THE ANIMAL HEALTH INDUSTRY’S LEADING SUPPLIER OF “ACTIONABLE” BUSINESS INTELLIGENCE

Animalytix 2021 Senior Executive Forum
February 16, 2021
Data for today’s presentation was provided by:

Animalytix LLC
Axxiom Consulting
VetWatch.com partners
And multiple special guest contributors …
Animalytix

The Animal Health Industry’s Leading Provider of Actionable Market Intelligence

info@Animalytix.com
Animalytix by the Numbers for 2020

- $70,000,000,000+ in historical sales data for the US & Canada
- 55,000,000+ transactions processed annually
- $9,900,000,000+ in moving annual total sales reported
- 2,000,000+ unique “ship_to” locations
- 250,000 distributor SKU cross-references established
- 12,000+ unique products reported
- 2,500+ territory reports published monthly
- 550+ manufacturers represented
- 40+ reporting categories
- 60+ total data providers
- 30+ Smart Sort™ customer segmentation categories
A Special Thanks to Our Network of Data Providers
Thanks Also to our VetWatch Partners and Sponsors

www.vetwatch.com
2019 Animal Health Industry
US$ 32.9 billion
Nominal growth (-1.3%)

Source: Vetnosis
Animal Health Market by Product Group, Region & Species

- Medicinal Feed Additives: 11%
- Biologicals: 29%
- Pharmaceuticals: 59%
- Other: 31%

- Companion Animal/Other: 40%
- Americas: 44%
- Europe: 25%
- Food Animal: 60%

Source: Vetnosis
Global Animal Health Market
(ex-manufacturer net sales in Nominal US$ terms)

Key factors: significant negative currency (FX) effects; flat volume growth; Far East and global swine contractions due to ASF

Source: VCNensis
Animalytix LLC
Established 2010

“Celebrating 10 Years of Service & Partnership with the Animal Health Industry”

A retrospective look with special thanks to
A Ten-Year Retrospective …
Mergers & Acquisitions in 2010 (part 1)

• Sanofi-Aventis & Merck Co. announces potential merger of Intervet / Schering-Plough AH and Merial to create “Merial Intervet,” world’s largest AH business with combined sales of +$5 billion and 14,000 employees

• CEVA Sante Animale / Ceva Animal Health announces agreement with Sumitomo Corporation to acquire a majority share of Sumitomo’s AH subsidiary, Summit VetPharm, LLC and its flagship parasiticide brand, Vectra

• Bayer AH announces plans to sell Advantage and Advantix through Internet sites and pet specialty retailers, acquires chewable formulation technology & late-stage development products from Piedmont Pharmaceuticals

• Dechra Veterinary Products acquires Dermapet’s global veterinary business

• Pfizer Inc. announces acquisition of King Pharmaceuticals and its Alpharma medicated feed additives division; Pfizer Animal Health acquires Synbiotics and enters veterinary diagnostics sector
A Ten-Year Retrospective ... Mergers & Acquisitions in 2010 (part 2)

- Professional Veterinary Products (PVPL), the nation’s only veterinarian-owned distributor with annual revenues of ~ $250 m files for bankruptcy
- Webster Veterinary acquires ProVet to establish a west coast and mountain presence and Columbus Serum to have presence in the Midwest; also announces a strategic partnership & equity investment with VetSource
- Henry Schein, Inc. and Butler Animal Health Supply form Butler Schein Animal Health, a new company that combines Butler Animal Health Supply and Henry Schein's U.S. Animal Health businesses with combined revenues of ~ approximately $850 million
- VCA Antech, Inc. acquires PET DRx Corporation with 23 animal hospitals with annual revenue of approximately $64.0 million
- MWI Veterinary Supply, Inc. expands ex-USA by acquiring Centaur Services Limited, in the United Kingdom
A recent survey of veterinary clinics indicated the following concerns:

1. The economic downturn and the long-term impact of a continued recession

2. The increase in OTC / online sales of products that have traditionally gone through the clinic *(Bayer moving Advantage into the OTC market in 2010 will be telling)*

3. The long-term concern in regards medical liability as the “humanization” of animals continues and animal “rights” movements push forward

4. The launch of companies like Vet Centric and Vet Street, as well as initiatives by many distributors, to allow the veterinary clinic to be competitive with Pet Med Express seem to be well received however these are still in their infancy and long-term impact remains to be seen
A Ten-Year Retrospective …
Leading US AH Companies 2010 vs 2019

2010 Sales for 10 leading US animal health companies totaled ~ $5.7b

By 2019, those companies reached sales of ~ $8.5b, an increase of 49%

Sales among the top 4, increased by 85% to ~$7.6b

Results include the BI / Merial & Elanco / Novartis consolidations as well as other acquisitions made during the period.
2020 Year in Review
Key Segment Analysis
Small Animal product sales which were up 8% through JUL continued to accelerate and closed the year up 13.5%; equine sales were up slightly at 2.9%.

Cattle sales were marginally improved at 1.3% while swine products continued to struggle, down (-10.8%); supplies were also robust at 6.1% growth.
Feedlot sales suffered due to supply chain disruptions, impacting sales of anti-infectives and medicated feed additives; despite this, implant sales were robust at 11.5% growth.

Cow-Calf and Dairy sales were more robust with low single digit growth, which strengthened sales of parasiticides, vaccines, and traditional anti-infectives (pen/tet).
Small Animal Product Sales Were Strong Across Multiple Segments with Growth of 13.1% for the Year

- Anti-parasitics & NSAIDs lead all segments with double digit growth; specialty pharma also strong at 9.5% growth
- Vaccines, nutraceuticals and anti-infectives were also robust with growth of 8-9%
- Human pharma sales lagged other categories at 6.6% growth
Swine and Equine Segment Sales Realized (-10.8%) and +2.9%, Respectively, in Net Growth vs 2019 Results

- Swine vaccines were especially hard hit at (-15.2%) as production adjustments were made to address supply chain challenges.
- Equine vaccine losses of (-4.6%) were more than offset by pharma growth of +5.6% for a net effect of 3.0% growth in equine products for the period.
Smart Sort™ Customer Segmentation Analysis
Animalytix Smart Sort™ Segmentation Analysis
Offers Perspective by Channel

Each month, Animalytix produces a 36-month summary of sales across 40+ categories of pharmaceuticals, vaccines, nutraceuticals, veterinary supplies and other animal health related products.

The number of reporting locations for 2020 by major business segment for the primary veterinary, livestock and retail segments are as shown above.

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>2020 Reporting Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Confined / Misc Livestock</td>
<td>31,157</td>
</tr>
<tr>
<td>DVM Small Animal</td>
<td>27,200</td>
</tr>
<tr>
<td>Ag Retail / Tack / Pet Specialty</td>
<td>11,525</td>
</tr>
<tr>
<td>DVM Mixed / Other</td>
<td>7,682</td>
</tr>
<tr>
<td>Dairy Operation</td>
<td>6,958</td>
</tr>
<tr>
<td>Swine Operation</td>
<td>6,899</td>
</tr>
<tr>
<td>Shelter / Rescue / Spay &amp; Neuter</td>
<td>4,328</td>
</tr>
<tr>
<td>DVM Emergency / Specialty</td>
<td>2,886</td>
</tr>
<tr>
<td>DVM Equine</td>
<td>2,802</td>
</tr>
<tr>
<td>DVM Large Animal</td>
<td>1,943</td>
</tr>
<tr>
<td>Feedlot / Calf Ranch</td>
<td>1,389</td>
</tr>
<tr>
<td>Distributor / Reseller</td>
<td>385</td>
</tr>
</tbody>
</table>
2020 Sales by Species & by Channel Were Lead by Small Animals ($5.1 billion) & DVMs (47% of Total)

<table>
<thead>
<tr>
<th>2020 Sales by Bus Class / No Consumers</th>
<th>Ruminant</th>
<th>Swine</th>
<th>Equine</th>
<th>Small Animal</th>
<th>Sup / Other</th>
<th>% of Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>DVM Small Animal</td>
<td>1.4%</td>
<td>1.2%</td>
<td>11.4%</td>
<td>74.7%</td>
<td>52.4%</td>
<td>47.1%</td>
</tr>
<tr>
<td>Ag Retail / Tack / Pet Specialty</td>
<td>10.6%</td>
<td>6.0%</td>
<td>19.2%</td>
<td>5.7%</td>
<td>5.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Feedlot / Calf Ranch</td>
<td>23.4%</td>
<td>1.9%</td>
<td>0.2%</td>
<td>1.0%</td>
<td>1.8%</td>
<td>7.0%</td>
</tr>
<tr>
<td>DVM Large Animal</td>
<td>18.1%</td>
<td>9.8%</td>
<td>3.8%</td>
<td>1.3%</td>
<td>2.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Dairy</td>
<td>16.6%</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>4.8%</td>
<td>5.3%</td>
</tr>
<tr>
<td>DVM Mixed / Other</td>
<td>4.8%</td>
<td>1.9%</td>
<td>10.4%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Non-Confined / Misc Livestock</td>
<td>13.3%</td>
<td>3.9%</td>
<td>1.2%</td>
<td>0.4%</td>
<td>1.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>DVM Emergency / Specialty</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.3%</td>
<td>3.9%</td>
<td>13.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Distributor / Reseller</td>
<td>6.4%</td>
<td>2.7%</td>
<td>4.2%</td>
<td>2.6%</td>
<td>1.1%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Swine Operation</td>
<td>2.4%</td>
<td>69.7%</td>
<td>1.7%</td>
<td>0.1%</td>
<td>1.6%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Other</td>
<td>2.1%</td>
<td>2.4%</td>
<td>12.5%</td>
<td>1.5%</td>
<td>4.8%</td>
<td>2.6%</td>
</tr>
<tr>
<td>DVM Equine</td>
<td>0.6%</td>
<td>0.1%</td>
<td>33.0%</td>
<td>0.8%</td>
<td>2.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Shelter / Rescue / Spay &amp; Neuter</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.6%</td>
<td>2.9%</td>
<td>4.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>26%</strong></td>
<td><strong>3%</strong></td>
<td><strong>5%</strong></td>
<td><strong>54%</strong></td>
<td><strong>12%</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>$ 2.50 billion</strong></td>
<td><strong>$ .33 billion</strong></td>
<td><strong>$ .45 billion</strong></td>
<td><strong>$ 5.10 billion</strong></td>
<td><strong>$ 1.10 billion</strong></td>
<td><strong>$ 9.5 billion</strong></td>
<td></td>
</tr>
</tbody>
</table>

Of $9.5 billion reported in 2020, small animal products total $5.1b (54%) of total sales while ruminants contributed another $2.5b (26%).

The ~ 30,000 DVM Small Animal and DVM Emergency & Specialty Practices combined for an additional $4.8b in purchases, driving 50%+ of total purchases for the year.
DVM Small Animal Practices Grew at 8.5% while DVM Equine Practitioners lagged at 0.0%

DVM Small animal practice purchases were robust across multiple categories with parasiticides, NSAIDs, and specialty pharma at or near double digit growth; shelters contracted (-4.2%) due to reduced throughput; weak vaccines sales impacted Equine DVMs
Growth of 34.7% in Pet Goods Purchases Powered Surge in Mixed Practice Purchasing Volumes for 2020

Mixed animal practices benefited from explosive growth in small animal volumes, off-setting losses in each of the other segments

Displaced customers, either those having relocated or those unable to connect with routine care providers contributed to the increase
Cattle markets were tepid @ +/- 2% growth in all sectors as anti-infectives & feed additives lagged while implants, vaccines and parasiticides drove growth; disruptions in the meat supply chain were material factors for cattle and in the swine sector which declined by (-10%).
Among nearly 9,000 Ag Retail locations, small animal and equine product sales growth was robust at +25.5% and +15.4% as consumers increased spending in the channel; ruminant growth was ahead of the market at 3.2% due to a favorable the mix of products and customers (paras & vax)
The VetWatch Site Monitors the Impact of COVID-19 on the US Veterinary Marketplace

VetWatch was established to monitor the impact of COVID-19 on key veterinary business metrics.

VetWatch monitors purchasing, patient and revenue trends of thousands of practices across 236 US geographic markets.

The site is a joint initiative by Animalytix, NAVC, Greenline Pet, M/A/R/C Research, Packaged Facts, Animal Care Technologies, the United Veterinary Services Association, Circa Healthcare and the leading US animal health distributors.
VetWatch Utilizes Vetalytix And Census Bureau Models for Reporting Selected Practice Metrics & Trends

The Vetalytix reporting model utilizes 236 discrete US geographic markets which allows for analysis of local conditions as compared to national or regional results.

The Census Bureau’s 9 Region model offers a less detailed but still useful view of the market for the assessment of higher-level trending.
Core & Lifestyle Vaccine Surge as Chronic Meds & Surgical Purchases Reach Normal Range

Purchasing volumes for annual pet wellness (Core / Lifestyle) vaccinations declined dramatically through MAY but recovered sharply through DEC to +9%

Purchases of chronic care medications and surgical suite consumables were flat through JUL but recovered to reach +5% growth by year end
YTD Parasiticides Purchases by Veterinarians & Shelters Grew 7.7% in 2020 vs 2019 Results

JUN 1, 2020 - total pet parasiticide purchases by veterinarians had pulled even with 2019 results at +0.6% growth; individual category results were mixed

DEC 31, 2020 – growth of 7.7% overall; all categories with positive growth with the leader being F/HW combos for dogs at +12.8%

Results are notable as they exclude on-line pharmacy shipments, all of which would be “additive” to these totals
Aggregate YTD practice revenue continued to improve in Q4, reaching +5.6% growth YOY; 205 of 236 reporting zones posted net revenue growth for the year, 50 of which posted double digit growth vs 2019 results.

The number of unique Patients also improved in Q4, reaching +3.5% growth by end of year. Total invoices remain below 2019 levels on average, likely reflecting price increases as well as changes in the mix of services or revenue sources.
“VetWatch Insights ... The News from the Frontlines”
WHAT WAS IMPORTANT ABOUT WHAT HAPPENED IN 2020?

- The most important event last year regarding COVID was the expansion of the money supply; nearly 30% of the current money supply was created last year.

- The US dollar lost > 10% of its value against the major US trading partners responsible for 2/3rd of US imports; on its own this would create a net inflation effect of 1.4%.

- Many other markets are struggling with very tight supply chains, the stock market, housing market and many other goods and services markets are already seeing large price increases not just from the new money but from the expectation that the Fed and US government will continue to add to the current money supply.

- Someone needs to ask, “what will happen to all these markets when the Fed decides it is time to raise interest rates and end bond purchases?”

Michael R. Dicks, Ph.D.
Chief Data Human
Erupt, LLC
WHAT CAN WE EXPECT FOR 2021?

• For at least in the first two or perhaps three quarters of 2021, the US is going to continue to limp along.

• COVID isn’t going anywhere, many service industries will continue to struggle.

• What may be worse is the fact people are going to forget what it was like in 2019 before COVID happened.

• Disfunction in government and a Fed that believes it can continue to print money to hold markets together are eventually going to lead to large scale market failure and a vast recession with few tools left to do anything about it.

• We can look at 2008 - 2012 and expect that period is about to return, only worse …
Veterinary Management Groups
600+ Small Animal Hospitals

Normalized EBITDA Through 9/30/20

<table>
<thead>
<tr>
<th></th>
<th>3Q 2019</th>
<th>3Q 2020</th>
<th>YTD 2019</th>
<th>YTD 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalized EBITDA Top 20%</td>
<td>27.1%</td>
<td>28.8%</td>
<td>26.8%</td>
<td>28.1%</td>
</tr>
<tr>
<td>Normalized EBITDA Global</td>
<td>16.5%</td>
<td>18.1%</td>
<td>17.4%</td>
<td>18.5%</td>
</tr>
</tbody>
</table>

Increase in EBITDA Through 9/30/20

<table>
<thead>
<tr>
<th></th>
<th>3Q 2020</th>
<th>YTD 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalized EBITDA Top 20%</td>
<td>6.2%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Normalized EBITDA Global</td>
<td>9.6%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>
Veterinary Management Groups
600+ Small Animal Hospitals

**Change in Normalized Labor as a % of Revenue**

<table>
<thead>
<tr>
<th></th>
<th>3Q</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 20%</td>
<td>-3.8%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Global</td>
<td>-4.2%</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>

**Avg. Invoice Change**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>YTD 2020</th>
<th>3Q 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Invoice Change Top 20%</td>
<td>4.2%</td>
<td>5.6%</td>
<td>8.9%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Avg. Invoice Change Global</td>
<td>3.9%</td>
<td>4.8%</td>
<td>10.3%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>
2021 Key Expectations & Projections

- Hospital revenue growth will be limited to:
  - Price increases (most already at patient capacity)
  - Expected price increases will be 7% - 9%
  - Facility workspace and ability to expand
  - Continued shortage of DVM’s and qualified employees
  - Post COVID matters:
    - Burnout
    - Reallocation of discretionary spending
    - Pet Owner inability to attend appointments during work week while returning to work (in offices)
    - Continued Industry consolidation – owners do not want to have to navigate another 2020 and want to capitalize on market conditions
The above charts show travel and workplace commuting will remain under pressure through the year. Leads to more pet awareness but boarding likely is still significantly impacted in 2021. Below, shows that while vet clinics are busy, they are facing more severe online pressures and fatigue which is driving more people to consider selling than ever. Be prepared for more consolidation.
Both vets and pet parents are expecting online purchasing to continue (above charts). As online purchases continue across sectors, retailers are quickly reallocating floor space to growth areas – like pet. Specifically, we are seeing expanded investment from Tractor Supply and Walmart. Tractor in particular was an essential retailer during the pandemic that our work shows a notable gained share in the category for 2021.
• Total pet adoptions dropped by 24% or ~ 250,000 pets in 2020 among ~ 1,200 shelters in 50 states representing ~ 50% of annual shelter placements

• Shelter intakes declined by more than 550,000 animals in 2020, reducing the number of pets available for adoptions

• Foster placements increased by ~ 40,000 (~ 20%) as shelters sought to reduce staffing & facility expense

• Shelter operators are reportedly bracing for a wave of abandoned & relinquished animals to enter shelters in the first half of 2021

https://www.24petwatch.com/shelterwatch
• Fosters placements increased slightly for dogs in MAR – MAY but held steady after
• Available dog & cat inventories as well as adoptions dropped significantly in that same period and remained well below 2019 levels for the remainder of the year
THE ANIMAL HEALTH INDUSTRY’S LEADING SUPPLIER OF “ACTIONABLE” BUSINESS INTELLIGENCE

2020 Year in Review

Chris Ragland

February 16, 2021