CPG-Retail Performance and Drivers

Frozen and Refrigerated Departments – What’s Happening and Why?

Kurian Thomas
Executive Vice President

October 6, 2018
Today’s Discussion

- Store and Shopper Performance Trends
- Key Shopper and Macro Drivers of these Trends
- Conclusions and Considerations
Growth across the store in the past year has been driven more by price than volume, particularly in the perimeter.

**Total Dollars:** $940.3B; +2.1%*

- **EDIBLE**
  - $297.6B; +2.1%
  - $130.8B; +1.0%
- **NON EDIBLE**
  - $512.0B; +2.4%
- **PERIMETER**
  - $130.8B; +1.0%

**Total Units:** 284.4B; +0.3%*

- **EDIBLE**
  - 187.7B; +0.7%
  - 40.2B; -1.5%
- **NON EDIBLE**
  - 56.4B; +0.3%
- **PERIMETER**
  - 56.4B; +0.3%

Note: * is % chg. Is for L52 Weeks ending 08-12-2018

Source: IRI TSV_52 Weeks ending 08-12-2018; Total Store+Perimeter
Basket size has grown slightly due to price increases. Trip behavior is on a slow decline for several years due to intense online competition.

**Total Retail — Basket and Trip Size**

CY 2013 – CY 2017

- **In Basket Dollars per Trip**
  - CY 2013: $41.57
  - CY 2014: $42.97
  - CY 2015: $42.45
  - CY 2016: $43.85
  - CY 2017: $43.90
  
  Changes: +5.6%

- **Retailer Trips per Shopper**
  - CY 2013: 151.0
  - CY 2014: 148.0
  - CY 2015: 147.3
  - CY 2016: 140.1
  - CY 2017: 141.7
  
  Changes: -6.2%

Trip growth and $/trip growth are mixed across channels. Walmart and the Dollar channel are stronger vs. other B&M channels.

Total Store Performance across key Channels
$Share, L52 Weeks ending August 12, 2018

Bubble Size = Share Of Trips L52 Weeks

Source: IRI Total Store View Panel Data
Most retailers have accelerated their growth in L52W, a reversal of the trend from about a year back.

Total Store Performance across key retailers
$Share, L52 Weeks ending August 12, 2018 & CY2013 – CY2017

Source: IRI Total Store View POS Data
Across the store, the frozen department was the fastest growing in the past year.

TOTAL F&B
(Edible + Perimeter)

DOLLAR SALES
$643B
+2.1%

FROZEN
$56.6B
+3.0%

BEVERAGES
$94.3B
+2.8%

GENERAL FOOD
$200.8B
+1.8%

PERIMETER
$130.8B
+1.0%

REFRIGERATED
$106.5B
+2.6%

LIQUOR
$54.0B
+2.8%

Source: Dollar Sales, IRI Edible + Perimeter Market Advantage, 52 weeks ending August 12,2018 vs. Year Ago
Performance of the top categories in Frozen, Refrigerated and Perimeter

<table>
<thead>
<tr>
<th>Category</th>
<th>% CHG VS. YAGO</th>
<th>UNIT % CHG VS. YAGO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FROZEN DEPARTMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.0%</td>
<td>2.3%</td>
<td></td>
</tr>
<tr>
<td>DINNERS/ENTREES</td>
<td>2.2%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>ICE CREAM/SHERBET</td>
<td>1.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>NOVELTIES</td>
<td>3.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>PIZZA</td>
<td>4.8%</td>
<td>3.3%</td>
</tr>
<tr>
<td>SEAFOOD</td>
<td>4.7%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

| **REFRIGERATED DEPARTMENT** |                |                     |
| 2.6%                       | -0.03%         |                     |
| MILK                        | -3.9%          | -1.4%               |
| NATURAL CHEESE             | 1.0%           | 1.5%                |
| YOGURT                     | -2.8%          | -6.4%               |
| BEAKFAST MEATS             | 7.0%           | 1.2%                |
| JUICES/DRINKS              | -0.6%          | -1.3%               |

| **PERIMETER**              |                |                     |
| 1.0%                       | -1.5%          |                     |
| LETTUCE                    | 2.1%           | 1.7%                |
| BREAST                     | 2.3%           | -0.6%               |
| BERRIES                    | 1.5%           | -1.8%               |
| LOIN                       | 2.9%           | 0.5%                |
| ENTRÉES                    | 3.1%           | -0.4%               |

Source: Total Store View + Perimeter Market Advantage, MULO 52-weeks ending 8-12-18
New Products that Completed Their First Year in 2017

Top 3100+ Brand Launches in F&B & Non-Food

NPP Criteria
Though blockbuster products are few and far between

~13,000 new brands were launched in 2017

200 of these brands made IRI NPP status

4 of these brands achieved >$100M
Frozen and Refrigerated manufacturers delivered 31 **Pacesetters** with an average first year median revenue of **$15.2 million**, and sum total of nearly $960 million in their launch year; including five top-10 finishers!
#1 Halo Top
$324.2M
T: 14.2% | R: 42.9%

#2 Good THiNs
$87.0M
T: 11.4% | R: 29.8%

#3 Dunkin Donuts Iced Coffee
$67.1M
T: 4.2% | R: 52.9%

#4 Nestlé Splash
$55.2M
T: 3.9% | R: 48.9%

#5 Lifewtr
$50.4M
T: 1.6% | R: 48.4%

#6 SMARTMADE by Smart Ones
$49.3M
T: 3.3% | R: 42.5%

#7 HERSHEY’S Cookie Layer Crunch
$47.7M
T: 3.3% | R: 42.5%

#8 Hillshire Snacking
$47.5M
T: 2.8% | R: 46.5%

#9 Well Yes!
$47.3M
T: 7.8% | R: 23.1%

#10 Cracker Barrel Macaroni & Cheese
$46.6M
T: 4.4% | R: 44.9%
Sweet Balanced Breaks
$40.7M
T: 3.6% | R: 36.0%
13th overall

Devour Singles
$39.2M
T: 2.8% | R: 33.6%
14th overall

Jimmy Dean’s Frittatas
$28.5M
T: 6.5% | R: 21.5%
24th overall

Tyson Naturals
$28.5M
T: 3.5% | R: 26.8%
27th overall

Oscar Mayer Natural
$18.1M
T: 2.5% | R: 31.5%
46th overall

Bird’s Eye Signature Skillets
$14.5M
T: 3.3% | R: 19.2%
51st overall

Kahiki Bowl and Roll
$13.5M
T: 1.5% | R: 32.9%
61st overall

Larissa’s Kitchen Jerky
$11.5M
T: .5% | R: 40.5%
70th overall
Today’s Discussion

- Store and Shopper Performance Trends
- Key Shopper and Macro Drivers of these Trends
- Conclusions and Considerations
How we access content & buy products, coupled with the rise of big data, AI, machine learning is creating confusion…chaos…A revolution.
HEALTH & WELLNESS
Rising healthcare costs and economic uncertainty are motivating Americans to take health & wellness into their own hands.

- **Rising Healthcare Costs**
- **Economic Uncertainty**
- **Empowerment**
- **Focus on Prevention**

**Convenience**
- Internet and social media: awareness and education
- Retail clinics, Rx-to-OTC switches: access to Self Care
- Technology: in-home monitoring devices
- Health care plans w/screening incentives

**Food & beverage with health & wellness benefits**

Source: IRI 2017 Study “Harnessing the Power of Self-Care to Drive Sustainable Growth”
Consumers are looking at solutions across the spectrum from treatment to prevention. As a result, category boundaries are blurring.

Source: IRI 2017 Study “Harnessing the Power of Self-Care to Drive Sustainable Growth”
The importance of a healthy diet and lifestyle is strong across all age groups

Most critical to taking care of overall health

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Lifestyle (Exercise, Diet, Food &amp; Bev)</th>
<th>Doctor/Lab Visits</th>
<th>Prescription Medicine</th>
<th>Dietary Supplements</th>
<th>OTC</th>
<th>Alternative Therapies</th>
<th>Pharmacist Consultations</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-34</td>
<td>52%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35-44</td>
<td>48%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45-54</td>
<td>42%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55-64</td>
<td>35%</td>
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</tr>
<tr>
<td>65+</td>
<td>26%</td>
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</tr>
</tbody>
</table>

Source: IRI 2017 Study “Harnessing the Power of Self-Care to Drive Sustainable Growth”
The Frozen and Refrigerated departments have caught up with this health and wellness trend over the past couple of years, outperforming other parts of the store.

Top 20 H&W Claims* in 3 YR $ CAGR

- Refrigerated: +10.4%
- Frozen: +8.1%
- AO Edible Dept.: +7.2%

* H&W claims sorted by top 20 RFG CAGR growth in last 3 years
Note: AO Edible Dept. = Total Edible – (FZ+RFG)
Source: IRI MULOC, 52 Weeks ending August 12, 2018
Chobani Yogurt Drinks is a $77.8M Brand Since it’s Launched in CY2016 and is growing at 37.7% in L52 Weeks

Source: IRI Market Advantage – Total U.S. MULO+C; 52 we 09/09/18
Peekaboo’s *Organic Ice Cream* is one of the most innovative ice cream launches of the year - Mintel

CONVENIENCE
Consumers are snacking throughout the day, with increasing frequency, instead of the traditional three meals per day.

Consumers are trading off traditional meals for mini meals/ snacking.

45% of consumers snack 3+ times a day.

Note: 1. IRI – State of The Snack Food Industry, March 2017. Snacking Frequency refers to the % of survey respondents that snack at particular time of the day. 2. Snacks & Confections is defined as the Snacks Aisle + Cookies & Crackers + Candy. Source: IRI ILD POS Database, CY 2011-2016. IRI Consulting Analysis.
Cooking styles are changing, driving the need for convenient meal solutions.

In 2017, spending on food bought away from home > food made in home for the first time.

- **Higher income brackets** spend the **least time** on preparing meals.
- **SNAP participants** spend the **most time** on preparing meals.

Source: IRI Consumer Survey 2018, USDA
Time spent preparing dinner continues to decline.

The need for time-saving solutions will only continue to grow

Source: USDA
Meal options can be considered on a spectrum

Across the store, consumers seek step-saving solutions while retailers & suppliers seek to meet their needs

Fresh Whole
- Traditional commodity
- Requires consumer to prepare, assemble and/or cook to their own taste and needs
- $105B

Added Value
- Have at least one step removed from preparation but still isolated from other foods
- $17B

Meal Kits
- Packages components together with a recipe or assembly instructions
- $56M

Ready to Heat/Eat
- Completed prepared – little to no work necessary
- $12B+ $8-14B

23% of trips include another element of the continuum

Source: IRI Fresh COE Custom Analysis from Total Store View + Perimeter Market Advantage. MULO 52-weeks ending 6-17-18; excludes Perimeter Bakery and Peripherals
Meal kits at retail is a rapidly evolving space with rapid expansion.

21.9%

$ sales growth vs. year ago

<40%

had sales the prior year

Source: IRI Fresh COE Custom Analysis from Total Store View + Perimeter Market Advantage, MULO 52-weeks ending 6-17-18

$56M
Frozen food brands have developed high quality, interesting products that are gaining momentum and share of the ready to heat / eat segment.

The Frozen Meals Industry sales are up 4% this year – triple the growth of the past two years.

**SMARTMADE by Smart Ones**

- **Year 1 Sales**: $49.3M
- **New Product Pacesetter**: 2017
- **Year 2 Growth**: 52.8%

In the Refrigerated section, prepared meals with creative recipes and bold flavors are winning the younger shopper.

Green Giant Fresh Bowls, launched in 2016, were up 98% in the last year.

Mann’s Nourish Bowls (Del Monte) blurring the lines between Fresh and Refrigerated.

Source: IRI Market Advantage MULOC, 52-weeks ending 9-9-18
e-Commerce is a key driver of CPG performance, growing 38% in 2017 and expected to double in the next three years.
Broadly, there are three core eCommerce retail formats

- **Home Shipment**
  - Walmart
  - Costco
  - Amazon.com
  - Blue Apron
  - Netgrocer
  - Sams
  - Target

- **Click & Collect**
  - Walmart
  - Weis
  - Harris Teeter
  - Kroger
  - Zoom In

- **Home Delivery**
  - Walmart
  - Peapod
  - Amazon Fresh
  - Instacart
  - Google Express
  - Safeway

  - **Prime Pantry**
    - Allows Prime members to fill box holding up to 45LBs with groceries for a flat $5.99 delivery fee

  - **Walmart**
    - Experimenting in Atlanta, Charlotte, Dallas/Ft. Worth, Denver, Houston, Nashville, Phoenix, Tucson, & Salt Lake City

  - **Peapod**
    - Services cities along the east coast along with Chicago, Milwaukee and Indiana

Source: Secondary Research, IRI Consulting Analysis
Click-and-Collect is gaining share of total eCommerce and expected to accelerate as B&M retailers invest in infrastructure.

<table>
<thead>
<tr>
<th>Service</th>
<th>FY 17</th>
<th>CAGR</th>
<th>FY 20</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Shipment</td>
<td>51%</td>
<td>8%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Home Delivery</td>
<td>32%</td>
<td>39%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Click &amp; Collect</td>
<td>17%</td>
<td>83%</td>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>

Click-and-collect models are winning shoppers and driving online growth for traditional grocery categories

67% of click-and-collect shoppers say they would “definitely” use the service again

50% of users cite the time savings as a motivation

Shoppers are experiencing significant value from Click & Collect shopping

* based on IRI shopper survey and dollar share index
Impact is being felt in the store:
e-Commerce is a key driver of CPG industry growth

IRI Tracked “CPG” Categories delivered 143% more Absolute Dollar Growth online vs. in-store.

Source: IRI eMarket Insights, IRI Market Advantage, Q2 2018

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However, the dominant mode of shopping is still in the store

% US HHs Shopping for CPG Products

<table>
<thead>
<tr>
<th>Category</th>
<th>% Shopping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>97.9</td>
</tr>
<tr>
<td>Walmart</td>
<td>83.8</td>
</tr>
<tr>
<td>Drug</td>
<td>68.1</td>
</tr>
<tr>
<td>Dollar</td>
<td>65.5</td>
</tr>
<tr>
<td>Mass and Supercenter</td>
<td>63.3</td>
</tr>
<tr>
<td>Club</td>
<td>53.7</td>
</tr>
<tr>
<td>Internet</td>
<td>44.4</td>
</tr>
<tr>
<td>Amazon.com</td>
<td>24.3</td>
</tr>
<tr>
<td>Whole Foods</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: IRI CSIA™, 52 Weeks Ending 8/12/18
A number of frozen and refrigerated categories are seeing strong growth online …

<table>
<thead>
<tr>
<th>Category</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creams/Creamers</td>
<td>81.5%</td>
</tr>
<tr>
<td>Butter/Butter Blends</td>
<td>63.6%</td>
</tr>
<tr>
<td>Processed Cheese</td>
<td>43.3%</td>
</tr>
<tr>
<td>Luncheon Meats</td>
<td>42.0%</td>
</tr>
<tr>
<td>Cream Cheese/Chs Spread</td>
<td>35.9%</td>
</tr>
<tr>
<td>Lunches - RFG</td>
<td>25.2%</td>
</tr>
<tr>
<td>Natural Cheese</td>
<td>23.8%</td>
</tr>
<tr>
<td>Breakfast Food - FZ</td>
<td>20.5%</td>
</tr>
</tbody>
</table>

Source: IRI eMarket Insights, Q2 2018
But penetration is low and there is a lot of upside for eCommerce through Click & Collect models, in frozen and refrigerated

**eCommerce Share of Omni-Channel**

<table>
<thead>
<tr>
<th>Category</th>
<th>Omni-Channel Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poultry</td>
<td>4%</td>
</tr>
<tr>
<td>Processed Poultry</td>
<td>4%</td>
</tr>
<tr>
<td>Breakfast Food</td>
<td>4%</td>
</tr>
<tr>
<td>Plain Vegetables</td>
<td>4%</td>
</tr>
<tr>
<td>Seafood</td>
<td>3%</td>
</tr>
<tr>
<td>Pizza</td>
<td>3%</td>
</tr>
<tr>
<td>Appetizers</td>
<td>3%</td>
</tr>
<tr>
<td>Natural Cheese</td>
<td>3%</td>
</tr>
<tr>
<td>Meat</td>
<td>3%</td>
</tr>
<tr>
<td>Yogurt</td>
<td>3%</td>
</tr>
<tr>
<td>Dinners/Entrees</td>
<td>2%</td>
</tr>
<tr>
<td>Milk</td>
<td>2%</td>
</tr>
<tr>
<td>Novelties</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: IRI eMarket Insights, IRI Market Advantage, Q2 2018
Amazon and Whole Foods Market announce the introduction of free two-hour delivery through Prime Now
Amazon Company Release 2/8/2018

Amazon to offer discounts to Prime members at Whole Foods nation wide
Yahoo Business 6/26/2018

Albertsons announces new Digital Marketplace providing for consumer-direct ordering and shipping
Albertsons Companies 03/20/2018

Albertsons Companies and Instacart to bring same-day grocery delivery to 1,800-plus stores
Progressive Grocer 11/28/2017

Walmart plans to expand its popular Online Grocery Delivery option to more than 40% of U.S. households
Walmart Release 3/14/2018

Kroger Announces 1,000th ClickList Store and Introduces Seamless Digital Shopping Experience  Kroger
Company Release 12/18/2017

Accelerating innovation in order and delivery options...
SEARCH FOR VALUE
Consumers are embracing a variety of money-saving behaviors

- **84%** buy private label options
- **73%** try new, lower-priced brands
- **59%** visit multiple retailers
- **53%** download coupons from retailer/manufacturer site
- **53%** compare prices on area retailers’ websites

Source: Consumer Connect™ Q2 2018, Shopping Journey Money-Saving Preparations Top 2 Box
This deal-seeking behavior is fueling the growth of Private label, which has outperformed National Brands in 2017 and 2018

Dollar Growth of National Brands vs. Private Label, Total Store

Source: IRI Syndicated POS Database, Period Ending 08-12-18, MULO+C
All demographic and income groups are driving the growth of Private Label. It is notable that Millennials are leading the charge.

Private Label Dollar Growth by Generation and Income, Total Store

By Generation, Total Store

<table>
<thead>
<tr>
<th>Generation</th>
<th>Total</th>
<th>Millennial</th>
<th>Gen X</th>
<th>Boomers</th>
<th>Retirees &amp; Seniors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.8%</td>
<td>6.3%</td>
<td>5.7%</td>
<td>5.4%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

By Income, Total Store

<table>
<thead>
<tr>
<th>Income</th>
<th>Total</th>
<th>Low Income</th>
<th>Middle Income</th>
<th>High Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.8%</td>
<td>5.9%</td>
<td>6.4%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Source: IRI All Outlet, PL Total Store Syndicated Panel, 52 weeks ending 09/09/18, $% chg. vs. YAG
This growth in Private Label is driven by higher quality products and perceptions of high price to value across generational cohorts

“Private label products are just as good in quality as national brands” **

<table>
<thead>
<tr>
<th>Segment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>76%</td>
</tr>
<tr>
<td>Millennials</td>
<td>83%</td>
</tr>
<tr>
<td>Gen X</td>
<td>79%</td>
</tr>
<tr>
<td>Boomers</td>
<td>72%</td>
</tr>
<tr>
<td>Seniors</td>
<td>71%</td>
</tr>
</tbody>
</table>

“During the next 6 months, consumers plan to buy more private label products”

<table>
<thead>
<tr>
<th>Segment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>64%</td>
</tr>
<tr>
<td>Millennials</td>
<td>72%</td>
</tr>
<tr>
<td>Gen X</td>
<td>66%</td>
</tr>
<tr>
<td>Boomers</td>
<td>64%</td>
</tr>
<tr>
<td>Seniors</td>
<td>56%</td>
</tr>
</tbody>
</table>

** Source: IRI Consumer Connect Survey, Q3 2017
Source: IRI Consumer Connect Survey, Q2 2018
Managing a multi-tier Private Label brand strategy in house

Focused on driving **private label penetration** from the current rate of **25 percent to 37%**

Acquiring retailers with **proven strength** and success in **store brand**

Benchmarking **Private Label** with other retailers, while demanding price concessions from National Brands

Decentralizing its corporate structure to make **local customization** easier
And new entrants add to the competitive pressures

Value and Private Brands at the core of retail changes
Polar ends of the value spectrum outperforming middle-of-the-road peers*

*Source: Deloitte
Today’s Discussion

- Store and Shopper Performance Trends
- Key Shopper and Macro Drivers of these Trends
- Conclusions and Considerations
### Considerations for Frozen and Refrigerated Brands and Departments

<table>
<thead>
<tr>
<th>Theme</th>
<th>Considerations</th>
</tr>
</thead>
</table>
| **Health & Wellness** grows and changes | • Innovative products that promote health and wellness continue to have market potential, especially with younger consumers  
• Positioning and messaging are key – authentic, simple, story                                                                                     |
| **Convenience** an ever powerful factor, esp. with younger consumers | • Core benefit of Frozen and Refrigerated products. Importance continues to grow  
• Combined with health and wellness, it is a powerful consumer benefit  
• High quality, convenient products are winning and drawing consumers from Fresh                                                                       |
| **eCommerce** just getting started in Food and Beverage | • With brick and mortar retailers investing heavily in click & collect, the infrastructure is being established to scale eCommerce in food and beverage  
• Critical for brands to develop an eCommerce strategy and growth plan                                                                               |
| **Search for Value** strengthening  | • Quality and value of Private Label products grows and sharpens. Expect it to get better  
• Brands need to innovate and continuously maintain a value premium to private label                                                                     |
THANK YOU!

For More Information, Contact Us…

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