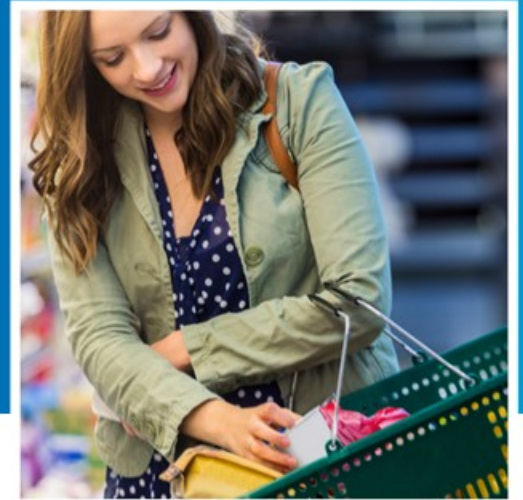


Q1 Food & Beverage Trends

EARLY VIEW 2018



May 2018



IRi

Growth delivered.

Executive Summary

1

Edibles trends are being impacted by a number of factors, including weather, household finances, inflation and an evolving market landscape.

2

CPG industry growth was quite low in Q1 2018, with price increases driving dollar sales growth; edibles fared slightly better than the industry as a whole.

3

Beverages (both alcoholic and nonalcoholic) and deli cheese were top-performing departments in Q1.

4

Trips and baskets have inched up, with national brands outperforming private label.

5

Economic expectations for the remainder of 2018 are favorable, and CPGs have opportunities to drive growth through premiumization and customized marketing programs.

The Food and Beverage Sector Is Being Impacted by a Variety of Forces

1	Economic Shifts
2	Irregular Weather Patterns
3	Food Pricing
4	Tax Reforms
5	Complex and Evolving Marketplace

Unemployment Hit Its Lowest Level Since Before the Great Recession; Retail Sales, Inflation and GDP Up

ECONOMIC SHIFTS

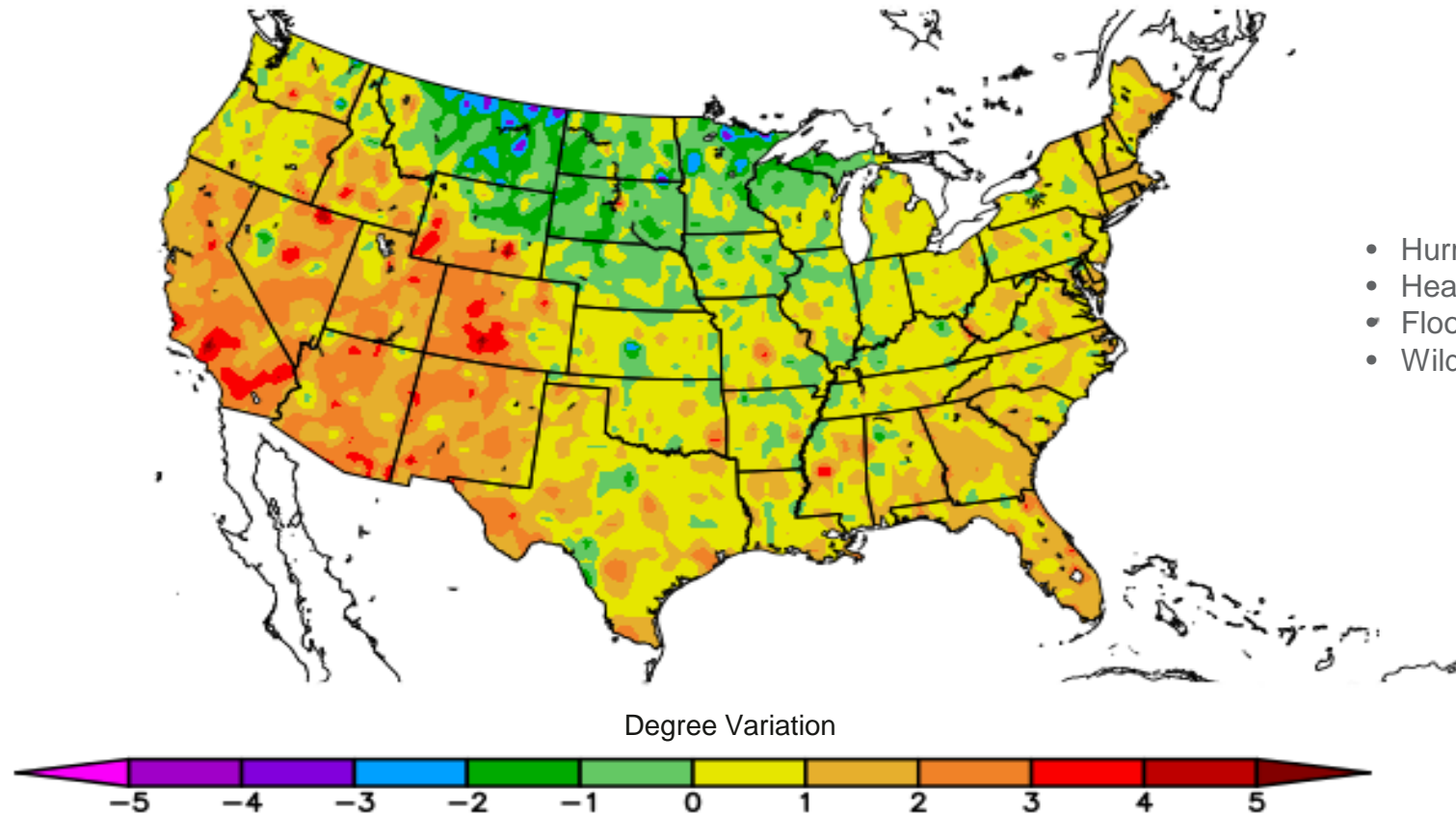
Economic Measure	2013	2014	2015	2016	2017
GDP (% Chg.)	3.3%	4.2%	3.7%	3.0%	4.1%
Unemployment (% SA)	7.4%	6.2%	5.3%	4.9%	4.4%
Consumer Price Inflation (% Chg.)	1.5%	1.6%	0.1%	1.3%	2.1%
Retail Sales (% Chg.)	3.8%	4.1%	2.3%	3.0%	4.6%
Residential Permits, Total (Mil.)	3.9	4.2	4.7	4.7	5.0

Source: Moody's

The Nation's Food Supply, Processing and Distribution Are Being Impacted by Extreme Weather

WEATHER PATTERNS

Departure From Normal Temperature (°F)
04/01/2017–03/31/2018



Source: ACIS

Food Prices Are on the Upswing; Eggs, Fruits and Vegetables Saw Noteworthy Increases in Q1 2018

FOOD PRICING

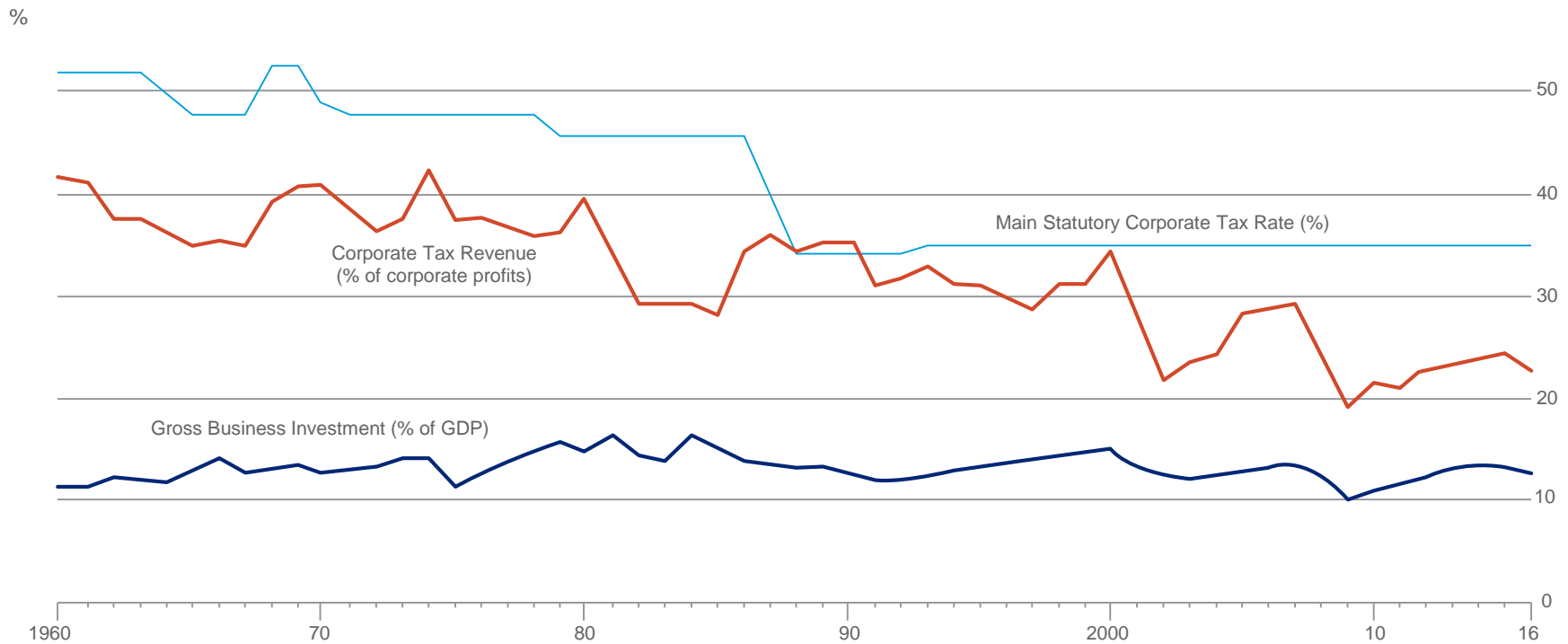
Quarterly Inflation Rate vs. Prior Year 2017–2018

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
All Items	2.5%	1.9%	2.0%	2.1%	2.2%
Food at Home	-1.5%	-0.3%	0.4%	0.7%	0.7%
Cereal and Cereal Products	-1.5%	-1.8%	-1.5%	-1.3%	-0.2%
Dairy	0.0%	0.1%	0.4%	-0.3%	-1.2%
Eggs	-21.6%	-13.4%	-5.2%	-6.7%	9.8%
Fats/Oils	-0.9%	0.5%	1.5%	1.9%	1.1%
Fruits and Vegetables	-3.8%	1.4%	1.8%	2.3%	3.0%
Meats	-3.0%	2.0%	0.9%	1.8%	1.8%
Nonalcoholic Beverages	-0.2%	0.5%	0.2%	0.2%	-0.3%
Sugar/Sweets	-0.4%	-0.6%	0.2%	0.3%	1.3%

Source: Food Institute

Proponents of the Tax Cut and Jobs Act Expect A Lower Corporate Tax Rate to Stimulate Business Investment and Growth

U.S. Corporate Tax and Gross Business Investment



Source: Peterson Institute for International Economics

The Tax Cut and Jobs Act Modified the Tax Structure Across Most Income Segments

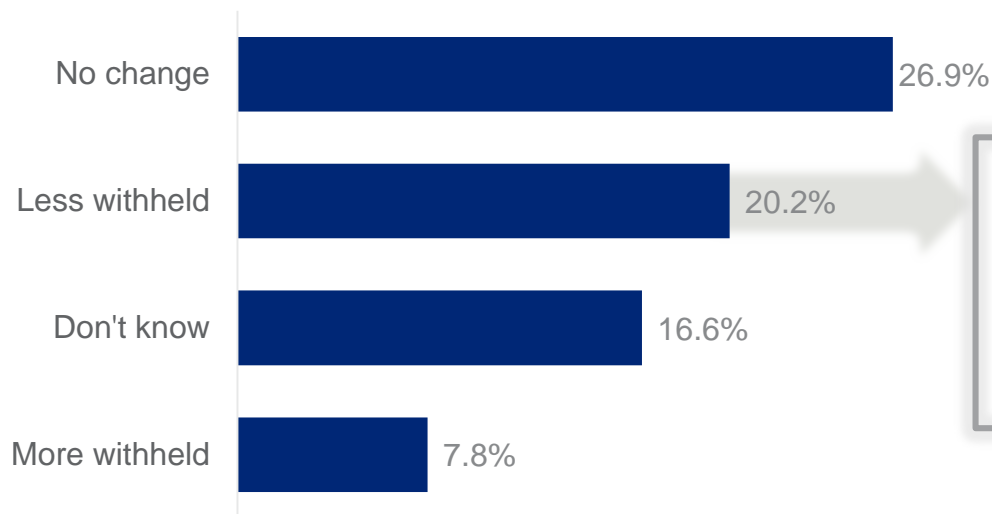
Current Tax Law		
Tax Rate Prior to New Law	Single Filers	Joint Filers
10%	Up to \$9,325	Up to \$18,650
15%	\$9,325–\$37,950	\$18,650 - \$75,900
25%	\$37,950–\$91,900	\$75,900 - \$153,100
28%	\$91,900–\$191,650	\$153,100 - \$233,350
33%	\$191,650–\$416,700	\$233,350 - \$416,700
35%	\$416,700–\$418,000	\$416,700 - \$470,700
39.6%	\$418,000 and above	\$470,700 and above

Under the Senate “Tax Cuts and Jobs Act”		
New Tax Rate	Single Filers	Joint Filers
10%	Up to \$9,525	Up to \$19,050
12%	\$9,525–\$38,700	\$19,050 - \$77,400
22%	\$38,700–\$70,000	\$77,400 - \$140,000
24%	\$70,000–\$160,000	\$140,000 - \$320,000
32%	\$160,000–\$200,000	\$320,000 - \$400,000
35%	\$200,000–\$500,000	\$400,000 - \$1M
38.5%	\$500,000 and above	\$1M and above

Source: <http://abcnews.go.com/Politics/senate-tax-plan/story?id=51522631>

Despite Tax Changes, Very Few Americans Have Noticed an Increase in Their Paychecks

Changes to Earnings 2018 vs. 2017, Total Population



Wealthier households were most likely to notice an earnings change.

- \$55K-\$99K: 28.2%
- \$100K+: 34.5%

8.2% of consumers received a pay raise or bonus tied directly back to the tax cuts.

Source: IRI Consumer Connect™, Q1 2018

Convenience

- U.S. consumers have a renewed interest in “fresh prepared,” but not in spending more time doing it.
- Consumers seek real and natural products, even with sweets.
- American kitchens are increasingly ingredient-oriented, to the detriment of many ready-to-eat food items.
- At-home and from-home food preferences leave restaurants struggling with flat-to-declining traffic, and retailers face stalled growth.

Meal Kits

- Meal kit adoption by U.S. consumers is relatively small, at roughly 5 percent of households.
- More online grocers are offering meal kits, leading to the expectation that meal kits will become more readily available and affordable and will drive sector growth.

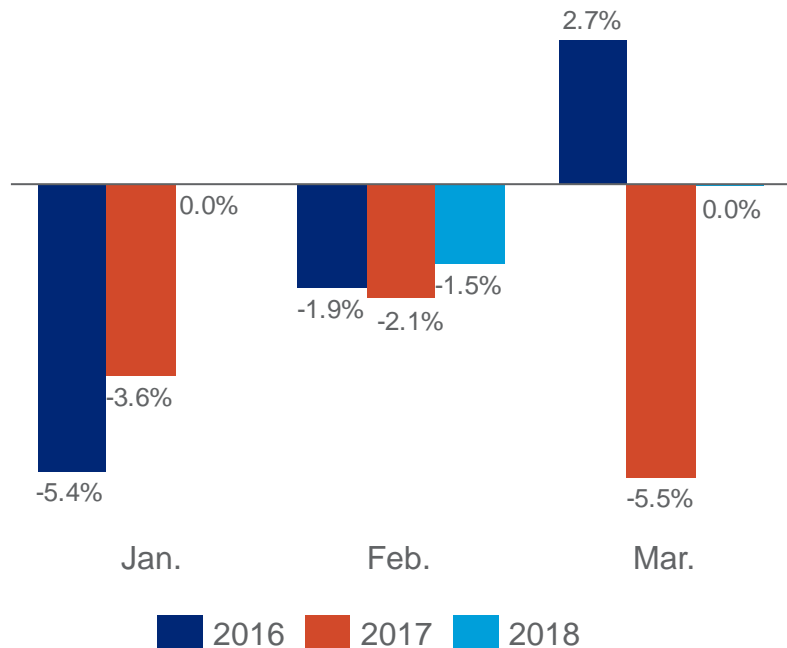
Rise of the Digital Consumer

- The U.S. online grocery market will reach \$34.7B by 2022.
- Thirty-six percent of consumers use mobile apps while shopping.
- Sixty-six percent of consumers enter a code from receipt or package as proof of purchase for a chance to win or get a reward/coupon.
- Eighty-four percent of millennials say they act on push notifications to their phones.

Source: NPD; IGD Retail Analysis; In-Store Engagement Report; Retail

Lift From Merchandising Efforts Continues a Downward Slide

Change in Lift From Merchandising, Any Tactic Total Edible



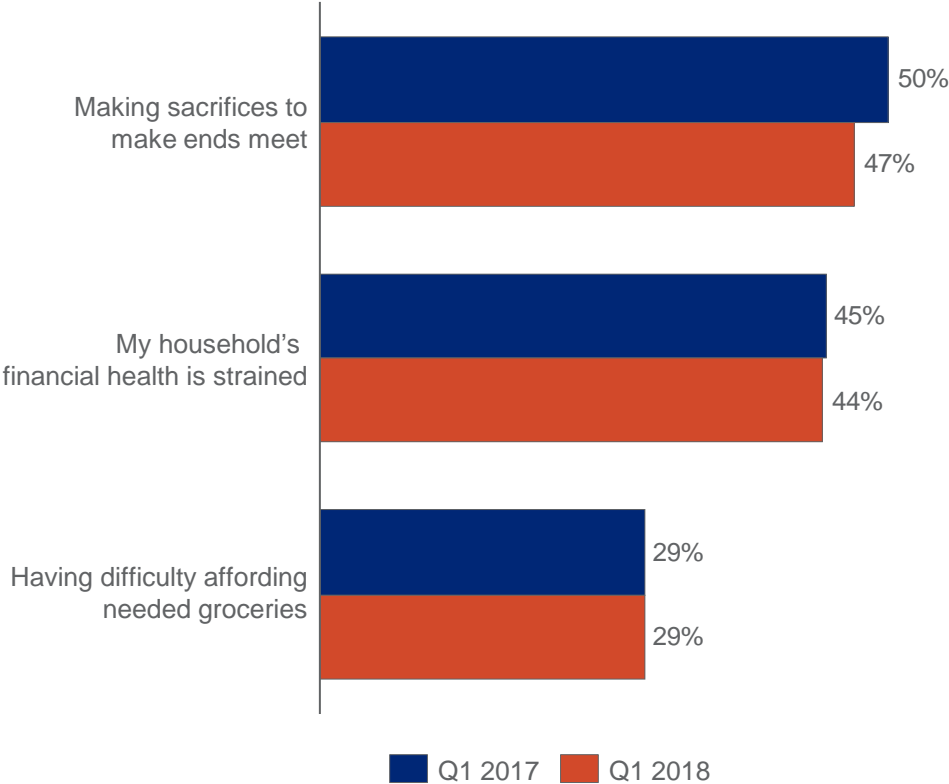
Department-Level Trends Vary

- Refrigerated is outperforming.
- Liquor and general food merchandising lift grew in March compared to previous months.
- Frozen lift slumped in February and March.

Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years; MULOC

Many Consumers Are Struggling Financially

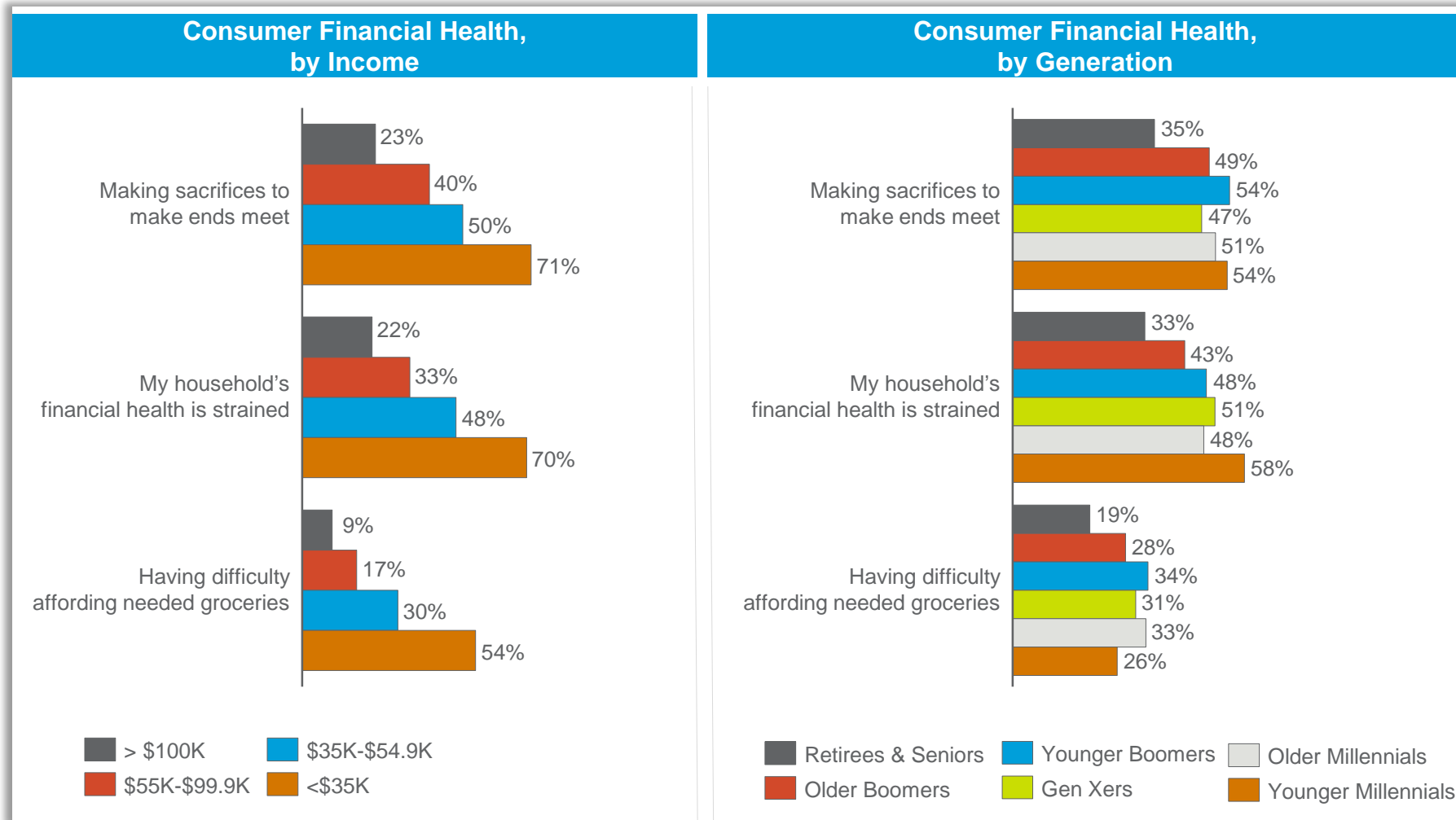
Consumer Financial Health, Total Population



Source: IRI Consumer Connect™, Q1 2017 & Q1 2018



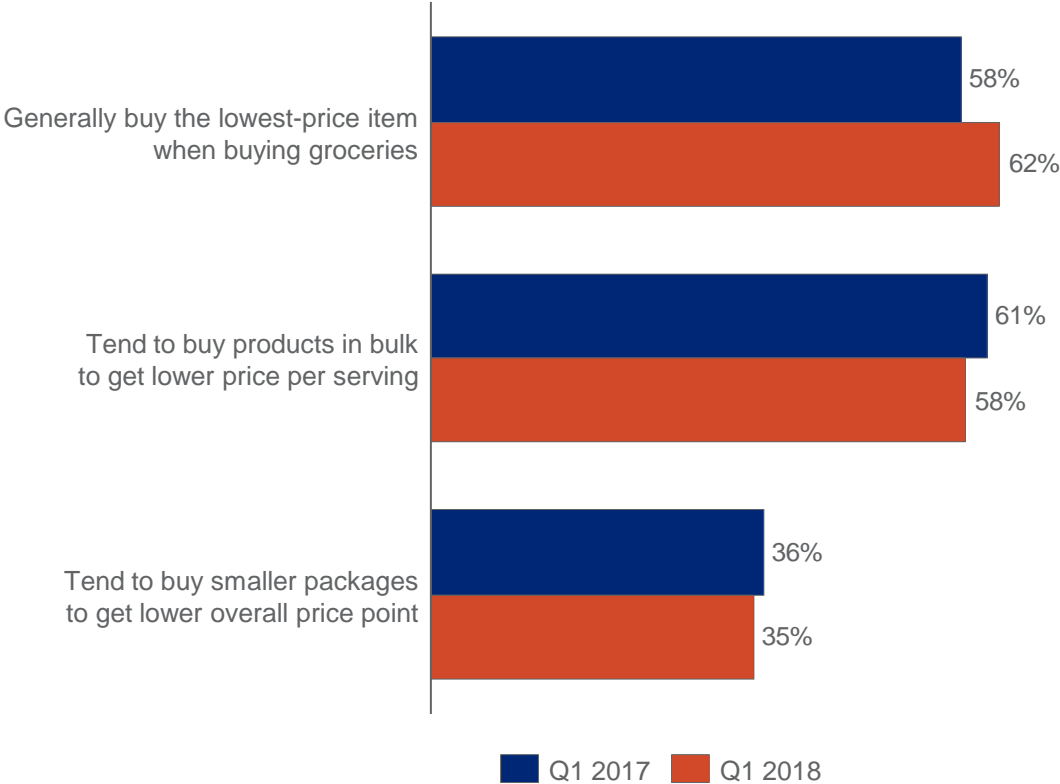
Financial Struggles Span Generations; Most Prevalent Among the Youngest and Least Wealthy



Source: IRI Consumer Connect™, Q1 2018

Shoppers Are Buying Lower-Priced Items and Goods in Bulk to Save Money

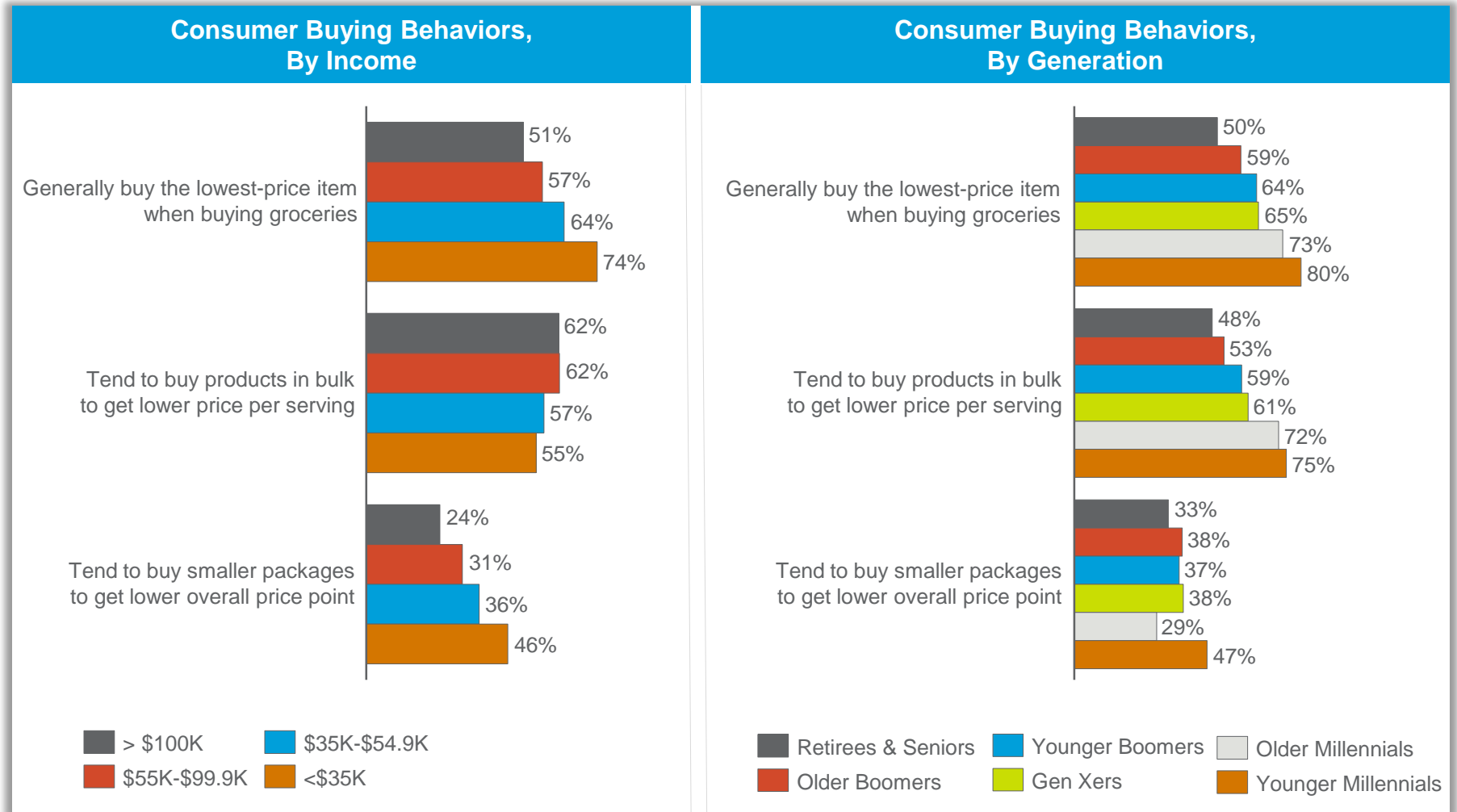
Consumer Buying Behaviors, Total Population



Source: IRI Consumer Connect™, Q1 2017 & Q1 2018



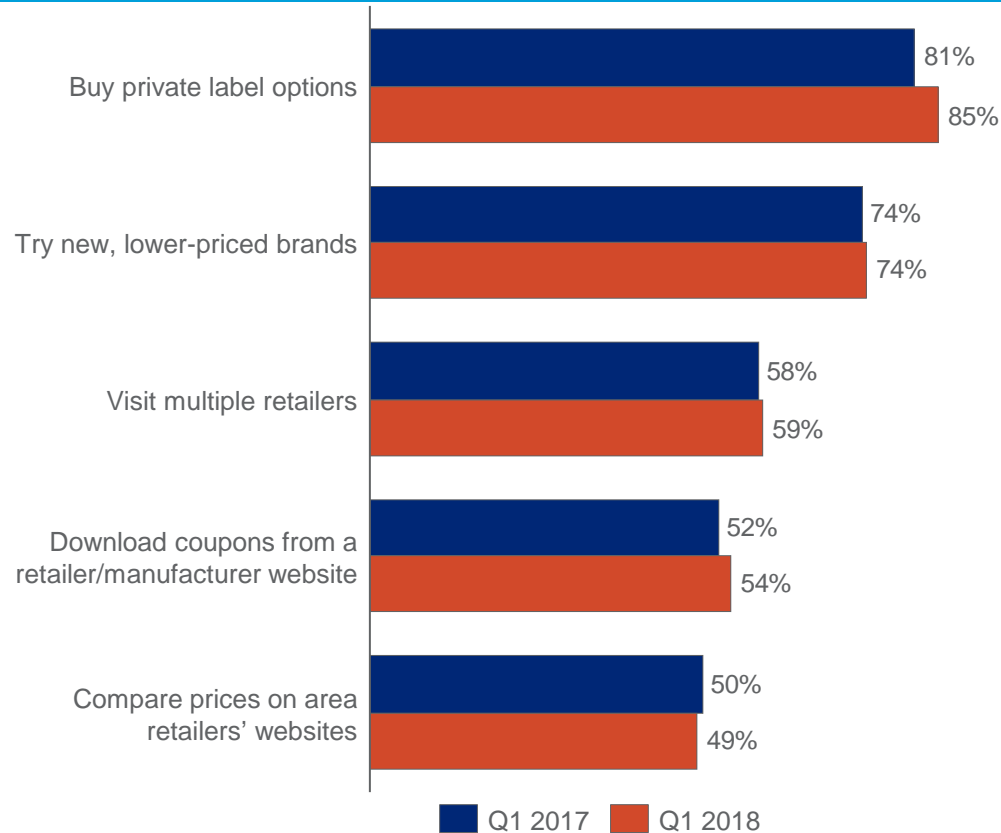
Bulk Buying Is Most Prevalent Among Younger Shoppers; Wealthy Shoppers are Also Making Bulk Purchases



Source: IRI Consumer Connect™, Q1 2018

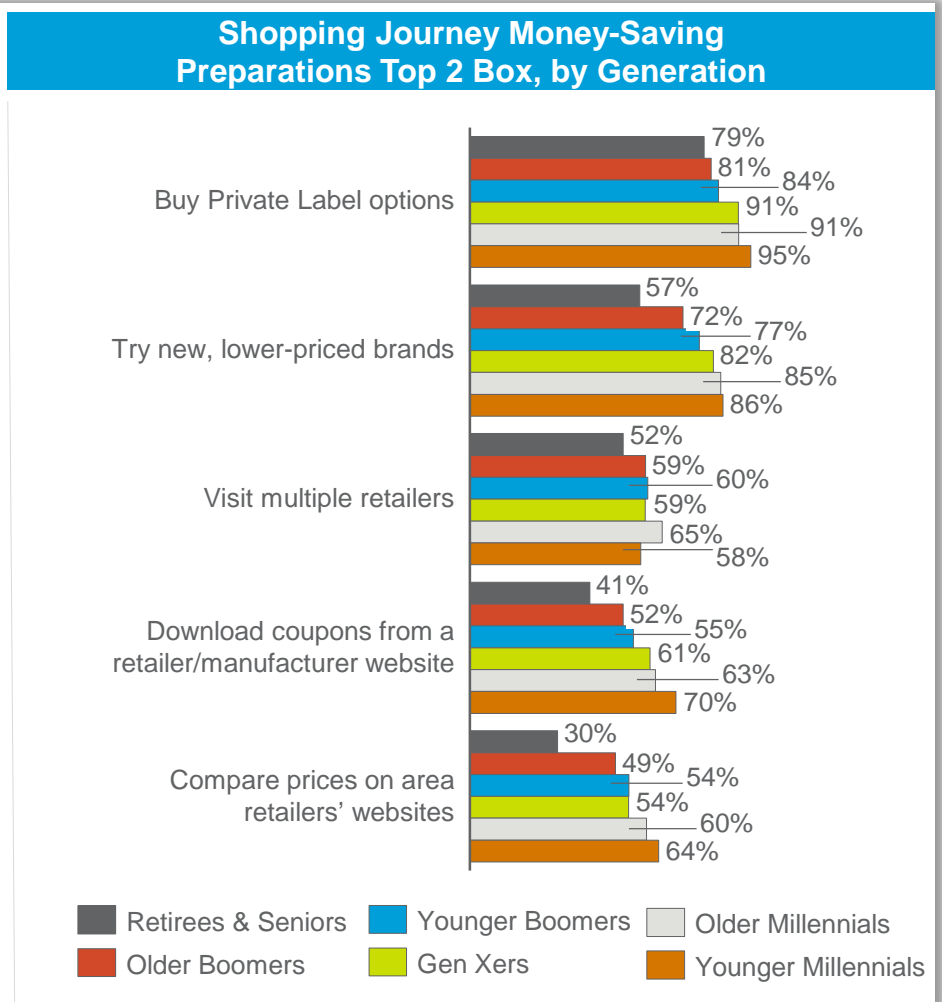
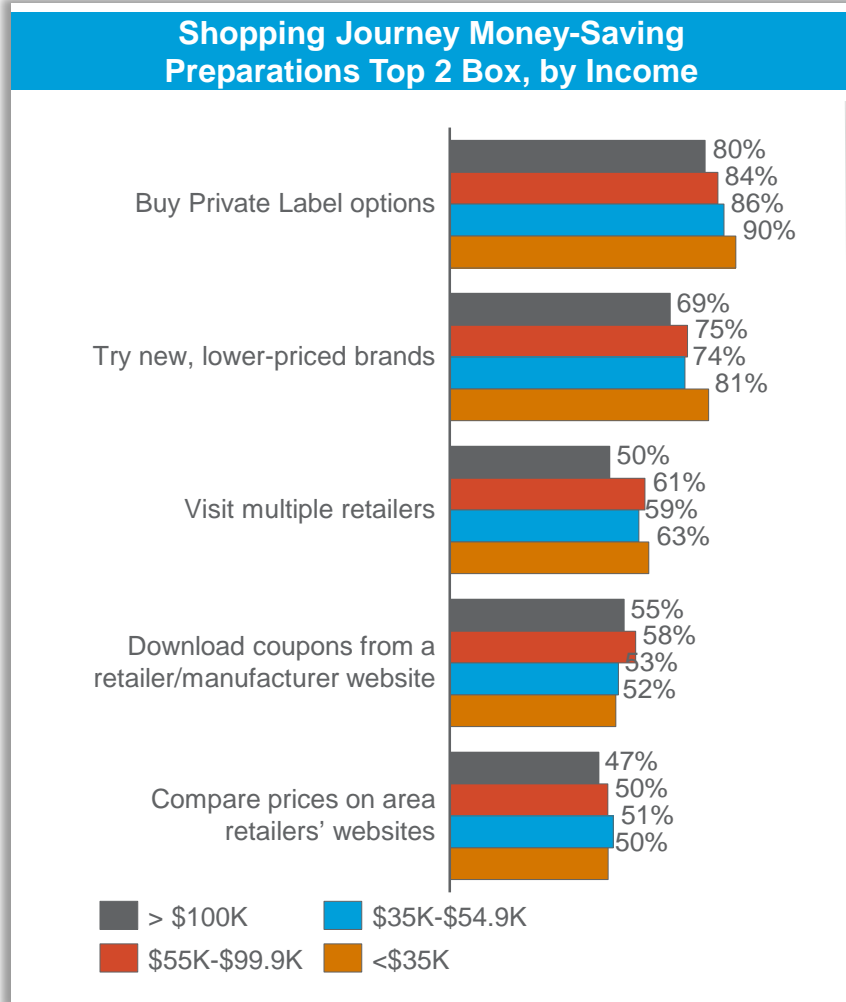
Consumers Are Embracing a Wide Variety of Money-Saving Opportunities, Including Shopping Private Label Options and Digital Coupons

Shopping Journey Money-Saving Preparations Top 2 Box, Total Population



Source: IRI Consumer Connect™, Q1 2017 & Q1 2018

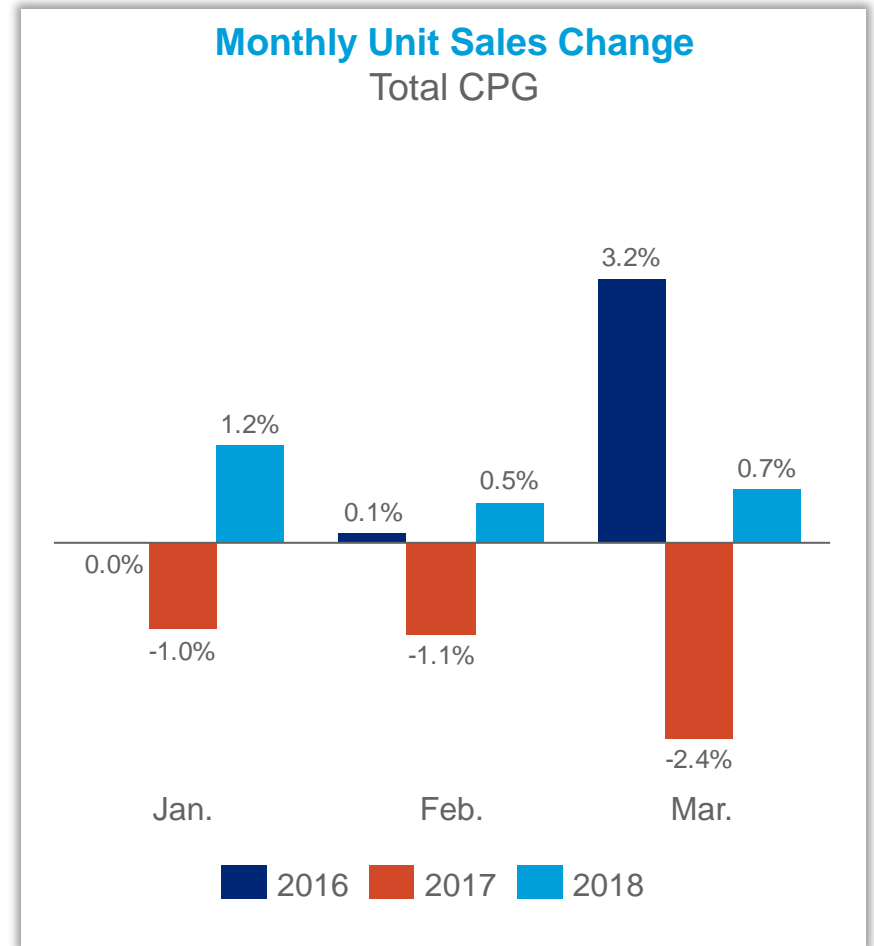
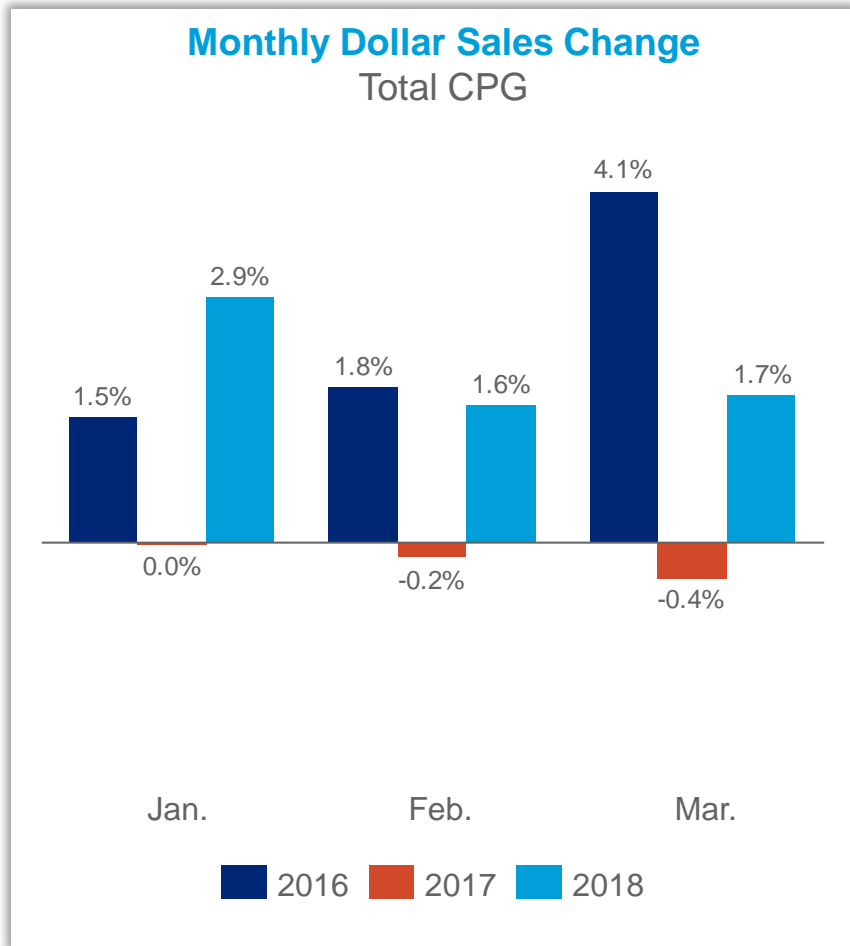
Millennials Stand Out as Avid Deal-Seekers Across Tactics



Source: IRI Consumer Connect™, Q1 2018

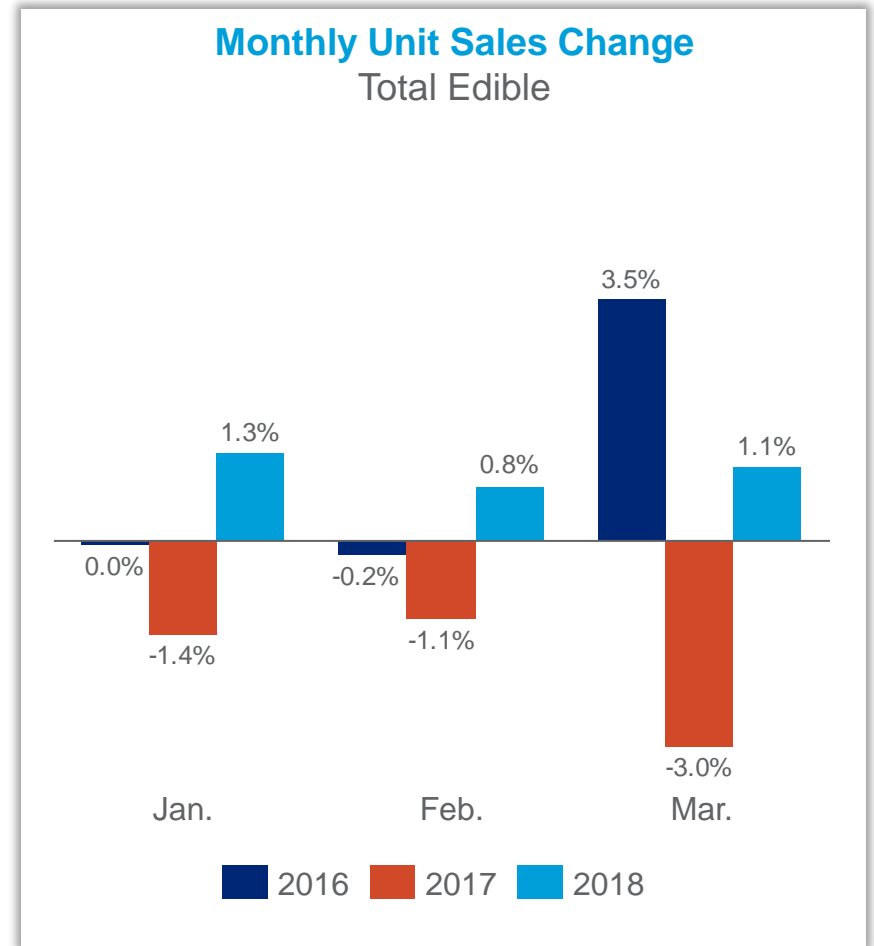
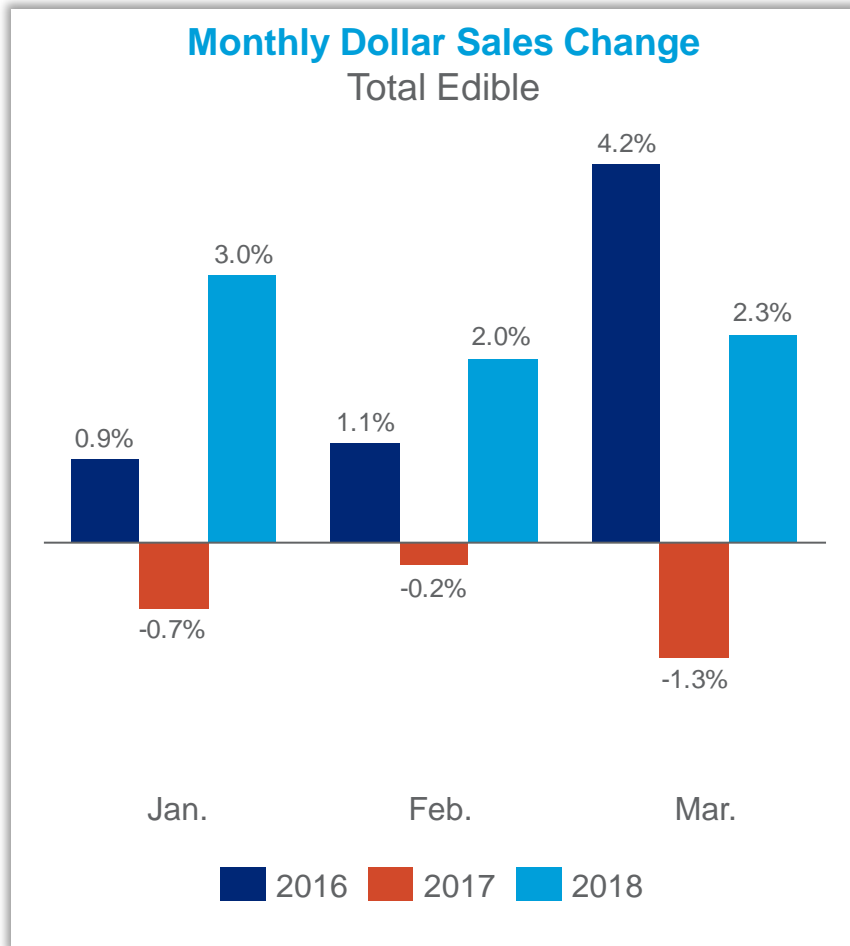


CPG Industry Growth Is Weak; Price Is Driving Dollar Growth



Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years; MULOC

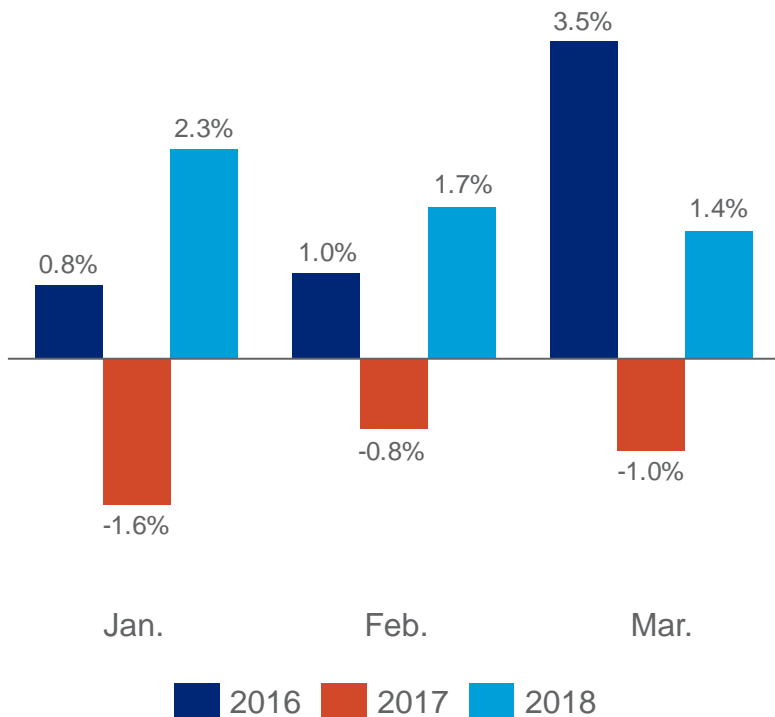
The Edibles Sector Is Outperforming; Still, Growth Is Quite Low



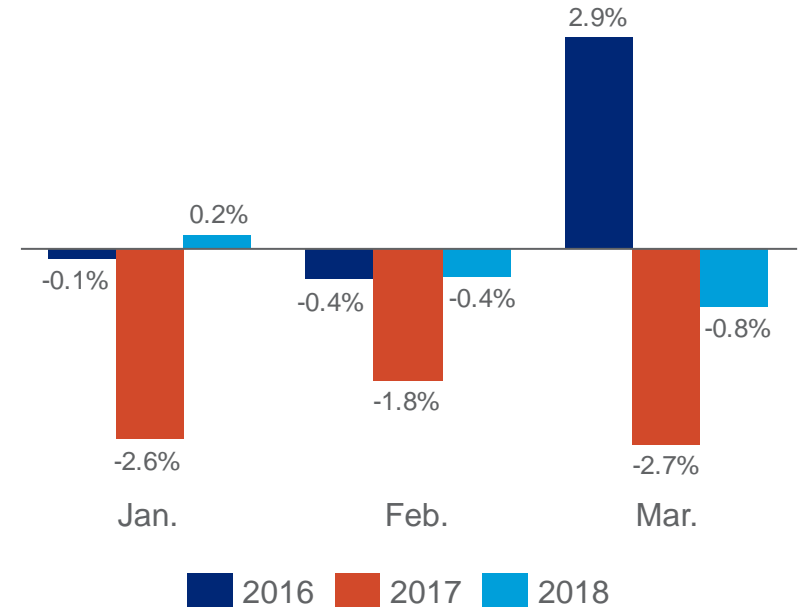
Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years; MULOC

The Grocery Channel Is Similar, but Lagging Versus Industry Average

Monthly Dollar Sales Change
Total CPG: Grocery Channel



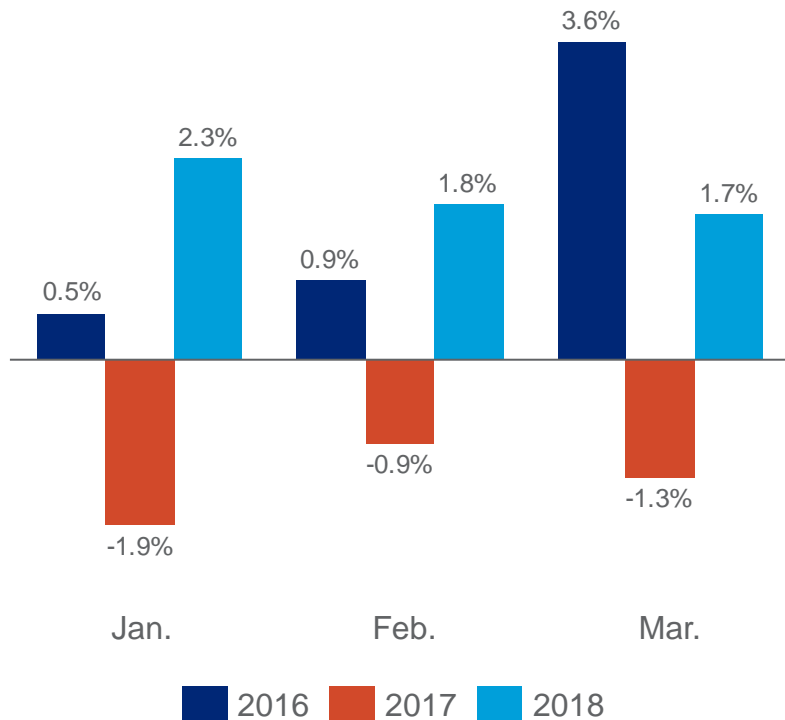
Monthly Unit Sales Change
Total CPG: Grocery Channel



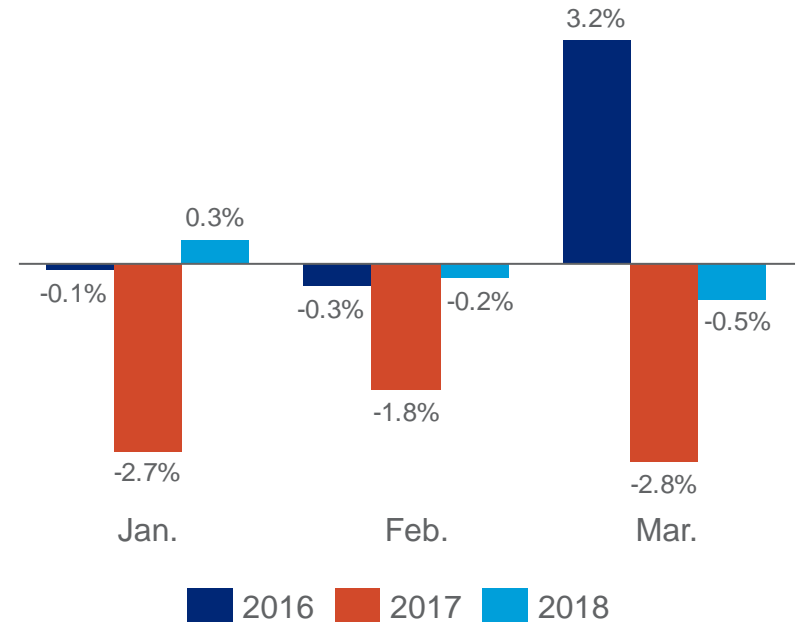
Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years, food only

Grocery Weakness Is Negatively Impacting Edibles

Monthly Dollar Sales Change
Total Edible: Grocery Channel



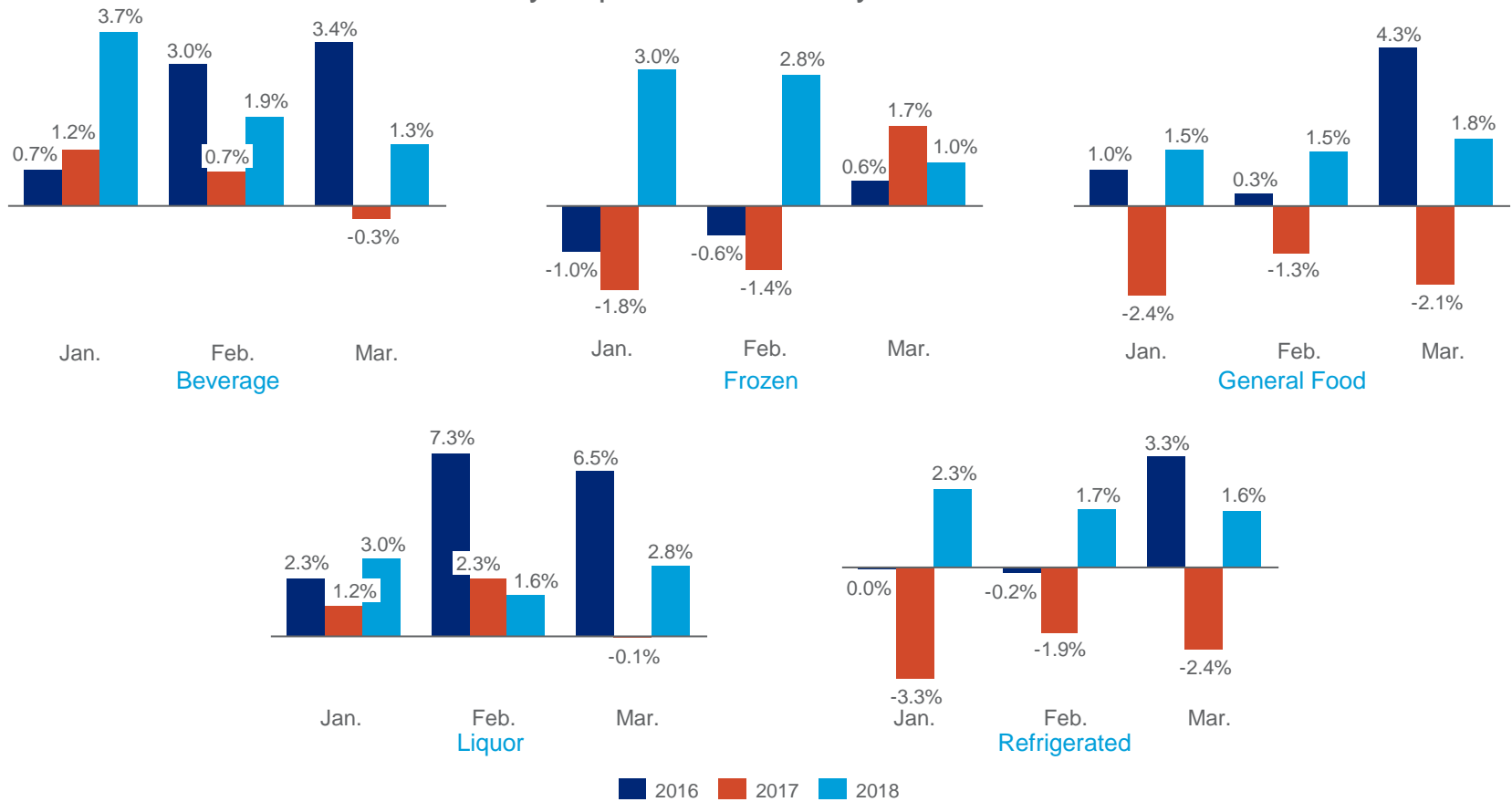
Monthly Unit Sales Change
Total Edible: Grocery Channel



Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years, food only

All Departments Posted Low-Level Dollar Growth in Q1

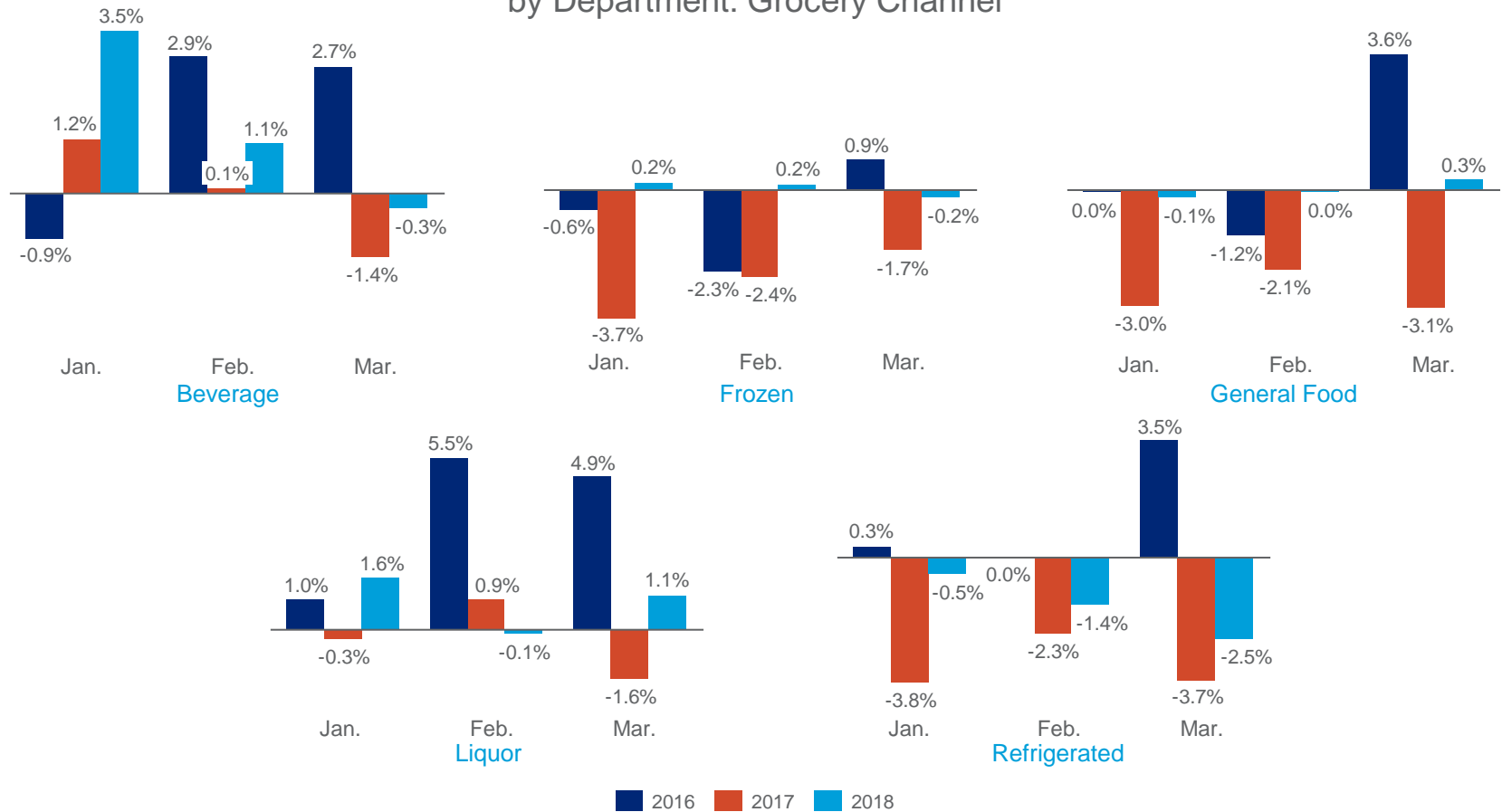
Monthly Dollar Sales Change by Department: Grocery Channel



Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years, food only

Beverage and Liquor Departments Show Some Resilience

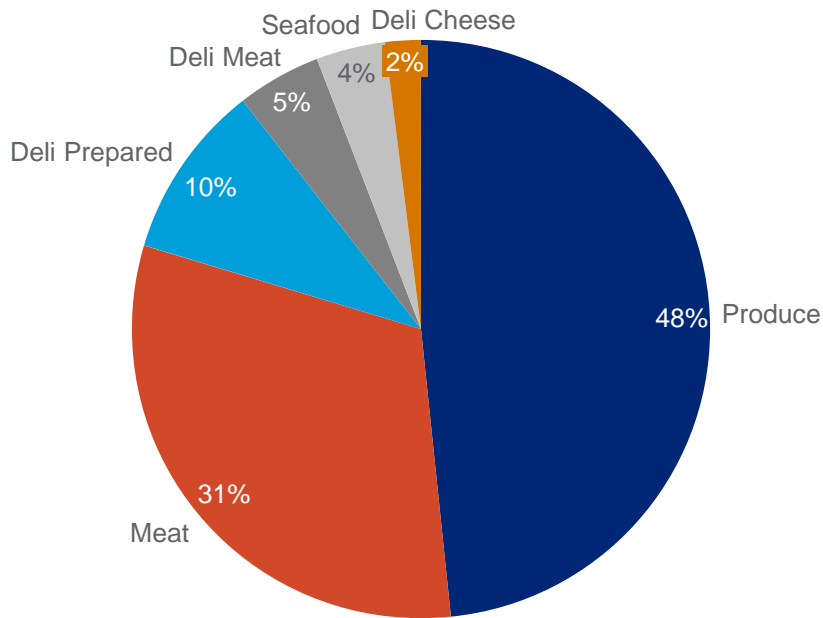
Monthly Unit Sales Change
by Department: Grocery Channel



Source: IRI Market Advantage™, Jan.–Mar. 2018 and same periods prior two years, food only

In Perimeter, Pound Performance Is Down Across Most Sectors; Dollars Buoyed by Price

Perimeter Sales % of Dollar Sales, by Department



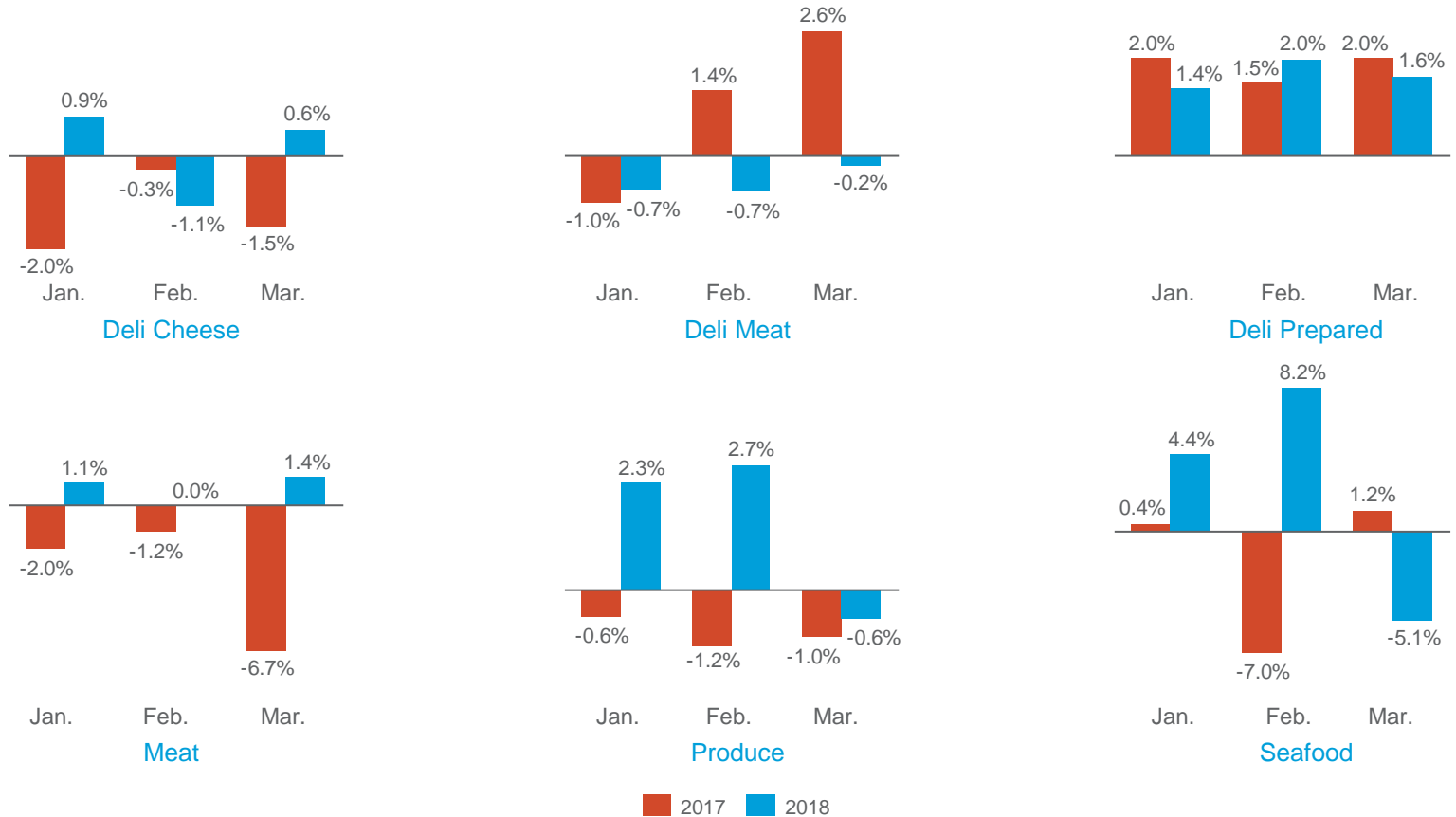
Perimeter Sales Q1 Performance vs. YA, by Department

	Dollar Sales % Chg. vs. YA	Pounds % Chg. vs. YA
Perimeter	1.4%	-1.8%
Deli Cheese	0.3%	0.6%
Deli Meat	-0.6%	-1.4%
Deli Prepared	1.8%	-6.8%
Meat	1.3%	-1.3%
Produce	1.6%	-1.4%
Seafood	2.1%	-0.5%

Source: IRI FreshLook POS, MULO, Q1 2018 and same period prior year; excludes in-store bakery

Perimeter Dollar Growth Has Slowed Versus Year Ago Across Most Sectors

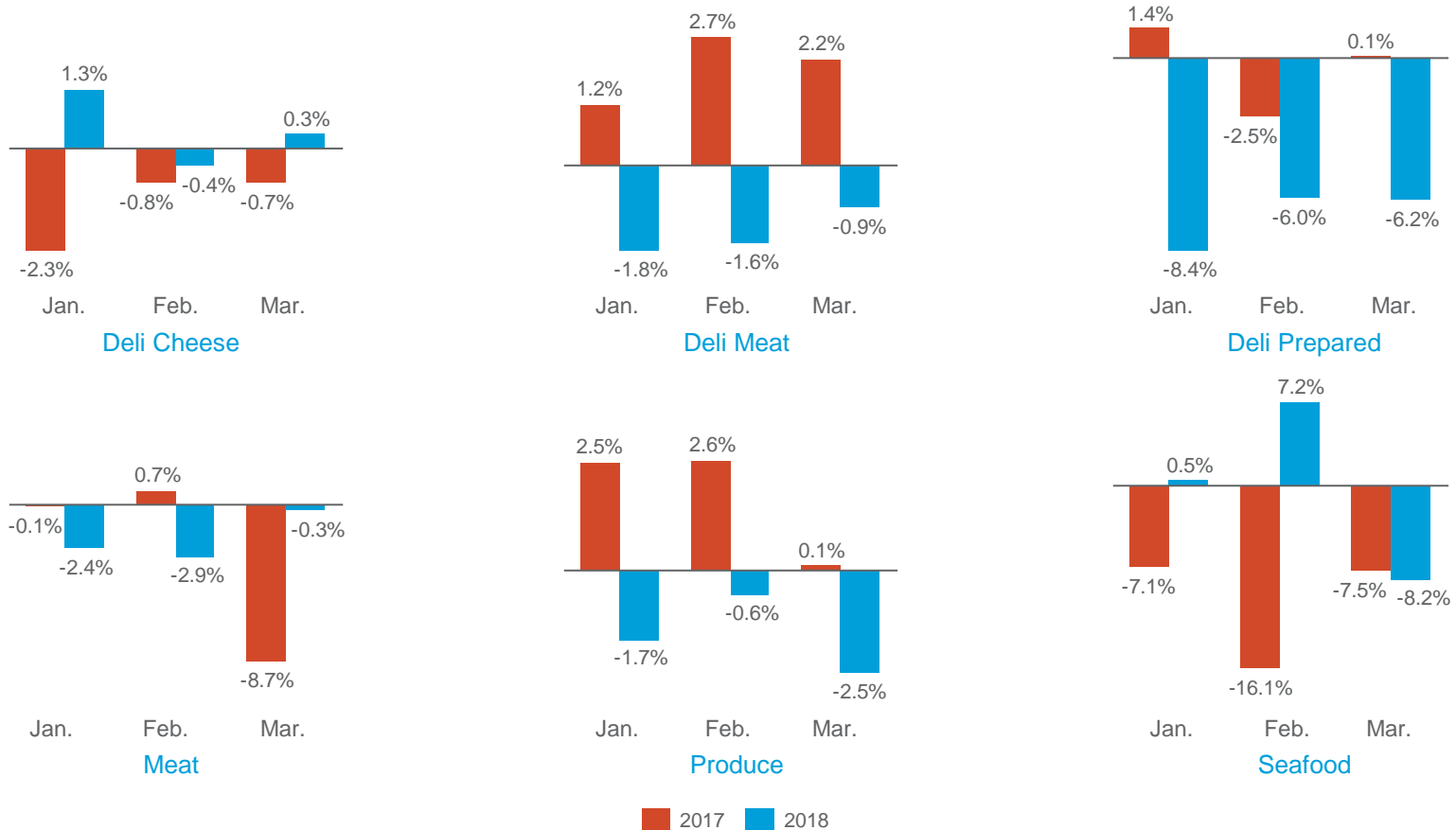
Monthly Dollar Sales Change by Department



Source: IRI FreshLook POS, MULO, Jan.–Feb. 2018 and same periods prior year

Perimeter Pound Trends Are More Favorable Versus Year Ago in Deli Cheese and Meat but Otherwise Down Sharply

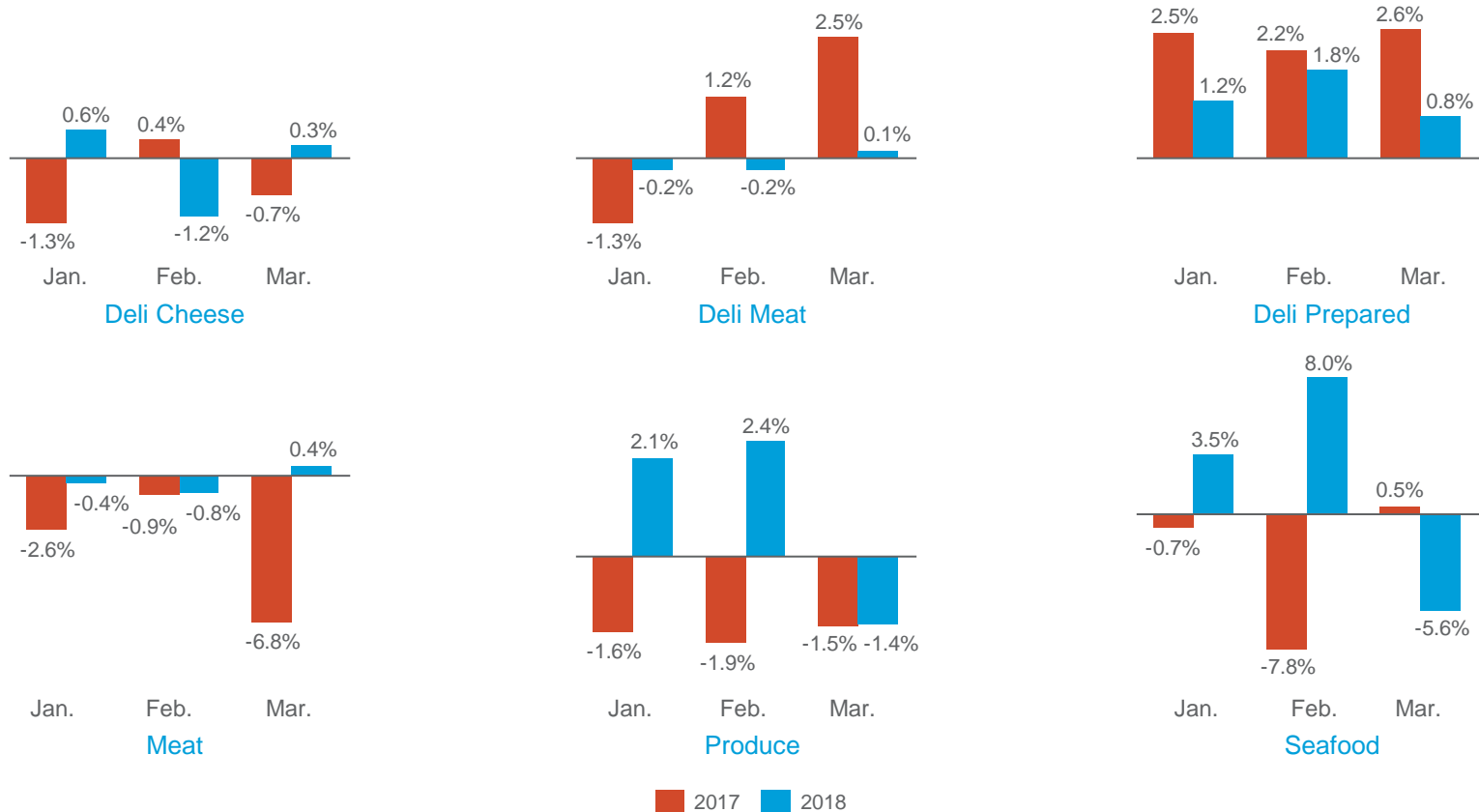
Monthly Pound Sales Change by Department



Source: IRI FreshLook POS, MULO, Jan.–Feb. 2018 and same periods prior year

Grocery Channel Dollar Trends Closely Mirror Industry Average

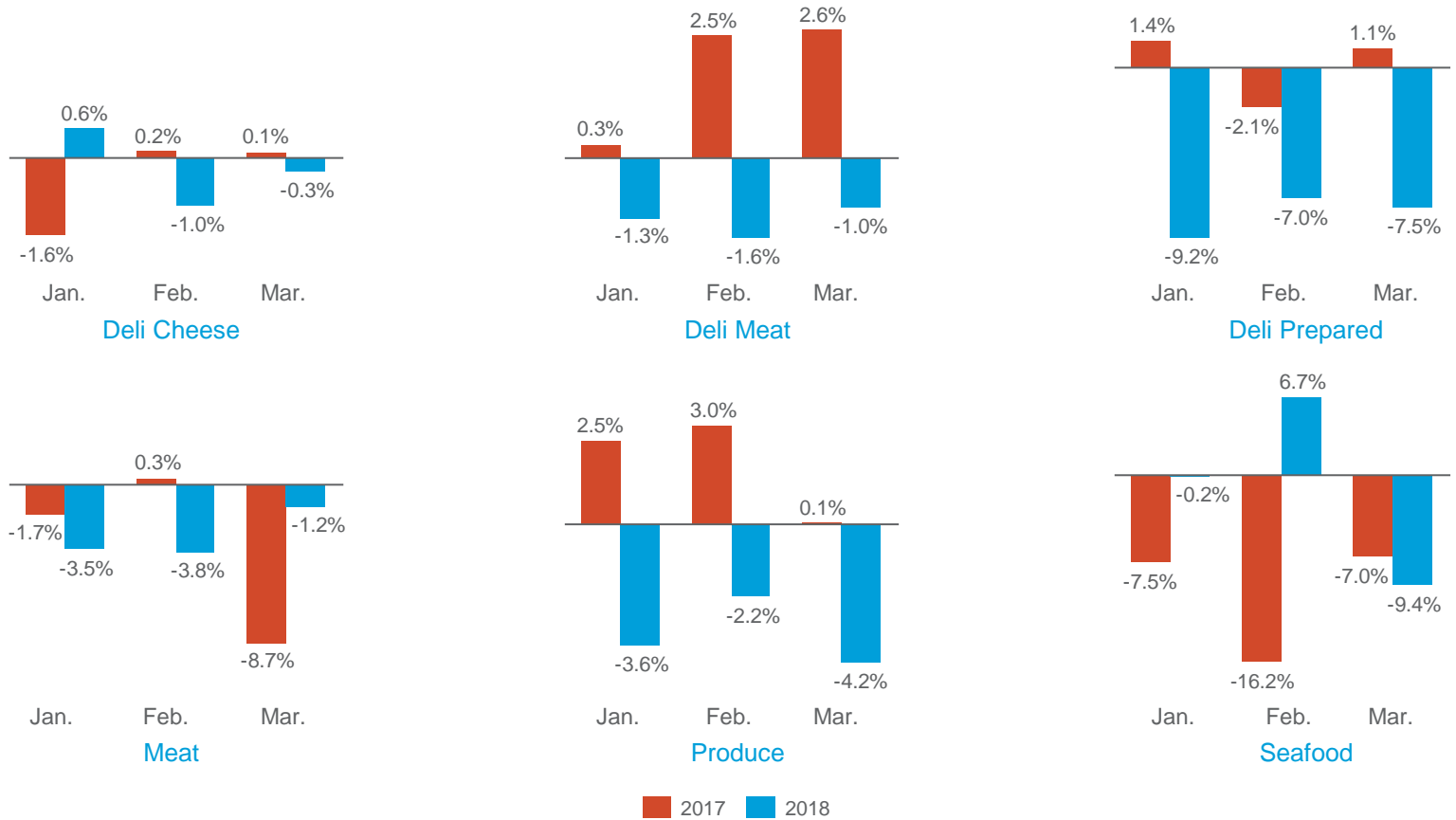
Monthly Dollar Sales Change by Department



Source: IRI FreshLook POS, Food, Jan.–Feb. 2018 and same periods prior year

Pound Trends Are Also Consistent Versus Industry Average

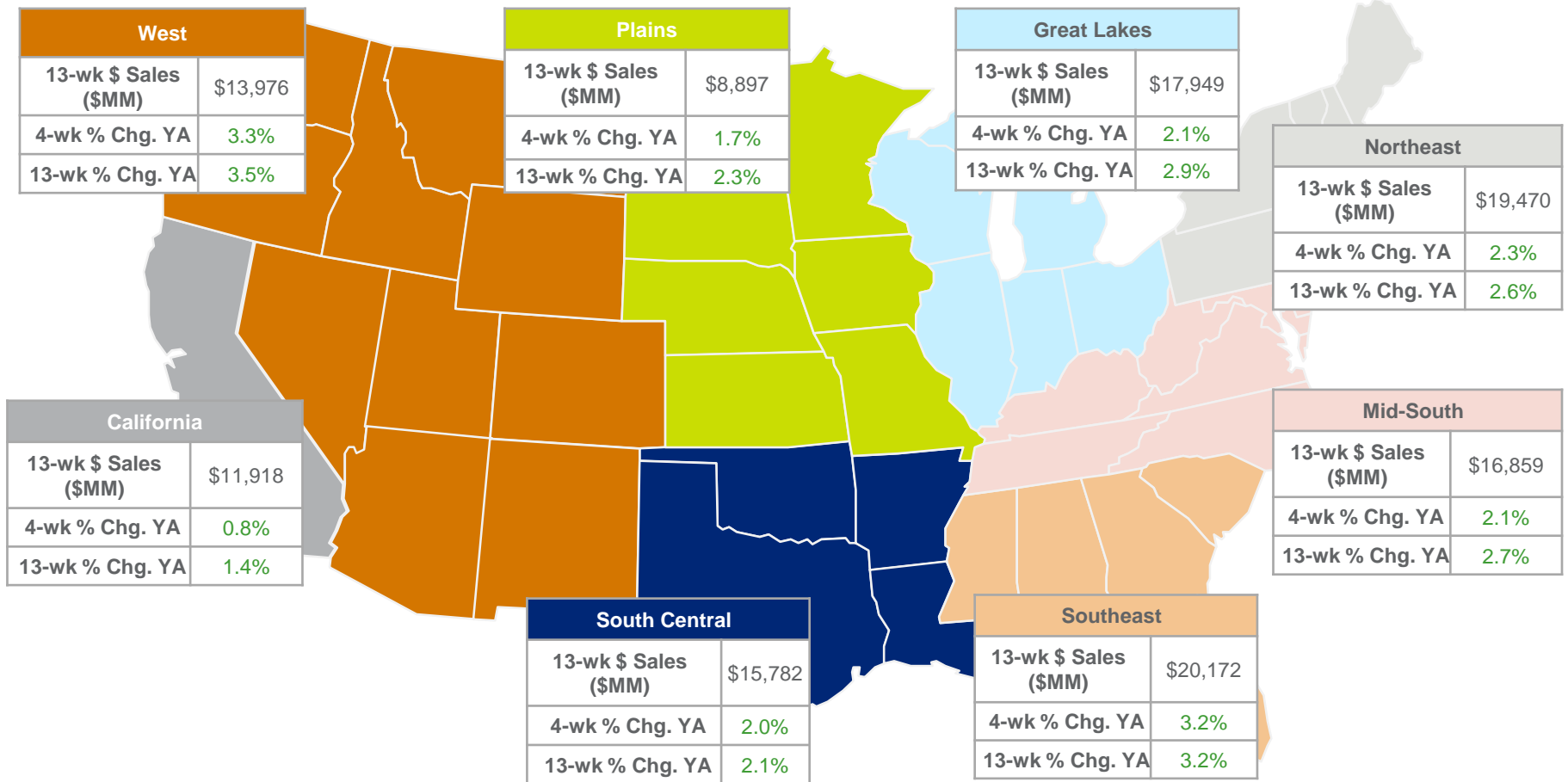
Monthly Pound Sales Change by Department



Source: IRI FreshLook POS, Food, Jan.–Feb. 2018 and same periods prior year

All Regions Show Positive Growth in the Latest 4-Week and 13-Week Periods; West and Southeast Regions Are Strongest

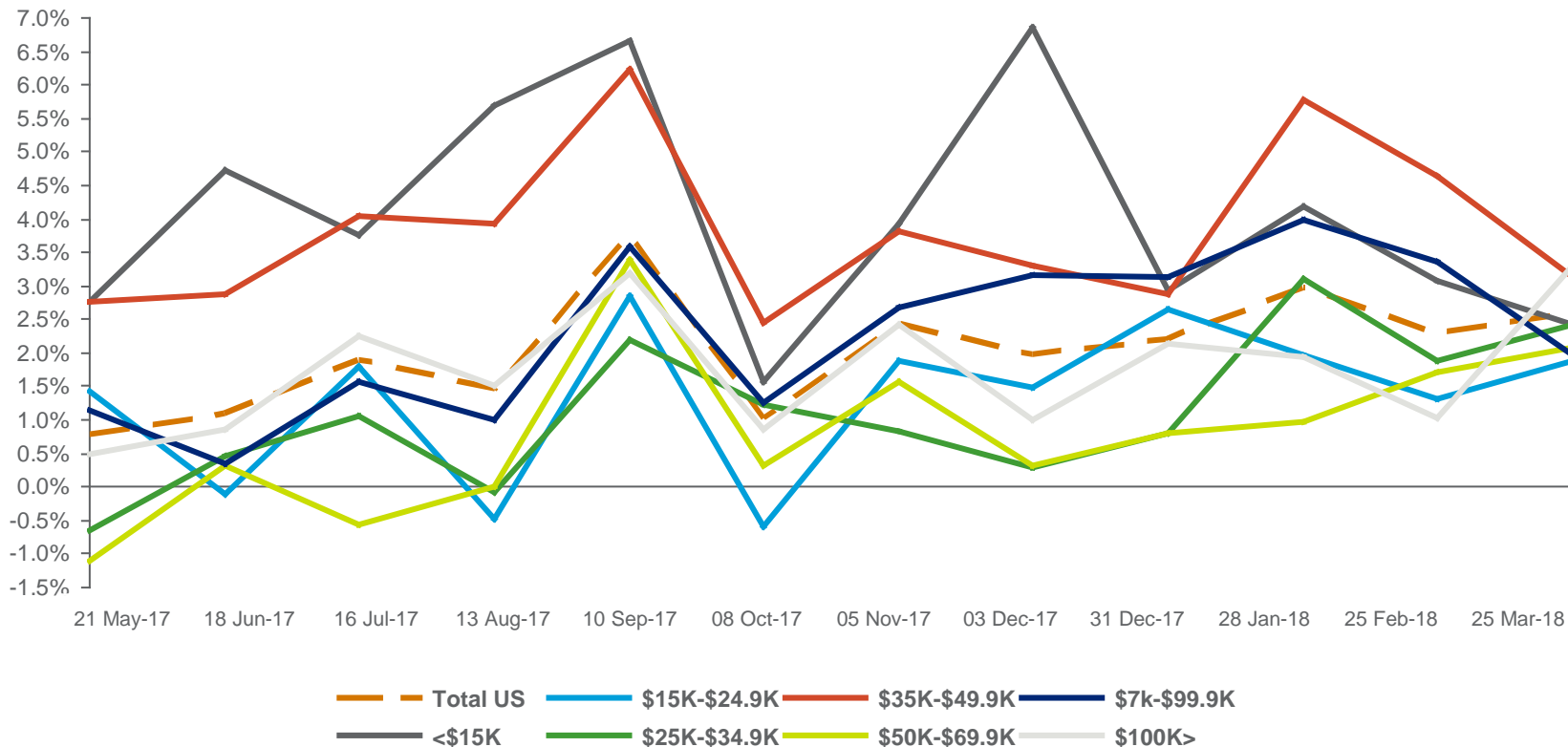
Region Trends, Edible



Source: IRI Market Advantage™, L13 & L4WE 3/25/18, MULO+C Regions

Edibles Spending Has Been Volatile but Largely Positive Across Income Segments During the Past year

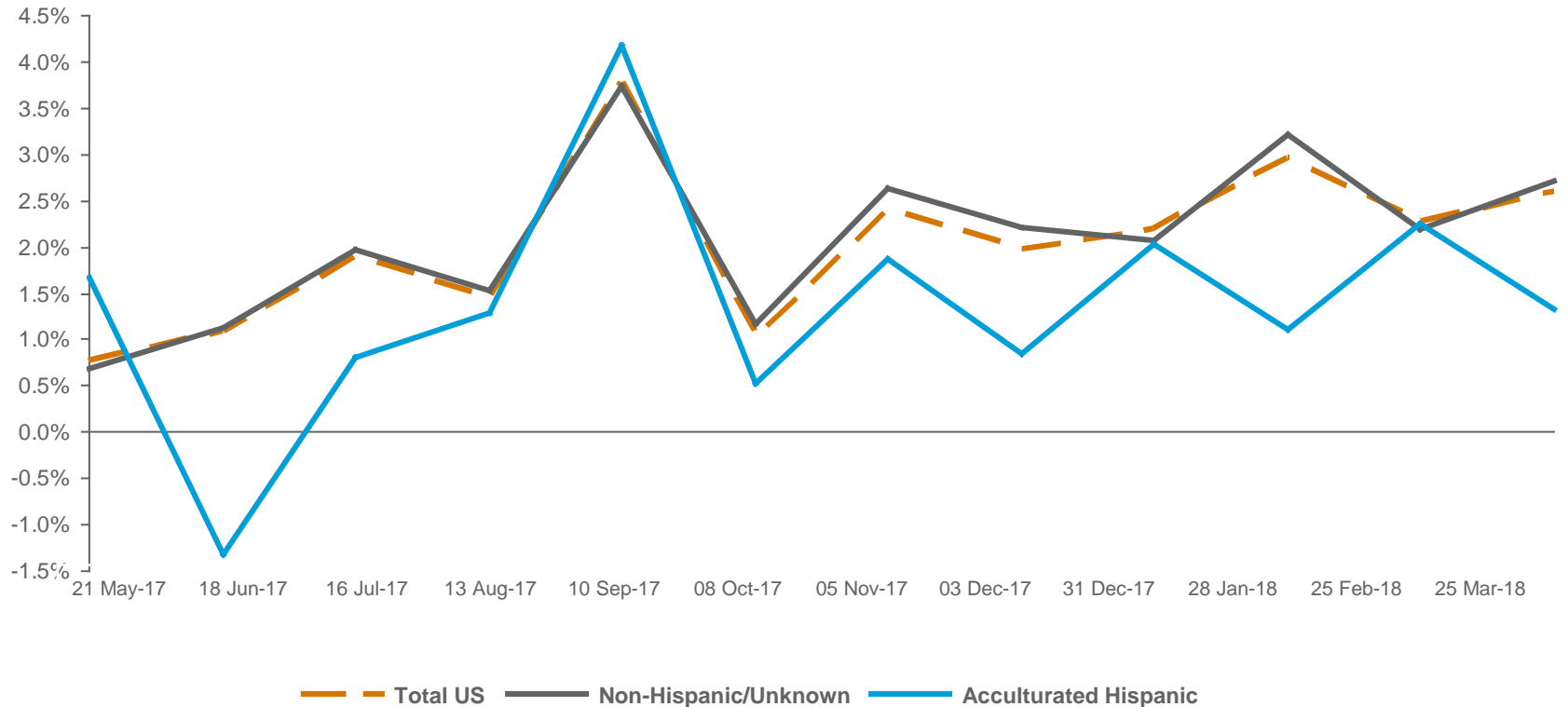
Edible Dollar Sales % Chg. vs. YA,
by Household Income



Source: IRI CSIA, All Outlets, Quad Week Data Ending Mar. 25, 2018, and preceding, NBD aligned

Spending by Hispanic Shoppers Has Largely Lagged Other Populations

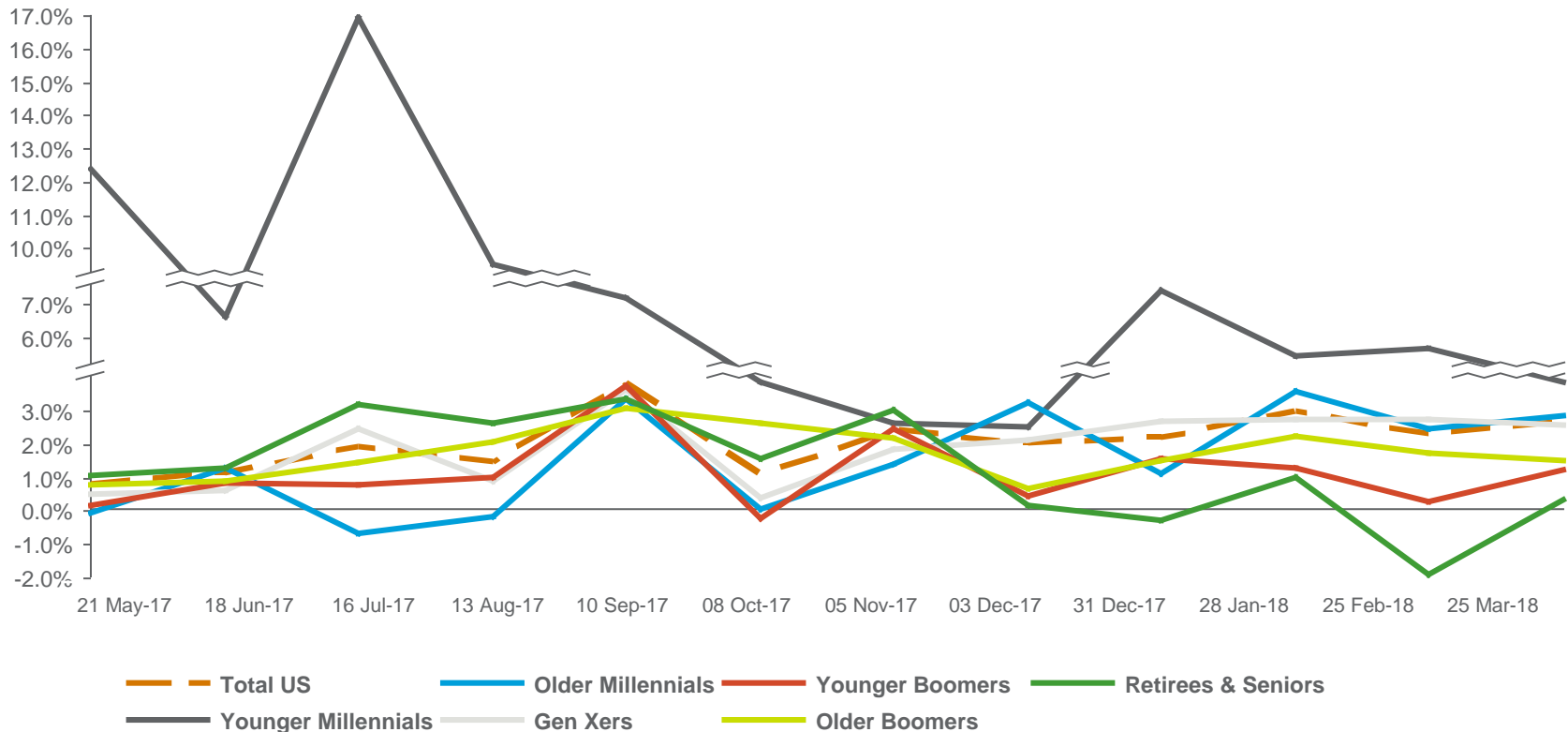
Edible Dollar Sales % Chg. vs. YA,
by Ethnicity



Source: IRI CSIA, All Outlets, Quad Week Data Ending Mar. 25, 2018, and preceding, NBD aligned

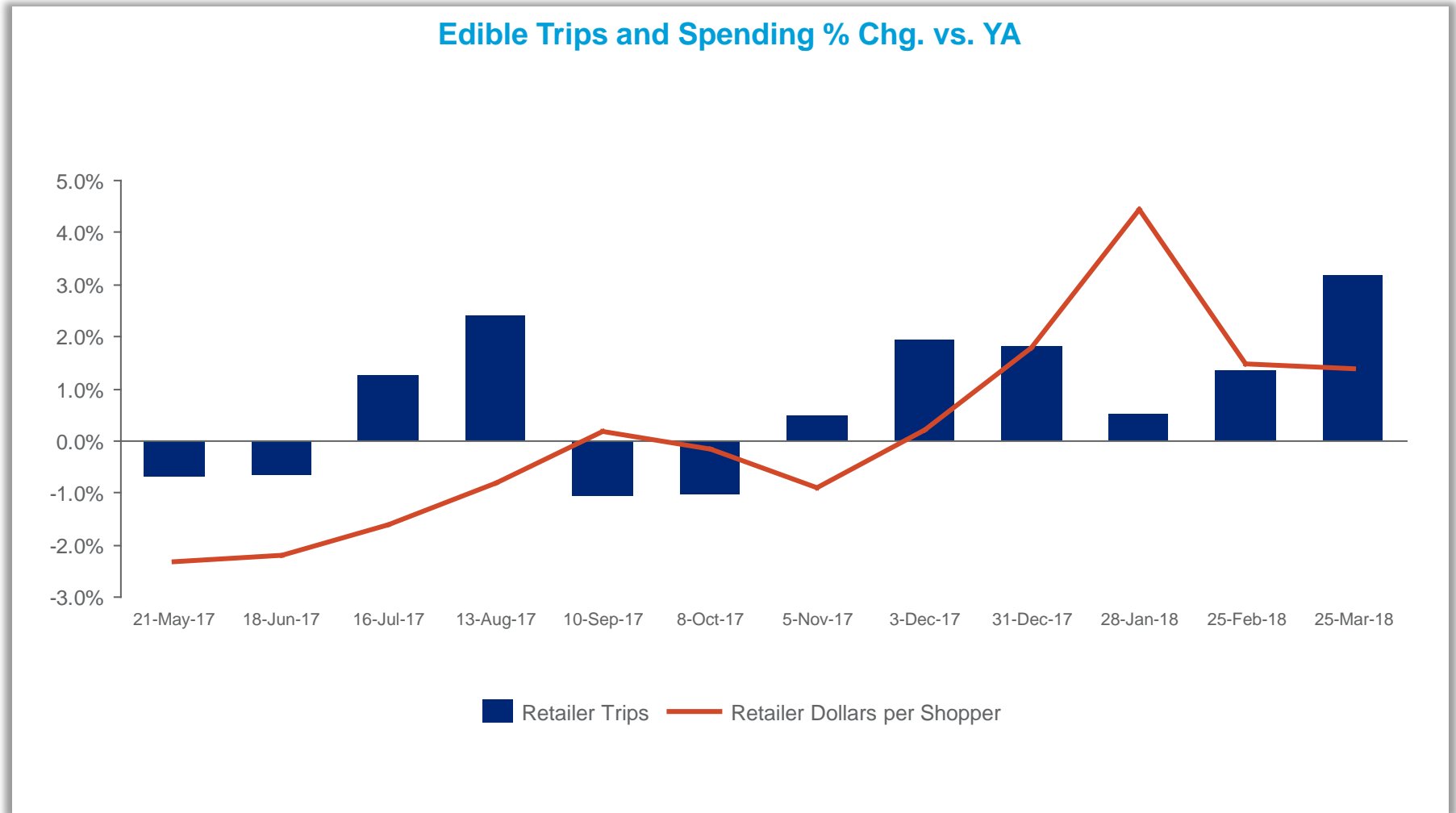
Spending by Younger Millennials Stands Out Versus Other Generations; Seniors Struggled During Q1

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



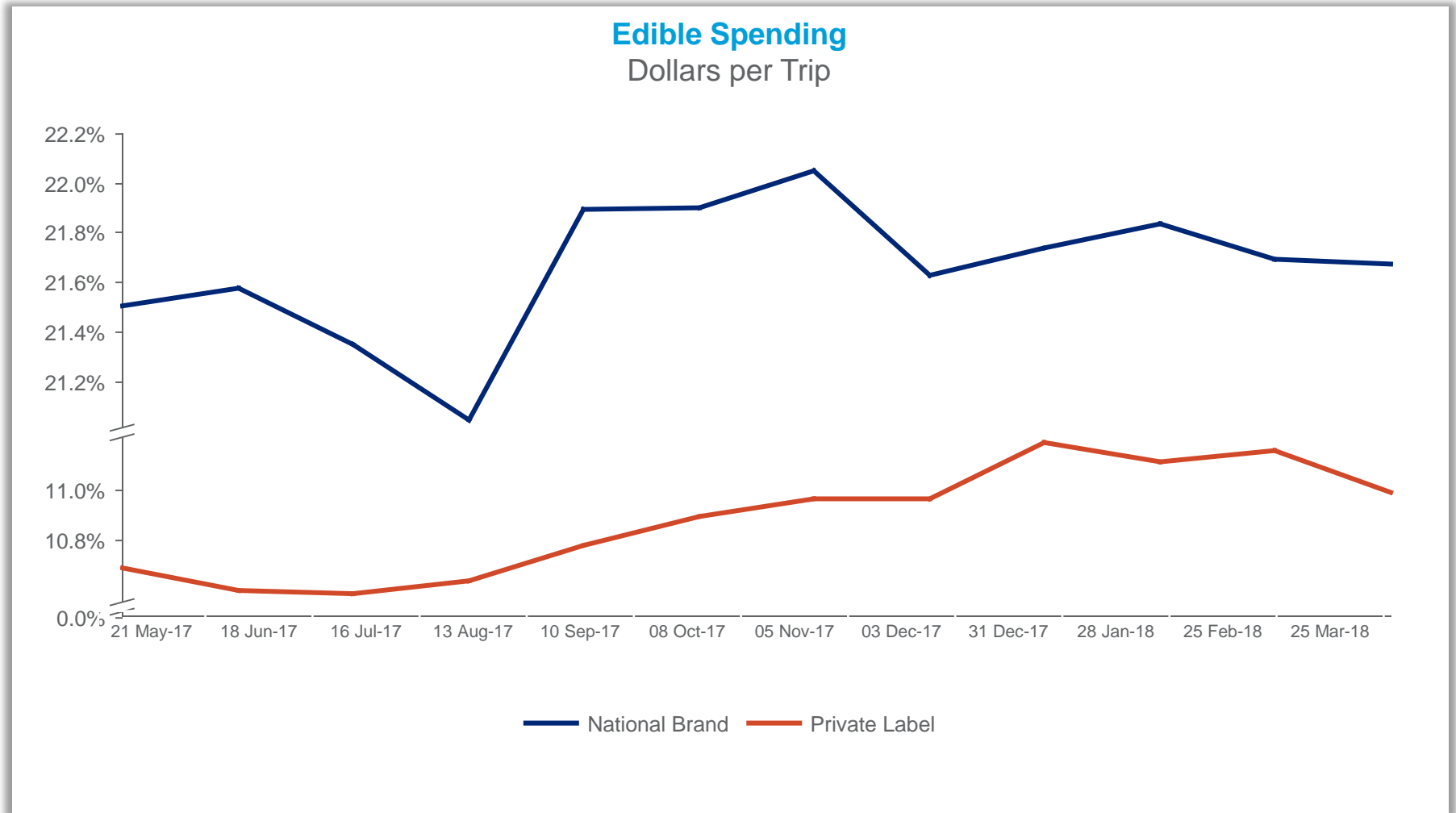
Source: IRI CSIA, All Outlets, Quad Week Data Ending Mar. 25, 2018, and preceding, NBD aligned

Edibles Trips and Baskets Have Seen Positive Movement Since November 2017



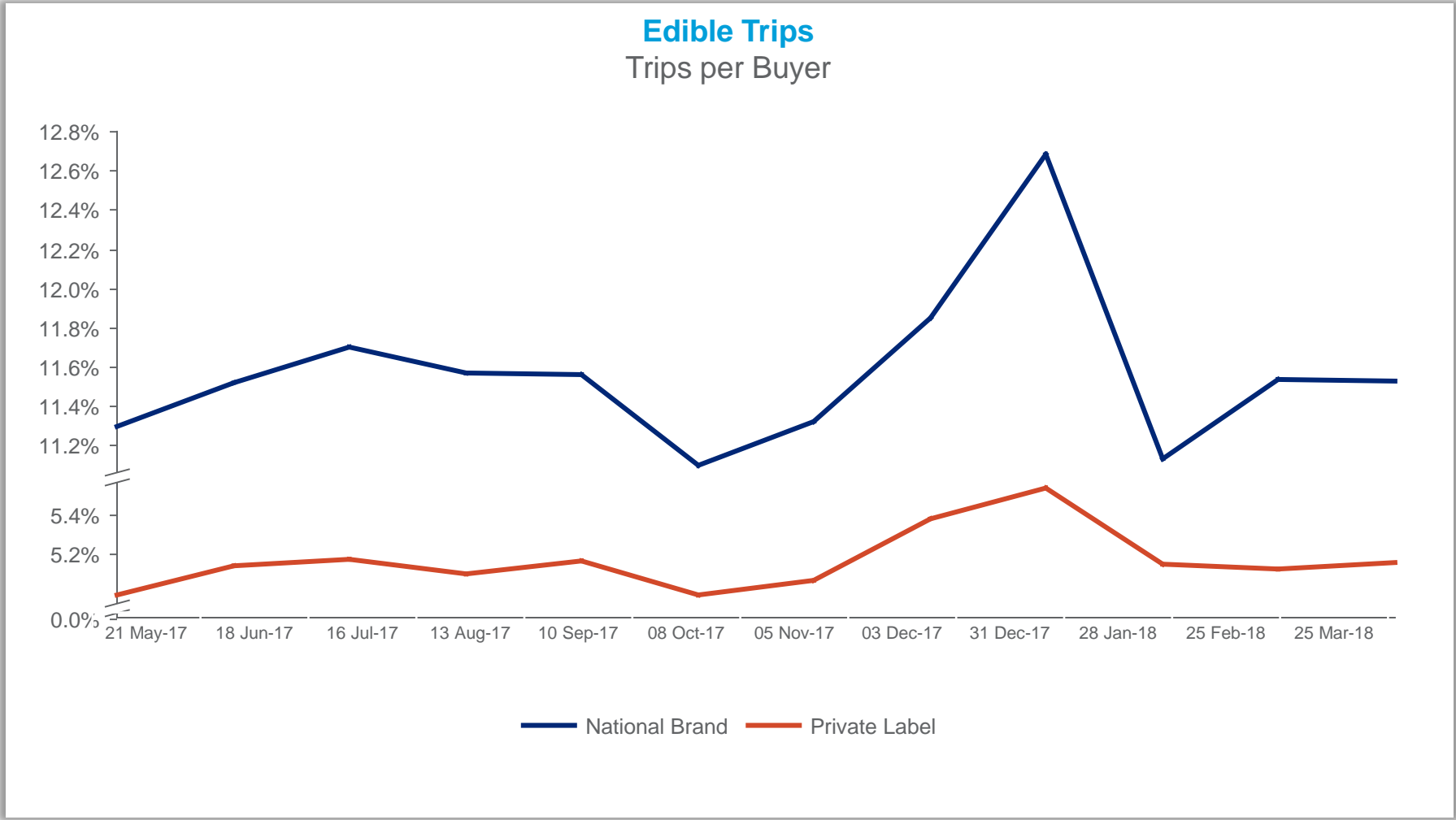
Source: IRI CSIA, All Outlets, Quad Week Data Ending Mar. 25, 2018, and preceding, NBD aligned

Private Label Dollars per Trip Increased Early, but Has Fallen Off; National Brand Per-Trip Spending Growth Has Been Flat in 2018



Source: IRI CSIA, All Outlets, Quad Week Data Ending Mar. 25, 2018, and preceding, NBD aligned

National Brand Trips Were More Volatile Than Private Label, but Both Show Signs of Leveling Off

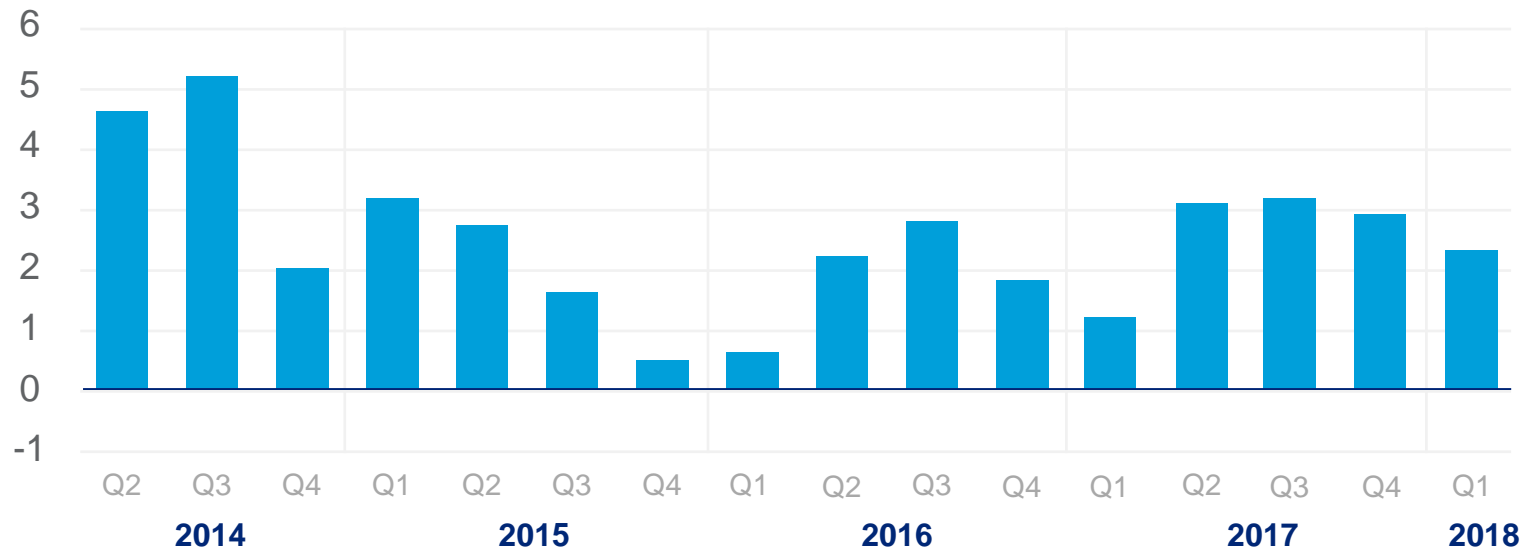


Source: IRI CSIA, All Outlets, Quad Week Data Ending Mar. 25, 2018, and preceding, NBD aligned



Q1 2018 GDP Growth Is Stronger Than It Has Been in Recent Years, But Still Lower Versus the End of 2017

Real GDP, % Chg. From Preceding Quarter



Seasonally Adjusted at Annual Rates

- Macroeconomic activity slowed in the first quarter, with retail sales falling in February for a third straight month.
- Housing data has been generally weak, and the trade deficit hit a nine-year high in January.
- In Q4 2017, consumer spending showed the biggest gain in three years, which partially offset the drag from a surge in imports.

Source: U.S. Bureau of Economic Analysis

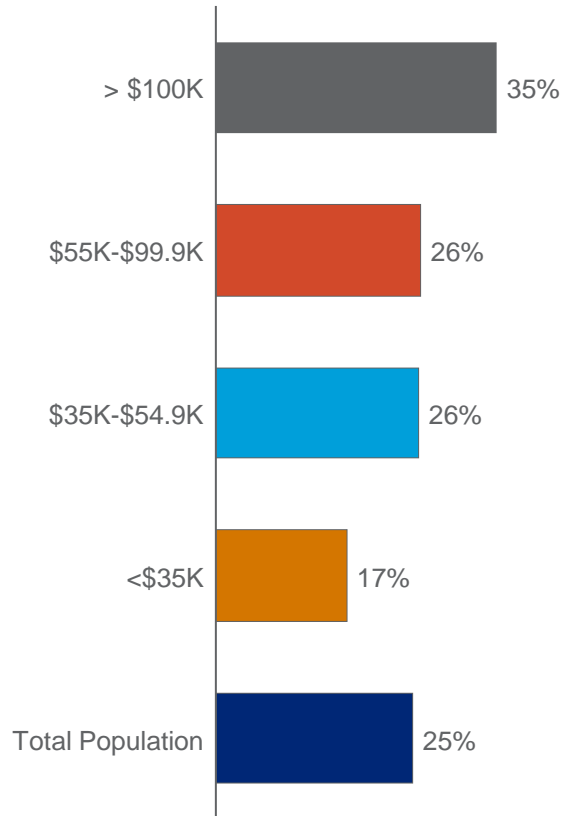
Through 2018, Unemployment Is Expected to Continue to Decline; GDP and Retail Sales Will Continue an Upward March

Economic Measure	2014	2015	2016	2017	2018
GDP (% Chg.)	4.2%	3.7%	3.0%	4.1%	5.2%
Unemployment (% , SA)	6.2%	5.3%	4.9%	4.4%	3.8%
Consumer Price Inflation (% Chg.)	1.6%	0.1%	1.3%	2.1%	2.8%
Retail Sales (% Chg.)	4.1%	2.3%	3.0%	4.6%	4.8%
Residential Permits, Total (Mil.)	4.2	4.7	4.7	5.0	5.8

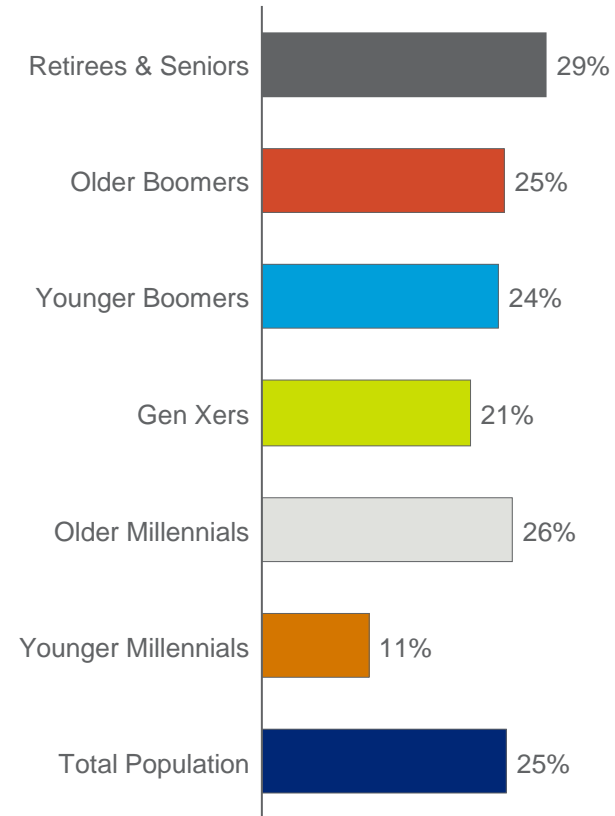
Source: Moody's

Premiumization Can Support CPG Growth; Strategies Must Reflect Preferences Across Shopper Microsegments

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



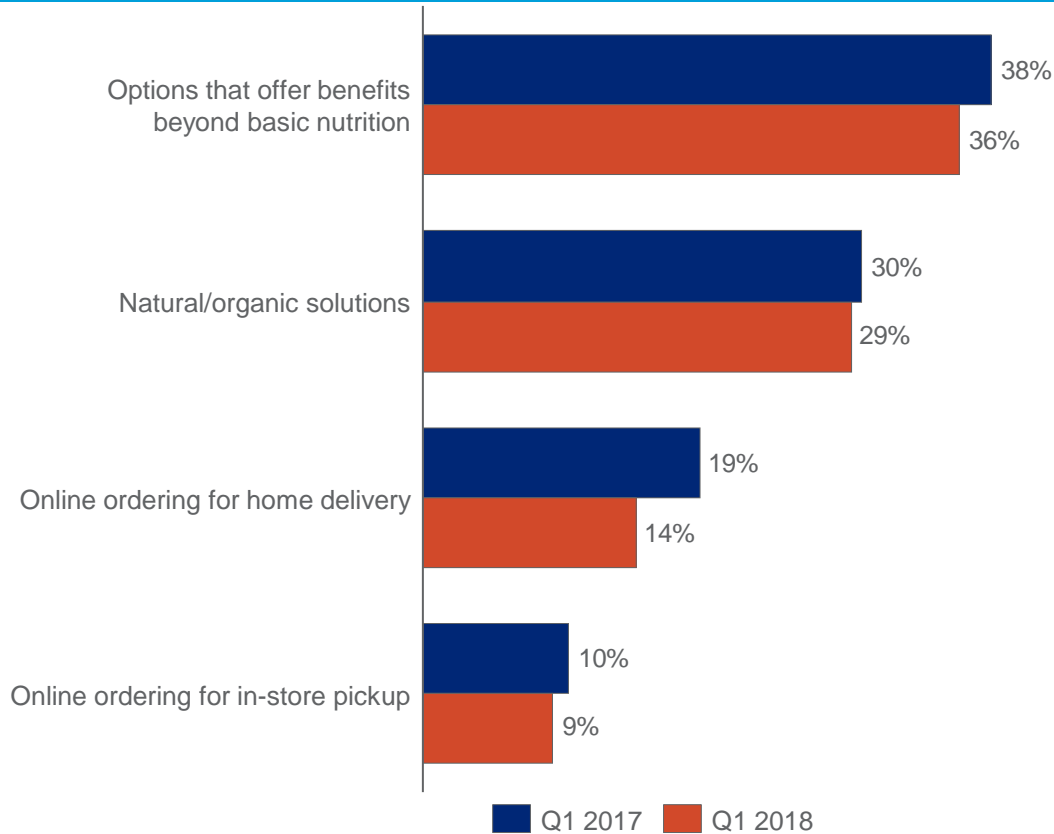
Expect to Purchase More Premium Brands During the Next Six Months, by Generation



Source: IRI Consumer Connect™, Q1 2018

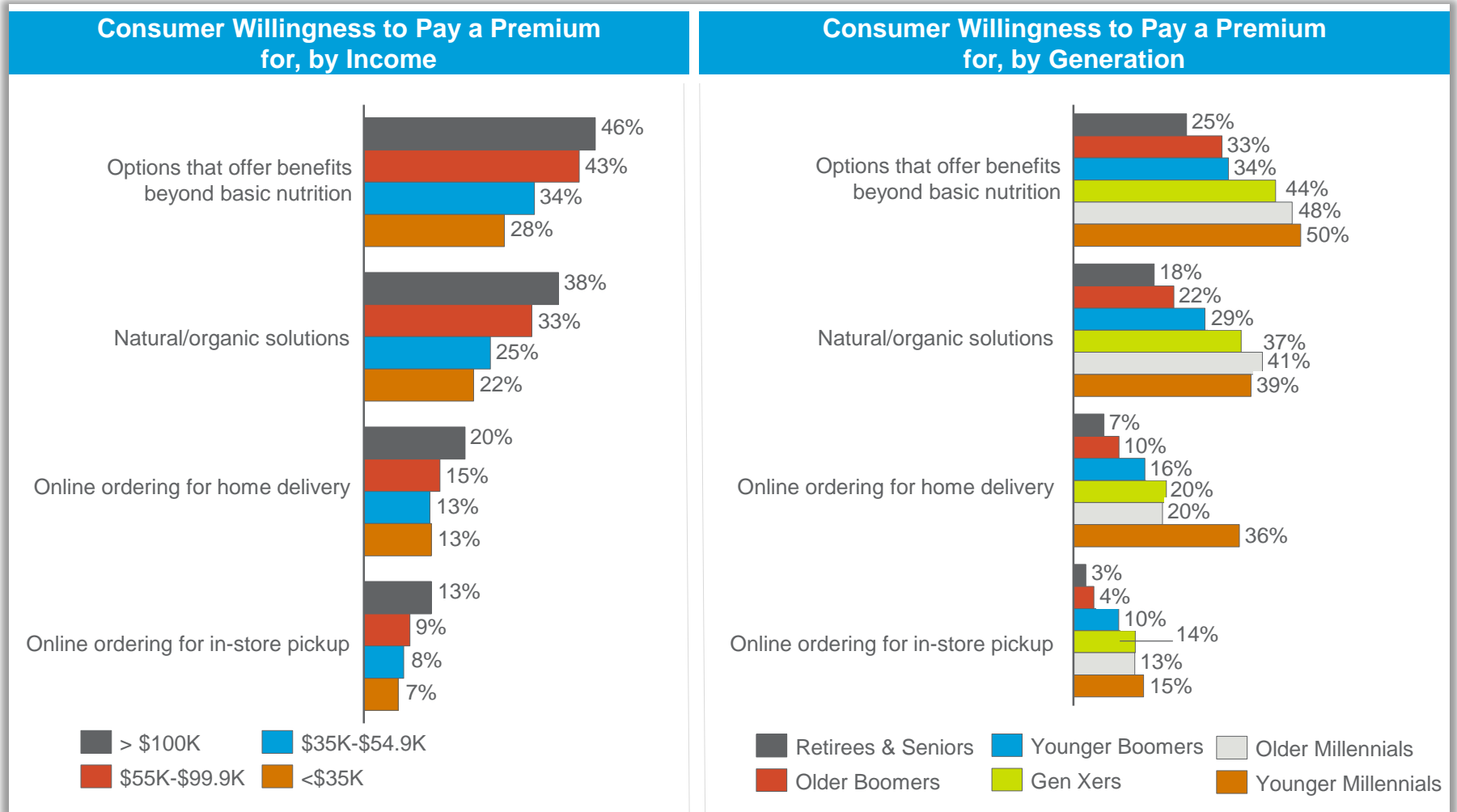
Encourage Trade-Up Behavior With Sought-After Shopper Benefits

Consumer Willingness to Pay a Premium for, Total Population



Source: IRI Consumer Connect™, Q1 2017 & Q1 2018

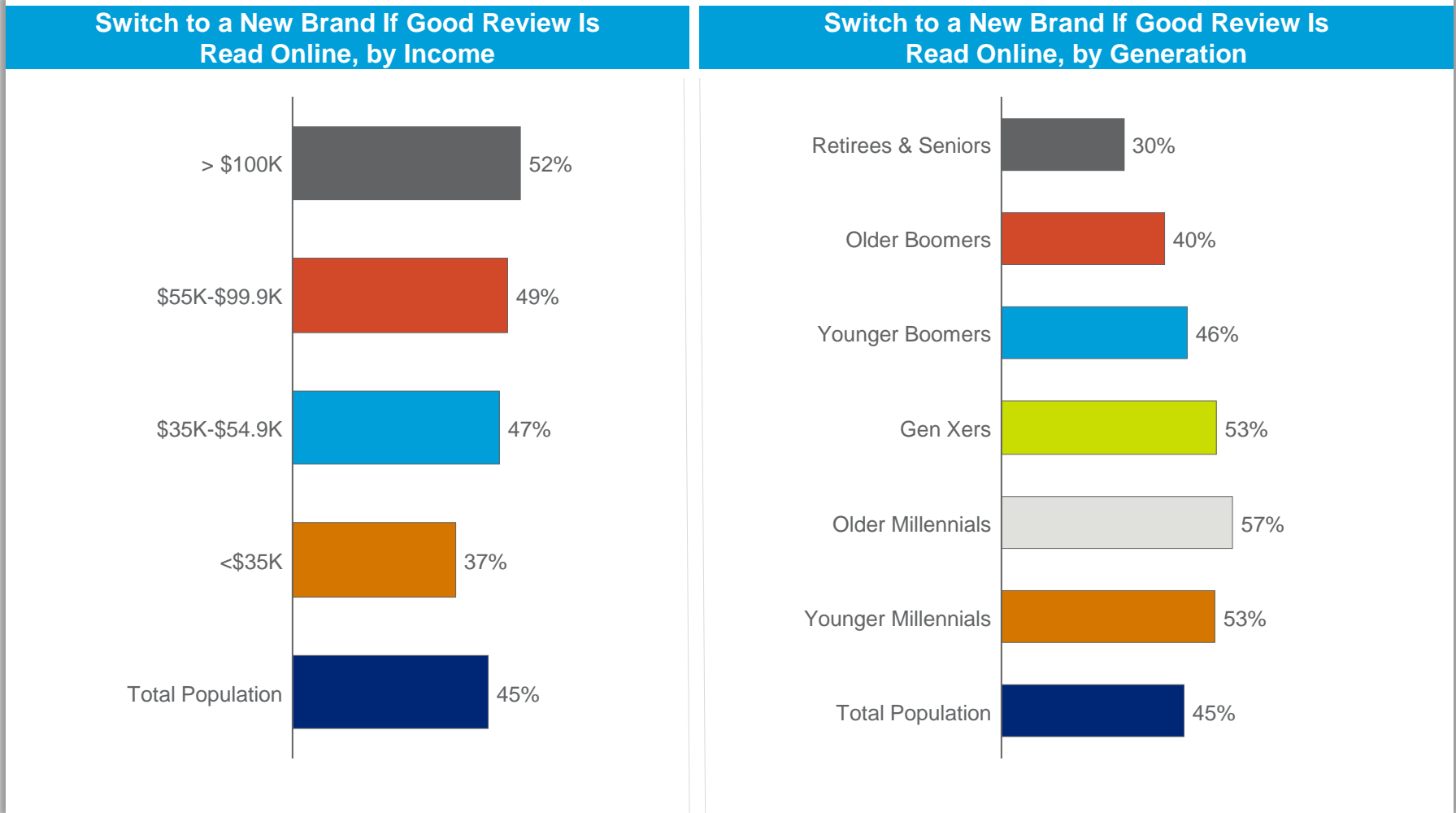
Understand How Preferences Vary Across Key Sectors



Source: IRI Consumer Connect™, Q1 2018



And Engage the Power of Social Media to Appeal to Digitally Savvy Shoppers



Source: IRI Consumer Connect™, Q1 2018

