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Gabelli Funds

Investing in the Global Pet Economy

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Gabelli Funds

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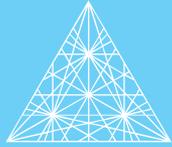
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Investing in the Global Pet Economy

June 2021



U.S. Pet Ownership

- In 2020, 84.9 million U.S. households (67%) had at least one pet, while 42 million households had a child under 25
- 73% of millennials and 54% of baby boomers have *at least* 1 pet
- 48% of Americans have dogs, 32% have cats



Population: 94.2M
Households: 42.7M

89.7M
63.4M

20.3M
5.7M

139.3M
11.5M

7.6M
1.6M

Source: American Pet Products Association, Statista

The Pet Economy

Rapidly Growing Industry

- \$103.6 billion market in the United States in 2020, expected to grow 5-8% CAGR through 2023



Recession-Proof

- Pet spending is proven to remain constant – in 2010, U.S. spending on food decreased by 3.8% but pet spending increased by 6.2%
- U.S. households spent \$565 annually in 2008-2009 on their pets – in 2020 dog owners spent an average of \$1,201 per year while cat owners spent \$687

Corporate Investment

- Robust corporate M&A with more than 3-dozen recent transactions and average deal multiples exceeding 4.2x revenue & 17.4x EBITDA

Source: American Pet Products Association, TD Ameritrade Harris Poll

Pet Economy Trends



Humanization

- 95% of families in the US consider their pet a family member
- More than 50% of owners give their pet a Christmas gift; \$700 million on Valentines Day presents for pets in 2015

Innovation

- Online pet retail grew at a 40% CAGR from 2014 to 2020; E-commerce channels for purchasing of pet products is expected to increase by 34% by 2024
- Advancing treatments, preventative screening, and declining cost of care will drive 7.7% CAGR in global pet insurance from \$1.8 billion in 2020

Source: American Pet Products Association, Grand View Research, HealthPaw Pet Insurance, American Animal Hospital Association

Pet Economy Trends

Pet Parents Compliance

- Rising subscription-based purchasing increases customer retention and creates recurring revenues for veterinarians & retailers
- Room to increase veterinary care revenue by 5x: lifetime revenue of a dog is \$17,700 but the average practice only captures \$3,600



International Pet Ownership Trends

- Pet ownership will increase by 37% over the next 2 years in the Asia-Pacific market due to increased positive perceptions of companion pets
- Urban-dwellers are adopting more cats and small dogs which promotes the premiumization of pet food products, particularly in Asia & Latin America

Source: American Pet Products Association, Spire Research, Stifel

COVID-19 and the Pet Economy



Increase in Pet Ownership

- 50% increase in vet visits for new pets per week from March - August 2020
- The population of cats, dogs and horses in the U.S. is expected to grow 5% annually to 262 million by 2026

Unprecedented Retail Growth in Q4 2020

- Pet parents spent more on their pets due to increased time at home
- FY2020: Pet food sales rose by \$3.7B to \$42 billion, Pet Supplies and OTC Medication by \$2.9B to \$22.1 billion, and Veterinary Care and Product Sales by \$2.1B to \$31.4 billion

The size of the Pet Economy increased by 6.7% in 2020 to \$103.6 billion

Source: American Pet Products Association

Pet Food and Treats

- \$42.0 billion in annual U.S. spending (13.8% increase from 2019)
- 65% of pet food sales are in the premium segments, focused on healthier, human-grade diets that include organic, gluten-free, natural, and raw ingredients
- Rapid growth in sales on e-commerce platforms such as Chewy and Amazon continue to drive the adoption of innovative pet food products
- Pet treats have expanded beyond taste into value-added products such as dental care

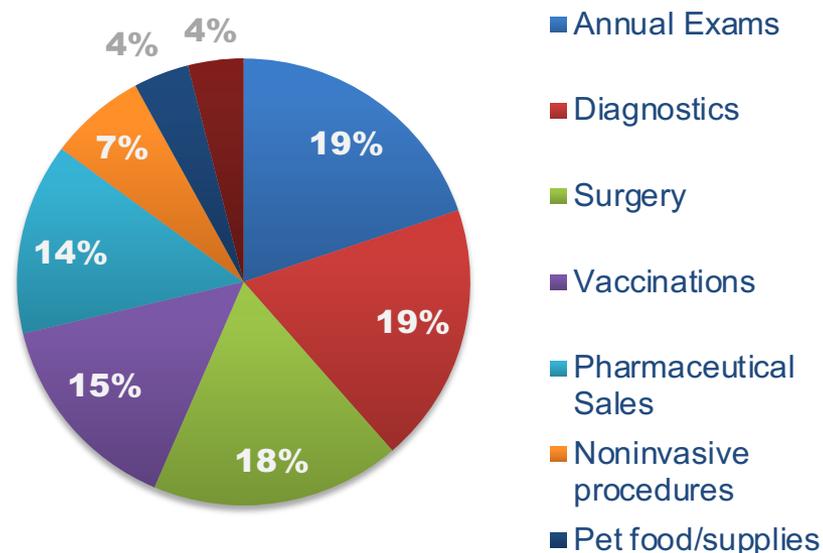


Source: American Pet Products Association, Statista, American Veterinary Medical Association

Veterinary Care and Diagnostics

- \$31.4 billion U.S. annual spending in Veterinary Care & Product Sales
- Average of 2.5 vet visits a year per pet
- Diagnostics sector growing rapidly, with a CAGR of 7-9%, led by lab consumables and imaging
- 64% of surveyed pet parents would purchase more pet medications from their veterinarians if prices were more competitive

Veterinary Practice Revenues by Segment



Source: American Pet Products Association, William Blair, American Veterinary Medical Association

Veterinary Therapeutics & Vaccines

- \$18.9 billion in annual U.S. spending
- Subsector has seen accelerated growth due to rise in livestock populations and increased ownership of companion pets
- Atopic dermatitis, ear infections, parvovirus, kidney disease, intestinal problems, osteoarthritis and cancer are among the most common pet conditions
- If their dog got sick, owners would be willing to pay an average maximum of \$3,307 on treatment - \$1,991 for cats
- Cost of development is 100x less than for human patients



zoetis

 **KindredBio**

Elanco

 **MERCK**
Animal Health

Source: American Pet Products Association, TD Ameritrade Harris Poll, American Veterinary Medical Association

Robust Industry Consolidation

(\$ in millions)					TTM Results			Multiples	
Date	Target	Buyer	Vet Subsector	Price	Revenue	EBITDA	Revenue	EBITDA	
Sep 2020	Nutravet	Swedencare	Nutritional	\$43	\$7	\$4	6.1x	12.0x	
Jun "	Erber Group	Royal DSM	Nutritional	1,175	395	80	3.0	14.7	
" "	Sentinel Brand	Merck	Pharma	400	70		5.7		
Mar "	Mirataz Brand	Dechra	Pharma	43	4		10.8		
Feb "	Drontal/Profender (EU)	Vetoquinol	Pharma	140	48		2.9		
Jan "	Scil animal care	Heska	Diagnostics	110	80	7	1.4	15.7	
" "	Capstar brand	PetIQ	Pharma	95	29		3.3		
" "	Osumnia brand	Dechra	Pharma	135	34		4.0		
Aug 2019	Bayer Animal Health	Elanco	Pharma	7,600	1,720	400	4.4	19.0	
May "	Perrigo Animal Health	PetIQ	Pharma	185	94	15	2.0	12.3	
Apr "	Aratana	Elanco	Pharma	234	39		6.0		
Dec 2018	Antelliq	Merck	Technology	3,700	405		9.1		
June "	AniCura	Mars Inc.	Vet clinics	2,400	3,000	350	0.8	6.9	
May "	Abaxis	Zoetis	Diagnostics	1,800	245	47	7.3	38.3	
Apr "	Vets First Choice	Henry Schein AH	Services	1,400	157		8.9		
Apr "	Ainsworth Pet Nutrition	JM Smucker	Pet food	1,900	800	85	2.4	22.4	
Feb "	Blue Buffalo	General Mills	Pet food	8,000	1,275	315	6.3	25.4	
Jan "	AST Farma/Le Vet	Dechra	Pharma	€ 340	€ 41	€ 18	8.3	18.9	
Jan "	VIP Petcare	PetIQ	Vet clinics	\$200	\$105	\$10	1.9	20.0	
Oct 2017	Omega Protein	Cooke	Nutritional	500	342	58	1.5	8.6	
Apr "	Chewy.com	PetSmart	E-commerce	3,350	900		3.7		
Apr "	Nexvet Biopharma	Zoetis	Biotech	85					
Jan "	BI Vetmedica Vaccines	Eli Lilly	Pharma	855	\$200		4.3		
" "	VCA Inc.	Mars Inc.	Vet hospital	9,100	2,530	500	3.6	18.2	
Jun 2016	Merial	Boehringer	Pharma	€ 11,400	€ 2,515	€ 670	4.5	17.0	
Apr "	Putney	Dechra	"	\$200	\$50		4.0		
Nov 2015	Pharmaq	Zoetis	Aquaculture	765	90		8.5		
May "	Animal Health Intl.	Patterson	Distribution	1,100	1,500	\$68	0.7	16.2	
Mar "	Big Heart Pet Brands	J.M. Smucker	Pet food	5,900	2,300	395	2.6	14.9	
Feb "	Abbott Animal Health	Zoetis	Pharma	255	80		3.2		
Jan "	MWI Veterinary	AmerisourceBergen	Distribution	2,500	2,981	130	0.8	19.2	
" "	Sentinel Brand	Virbac	Pharma	410	90		4.6		
Dec 2014	PetSmart	BC Partners	Retail	8,700	7,112	965	1.2	9.0	
Nov "	Novartis Animal Health	Eli Lilly	Pharma	5,400	1,100	255	4.9	21.2	
Aug "	Pethealth	Fairfax Financial	Insurance	100	48	5	2.1	20.0	
Apr "	P&G Pet Brands	Mars Inc.	Pet food	2,900	1,390	190	2.1	15.3	
Average							4.2 x	17.4 x	

Source: Company filings and g.research estimates

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Gabelli Pet Parents Fund (PETZX)

Investing In Our Best Friends Future

- Open-End Fund Launched April 1, 2019
- Long-only, global portfolio invested in publicly traded securities participating in the Pet Economy
- Expense Ratio: 90 bps



Gabelli Pet Parents Fund (PETZX)

Top 10 Holdings - March 31, 2021

Symbol	Holding	Market Cap (\$ billion)	Portfolio Weight (%)
PETQ	PetIQ, Inc.	0.92	8.74
ELAN	Elanco Animal Health, Inc.	13.90	7.93
CHWY	Chewy, Inc.	8.07	7.30
KIN	Kindred Biosciences, Inc.	0.21	7.23
IDXX	IDEXX Laboratories Corp.	41.79	5.80
ZTS	Zoetis, Inc.	74.83	5.43
CVET	Covetrus, Inc.	4.08	4.84
PAHC	Phibro Animal Health Corp.	0.50	4.21
ZO1-GY	Zooplus AG	€ 1.69	3.70
PETS-LN	Pets at Home Group PLC	£ 2.17	3.68
		Total	58.9

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PetIQ, Inc. (NASDAQ – PETQ)



- Veterinarian-grade pet prescription medications; over-the-counter flea and tick preventatives; and health and wellness products for dogs and cats.
- Plan to open 1,000 SmartCare wellness centers by 2024 to address the \$10 billion underserved veterinary market
- Launching new line of human-grade dietary supplements for pets in Q3 2021
- Revenues grew from \$617 million in 2019 to \$780 million in 2020, with product sales increasing by \$109 million from the acquisitions of veterinary pharmaceuticals companies Perrigo Animal Health and Capstar Brand



Chewy, Inc. (NYSE – CHWY)



- Leading pure-play online retailer of pet food and 70,000+ pet related products
 - Able to ship 80% of US orders overnight and 100% within 2 days
- In 2020, Net Sales increased to \$7.1 billion as a result of the accelerated shift to e-commerce from COVID-19 (a 47.4% increase from \$4.8 billion in 2019)
 - The amount of active customers increased by 42.7% in 2020 from 13.4 million to 19.2 million
- New pet parents are choosing Chewy as proven by the 40% increase in profiles for newly-adopted pets on their platform
- Beginning to compete in pet healthcare and services space: new telehealth service, “Connect with a Vet,” is available to autoship customers for free to answer health or behavior related concerns



Elanco Animal Health, Inc. (NYSE – ELAN)

Elanco

- A global leader in pharmaceuticals (medicines and vaccines) for companion pets and livestock
- Given the entirety of Eli Lilly's animal health businesses in exchange for proceeds from their 2018 IPO upon completion of their separation on March 11, 2019
- Revenue expected to increase 43.5% from \$3.2 billion in 2021; adjusted net Income for Q1 was \$182 million, 239% greater than Q1 2020 adjusted net income of \$54 million
- Carries a range of products in four categories:
 - Pet Health Disease Prevention
 - Pet Health Therapeutics
 - Farm Animal Future Protein & Health
 - Farm Animal Ruminants & Swine



Kindred Biosciences, Inc. (NASDAQ – KIN)



- A clinical stage biopharmaceutical company that primarily repurposes drugs that were successful in humans to be applied to dogs, cats, and horses
- 2 approved drugs currently in the market:
 - Mirataz (manages unintended weight loss in cats)
 - Zimeta (controls fevers in horses)
- Recently completed pivotal study (June 2021) revealed that KIND-030, an antibody treatment for canine Parvovirus, was 100%
 - In 2020, there were approximately 250,000 Parvovirus cases but no marketable treatments to combat the highly contagious and deadly canine virus
- Total Revenues for 2020 increased 890% from \$4.2 million to \$42.1 million due to ability to turn profit on newly approved drugs



Portfolio Management



Daniel M. Miller

Executive Vice President & Portfolio Manager

- 19 years with Gabelli Funds and affiliates
- 9 years experience managing portfolios
- Graduated Magna Cum Laude from the University of Miami
- Active pet parent

Risks

Risk Factors: Fund performance is sensitive to stock market volatility. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical or other conditions. No fund is a complete investment program, and you may lose money investing in a fund, including loss of principal. The Fund may engage in other investment practices that may involve additional risks, and you should review the Fund prospectus for a complete description.

Industry Concentration Risks: The Fund invests a significant portion of its assets in companies in the companion pet industry, and, as a result, the value of the Fund's shares is more susceptible to factors affecting those particular types of companies and that industry, including governmental regulation, a greater price volatility than the overall market, rapid obsolescence of products and services, intense competition, and strong market reactions to pet industry developments. As a consequence of its concentration policy, the Fund's investments may be subject to greater risk and market fluctuation than a fund that has securities representing a broader range of alternatives.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. The prospectus, which contains more complete information about this and other matters, should be read carefully before investing. To obtain a prospectus, please call 800 GABELLI or visit www.gabelli.com

As of March 31, 2021, PetIQ Inc. represented 8.7% of the fund's total assets, Elanco Animal Health Inc. 7.9%, Chewy Inc. 7.3%, Kindred Biosciences Inc. 7.2%, Idexx Laboratories 5.8%, Zoetis Inc. 5.4%, Covetrus Inc. 4.8%, Phibro Animal Health Inc. 4.2%, and Pets at Home Group and Zooplus AG 3.7%. Heska Corporation, General Mills Inc., Virbac, Nestlé, and Aratana Therapeutics Inc. each represent less than 2% of the fund's total assets.

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For More Information about the Pet Industry and How to Invest in the Pet Space, Contact:



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