

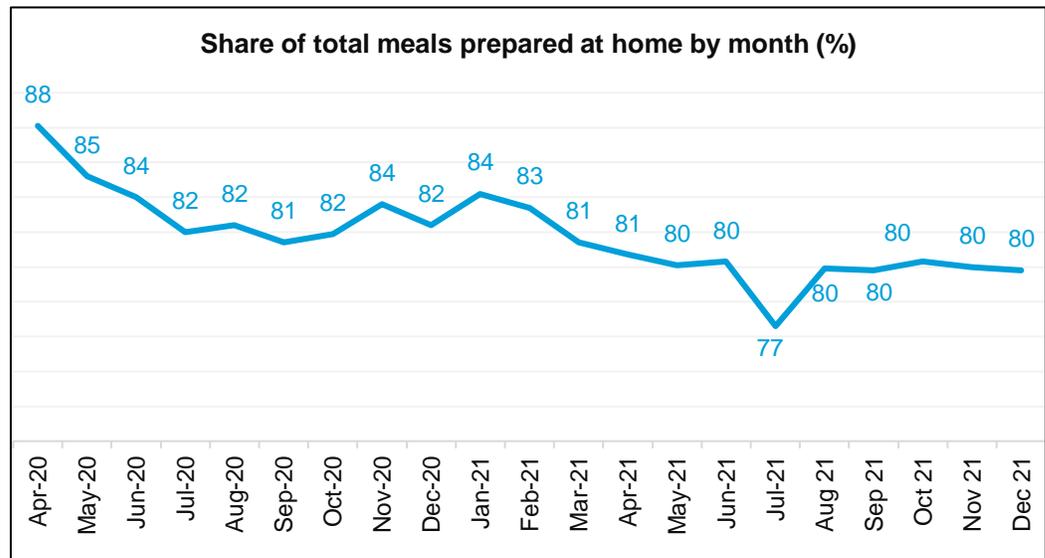


Frozen Foods 2021 Sales Remain 23% Above Pre-Pandemic Levels

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The fourth quarter of 2021 was disrupted by high levels of COVID-19 cases, high inflation and continued supply chain disruption. People are very aware of the inflation, with 43% perceiving prices to be a little higher and 48% perceiving them to be much higher, according to the December wave of IRI’s primary shopper survey. Among those who are aware, 94% are concerned. Meat, produce and poultry lead the list of items where most people have noticed inflation, with 35% naming frozen entrees as an example. In response to inflationary pressure around the store, 45% look for sales specials more often. Others look to make changes, such as buying more private brand (21%) or visiting different stores (13%). About one-third of shoppers have not (yet) made any changes due to price increases. The combined effect of inflation, out-of-stocks and the latest COVID-19 wave resulted in continued changes as it related to choices in food purchasing and consumption. IRI, 210 Analytics and the American Frozen Food Association (AFFI) have teamed up since March 2020 to document the ever-changing marketplace and its impact on frozen food sales.

Meals continued to be home-centric in December. According to the IRI primary shopper survey, the share of meals prepared at home remains at 80%. The share of in-store versus online trips to buy groceries gained a little in December (86%) versus its November levels (83%) — perhaps related to holiday shopping.



During the early months of the pandemic, as many as 20% of trips were online. This dropped to a low of 11% in July of 2021.

Yet online shopping remains a complementary trip for most consumers. In December 2021, only 3% of survey respondents believe they will buy all their groceries online in the next month. This compares to 69% who believe they will buy everything in store, leaving 28% who will just purchase some items online. This signals a likely continuation of mixed format shopping for 2022 for many people and an important opportunity for frozen food that are included in online baskets more often than their counterparts in fresh.

Inflation

The consumer price index increased 6.8% for the 12 months ending November 2021, its highest since June 1982, according to the Bureau of Labor Statistics. IRI-measured price per unit for all food and beverages in multi-outlet stores, including supermarkets, club, mass, supercenter, drug, military, and other retail food stores, also shows that prices continued to rise over and above their elevated 2020 levels. In December 2021, the average price per unit was up 8.3% versus December 2020 across all food and beverages. For the total year, prices increased 5.3% — pulled down by much milder inflation in the second quarter.

| Average price/unit vs, YA | Q1 21 | Q2 21 | Q3 21 | Q4 21 | 2021 CY | Dec 21 |
|---------------------------------|-------|-------|-------|-------|---------|--------|
| Total food and beverages | +5.5% | +2.7% | +5.0% | +8.0% | +5.3% | +8.3% |

Source: IRI, Integrated Fresh Total US, MULO



Frozen foods experienced inflation as well during 2020, but less so. The average price per unit for frozen foods increased 4.3% over 2021 compared with 5.3% for all food and beverages. Above average inflation was seen in meat/poultry and seafood, much like their fresh counterparts. Other areas of high inflation were desserts and prepared meals, in particular dinners and breakfast foods.

| 2021 vs. YA | Average price per unit | Change vs. YA |
|--------------------------------|------------------------|---------------|
| Frozen food department | \$4.13 | +4.3% |
| Meals | \$3.67 | +5.2% |
| Breakfast food | \$3.95 | +5.8% |
| Dinners/entrees | \$3.41 | +6.0% |
| Pizza | \$4.16 | +4.3% |
| Meat/poultry/seafood | \$7.90 | +5.5% |
| Seafood | \$9.37 | +4.2% |
| Processed poultry | \$7.36 | +6.3% |
| Poultry | \$8.30 | +5.7% |
| Meat | \$6.66 | +5.9% |
| Desserts | \$3.90 | +1.7% |
| Ice cream/sherbet | \$3.89 | -1.1% |
| Novelties | \$4.10 | +4.4% |
| Desserts/toppings | \$2.97 | +6.8% |
| Fruits & vegetables | \$2.54 | +2.1% |
| Fruit | \$5.21 | +2.3% |
| Potatoes/onions | \$2.88 | +1.4% |
| Plain vegetables | \$1.86 | -0.5% |
| Prepared vegetables | \$2.17 | +4.8% |
| Snacks | \$5.04 | +3.7% |
| Baked goods | \$3.50 | +1.8% |
| Beverages | \$2.48 | +8.0% |

Source: IRI, Integrated Fresh Total US, MULO, average price per unit vs. YAGO

2021 Sales

2021 brought \$691 billion in food and beverage sales — up 1.8% over 2020 and 15.8% over the 2019 pre-pandemic normal. However, inflation played a significant role with year-on-year unit sales still down 3.3%. Perishables, including produce, seafood, meat, bakery and deli, had the highest year-over-year growth in 2021, at +2.2%. Frozen foods had the highest increase versus the pre-pandemic normal of 2019, at +23.0%.

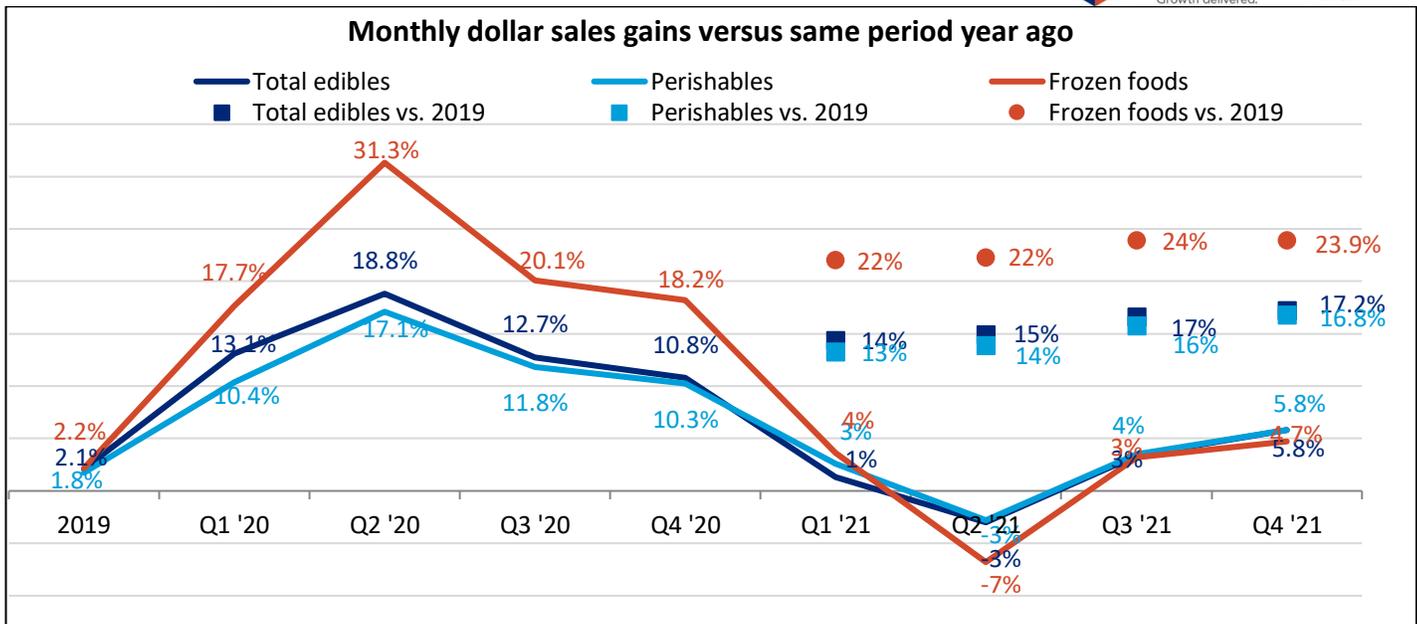
| 2021 | Dollar size | Dollar sales vs. 2020 | % sales change versus year ago | |
|--------------------------|-------------|-----------------------|--------------------------------|---------------------|
| | | | Dollar sales vs. 2019 | Unit Sales vs. 2020 |
| Total food and beverages | \$691B | +1.8% | +15.8% | -3.3% |
| Total perishables | \$311B | +2.2% | +15.0% | -2.3% |
| Total frozen | \$66B | +1.0% | +23.0% | -3.2% |

Source: IRI, Integrated Fresh, Total US, MULO

Sales by quarter

The second quarter of 2021 was the only one where sales were unable to meet the enormous spikes in sales seen in the early months of the pandemic. Even so, sales for frozen food were down a “mere” 7% versus the second quarter of 2020. Importantly, when compared to the pre-pandemic normal of 2019, sales continued to be highly elevated at +23.9%. Ever since the third quarter of 2020, sales have been around 20% to 24% above 2019 levels.

Total edibles and total perishables also increased sales versus 2019, but not quite to the levels seen in frozen food. Most quarters, their sales increased averaged 13% to 17% with above-average inflation in the perishable departments.



Source: IRI, Integrated Fresh, Total US, MULO, % change vs. year ago.

Assortment

Supply chain woes also affected the number of items per store. Lapping the declines in assortment seen throughout 2020, the number of average items per store in the frozen food aisle had been up slightly in the second and third quarters. However, come October, items per store per week dropped by 1.5% and assortment dropped further in November and December, resulting in an average year-on-year decrease in the fourth quarter of 2.3%. Compared with 2019, items were down 4.5% in the fourth quarter and

| Avg. items/store/week | Q1 '20 | Q2 '20 | Q3 '20 | Q4 '20 | Q1 '21 | Q2 '21 | Q3 '21 | Q4 '21 | Dec '21 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Avg. items per store/week | 1,579 | 1,519 | 1,498 | 1,504 | 1,536 | 1,544 | 1,498 | 1,467 | 1,447 |
| Change vs. YA | -2.1% | -5.4% | -5.7% | -2.4% | -2.7% | +1.6% | +1.5% | -2.3% | -3.1% |

Source: IRI, Integrated Fresh Total US, MULO, average weekly items per store selling

A Deep-Dive into Frozen Food Sales

All December 2021 weeks came between \$1.2 and \$1.4 billion in sales — maintaining prior month sales levels. For each this meant double-digit increases versus the pre-pandemic 2019 baseline. Additionally, all four weeks grew over and above the highly elevated 2020 levels. The Christmas holiday week, in particular, had astounding results. Frozen food sales reached \$1.4 billion, which was an increase of 14.5% over year ago and +37.0% versus 2019.

| Frozen food | Dollar sales | Dollar gains vs. 2020 | Dollar gains vs. 2019 |
|-----------------|--------------|-----------------------|-----------------------|
| December | \$5.163B | +6.2% | +25.3% |
| w.e. 12/5/2021 | \$1.207B | +3.6% | +21.2% |
| w.e. 12/12/2021 | \$1.297B | +4.4% | +24.2% |
| w.e. 12/19/2021 | \$1.303B | +2.7% | +19.5% |
| w.e. 12/26/2021 | \$1.355B | +14.5% | +37.0% |

The growth over 2020 levels was boosted by two biggest areas: meals and meat/poultry/seafood and while smaller, frozen snacks sales have been very strong as well. In the fourth quarter, all but fruit and vegetables and beverages had moved into positive year-on-year growth territory. The highest fourth-quarter gains were achieved by processed poultry, that had an extremely strong December showing as well. Meat sales also had double-digit year-on-year increases in December.



| Sales and % growth vs. YA | % Dollar sales change vs. 2020 | | | | | | | | | Dec '21 | Dec vs '20 | Dec vs '19 |
|-------------------------------|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--|---------|------------|------------|
| | Q1 '20 | Q2 '20 | Q3 '20 | Q4 '20 | Q1 '21 | Q2 '21 | Q3 '21 | Q4 '21 | | | | |
| Frozen food department | 18% | 31% | 20% | 18% | 4% | -7% | 3% | +4.7% | | \$5.2B | +6.2% | +25.3% |
| Meals | 15% | 21% | 14% | 13% | 0% | -2% | 7% | +8.0% | | \$1.9B | +9.2% | +26.4% |
| Breakfast food | 15% | 23% | 18% | 18% | 7% | 7% | 11% | +12.3% | | \$359M | +13.8% | +35.9% |
| Dinners/entrees | 12% | 14% | 11% | 11% | 1% | 3% | 11% | +11.9% | | \$938B | +13.0% | +29.7% |
| Pizza | 22% | 32% | 18% | 16% | -3% | -13% | 0% | -0.4% | | \$478M | +1.2% | +16.6% |
| Meat/poultry/seafood | 24% | 50% | 31% | 27% | 7% | -11% | 4% | +7.0% | | \$1.4B | +8.2% | +33.4% |
| Seafood | 20% | 56% | 42% | 33% | 18% | -10% | 1% | +3.7% | | \$606M | +3.4% | +32.0% |
| Processed poultry | 28% | 50% | 33% | 32% | 7% | -1% | 15% | +14.7% | | \$319M | +18.5% | +53.3% |
| Poultry | 26% | 52% | 19% | 19% | -7% | -24% | -1% | +3.0% | | \$178M | +4.1% | +22.4% |
| Meat | 28% | 40% | 19% | 18% | -2% | -13% | 6% | +9.6% | | \$205M | +12.7% | +23.1% |
| Desserts | 13% | 25% | 17% | 18% | 6% | -7% | -2% | 0.0% | | \$879M | +3.1% | +21.0% |
| Ice cream/sherbet | 10% | 25% | 15% | 14% | 0% | -15% | -7% | -6.0% | | \$444M | -4.4% | +9.2% |
| Novelties | 16% | 25% | 18% | 25% | 14% | 1% | 3% | +6.9% | | \$347M | +11.8% | +40.3% |
| Desserts/toppings | 12% | 26% | 26% | 13% | 16% | -15% | 2% | +8.2% | | \$88M | +13.9% | +22.1% |
| Fruits & vegetables | 22% | 36% | 22% | 17% | -2% | -14% | -4% | -3.1% | | \$540M | -2.6% | +14.6% |
| Fruit | 24% | 46% | 35% | 27% | 9% | -6% | -1% | +1.8% | | \$103M | +5.2% | +30.5% |
| Potatoes/onions | 22% | 44% | 26% | 24% | 6% | -14% | -1% | +1.9% | | \$178M | -3.5% | +19.0% |
| Plain vegetables | 23% | 28% | 15% | 11% | -11% | -17% | -8% | -6.4% | | \$229M | -6.1% | +5.3% |
| Prepared vegetables | -1% | 6% | 6% | 11% | -9% | -14% | 0% | +1.9% | | \$16M | +5.4% | +14.8% |
| Snacks | 21% | 45% | 28% | 25% | 12% | -3% | 12% | +10.0% | | \$266M | +9.9% | +33.2% |
| Baked goods | 13% | 30% | 17% | 8% | 4% | -12% | 0% | +1.2% | | \$219M | +2.1% | +9.3% |
| Beverages | 22% | 44% | 30% | 28% | 6% | -13% | -3% | -2.9% | | \$20M | -1.3% | +17.9% |

Source: IRI, Integrated Fresh, Total US, MULO

Year-Over-Year Dollar, Unit and Volume Changes

Not only were frozen snacks a big contributor to dollar growth, they also generated year-on-year gains in units and volume. Volumetric information is not available across meat/poultry and seafood and desserts.

| December 2021 | % sales change versus year ago | | | Volume/dollar gap (percentage points) |
|-------------------------------|--------------------------------|------------|--------------|---------------------------------------|
| | Dollar sales | Unit sales | Volume sales | |
| Frozen food department | +6.2% | -2.8% | -- | --- |
| Frozen meals | +9.2% | -0.7% | -0.2% | -9 pts |
| Frozen meat/poultry/seafood | +8.2% | -3.6% | -- | --- |
| Frozen desserts | +3.1% | -0.7% | -- | --- |
| Frozen fruits and vegetables | -2.6% | -8.5% | -6.5% | -3.9 pts |
| Frozen snacks | +9.9% | +1.3% | +2.8% | -7.1 pts |
| Frozen baked goods | +2.1% | -4.6% | -4.3% | -6.4 pts |
| Frozen beverages | -1.3% | -5.8% | -5.9% | -4.6pts |

Source: IRI, Total US, Integrated Fresh, MULO

What's Next?



Marketplace disruption is likely to continue in the first quarter of 2022 at a minimum.

- In December 2021, 38% of shoppers encountered issues with availability of items they had planned to purchase. The highest out-of-stocks were reported for toilet paper, canned goods and milk.
- In response to not being able to buy what they came for, 34% of shoppers spent their money elsewhere and 26% ended up not purchasing the planned item at all — underscoring the significant impact of out-of-stocks on sales.
 - 34% went to a different store and another 7% went online and bought it from another store.
 - 26% forewent the purchase.
 - 24% bought a different brand or variety.
 - 19% returned to the store later.
- 22% of shoppers stocked up on certain items out of concern that they may not be available next time they shop.
- 18% stocked up on certain items for other reasons, including rapidly rising inflation.

The latest COVID-19 wave has not resulted in the same levels of concern as those early in the pandemic.

- 33% is extremely concerned — a ratio that was double as high during the early months.
- Despite the arrival of the Omicron variant, 73% are not any more or less worried; 27% are more worried and 7% are less worried.

Eighty percent of consumers bought from restaurants in December 2021 — a few points down from prior months. Engagement is driven by takeout and delivery:

- 54% of primary shoppers have gotten takeout and 20% have ordered home delivery.
- 49% have dined inside at a restaurant and 10% have eaten outdoors at a restaurant.

AFFI members now have access to more in-depth information through the IRI portal on the AFFI website. Additionally, the 2021 Power of Frozen, the second-annual in-depth look at frozen food through the shoppers' eyes, conducted by 210 Analytics, provides more information about the why and who behind the sales surge. The next performance report in the IRI, 210 Analytics and AFFI series will be released mid-February to cover the January sales trends. Please recognize and thank the entire frozen food chain for all they do.

Date ranges:

2019: 52 weeks ending 12/28/2019
Q1 2020: 13 weeks ending 3/29/2020
Q2 2020: 13 weeks ending 6/28/2020
Q3 2020: 13 weeks ending 9/27/2020
Q4 2020: 13 weeks ending 12/27/2020
Q1 2021: 13 weeks ending 3/28/2021
Q2 2021: 13 weeks ending 6/27/2021
Q3 2021: 13 weeks ending 9/26/2021
Q4 2021: 13 weeks ending 12/26/2021
December 2021: 4 weeks ending 12/26/2021