



Ninepoint International Small Cap Fund Market View

April 8, 2021

Dear Clients and Colleagues,

This week, Global Alpha is taking a look at one of the more remarkable consequences of the COVID-19 pandemic – the impact on the pet industry. Pets4Homes, the United Kingdom's (UK) leading free pet classifieds and information site, produced a report on the UK pet trade¹. At the peak of the first lockdown last May, demand for puppies more than doubled. This is unsurprising given that 94% of pet owners said having the companion animal helped their mental health. Further, 86% said owning a pet improved their mental health, and 84% said having a pet made them less lonely. It is likely that prospective owners wanted to experience the benefits of owning a pet as well.

There were 420 prospective buyers for each puppy offered for sale in the Pets4Homes classifieds, and the average price of puppies for sale in 2020 was £1,875, an increase of 131% from the prior year. And we thought the residential housing market was hot! The demand for cats and kittens also rose during the pandemic, but the average price increased a more moderate 42% from 2019. However, this price dynamic also resulted in more unsavory aspects – the rise of online scams and thefts. Dog thefts increased 170% in the UK compared to 2019².

The supply and demand disconnect has eased somewhat since the peak in May 2020. Increased activity from breeders has helped the supply side of the equation, while gradually easing lockdowns and increased pet ownership has helped slow demand. COVID-19 has undoubtedly given a positive tailwind to a market that was already undergoing structural growth. In 2020, the population of cats and dogs reach 21 million, an increase of 1.4 million from 2017, which in turn increased the estimated market size to £7 billion. The trend of humanizing pets can be seen in the increase in average spending. Dog owners, for example, spend £80 a month on medical treatment, food and insurance. Also, 59% of dogs have some form of insurance, while cats sit slightly lower at 41%³.

CVS Group (CVSG:LN), a core holding in the Global Alpha portfolios, is a leading vertically integrated vet services provider in the UK. As well as a large UK presence, CVS Group also operates practices in the Republic of Ireland and the Netherlands. The integrated nature of the business allows CVS group to provide services throughout the life cycle of a pet. The typical life expectancy of a dog is 12 years, while for a cat the life expectancy is between 14 and 17 years. This translates into a lifetime cost of pet ownership for a dog of £16,800, while for a cat, it is estimated at £8,800⁴. CVS Group offers first opinion practices, laboratory tests, specialist referral interventions, online food sales via Animed Direct, and compassionate end of life care and cremation services.

Consolidation of UK veterinary practices has been a significant feature of the market, yet the market

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is still fragmented. CVS Group is the second largest player by number of premises with over 450 in the UK. IVC Evidensia, a private company is Europe's largest veterinary care provider, operating over 800 premises in the UK. CVS Group has completed eight acquisitions thus far in the financial year, which ends in June. The focus continues to be on small animals and the company states that the pipeline of acquisition opportunities is strengthening. With a strong balance sheet, CVS Group possesses the funds to continue this strategy.

Despite the strong share price performance over the past two years, valuation for CVS remains reasonable. According to Bloomberg, CVS Group is trading at 16.2 times 2021 EV/EBITDA. Meanwhile, according to press reports, a new round of financing for IVC Evidensia values the company at over €12 billion and at almost 30x forward EBITDA⁵.

In a recent trading update, CVS Group continued to exhibit strong growth, driven by the core practices business, but also supplemented by very high growth from the online Animed Direct division. Vacancy rates for veterinary surgeons, the largest determinant of profitability, remain stable, meaning excellent growth at this level also. Around 40% of active small animal customers (430,000 customers), are signed up to the Healthy Pet Club⁶. This service offers discounted products and services for a monthly fee.

To conclude, a rising number of pets, the continued humanization of companion animals and the increased value placed on their care, advancements in treatment and resulting in an extended average life, make the long-term dynamics of the pet market very appealing and Global Alpha continues to see CVS Group as well positioned to benefit.

Have a good day.

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MONTHLY RETURNS (%) AS AT MARCH 31, 2021, (SERIES F NPP371)

	1M	YTD	3M	6M	1YR	3YR	INCEPTION
Fund	-0.3%	3.0%	3.0%	15.6%	37.2%	5.1%	5.1%
Index	1.4%	3.1%	3.1%	15.3%	43.0%	5.4%	5.4%

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at March 31, 2021; e) since inception (March 15, 2018). The index is 100% MSCI EAFE Small Cap NR USD (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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