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- **Ancestral diet type foods** are a subset of grain-free foods for pet parents looking for diets that more closely mimic the diets of wolves and lynxes, who are the ancestors of dogs and cats. In addition to being grain-free, they typically have higher meat content and higher overall protein levels.
- **Limited ingredient diets** are for dogs and cats that have food sensitivities. In order to reduce the number of food sensitivity triggers, these foods are typically made with only one type of protein and/or proteins that are less common in pet foods. Many are also dairy-free and grain-free.
- **Human food inspired foods** are wet foods or treats with recipes that are similar to familiar human food recipes such as stews, soufflés, meatballs and biscuits. These foods have been significant drivers of growth for wet foods and treats.

Overall pet food retail sales have only modest seasonality with the fourth quarter, which is when pet parents purchase more treats for their pets as holiday gifts, being approximately 6% higher than in the summer months when pets typically eat less. As treats grow to become a larger part of our business and as our overall business grows, we expect our business to reflect a similar seasonality.

The cat litter market in the United States accounted for \$2 billion in retail sales in 2014 and has grown at a CAGR of 4% from 2004 to 2014. It is currently dominated by synthetic, chemical-based litter solutions, though a number of alternative, plant-based litters have emerged in recent years. In 2012, we entered the cat litter market with a walnut-based cat litter product that does not contain any artificial or synthetic materials. We believe that efficacy in areas such as absorption and odor control, lack of dust, low tracking of litter and value will be important factors in the acceptance of alternative litter forms such as ours. In the future, we may selectively enter new categories that align with our mission and brand position.

## *Channels*

In 2014, specialty channels accounted for 45% of U.S. pet food sales, with the FDM channel accounting for the other 55%. Specialty channels include a diverse set of retailers with over 20,000 stores (which includes national pet superstore chains (i.e., PetSmart and Petco), regional pet store chains (e.g., Pet Supplies Plus, Pet Supermarket, Petsense and Pet Valu), neighborhood pet stores, farm and feed stores (e.g., Tractor Supply Company and Mid-States), eCommerce retailers (e.g., Amazon, Chewy and Petflow, as well as websites of major retailers), military outlets and hardware stores) and 25,000 veterinary clinics. BLUE is sold across all types of specialty channel outlets, although our sales in the Vet channel, which represents 6% of U.S. pet food sales, are currently minimal. We have chosen to sell BLUE in the specialty channels as we believe these channels provide a better environment for us to interact with and educate pet parents, help position BLUE as a premium brand and dedicate more shelf space to pet food, which grants consumers access to a broader range of our products. Pet food sales in specialty channels have grown faster than pet food sales in the FDM channel for the past 20 years as a result of the pet-focused environment and superior product selection.