing live stream video their furry friends when apart. This again means more money spent.

Although pet day care facilities are believed to have first started in the early 2000s, as we headed back to work after the pandemic, many of us were reluctant to leave our faithful companions home alone. This is leading to a global boom in day care, according to HTF Market Intelligence, with a CAGR of 8% forecast for the sector from 2023 to 2029.

4. Pets as surrogate humans

We have slowly but surely integrated pets into the very fabric of our lives since the eighties. In the UK, for instance, a pre-Covid Mintel survey found that 21% of owners either have used or are interested in trying restaurants with special pet menus.

Around 56% of UK pet owners went on to say that pets ‘like’ being given new accessories, rising to 62% for owners aged 16-44. And let’s not forget Christmas and birthday gifts. Fitting in with the house décor is also growing, with 35% splashing out on stylised beds, baskets, collars, and bedding.

5. Pet well-being

In the past, trips to the vet usually occurred only when a pet was injured or fell ill. Today, puppies and kittens have a vaccination schedule from the age of about six weeks, boosters as adults and various other preventative care measures. Around 40% of pet owners in the US are willing to pay for preventive pet care services, such as vaccinations and wellness check-ups.

When illness or injury strikes, vets now usually recommend blood tests to assess causes and underlying issues. If there is a problem, they can perform complex operations that routinely exceed $5,000 and/or prescribe new drugs. Of course, you can also buy pet insurance to help pay for it all.

You can now even have your pet DNA-tested at a cost of $80 to $260.

Whatever next?

Well, consider this (as some of the companies in our portfolio already are); 51% of UK owners are interested in wearable activity pet monitors with 27% believing that it would improve their pet’s activity levels.

All this spells ‘big revenues’ for vets and for the global firms that provide the testing labs, equipment, and the medicines. Could we have even imagined that back in the eighties?

But does this translate into investment opportunities?

We call this seemingly unstoppable evolution over time a *megatrend* – in this case, the Pet Humanisation Megatrend. Current insights point towards further significant long-term expansion opportunities for companies within this megatrend, but only for a select few.

The big tailwind pushing many megatrends above most economic sector growth rates, irrespective of prevailing headwinds, is the unstoppable demographic boom in Millennials (late 20s-early 40s), followed by the Gen-Z’ers. Asia’s growing middle classes, that are on track to reach around 1Bn people by 2030, also strengthen future demand.

Demographic shifts are what Insync calls a ‘super-driver’ and is one of three such Super-Drivers sitting behind pet humanisation.

It is the incomes of Gen-Z and Millennials that are also on the rise, along with Asia’s growing middle classes. This marks them as pivotal segments for the sector's future, alongside their preference for working from home. Millennials alone accounted for around a third of pet ownership in 2020, estimated to rise by half again by 2030, with Gen-Z accounting for more than a quarter of pet ownership already.

All this is very important as Millennials by 2030 will be the globe’s largest age demographic with Gen-Z’ers hot on their heels, impacting the global pet industry enormously.

The allure of pet ownership for these generations is transcending companionship; it extends into lifestyle preferences and the pursuit of enhanced mental and physical well-being. Additionally, as single & dual occupancy households with one or no children rises, and an emerging global pandemic of loneliness expands, pets are fulfilling the emotional needs of their owners.

The pet sector's economic impact is undeniable, serving as a testament to the deep bond between humans and their pets, which are increasingly integral members of the family. This explains the noticeable uplift in pet-centric expenditure.

The upward spending trajectory is particularly remarkable because it outpaces growth in other areas of personal spending and income, and right through economic downturns. While the US is by far the dominant market in terms of spend today (with an estimated 172Mn pets), indications are showing significant rises in pet ownership outpacing it in the key market of China (with an estimated 248 Mn pets), along with other S.E. Asian nations.

Again, this is driven largely by growing younger generations with smaller households becoming more affluent.

Who are some of the global winners supplying this megatrend?

Global animal health care companies like **Zoetis** and **IDEXX Laboratories** exemplify the success that can be extracted from the Pet Humanisation Megatrend. Zoetis boasted revenues in 2022 of $8.5Bn, that's well on the way to surpassing $13Bn in 2023. Sales were up 35% on 2019 alone. IDEXX revenue is also experiencing strong growth, posting $5.5Bn in 2023, up from $3.6Bn a year earlier. Their products predict, prevent, detect, and treat animal ailments. Both are the world's largest producers of medicines and fluid analyses for pets and livestock, that we believe are well-positioned to capitalise on these trends further.

For example, Insync's holding in Zoetis over 6 years returned its investors 100% since first purchased by the fund in early 2018, rising from US$78 to US$166. This a compound annual growth rate of 13.4%.

To earn a place in our portfolio, companies must possess well above market rates of profitability, management competence, return on invested capital, high R&D, and industry positioning that can sustainably capitalise on megatrends such as Pet Humanisation.

These metrics underscore the strength of implementing the highest quality investment strategy when seeking to successfully navigate and invest in the complexities of megatrends. While megatrends propel successful companies forward, it's crucial to note that the **majority of firms within a megatrend fail to secure substantial growth for their shareholders**. Therefore, the essence of stock selection cannot be overstated, as it surpasses the performance capture capabilities of index or ETF investing.

Ends:

Unless noted all figures are in $AUD. Exchange rate $1 USD = $1.53 AUD

Sources: Insync Research, Morgan Stanley, Mintel, Zoetis, IDEXX Laboratories, American Pet Products Association, Neilson Research, Euromonitor International, HTF Market Intelligence, Cognitive Market Research, Latrobe University, Human Animal Bond Research Institute (HABRI), Fortune Business Insights.