Early View 2017

CPG Off to a Slow Start, but What’s Next?

May 2017
Executive Summary

- January and February are typically softer months for CPG and edibles, but 2017 is showing sharper-than-normal declines.
- March posted improvement but not recovery.
- Department-level trends were mixed, with beverage and liquor being most sheltered from declines and frozen and refrigerated feeling the brunt of the slide.
- Perimeter sales are being negatively impacted by weak performance in meat and produce.
- The stumble is impacting all regions, but California has been slower to recover than other areas.
- Declines are being driven by a number of complex and interwoven factors, which are negatively impacting trips and basket size.
- Soft trends are evidenced across consumer segments, but some groups have been more harshly impacted than others.
Consumers entered 2017 facing a set of complex and intertwined market dynamics, which set off uncertainty and resultant conservative CPG behaviors.

- Economic Shifts
- Delays in Tax Refunds
- Irregular Weather Patterns
- Food Pricing
- Complex and Evolving Marketplace
ECONOMIC SHIFTS

Unemployment fell in 2016 and retail sales climbed. Meanwhile GDP slipped and inflation ticked up.

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<td>3.0%</td>
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<td>3.6</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>3.3</td>
<td>3.9</td>
<td>4.2</td>
<td>4.7</td>
<td>4.7</td>
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Source: Moody's
Weather patterns have been erratic, impacting shopper budgets and economic performance.

Relative Temperature vs. YA
The at-home food sector experienced volatile prices, with some major categories—such as eggs and meats—seeing prices drop precipitously.

### Quarterly Inflation Rate Vs. Prior Year 2016 - 2017

(\textit{Source Food Institute Analysis of BLS data})

<table>
<thead>
<tr>
<th></th>
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<th>2017</th>
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<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>All Items</td>
<td>1.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Food at Home</td>
<td>-0.4%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Cereal and Cereal Products</td>
<td>-0.6%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Dairy</td>
<td>-2.8%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Eggs</td>
<td>4.5%</td>
<td>-13.0%</td>
</tr>
<tr>
<td>Fats/Oils</td>
<td>-0.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Fruits and Vegetables</td>
<td>3.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Meats</td>
<td>-4.6%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Nonalcoholic Beverages</td>
<td>0.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Sugars/Sweets</td>
<td>-0.1%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Source: Food Institute; Bureau of Labor Statistics
Competition with alternative food sources is mixed and evolving.

- Food dollars are nearly evenly split between at-home and away-from-home occasions
  - Out-of-home eating has been stagnant for several years
  - QSR visits are expected to increase 1% in 2017 (flat 2016)
  - Full-service visits are expected to decline 2%
  - Net: restaurant traffic predicted to be flat

- U.S. meal kit delivery market (~ $1.5 billion in 2016) will grow sharply, with some projections estimating as much as $5 billion market within five years

Source: NPD; Packaged Facts.
While CPGs rely heavily on merchandising to move product, lift from merchandising efforts is on the decline.

Department-level trends vary...

- Refrigerated is lagging
- Frozen is generally outperforming
- Beverage, general food and liquor are on par

Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; MULOC.
Many consumers continue to struggle financially.

**Consumer Financial Health**

Total Population

- Making sacrifices to make ends meet: Q1 2016 - 50%, Q1 2017 - 49%
- Household financial health is strained: Q1 2016 - 45%, Q1 2017 - 45%
- Having difficulty affording needed groceries: Q1 2016 - 29%, Q1 2017 - 28%

Source: Consumer Connect™, Q1 2017
Lower-income and younger shoppers are among the hardest hit.

### Consumer Financial Health by Income

- **Household financial health is strained**
  - Total Population: 45%
  - $100K+: 50%
  - $55-$99K: 58%
  - $35-$54K: 73%
  - <$35K: 71%

- **Making sacrifices to make ends meet**
  - Total Population: 50%
  - $100K+: 23%
  - $55-$99K: 41%
  - $35-$54K: 58%
  - <$35K: 73%

- **Having difficulty affording needed groceries**
  - Total Population: 29%
  - $100K+: 6%
  - $55-$99K: 16%
  - $35-$54K: 34%
  - <$35K: 45%

### Consumer Financial Health by Generation

- **Household financial health is strained**
  - Total Population: 45%
  - Seniors: 21%
  - Boomers: 33%
  - Gen X: 26%
  - Millennials: 33%

- **Making sacrifices to make ends meet**
  - Total Population: 50%
  - Seniors: 39%
  - Boomers: 54%
  - Gen X: 49%
  - Millennials: 55%

- **Having difficulty affording needed groceries**
  - Total Population: 29%
  - Seniors: 21%
  - Boomers: 33%
  - Gen X: 26%
  - Millennials: 33%

Source: Consumer Connect™, Q1 2017
This is encouraging avid deal-seeking behavior and shifts in brand loyalty.

Source: Consumer Connect™, Q1 2017 & Q1 2016
Trade-offs are most prevalent among younger and less wealthy shoppers, least prevalent across seniors and the wealthiest households.

**Source:** Consumer Connect™, Q1 2017
Consumers are embracing a wide variety of money-saving opportunities; online price comparisons are becoming more popular.

**Shopping Journey Money-Saving Preparations**

<table>
<thead>
<tr>
<th>Top 2 Box</th>
<th>Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy private label options</td>
<td>83% (Q1 2016) / 81% (Q1 2017)</td>
</tr>
<tr>
<td>Try new, lower-priced brands</td>
<td>75% (Q1 2016) / 74% (Q1 2017)</td>
</tr>
<tr>
<td>Visit multiple retailers</td>
<td>56% (Q1 2016) / 58% (Q1 2017)</td>
</tr>
<tr>
<td>Download coupons from retailer/manufacturer website</td>
<td>50% (Q1 2016) / 53% (Q1 2017)</td>
</tr>
<tr>
<td>Compare prices on area retailers’ websites</td>
<td>46% (Q1 2016) / 50% (Q1 2017)</td>
</tr>
</tbody>
</table>

Source: Consumer Connect™, Q1 2017 & Q1 2016
Millennials are most likely to make brand concessions; Gen X consumers are as likely as millennials to seek digital savings opportunities.

### Shopping Journey Money-Saving Preparations Top 2 Box by Income

- **Buy private label options**
  - Total Population: 73%
  - <$35K: 85%
  - $35-$54K: 82%
  - $55-$99K: 84%
  - $100K+: 81%

- **Try new, lower-priced brands**
  - Total Population: 61%
  - <$35K: 74%
  - $35-$54K: 76%
  - $55-$99K: 77%
  - $100K+: 74%

- **Visit multiple retailers**
  - Total Population: 50%
  - <$35K: 61%
  - $35-$54K: 60%
  - $55-$99K: 60%
  - $100K+: 58%

- **Download coupons from retailer/manufacturer website**
  - Total Population: 51%
  - <$35K: 52%
  - $35-$54K: 55%
  - $55-$99K: 53%
  - $100K+: 51%

- **Compare prices on area retailers' websites**
  - Total Population: 43%
  - <$35K: 51%
  - $35-$54K: 53%
  - $55-$99K: 53%
  - $100K+: 50%

### Shopping Journey Money-Saving Preparations Top 2 Box by Generation

- **Buy private label options**
  - Seniors: 78%
  - Boomers: 79%
  - Gen X: 82%
  - Millennials: 89%
  - Total Population: 81%

- **Try new, lower-priced brands**
  - Seniors: 62%
  - Boomers: 72%
  - Gen X: 79%
  - Millennials: 84%
  - Total Population: 74%

- **Visit multiple retailers**
  - Seniors: 52%
  - Boomers: 59%
  - Gen X: 63%
  - Millennials: 60%
  - Total Population: 58%

- **Download coupons from retailer/manufacturer website**
  - Seniors: 41%
  - Boomers: 53%
  - Gen X: 60%
  - Millennials: 62%
  - Total Population: 53%

- **Compare prices on area retailers' websites**
  - Seniors: 37%
  - Boomers: 50%
  - Gen X: 60%
  - Millennials: 60%
  - Total Population: 55%

Source: Consumer Connect™, Q1 2017

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Conservative behaviors pushed unit sales down precipitously in January of this year, negatively impacting dollar sales trends; subsequent months have seen improvements, but not growth.

Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; MULOC.
Trends in edibles are similar, but with a more drastic drop in January and a stronger rebound in subsequent months.

**Monthly Dollar Sales Change**
- Total Edible

**Monthly Unit Sales Change**
- Total Edible

Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; MULOC.
The grocery channel experienced sharper-than-average declines and a softer rebound versus the industry as a whole.

### Monthly Dollar Sales Change
**Total CPG**

<table>
<thead>
<tr>
<th>Month</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>January</td>
<td>2.0%</td>
<td>3.5%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>February</td>
<td>3.4%</td>
<td>-0.8%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>March</td>
<td>2.2%</td>
<td>0.8%</td>
<td>0.5%</td>
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### Monthly Unit Sales Change
**Total CPG**

<table>
<thead>
<tr>
<th>Month</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>January</td>
<td>-1.5%</td>
<td>-1.7%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>February</td>
<td>0.2%</td>
<td>-0.4%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>March</td>
<td>2.1%</td>
<td>1.9%</td>
<td>1.7%</td>
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Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food Only.
Channel trends are similar within grocery edibles aisles.

**Monthly Dollar Sales Change**
**Total Edible**

- January: 1.9%
- February: 3.5%
- March: 2.1%

**Monthly Unit Sales Change**
**Total Edible**

- January: -3.1%
- February: -1.0% - 1.2%
- March: 0.6% - 0.5%

Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food only.
Frozen and refrigerated departments experienced the sharpest dollar sales drop in January; all departments except general food posted positive March growth.

**Monthly Dollar Sales Change by Department**

<table>
<thead>
<tr>
<th>Department</th>
<th>January</th>
<th>February</th>
<th>March</th>
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<tbody>
<tr>
<td><strong>Beverage</strong></td>
<td>4.4%</td>
<td>5.5%</td>
<td>5.2%</td>
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<tr>
<td><strong>Frozen</strong></td>
<td>-4.0%</td>
<td>-3.0%</td>
<td>-2.1%</td>
</tr>
<tr>
<td><strong>General Food</strong></td>
<td>-3.0%</td>
<td>-2.1%</td>
<td>-0.5%</td>
</tr>
<tr>
<td><strong>Liquor</strong></td>
<td>6.6%</td>
<td>4.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Refrigerated</strong></td>
<td>-4.4%</td>
<td>-2.2%</td>
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Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food only.
Liquor units maintained low-level positive growth throughout Q1, while other departments saw units fall.

Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food only.
Perimeter giants produce and meat posted low dollar sales growth in Q1, placing downward pressure on the whole sector.

Source: IRI FreshLook, Q1 2017 and same period prior year; MULO and Grocery; excludes in-store bakery
Southeast and South Central regions were insulated from early 2017 edibles declines; all regions except California show positive growth in the most recent period.

Region Trends for Total Edible

Source: IRI ILD POS database; L13 & L4WE 3/19/17, MULO+C Regions
Edibles declines are mirrored across income segments.

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Hispanic shoppers lagged early, but have experienced more-rapid-than-average improvement.

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Q1 edibles sales dipped across generations, but seniors have struggled more than others during the past year.

Edible Dollar Sales
% Chg. vs. YA, by Generation

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Edible sales declines are driven by a combination of a decrease in trips and per-trip spending, but spending dips were more noteworthy.

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Spending declines occurred across key consumer segments; seniors and millennials cut back more sharply than average and their cuts were more prolonged.

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Private brand spending was less impacted by industry softness than national brands.

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Private brand trips were also less volatile than national brands.

Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet
Q1 economic growth has been volatile in recent years, but hit a three-year low this year.

- Annual rate of 0.7 percent
- Negatively impacted by weak home heating and auto sales

Source: National Public Radio; Moody’s
Still, economic expectations for 2017 are reasonable.

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Source: Moody's
CPGs can encourage shoppers to trade up to premium-tier solutions with carefully targeted messaging that highlights smart splurges.

Expect to Purchase More Premium Brands During the Next Six Months, by Income

- >$100K: 40%
- $55K-$99K: 27%
- $35K-$54K: 29%
- <$35K: 21%
- Total Population: 28%

Expect to Purchase More Premium Brands During the Next Six Months, by Generation

- Seniors: 31%
- Boomers: 30%
- Gen X: 26%
- Millennials: 24%
- Total Population: 28%

Source: Consumer Connect™, Q1 2017 & Q1 2016
CPG marketers will build margin and share with messaging that underscores the value of in-demand bells and whistles.

### Consumer Willingness to Pay a Premium for...
#### Total Population

- **Options that offer benefits beyond basic nutrition**
  - Q1 2016: 38%
  - Q1 2017: 41%

- **Natural/organic solutions**
  - Q1 2016: 30%
  - Q1 2017: 29%

- **Environmentally friendly packaging**
  - Q1 2016: 22%
  - Q1 2017: 22%

- **Order online for home delivery**
  - Q1 2016: NA
  - Q1 2017: 19%

- **Order online for in-store pick up**
  - Q1 2016: NA
  - Q1 2017: 10%

Source: Consumer Connect™, Q1 2017 & Q1 2016
Targeting against high-potential consumers is critical. For instance, millennials will pay more for online ordering with home delivery and wealthier shoppers will pay more for nutrition density and eco-friendliness.

**Consumer Willingness to Pay a Premium for...**

**by Income**
- Options that offer benefits beyond basic nutrition: $100K+ 46%, $55-$99K 34%, $35-$54K 38%, <$35K 38%, Total Population 37%
- Natural/organic solutions: $100K+ 40%, $55-$99K 35%, $35-$54K 30%, <$35K 30%, Total Population 28%
- Environmentally friendly packaging: $100K+ 29%, $55-$99K 21%, $35-$54K 18%, <$35K 18%, Total Population 22%
- Order online for home delivery: $100K+ 29%, $55-$99K 21%, $35-$54K 19%, <$35K 19%, Total Population 19%
- Order online for in-store pick up: $100K+ 15%, $55-$99K 10%, $35-$54K 9%, <$35K 8%, Total Population 10%

**by Generation**
- Options that offer benefits beyond basic nutrition: Seniors 31%, Boomers 36%, Gen X 43%, Millennials 48%, Total Population 43%
- Natural/organic solutions: Seniors 26%, Boomers 30%, Gen X 42%, Millennials 42%, Total Population 39%
- Environmentally friendly packaging: Seniors 20%, Boomers 22%, Gen X 28%, Millennials 28%, Total Population 26%
- Order online for home delivery: Seniors 10%, Boomers 16%, Gen X 26%, Millennials 27%, Total Population 19%
- Order online for in-store pick up: Seniors 4%, Boomers 10%, Gen X 14%, Millennials 12%, Total Population 10%

Source: Consumer Connect™, Q1 2017