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- our continued investment in our highly-effective marketing and brand-building; and
- our continued innovation, including the expansion of existing product lines, the introduction of new product types and the introduction of new product lines that are tailored to meet evolving consumer preferences and the needs of different pets. The revenue per pound of new products that we introduce across our product lines is typically higher than the average revenue per pound of existing products in our portfolio due to their more specialized and higher cost formulas.

These factors have powered our growth at a faster rate than the overall pet food industry. Over the past three years, our net sales have increased at a CAGR of 38% as compared to the overall pet food sales as measured in Tracked Channels which has increased at a CAGR of 3%. While we expect these trends to continue to drive our growth for the near future, we believe that our growth rate will decline in the future as our scale increases.

However, our results of operations and business face the following challenges and uncertainties:

- our ability to introduce new product offerings that will gain broad market acceptance;
- reduced traffic trends at national pet superstores;
- lower overall pet food market growth during the last two years;
- competitive threats from other pet foods companies; and
- our ability to pass along increases in commodity costs to our customers and ultimately to consumers.

Gross Profit

Gross profit is our net sales less cost of goods sold. Our cost of goods sold consists primarily of costs of ingredients and packaging materials, manufacturing costs and costs associated with our warehouses and distribution network, which are influenced by a number of factors including transportation costs and fuel charges. These components are subject to fluctuations in certain commodities and inflation. Gross margin measures our gross profit as a percentage of net sales.

We have a manufacturing network that includes an owned manufacturing facility where we manufacture finished goods, as well as third-party contract manufacturing facilities from whom we purchase finished products predominately on a cost-plus basis. We pay our contract manufacturers on a dollar-per-pound basis for dry foods and dollar-per-unit basis for wet foods and treats. Over the past three years, we have worked closely with our contract manufacturers to negotiate lower manufacturing costs through increased volume of purchases, contract consolidation and price negotiations. More recently, as a result of the introduction of more complex diets with smaller run sizes and a change in mix of our contract manufacturers, our improved productivity has been partially offset by higher manufacturing costs.

We contract and ensure availability directly with suppliers for most of the major ingredients in our dry foods, whether manufactured by us at our Heartland facility or by our contract manufacturers. The manufacturing facilities in our manufacturing network then purchase these ingredients from suppliers approved by us based on the terms we negotiated. This has allowed us to consolidate ingredient sourcing across our manufacturing network in order to negotiate favorable pricing and consistency on ingredients for dry foods, which make up the majority of our product portfolio. For wet foods and treats, our contract manufacturers negotiate directly with suppliers approved by us and purchase ingredients directly from these suppliers based on our specifications. We have entered into contracts relating to the physical purchase of the majority of our main ingredients, including our meats and meals, grains, fruit, vegetables, starches and fibers. These contracts are focused primarily on ensuring availability, quality and price predictability. Depending on the nature of the ingredients, some contracts