COVID-19 Implications

ITALY PROVIDES INSIGHTS INTO NEW NORMAL

April 8, 2020
In this Issue of IRI’s Covid-19 Report

The old “normal” - A brief overview of life and the Italian market before Covid-19

The 3 phases - An introduction to the theme of Covid-19 market phases and the shopper impact

- Focus on Phase 1 - Panic
- Focus on phase 2 - Divergence

Thoughts on Phase 3 - The new normal
The old “normal”

<table>
<thead>
<tr>
<th>Category</th>
<th>Share</th>
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</thead>
<tbody>
<tr>
<td>FMCG EUR 67Bn</td>
<td>+1.7%</td>
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<tr>
<td>Prices flat +0.3% Historically trading up</td>
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<td>Price promotions 27% of sales</td>
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<td>Private label share 20%</td>
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<td>Hypermarkets 12%</td>
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<td>Supermarkets 51%</td>
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<td>Convenience 10.7%</td>
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<td>Hard Discounters 17%</td>
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<td>Drugstores 5%</td>
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<tr>
<td>Online 1.0%</td>
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<td>Two major players 70/8</td>
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Prior to Covid-19 shopping behaviour was fairly predictable

Hypermarkets

80€

1 every 3wks

Supermarket

40€

Weekly visits

Convenience

10/14€

2Xwk
Fresh (Milk, Veg, Diary)
Covid-19 HITS HARD, lockdown is enforced and we enter the 1st phase

P A N I C

21st Feb 2020
Phase 1
Panic
Phase 1 - Panic

Old Normal | Panic Phase | Divergence phase | New Normal

- Until 3rd week of Feb 2020
- Feb 19
- Mar 11
- Apr 04
- Apr 22
- May 13
- Since mid-May 2020

New positive cases

Source: EIEF
4 weeks of stockpiling, weeks 5&6 sales growth rate slowdown.

Value sales % trend vs Previous Year

Source: Infoscan Census Hypermarkets, Supermarkets, Small Super, Discount, Drugstores
During week 1 people’s concerns immediately focussed on the economy and personal health

Major concerns (scoring 9-10)

- Economy: 62%
- Personal health: 58%
- Access to healthcare: 46%
- Family income: 43%
- Fear of job loss: 39%
- Price increase: 33%
  (19% 2 weeks ago)
- Product availability: 20%, 13%

Expectations changed from thinking this will continue until end May to now **mid of June**

18% of people thinking this will last at least 6 months, versus 10% 2 weeks prior

Source: IRI Shopper research at week 1 of National lockdown.
How Italian people are occupying their extra time at home

- Internet: 68%
- TV: 53%
- Chatting to friends/family: 40%
- Social Media: 40%
- Reading: 38%
- Listening to music: 35%
- Working from home: 16%
- Video Games: 14%
- Online competitions: 8%
How Italian people are occupying their extra time at home

- Cleaning home: 53%
- DIY: 47%
- More home cooking: 45%
- Hobbies: 25%
- Family games: 23%
- Spend time with kids: 19%
- Home treatments: 14%
- Fitness: 12%
The impact on media consumption has been stark

- WhatsApp video calling
- Instagram
- Facebook Live

More time at home

- +1000% group calling last month.
- Instagram and Facebook Live views doubled in a week.
- 50% messaging
In weeks 4-6, smaller stores saw huge sales growth due to their proximity, less queuing and neighborhood home delivery

Value sales % trend vs Previous Year

Source: Infoscan Census Hypermarkets, Supermarkets, Small Super, Discount, Drugstores
Restrictions have resulted in channel switching and retailers were surprised by demand. Offering Click & Collect is simpler than developing the infrastructure for home delivery.
How did lockdown affect the types of purchases shoppers were making?
Italian shoppers reduced their shopping trips, filled their baskets and bought essentials that would last

You can’t move and focus your shopping on your preferred stores

Reduced frequency Supermarkets + Convenience 1 visit less

Increase average basket (Supermarkets format) from 45EUR to 76EUR

Essential categories since Feb 23 growth +20-40%;
- Eggs, Milk, Canned Tuna, Cheese, Pasta, Frozen food, Coffee, Tomato sauce

Top growing categories
- Alcohol x 3
- Wipes x 2
- Gloves x 2

Long lasting proteins
- Legumes +80%, Canned meat +72%
Working from home and having children at home has severely impacted the sales of some categories.

- **Snacks**: -0.7%
- **Sweet treats**: -8.9%

**Growth in home baking**

- **Yeast**: +119.5%
- **Flour**: +117.6%
- **Pizza preparation**: 98.6%

Source: IRI panel, Total Italy, Value sales % chg versus year ago, 6 weeks ending 29.03.20
Private Label has become more important over time

Value share

Share change versus previous year

Source: IRI Panel Hypermarkets, Supermarkets, Self Service
What has been the impact for out of home retailers and how have they adapted?

34.3% of all food occasions were out of home in 2019

80% = €6.7Bil lost by 260k bars & restaurant in March-April

Conversion into Home consumption = €2.2Bil additional expenditure is supermarkets or so = +10/15% potential growth impact

Net value lost = -€4.5 bil in March/April (6.7bil -2.2bil)

Assumption: meals & breakfast at home prices = 1/3 of Horeca prices

Source: IRI estimation based on Gira Italian Horeca Report
New consumer experiences are developing as retailers look to reinvent their offer.
Phase 2
Divergence
Phase 2 - Divergence

Source: EIEF
Features of phase 2

- Emotionally relaxation
- Financially stability
- Comfortable
- The state of people’s personal finances will drive competitive pricing
- Reduced stockpiling
- Restrictions still in place
- Lower income
- Hard basic
- Supply chain shortage might push for price increase
- Increased volume due to out of home diverting in home
Phase 3
New Normal
Phase 3 – New Normal

Old Normal

Panic Phase

Divergence phase

New Normal

Until 3rd week of Feb 2020
Feb19
Mar11
Apr04
Apr22
May13
Since mid-May 2020

New positive cases

1000
2000
3000
4000
Observed
Predicted

Source: EIEF
Phase 3 – what does the new normal look like?

- Economic recession
- Health & hygiene concerns
- Social distance

Limited OOH consumption

Online, Home delivery

Immersive digital existence
IRI COVID-19 Portal for ongoing local and global insights

The IRI COVID-19 Info Portal
Includes COVID-19 impact analyses, dashboards and the latest thought leadership on supply chain, consumer behaviour, channel shifts for the international and local markets
