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Market Segments

There are no standard market segment definitions in the pet food industry. We segment pet foods into Wholesome Natural, Engineered, Private Label and Therapeutic market segments. This market segmentation is based on the ingredient profile of pet foods, with the exception of Private Label and Therapeutic pet foods, for the reasons discussed below. While others may segment the market in different ways, we believe this market segmentation is most helpful in understanding the industry and its market dynamics.

Our definition of the Wholesome Natural market segment incorporates the AAFCO definition of “natural,” but imposes further criteria based on the type of ingredients used to achieve nutritional targets. We believe this specific and ingredient-focused market segmentation reflects consumer preferences and how consumers make their purchase decisions, as evidenced by the disparity among the growth rates of the different market segments. While all BLUE products satisfy the criteria specified for the Wholesome Natural market segment described below, in order to account for variation in our competitors’ portfolios of products, a pet food brand or product line is categorized in a particular market segment if 90% or more of the products under such brand or product line as measured by retail sales (rather than by volume) satisfy the market segment criteria specified. We define the market segments as follows:

- **Wholesome Natural** brands achieve their nutritional targets using only natural ingredients (as defined by AAFCO), and may include added vitamins, minerals and other trace nutrients. All Wholesome Natural dry foods have whole meats and/or meat meals, with the type of animal protein clearly identified, as their principal ingredients. Wholesome Natural products (dry foods, wet foods and treats) do not include chicken or poultry by-product meals, which we believe pet parents do not desire. Wholesome Natural products also do not rely on grain proteins, such as corn gluten meal, wheat gluten and soybean meal, as principal sources of protein as grain proteins have a narrower array of amino acids compared to animal proteins. In addition, these products also do not use corn, wheat, soy or fractionated grains, such as brewer’s rice, as sources of starch.
- **Engineered** brands achieve their nutritional targets without fulfilling all the requirements of the Wholesome Natural market segment. They typically do not contain whole meat or meat meal as their principal ingredients and/or they use lower cost proteins (such as chicken by-product meal, corn gluten meal or wheat gluten) and lower-cost starches (such as corn, wheat or fractionated grains). Engineered products may or may not include artificial ingredients or preservatives.
- **Private Label** brands are owned by retailers. While the vast majority of Private Label products fall within the Engineered market segment, some Private Label products fall within the Wholesome Natural market segment based on their ingredients. However, consistent with retail industry practice, market data providers do not identify the specific Private Label SKUs. As a result, Private Label market segment sales are not categorized into either the Wholesome Natural or the Engineered market segment.
- **Therapeutic (Rx)** brands are formulated to support treatment for certain medical conditions and are prescribed by veterinarians. Certain Therapeutic pet foods that claim to diagnose, cure, mitigate or prevent diseases are regulated by the FDA as animal drugs rather than as pet food, and are subject to FDA pre-market approval. In light of this regulatory process and the distinct Vet channel for the sale of Therapeutic pet foods, there is no Private Label participation in this market segment.

We believe the Wholesome Natural and Therapeutic market segments are particularly on trend as pet parents increasingly treat their pets like family. With market shares of 17% and 7%, these two market segments have become significant parts of the U.S. pet food market, and continue to grow faster than the rest of the market.