
Wild Bird Feeding Industry

WBF I Research Survey Results
November 2012

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Cleveland Research Company - Background



- Cleveland Research Company is an independent investment research firm headquartered in Cleveland, OH.
- Our core focus is to establish Cleveland Research Company as the best equity research firm in the business.
- Our clients are investment management firms. Our product is truly value-added to them, as it is only distributed to 125 firms.
- Our discipline includes establishing relationships with key participants in the businesses we cover.
- We are talking to suppliers and customers, developing contacts, and conducting time-series surveys allowing us to spot trends and inflection points in the end markets we cover.
- We cover four sectors:
 - Consumer
 - Industrial
 - Technology
 - Healthcare

History with Home Depot and Lowe's

- 20 years of writing research on large suppliers (Sherwin-Williams, Stanley Black & Decker, Whirlpool, etc)
- 15 years of writing research on Home Depot and Lowe's

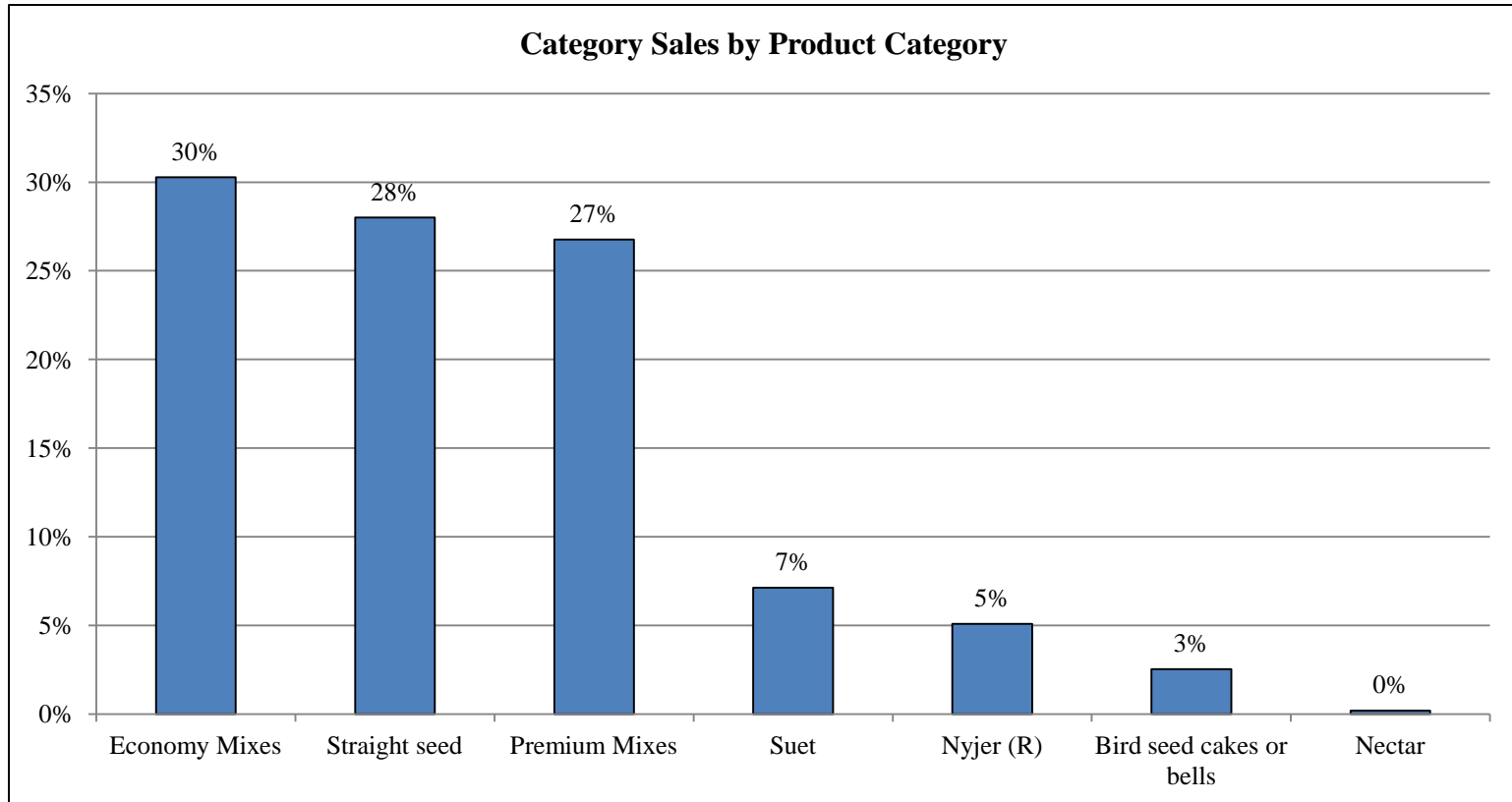
Broad Relationships Across the Channel

- Maintain ongoing discussions with over 100 suppliers at Home Depot and Lowe's
- Also have broad network of retailers, distributors, dealers, and farm & fleet chains
- Many 10+ year relationships
- Specific insights tightly protected

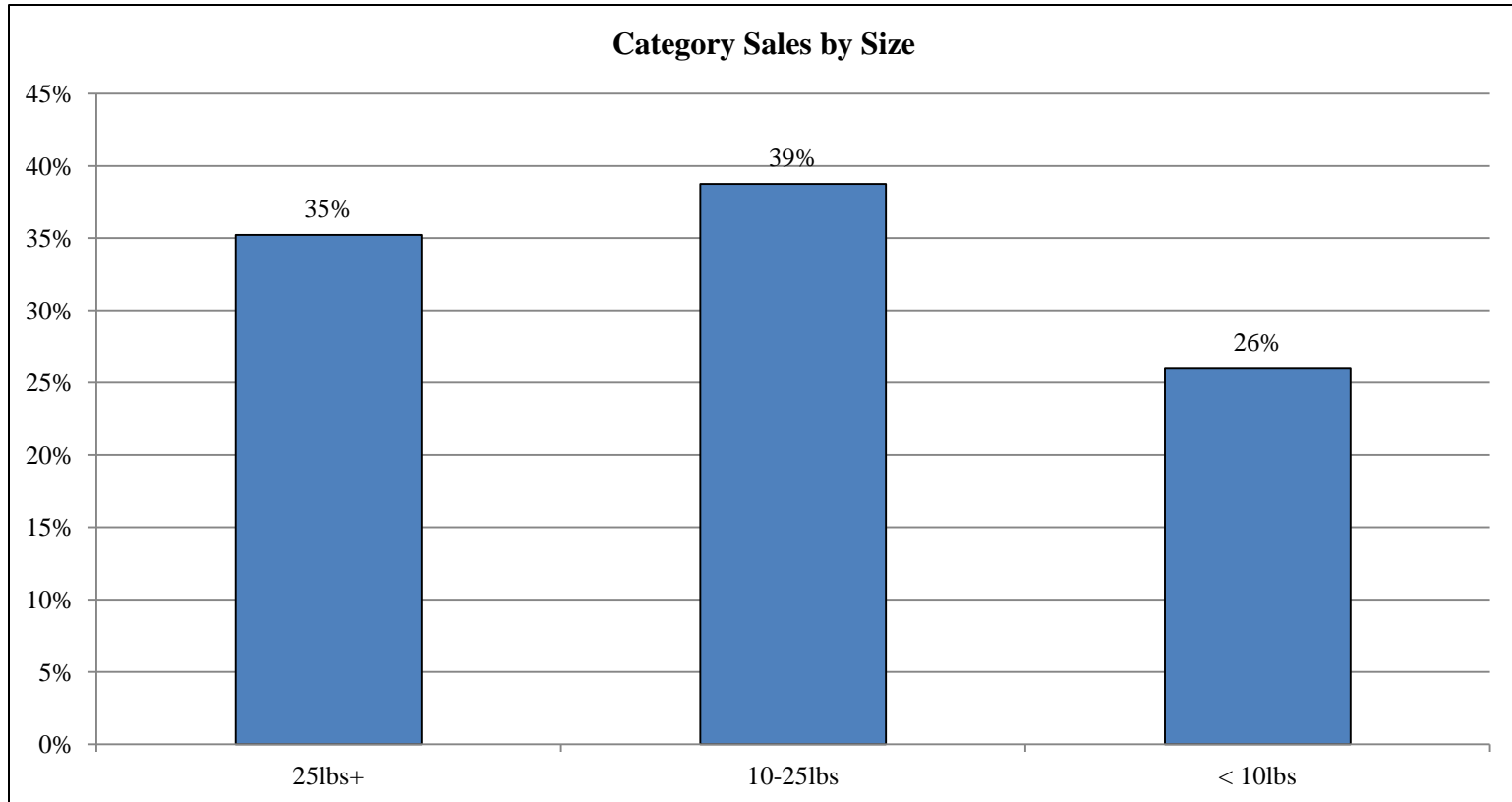
Our Focus and Discipline

- Networking across the channel gives our contacts a better picture
- Also allows us to fill in more of the puzzle ourselves

- Needed an efficient, independent perspective on the industry
- Sent internet-based survey to WBFJ members in early October
- Collected responses on such topics as...
 - Size of the market
 - Mix of sales by product category and package size
 - Sales growth year/year
 - Profit trends
- Results are strictly confidential and presented here in aggregate only
- Output:
 - Timely, independent perspective on market size from a supplier's perspective
 - Benchmarking tool for your business versus peers (sales, profits, hiring/firing)



Source: WBF Executive Trends Survey



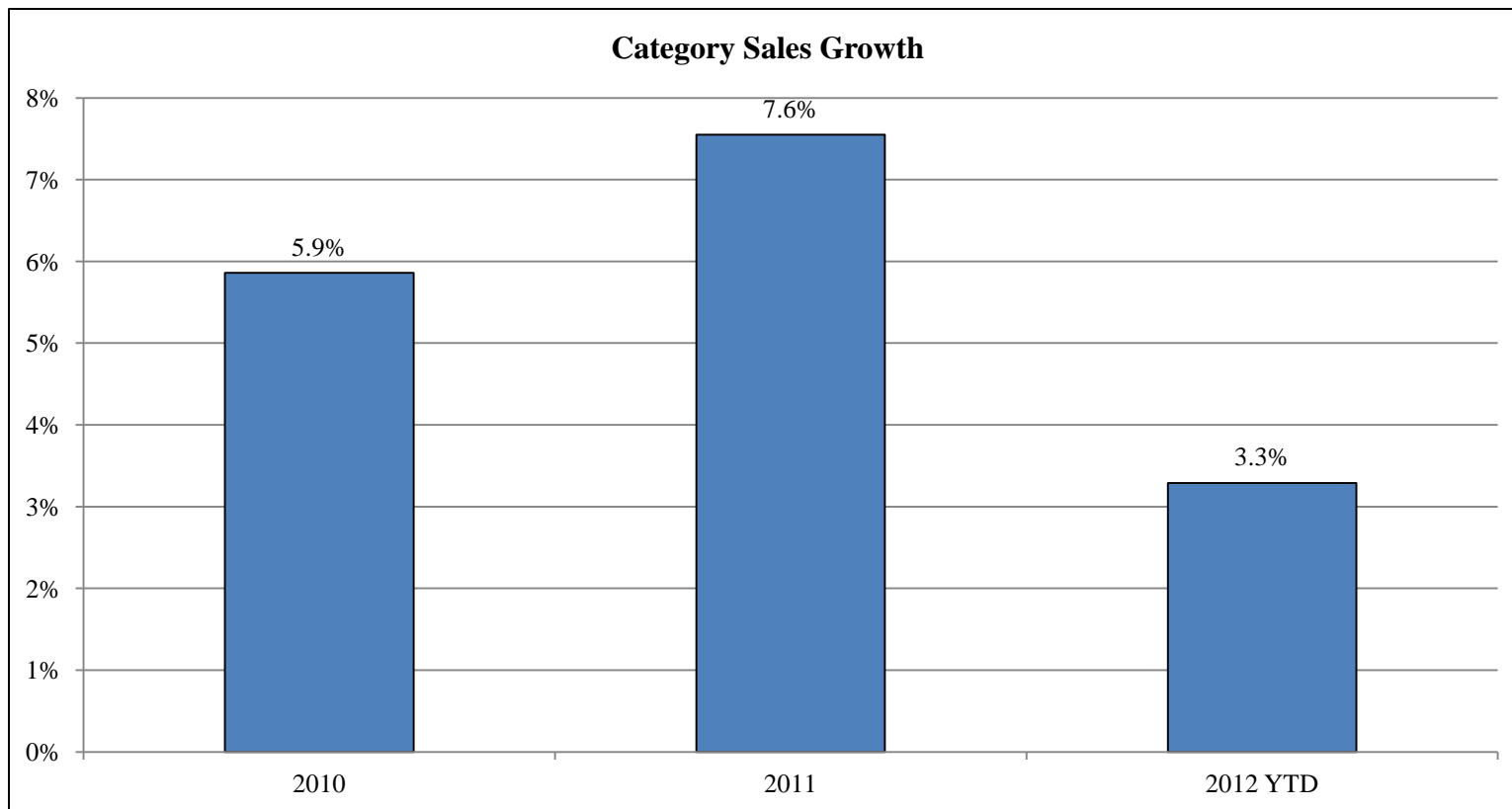
Market Size

- Estimated at \$800mm
- Survey respondents account for roughly half the packaged bird food market
- Census participants - 12mm (songbirds)
 - Average spend of \$65 annually in respondents' categories

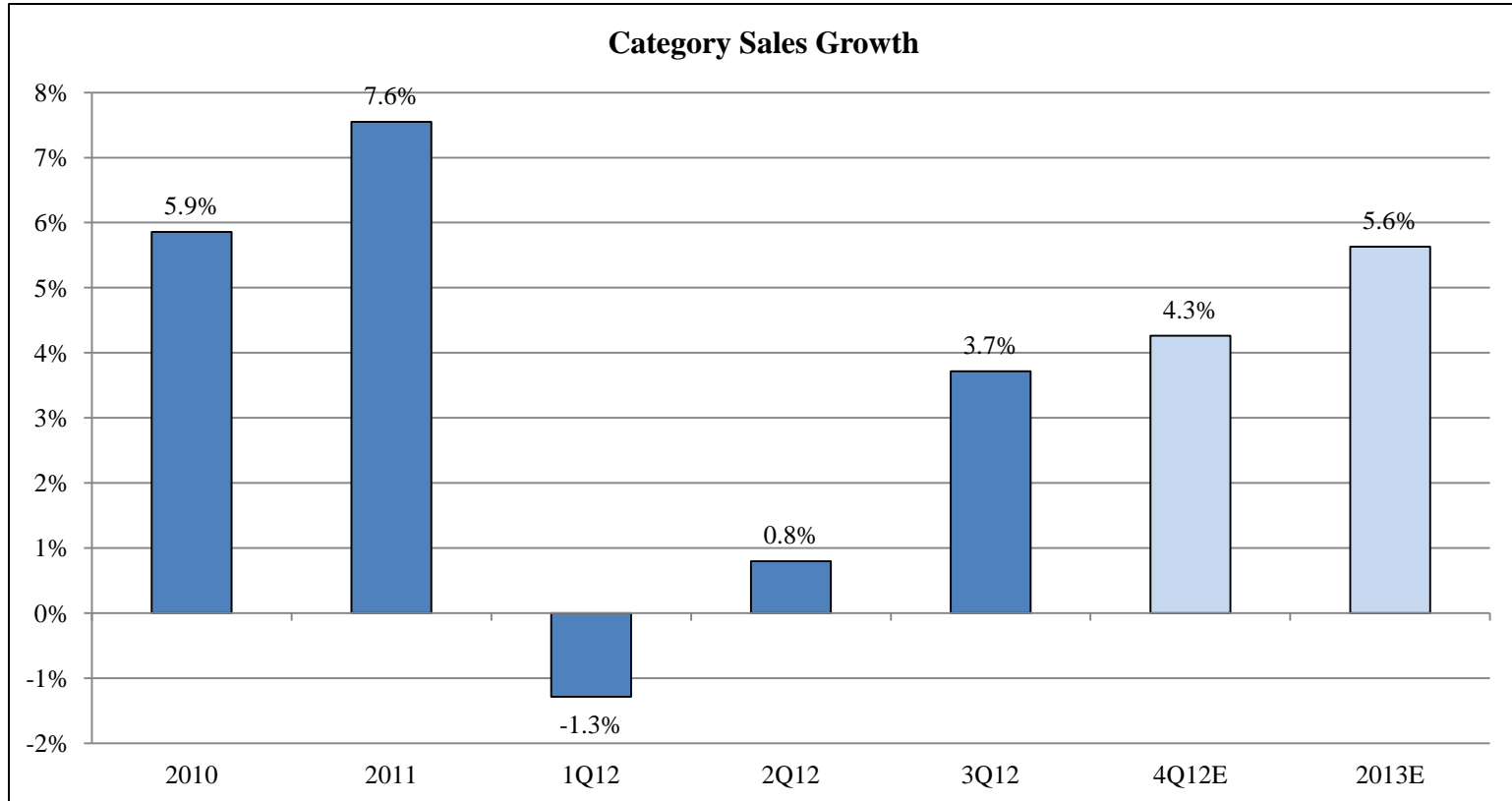
Comparison to Census Survey

- Census survey indicates \$3bb market in 2011
- Implies average spend of \$150-200+ annually per participant

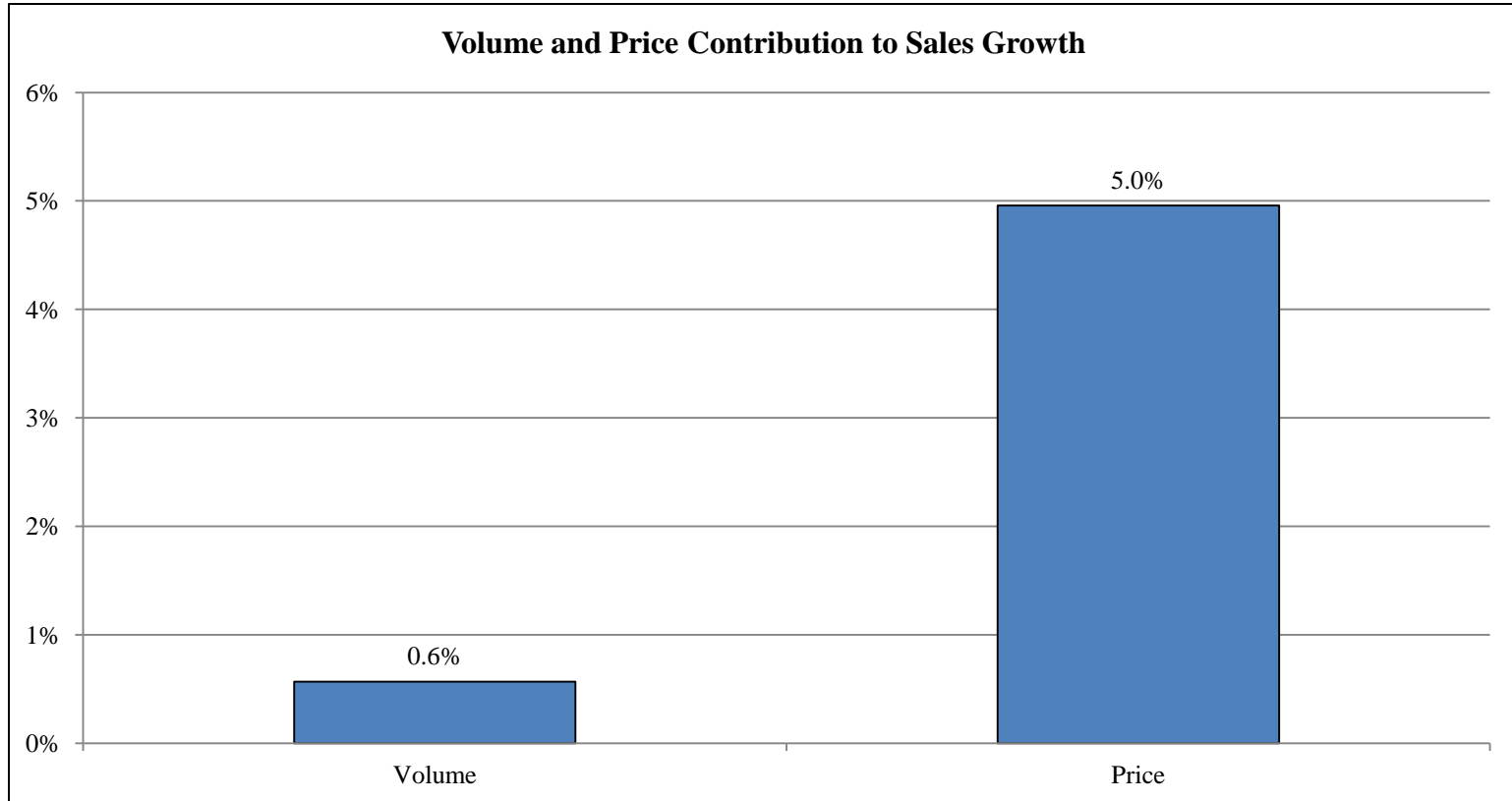
Category Sales Growth Year/Year – Survey Respondents **Wild Bird Feeding Industry**



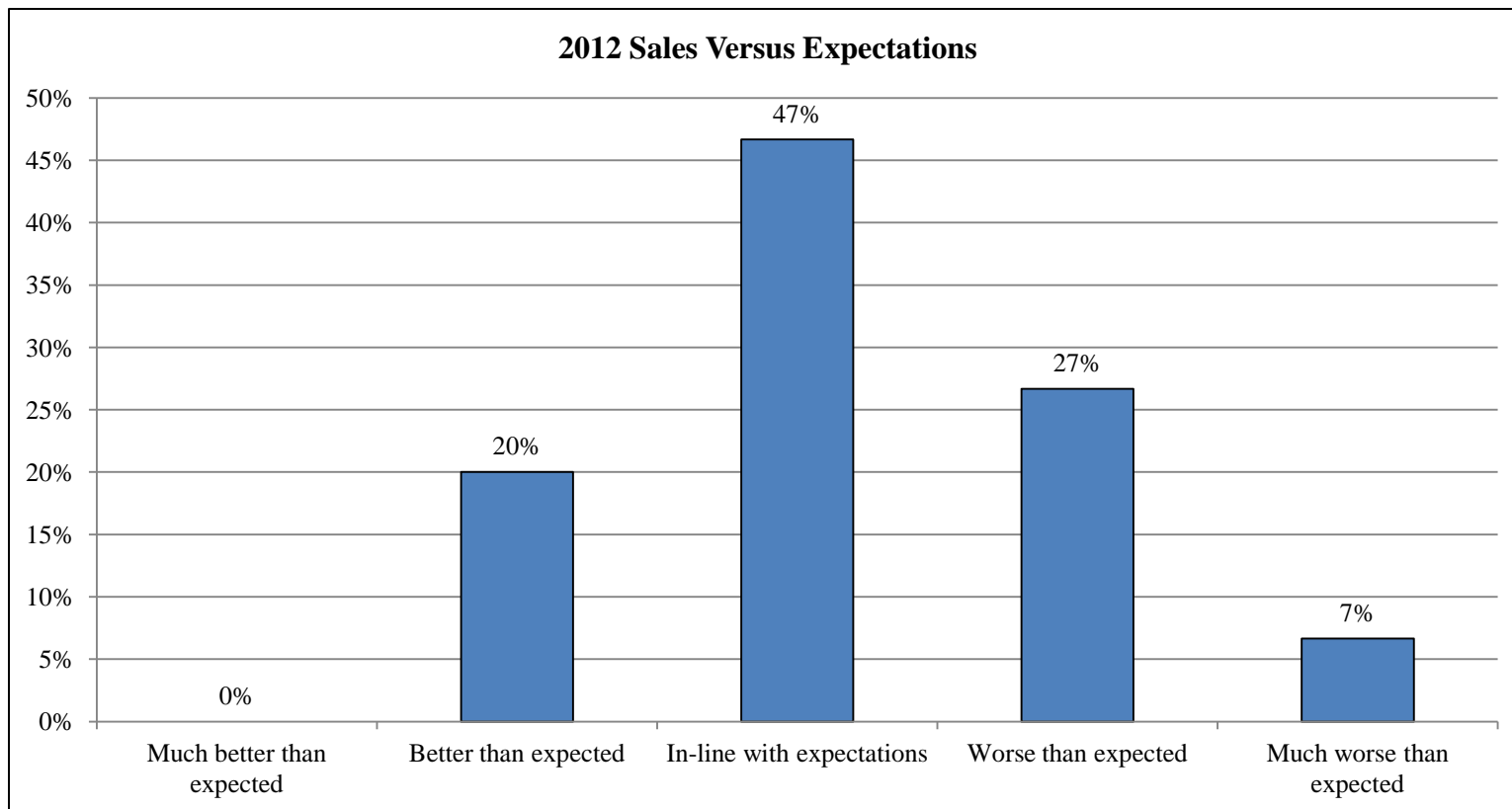
Source: WBFI Executive Trends Survey



Source: WBF Executive Trends Survey



Sales Below Expectations in 2012 – Survey Respondents **Wild Bird Feeding Industry**

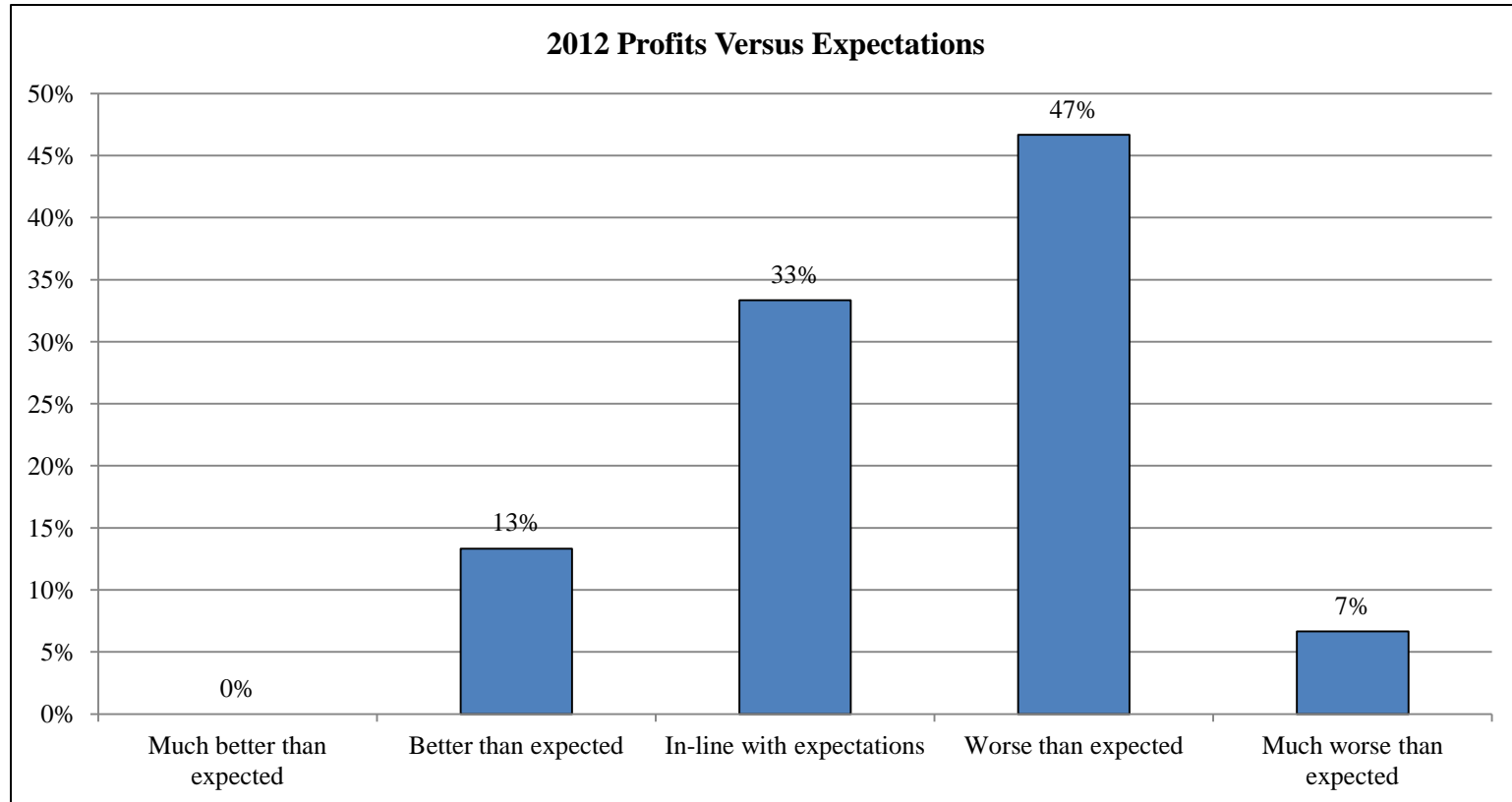


Source: WBF Executive Trends Survey

Key Drivers of Sales Below Expectations in 2012 **Wild Bird Feeding Industry**

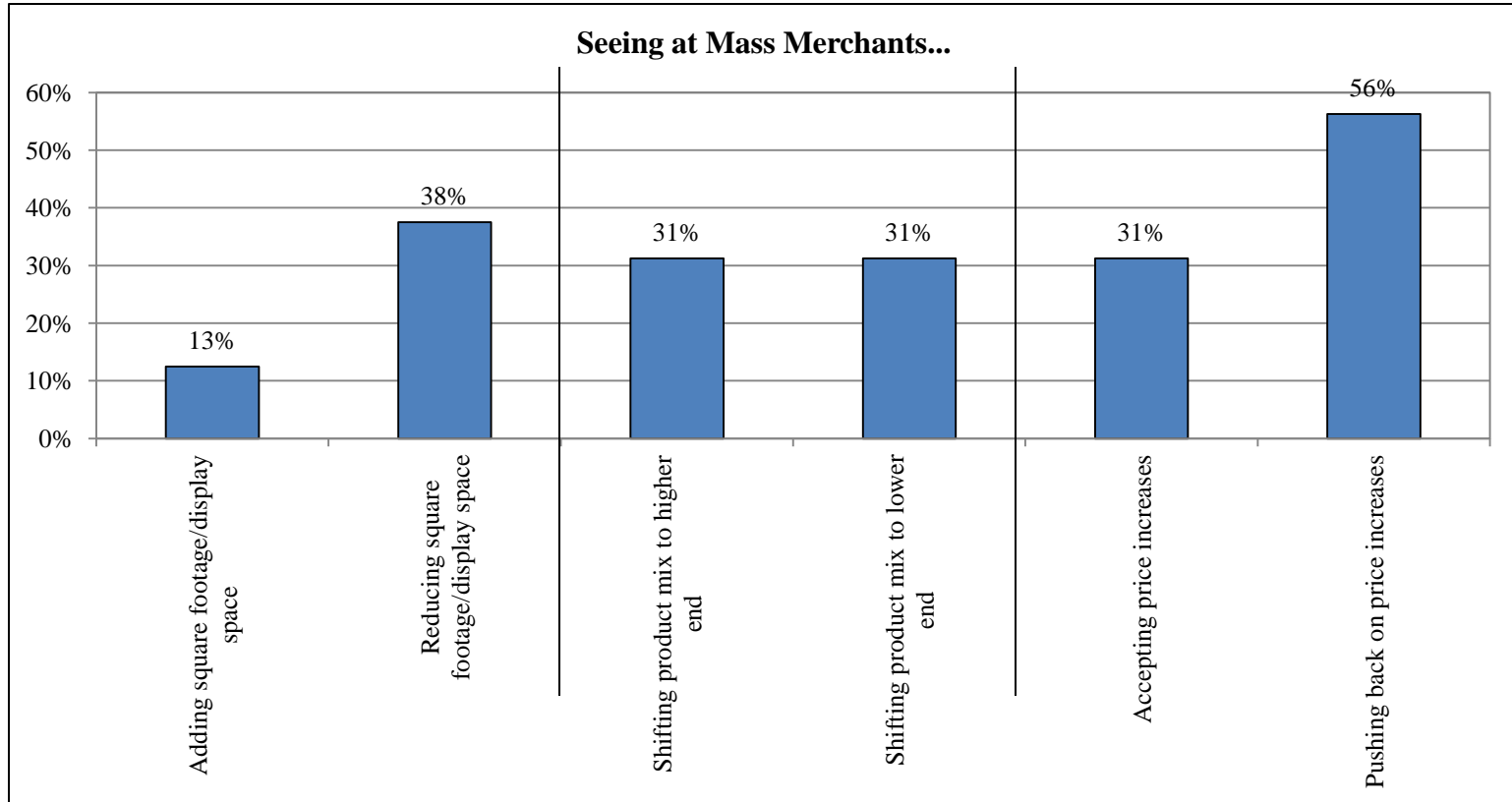
- Mild winter weather
 - Better natural food sources after mild winter
 - End of drought leading to better 2H sales
- Price increases
- Share movements

Profits Well Below Expectations for Survey Respondents **Wild Bird Feeding Industry**

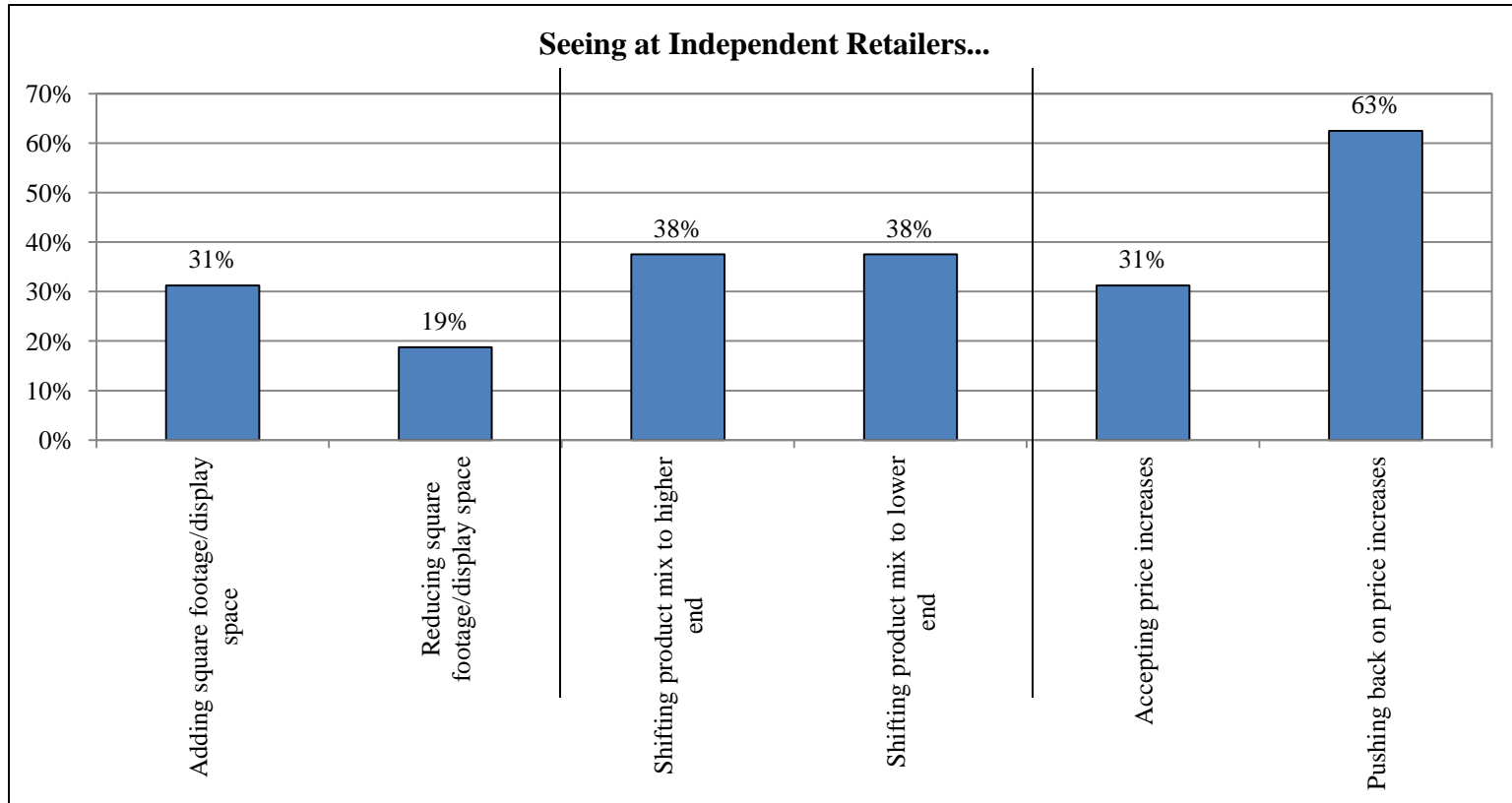


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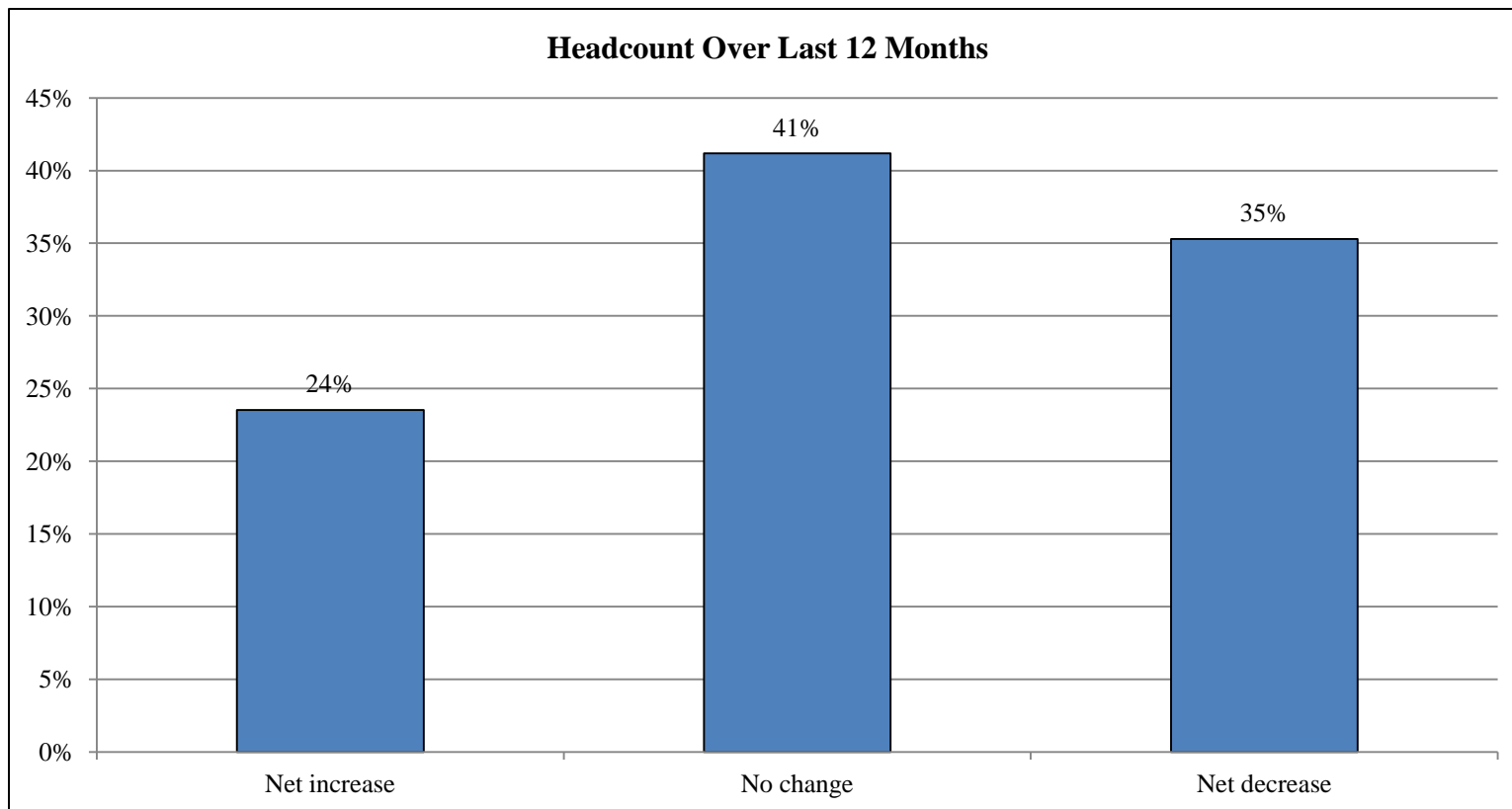
- Commodity prices
- Retail price increases
 - Timing
 - Pushback by retailers
- Volume
 - Market volume below expectations
 - Share movements



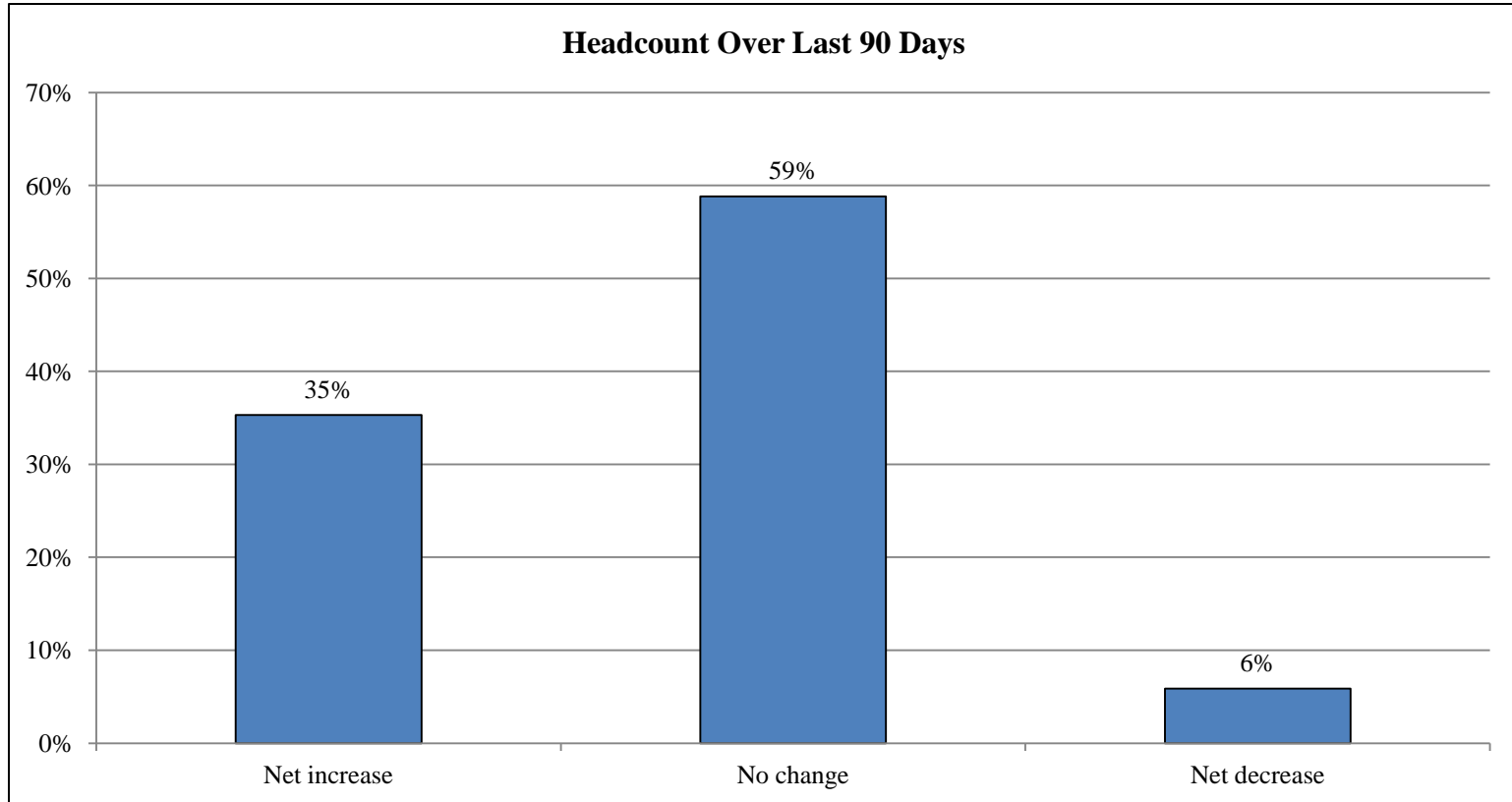
Trends Respondents Are Seeing at Independent Retailers **Wild Bird Feeding Industry**



Net Headcount Reductions Over Last 12 Months **Wild Bird Feeding Industry**



Source: WBFI Executive Trends Survey

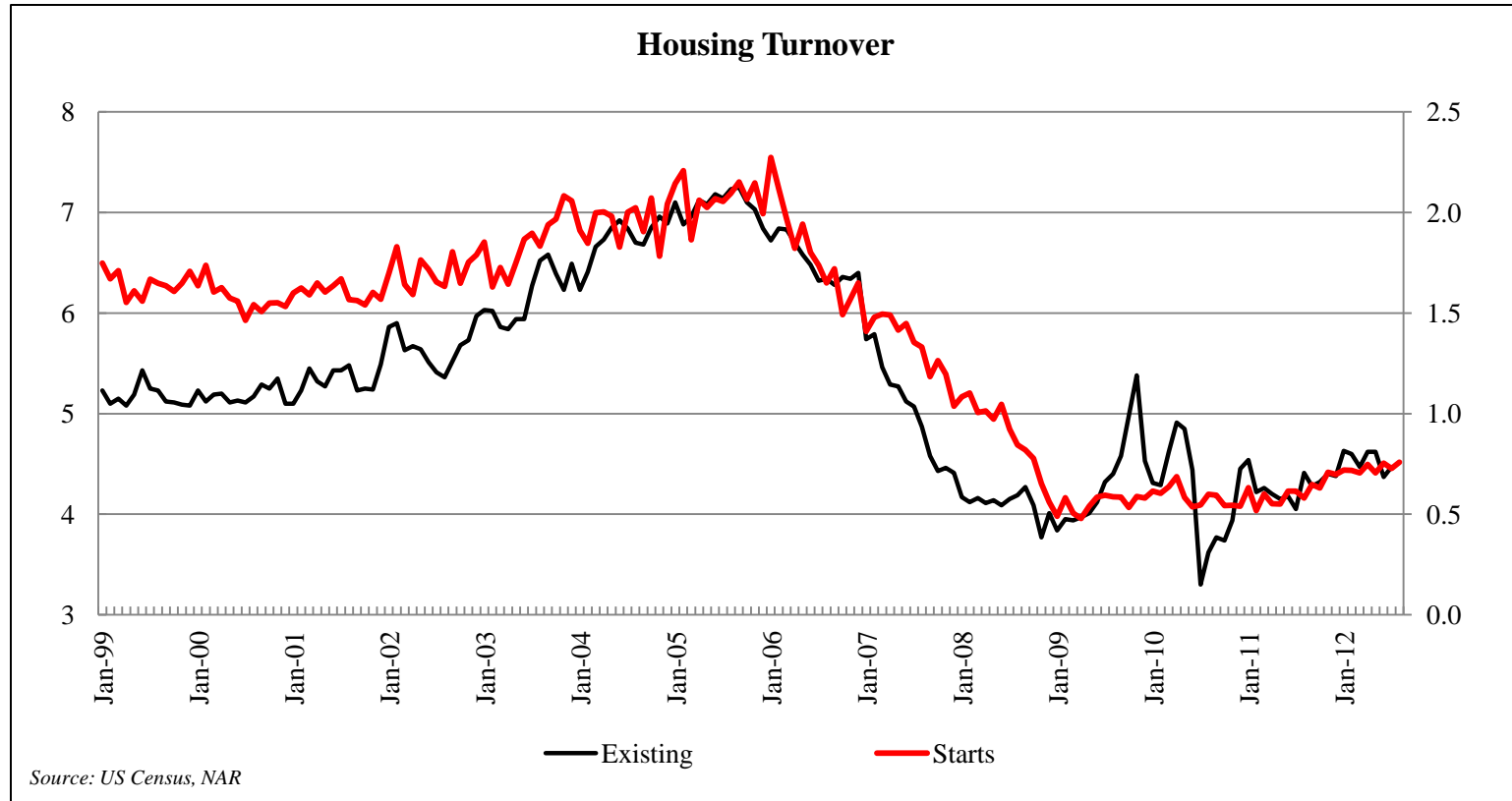


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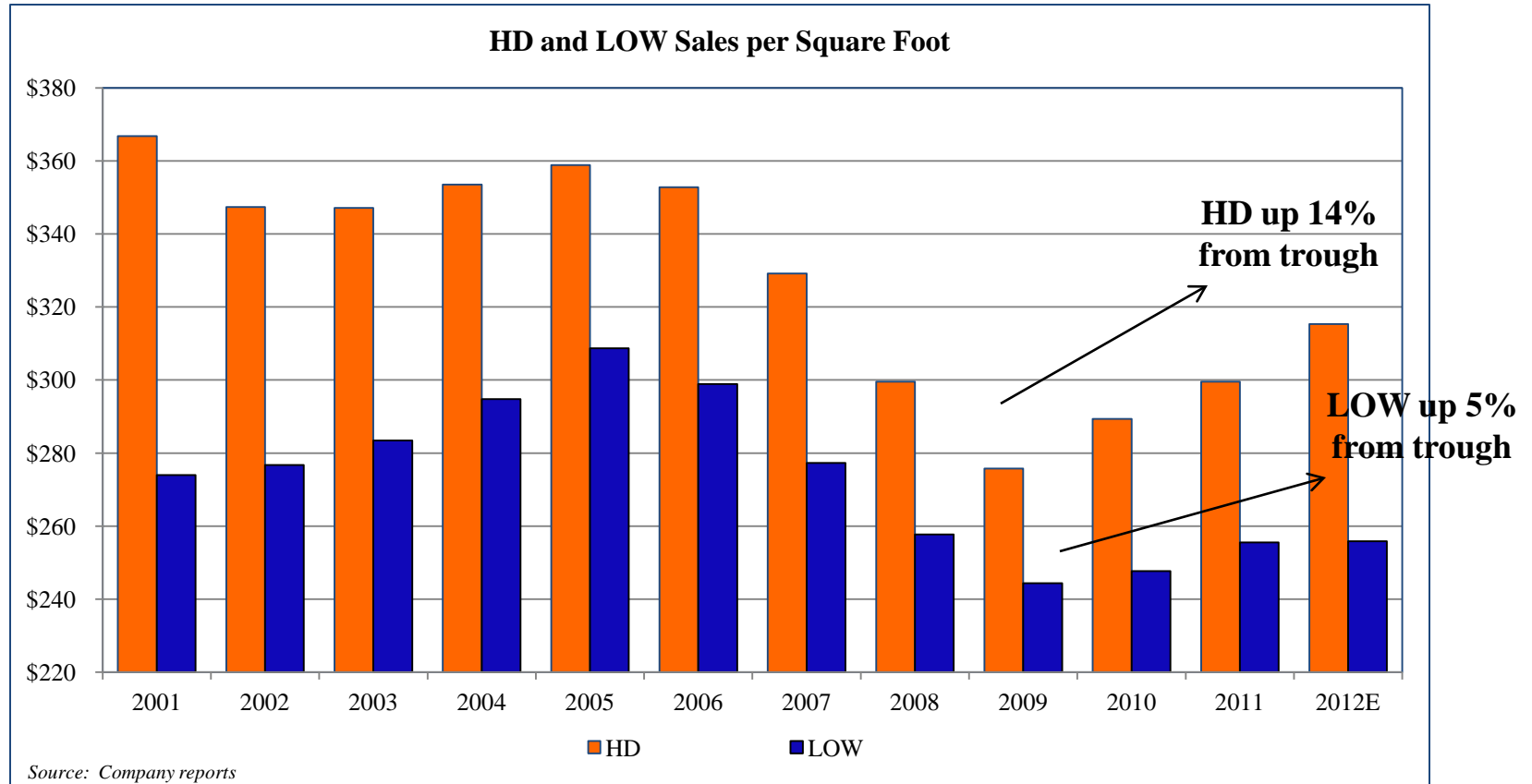
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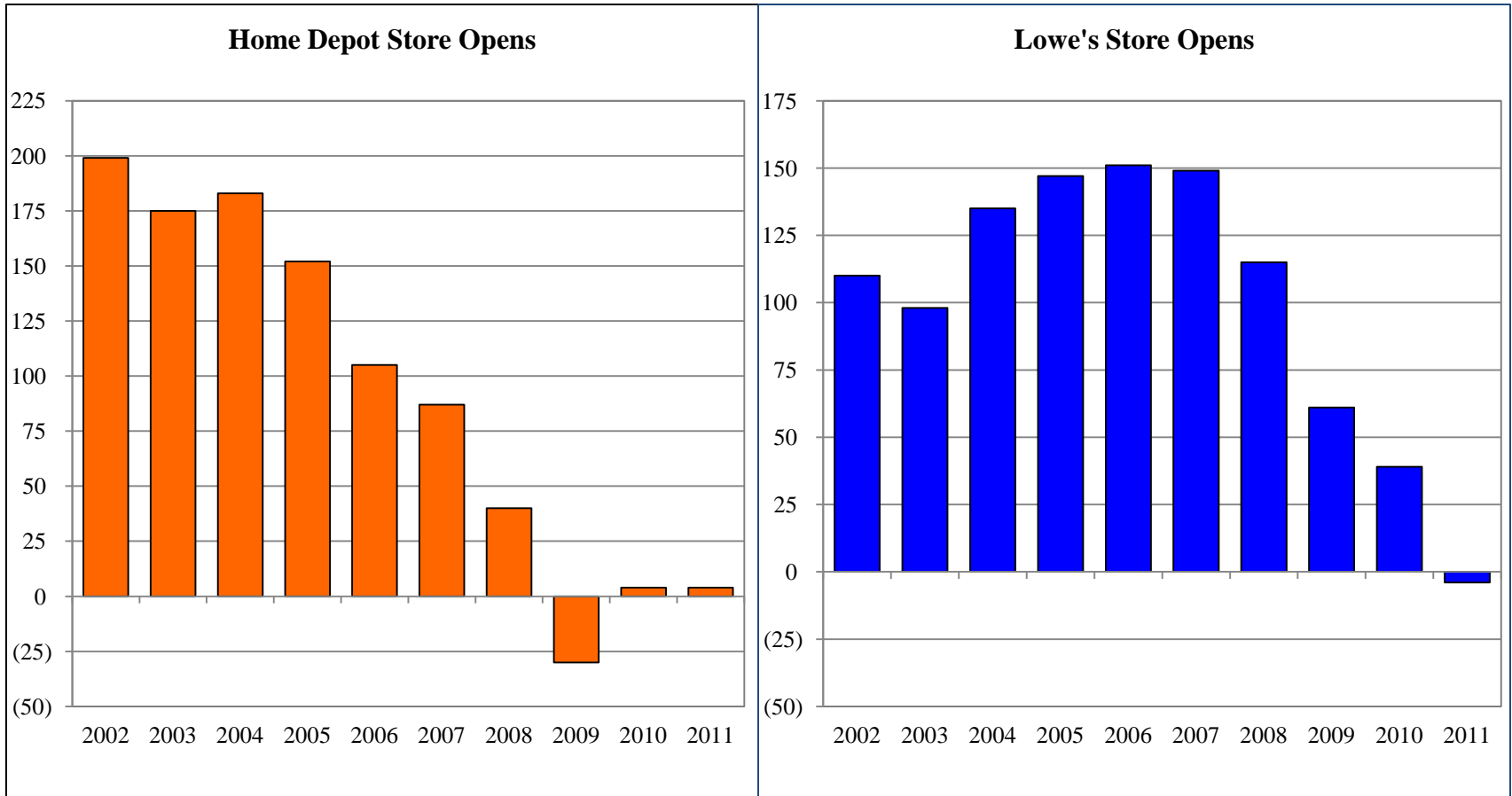
Housing Market Drives Home Depot, Lowe's



Home Depot and Lowe's Sales Productivity



Home Depot and Lowe's Store Growth



Source: Company reports

Most Interesting Things Heard on HD and LOW

Private label emphasis growing

- HD increasing private label penetration – targeting 20% in some line reviews
- Quality focus at HD a change versus the past – effort focused on mid-tier price points and comparable quality (brand development)

HD getting more aggressive

- HD proactively reaching out to suppliers for incremental 2013 promotions
- HD more willing to see margin erosion on promotional deals (more willing to fund promotions on their own versus support from suppliers previously).

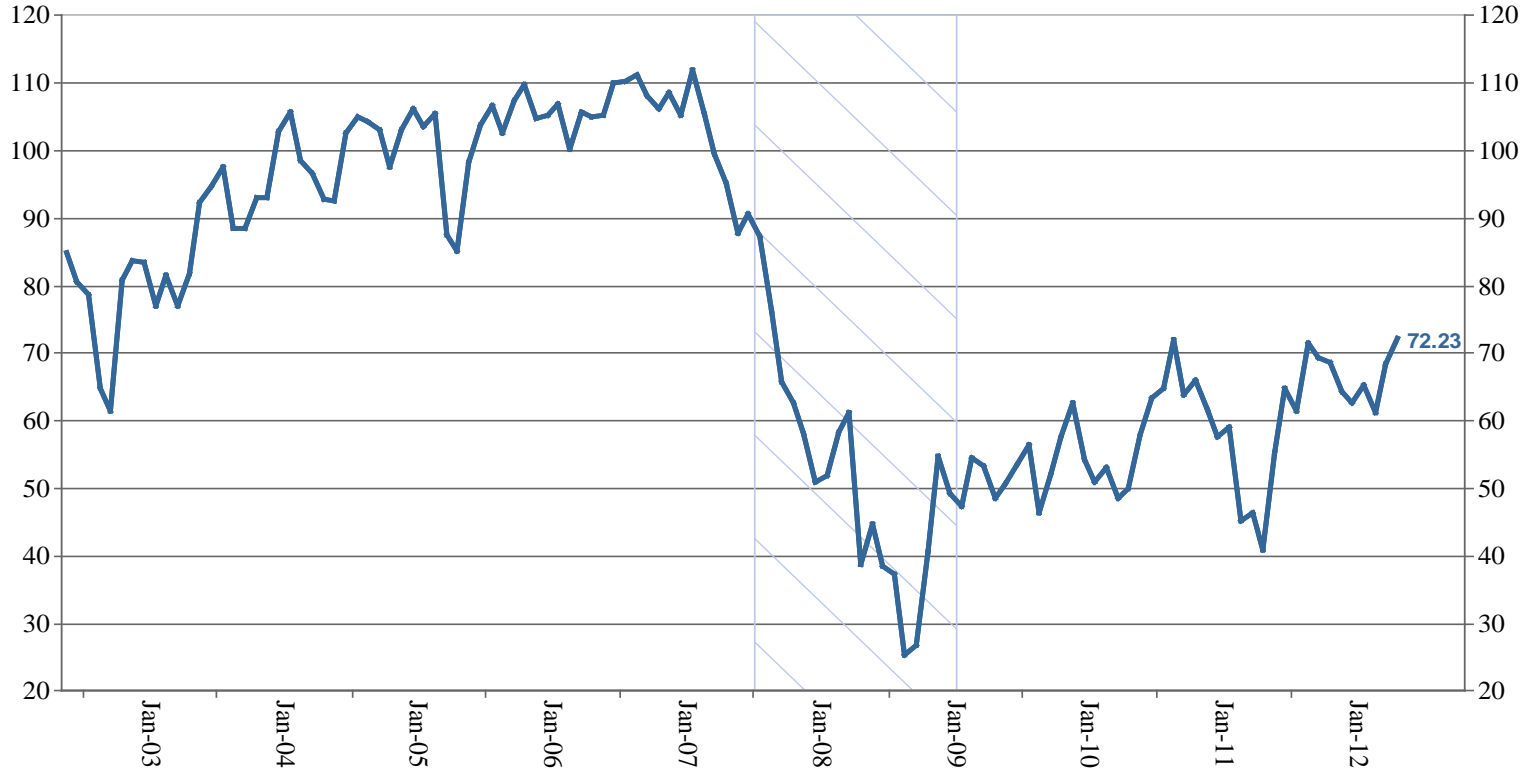
LOW struggling with internal initiatives

- Line review changes leading to inferior product and supply issues
- Eliminating key brands for margin benefit - accelerating share losses to HD
- Store resets and remodels pushed out to 2013 as LOW looks to trim expenses

Consumer Confidence

US Consumer Confidence

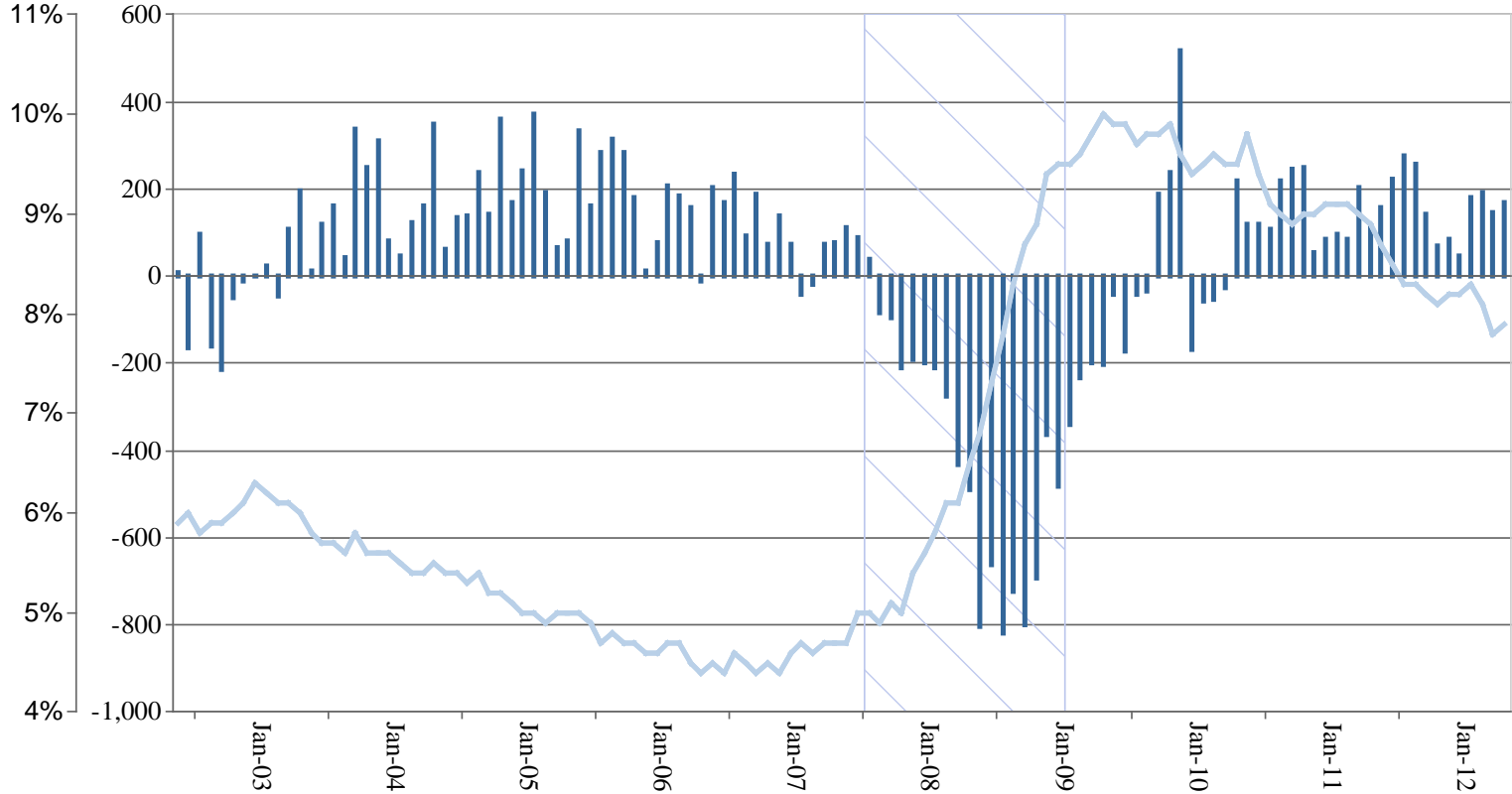
Launch full data release



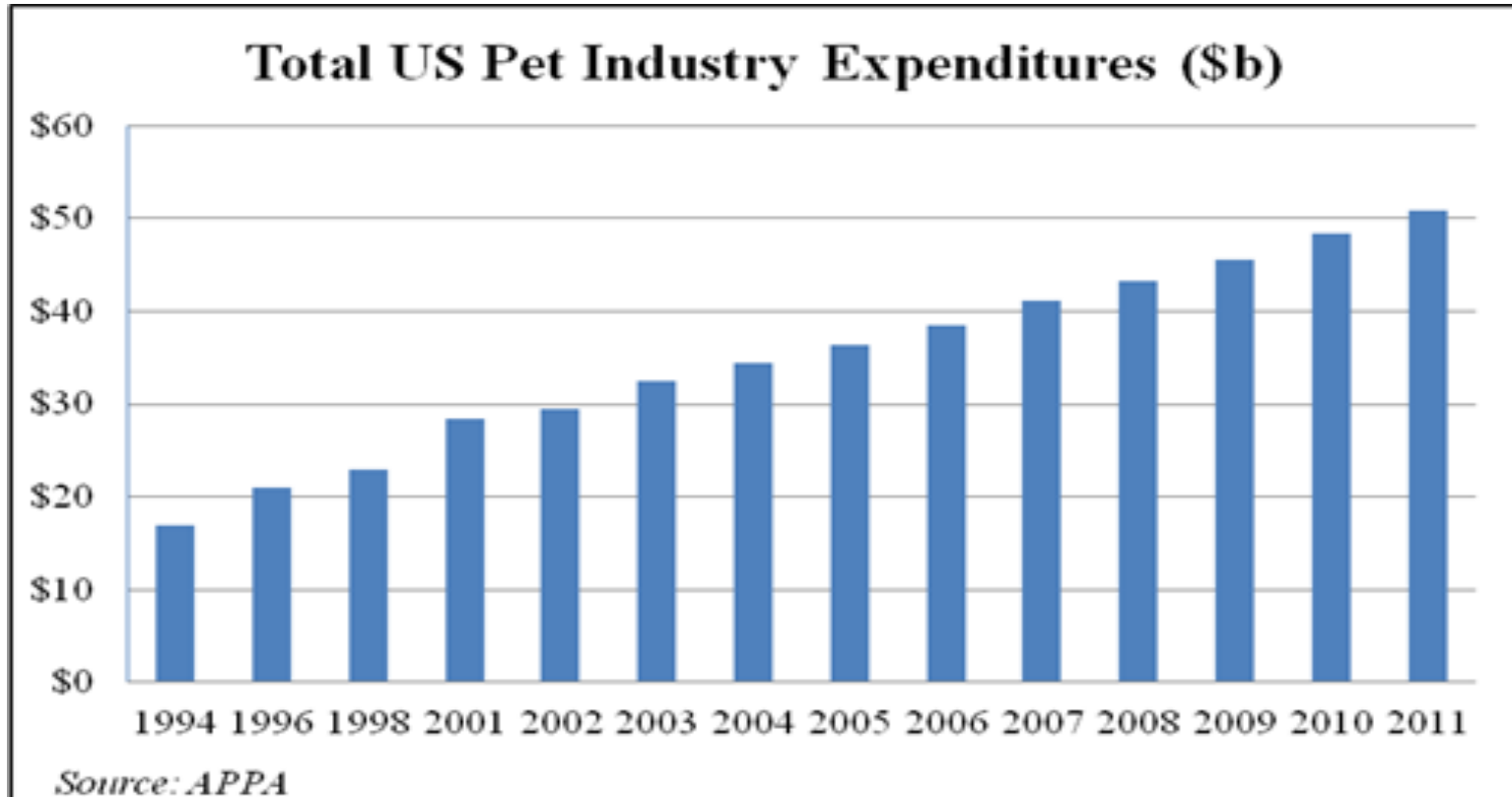
Unemployment

US Change in NonFarm Employment & Unemployment Rate

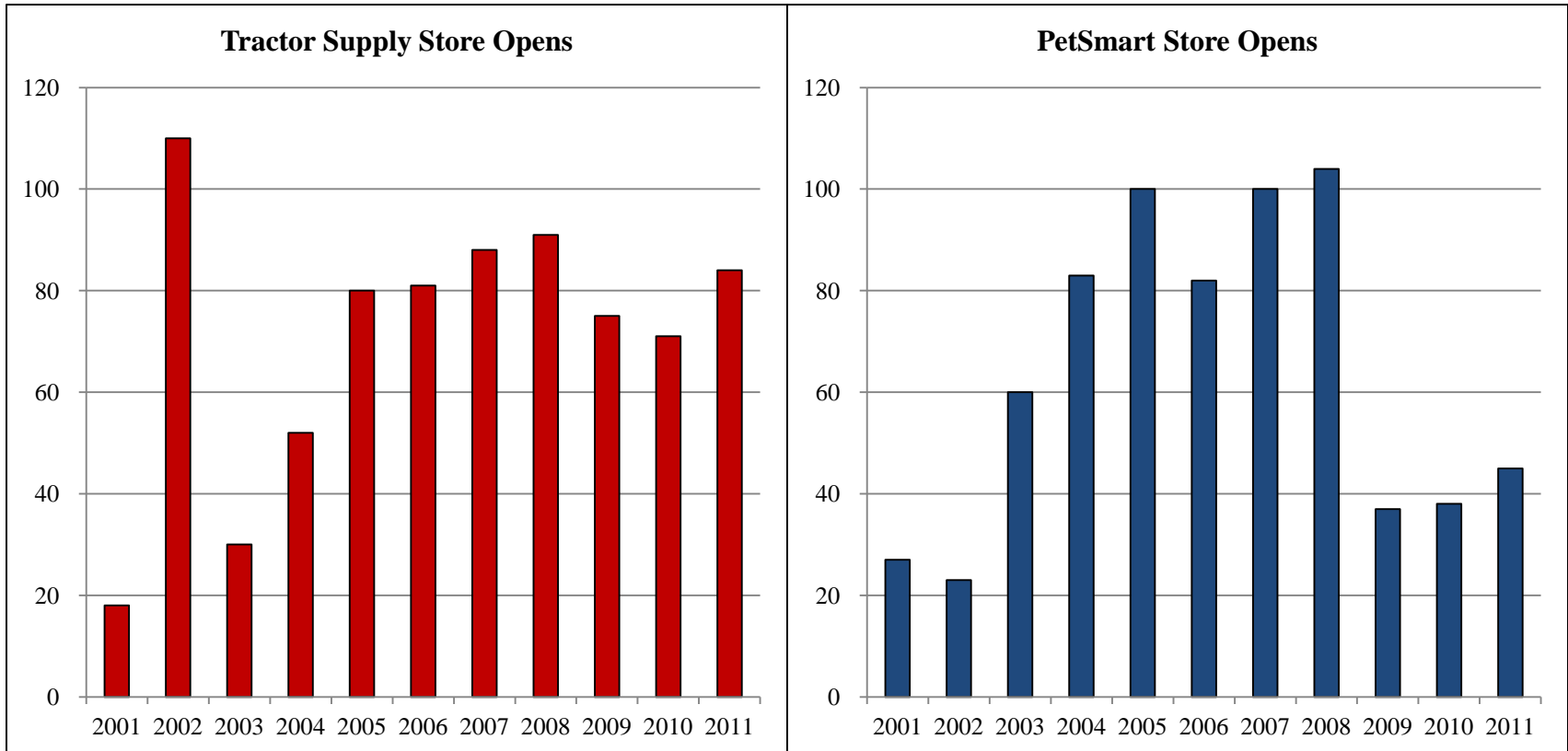
Launch full data release



Compare to Pet Category Retail Sales Data



Tractor Supply and PetSmart Store Growth



Source: Company reports

Most Interesting Things Heard on Tractor Supply

Sales trends

- 3Q core demand accelerated 1-2 points following somewhat soft 2Q (drought impacted).
- Cooler weather year/year expected to benefit 4Q comps
 - October sales well above forecast (3-5 points ahead of plan)

Private label and category resets

- Category resets focused on growing sales versus growing margin
 - Brands
 - Regionalization
- Private label penetration set to grow in 2013 on the back of 2H 2012 resets:
 - Seasonal category a focal point (including categories 100% private label)
 - Sales results better than prior assortment

Long-term store target

- Seeing less cannibalization from new stores opened in existing markets (Northeast)
- TSCO target could be 2,300-2,500 versus 2,100 publicly announced

Most Interesting Things Heard on PetSmart

Sales/Orders

- Sales growth through mid-3Q sounded consistent with strong 1H 2012 against tougher comparisons
- Category resets at PetSmart showing category boost (small animal, toys, treats)
- Inventory orders for holiday season up nicely year/year, company likely better prepared for holiday season 2012

Structural shift to natural/super-premium foods

- Focus for company driven by higher average sale and better margin
- Natural category growth rate in 30% range year/year in 2012. Expected to slow to 20% growth in 2013, still well above category average.
- Marketing for national brands likely to convert more consumers in 2013 vs 2012

Pet category growth fairly stable

- 5% dog/cat adoption growth in 1H 2012 better than trend in 2011 up 1-2%. Seeing growth after flattening out during the downturn.

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