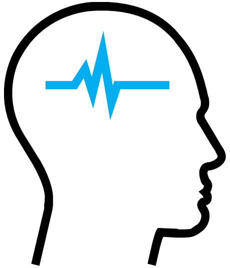
POLARIZING GROWTH
TRENDS IMPACTING IN-STORE

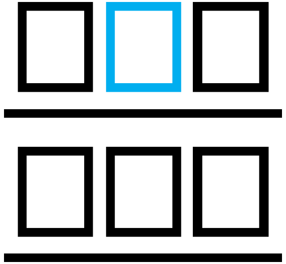
Q2 2019

Carman Allison

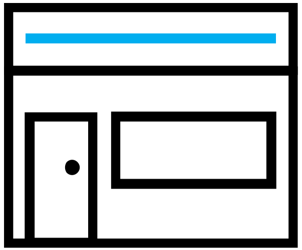
POLARIZING GROWTH IMPACTING FMCG



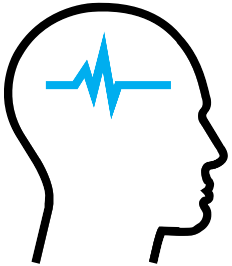
CONSUMERS



MANUFACTURERS



RETAILERS



Consumer economics and inflation are fueling polarizing growth

CANADIAN CONSUMER SENTIMENT DROPS TO ITS LOWEST LEVEL SINCE Q4 2016

CONSUMER CONFIDENCE

99 -7

% POSITIVE

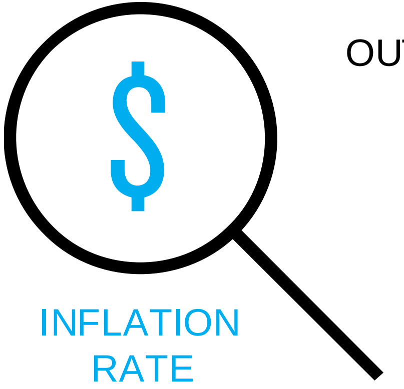
JOBS	52%	-4
FINANCES	58%	-6
GOOD TIME TO BUY	43%	-3

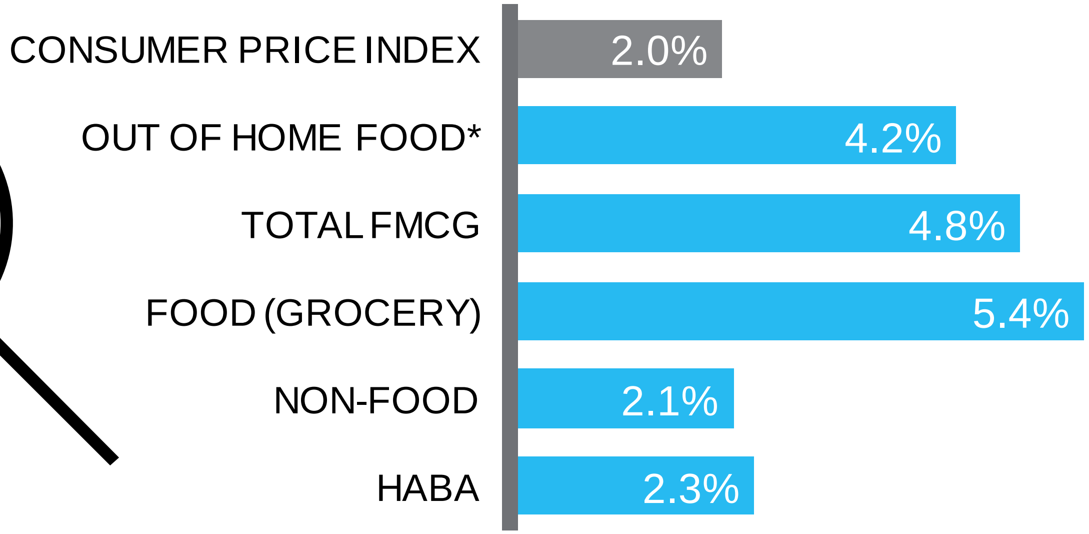
TOP 5 CONCERNS

24%	Economy
22%	Health
21%	Food Prices
19%	Debt
15%	Fuel Prices

Source: The Conference Board® Global Consumer Confidence™ Survey, in collaboration with Nielsen – Q2 2019– Top 2 combined - Change versus previous quarter

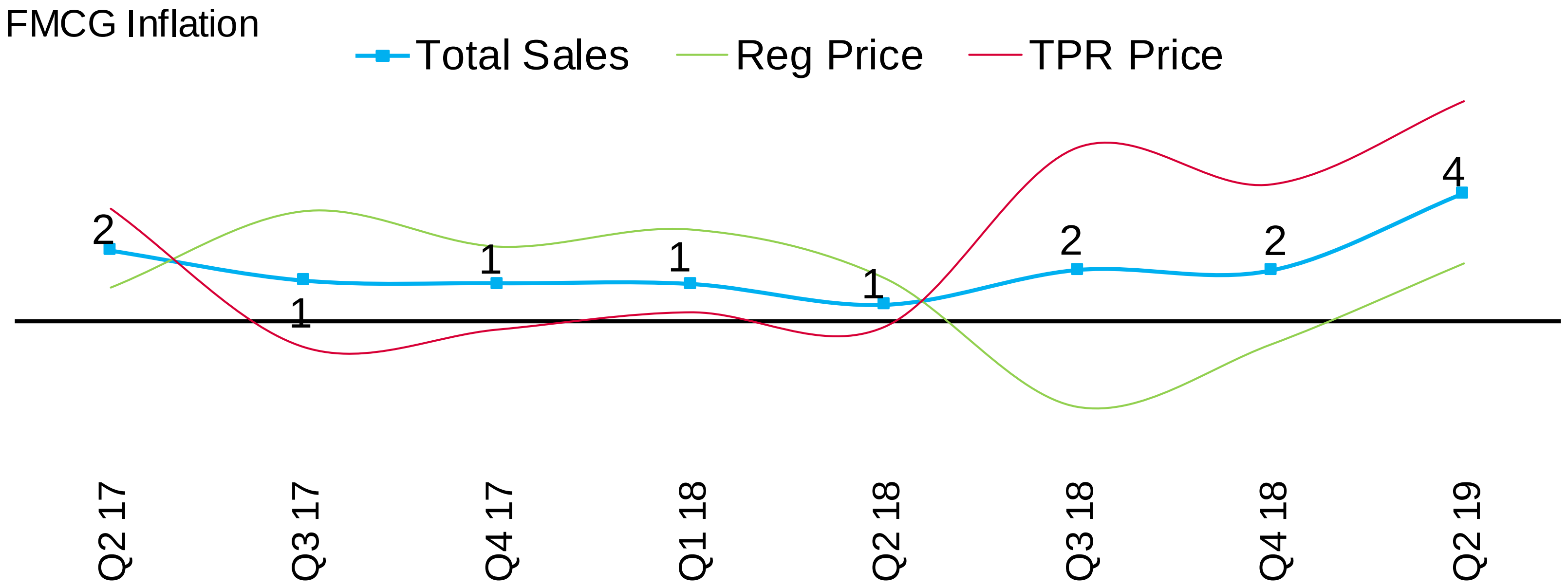
BOTH OUT OF HOME AND GROCERY FOOD INFLATION IS EXCEEDING CONSUMER PRICE INDEX





Source: Nielsen MarketTrack, Canada National All Channels - Total Tracked Sales (Including Fresh) Q2 12 weeks to June 22, 2019
CPI: Statistics Canada July 2019 *NPD Menu Inflation

BOTH REGULAR AND PROMOTED PRICES ARE EXPERIENCING INFLATION

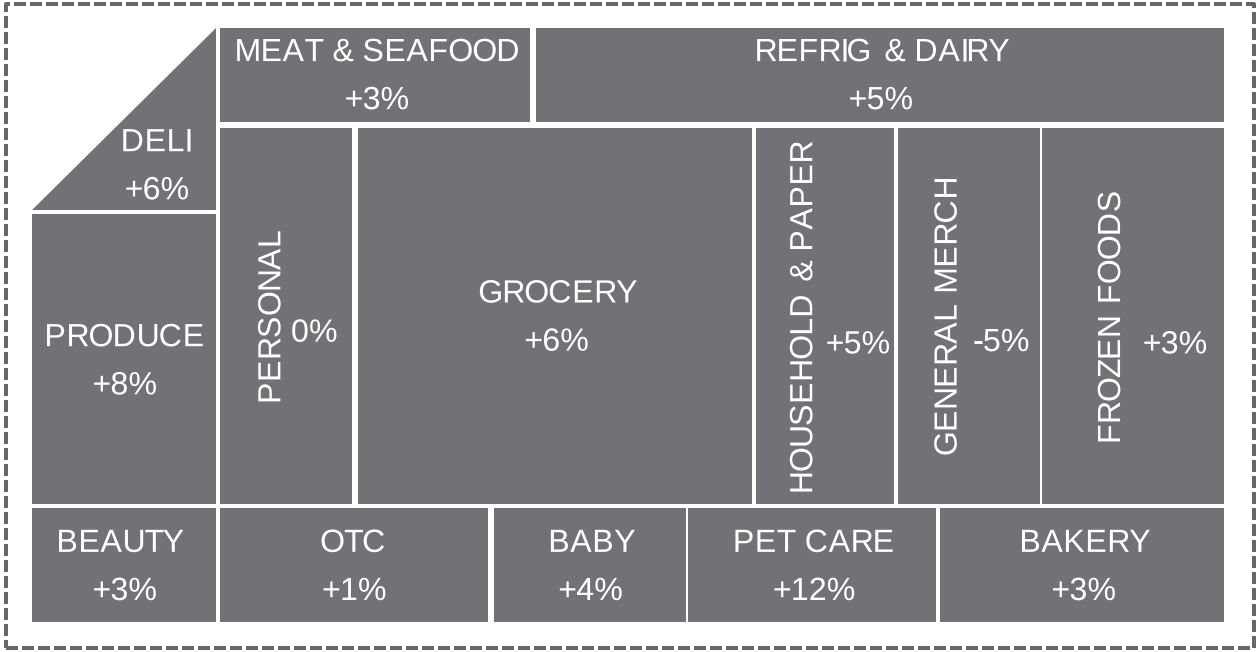


Source: Total sales: Nielsen MarketTrack, All Channels - Regular and TPR Sales: National G+D+M, 12 w eeks to June 22, 2019
Total Tracked Sales excluding Fresh Random Weight

PRODUCE, DELI AND PET PRODUCTS REPORT DOUBLE DIGIT INFLATION

TOTAL FMCG
PRICES
JUMPED
+4%
IN Q2 2019

Annual Price Increases By Department



Source: Nielsen MarketTrack, National All Channels – 12 weeks to June 22, 2019

CONSUMERS VALUE SIZE OPTIONS WHEN FACED WITH HIGHER PRICES

Q

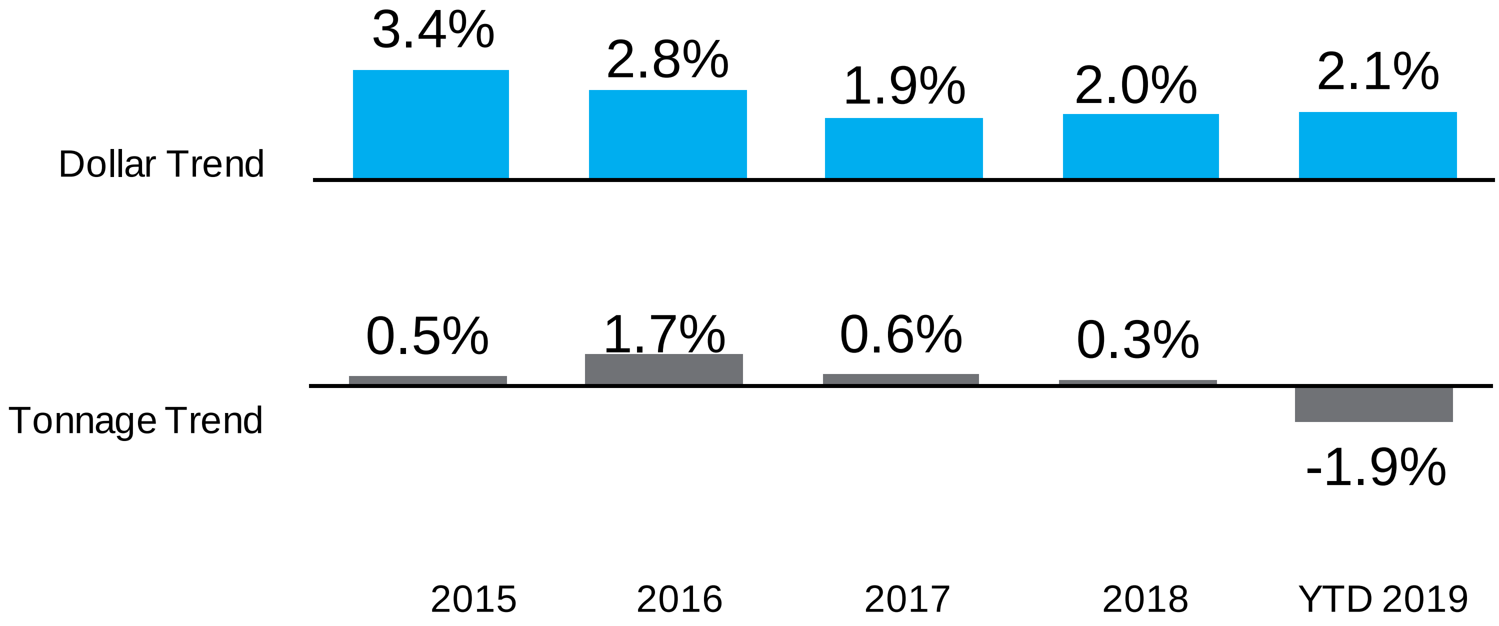
If raw material costs rose substantially for a manufacturer of food, household and/or personal care products what would you prefer they do?

Lower cost per use with larger sizes	65%
Offer smaller sizes to lower unit cost	36%
Same # of sales with less of a discount	32%
Downsize existing pack size	25%
Offer fewer sales	19%
Increase existing prices	17%
Reduce quality but keep price the same	7%

Source: Nielsen Panel Views Survey Canada 2018

Despite rising prices, 2019 FMCG sales performance is similar to previous years

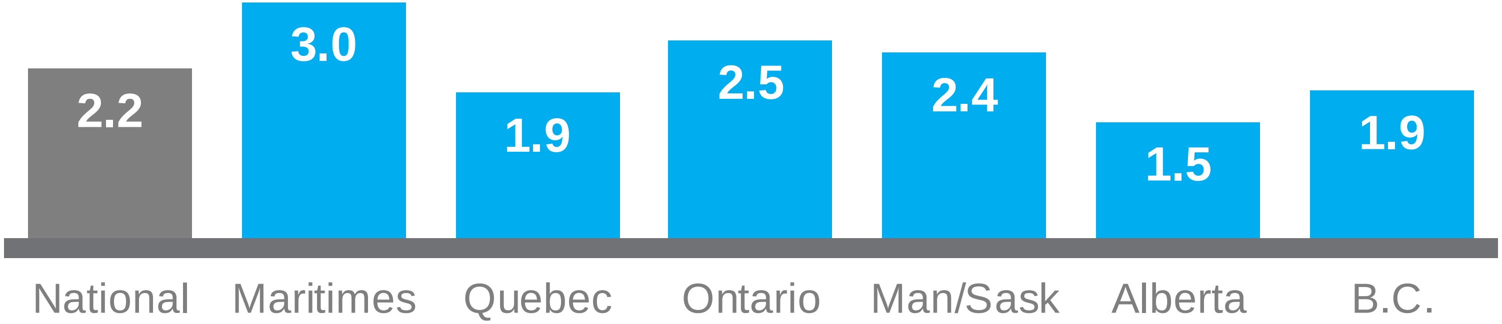
2019 FMCG SALES MIRRORING LAST 2 YEARS



Source: Nielsen MarketTrack, Canada National All Channels – 52 weeks Year End - Total Tracked Sales less General Merch (UPC Only) YTD 24 weeks to June 22, 2019

ALBERTA CONTINUES TO LAG REGIONAL GROWTH

52 week Regional CPG Performance = $ % Chg



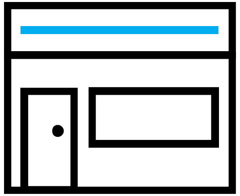
	National	Maritimes	Quebec	Ontario	Man/Sask	Alberta	B.C.
Vol % Chg	-1.0	-1.5	-2.0	-1.1	+0.4	-0.4	-0.5

Source: Nielsen MarketTrack, National All Channels – 52 weeks Ending June 22, 2019 - Total Tracked Sales excluding General Merch Fresh Random Weight

Hot Beverages are now lagging in-store FMCG sales

BOTH PERIMETER AND CENTRE OF STORE FOOD ARE FUELING FMCG RETAIL GROWTH

CENTRE OF STORE* VS. PERIMETER



* Excludes General Merchandise

COS Food		COS Non Food		Perimeter	
44.3%	**+3**	**20.9%**	**+1**	**29.7%**	**+2**
SNACK	+3	PAPER	+4	VEGETABLES	+8
FROZEN FOODS	+3	BODY CARE	+2	FRUIT	+2
COLD BEVERAGES	+3	OTC	+1	MEAT & SEAFOOD	+1
CONDIMENTS & SAUCES	+3	HOUSEHOLD	+1	BAKERY	+1
REFRIG/DAIRY	+3	ORAL HYGIENE	+1	DELI	0
CONFECTIONERY	+3	PET	0		
BAKING NEEDS	+2	BABY CARE	0		
PREPARED FOODS	+1	HAIR CARE	0		
DESSERTS	+1	COSMETICS	-3		
HOT BEVERAGES	**0**	SHAVING	-4		

Source: Nielsen MarketTrack, National All Channels – 52 weeks to June 22, 2019 - Total Tracked Sales including Random Weight Fresh

COLD BEVERAGES OWN SHARE OF THROAT, BUT HOT BEVERAGES ARE DRIVING GROWTH

TOTAL BEVERAGES

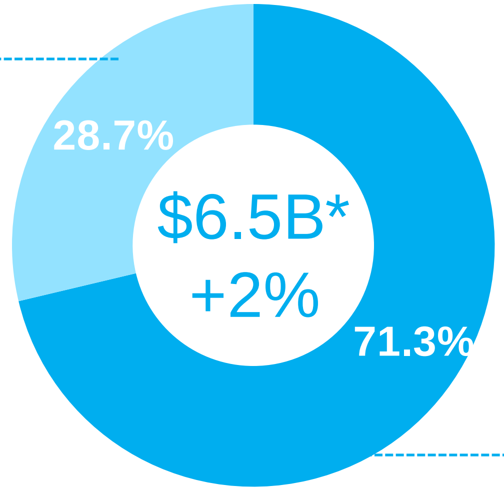
HOT

$1.9B
+0%

+0%
Inflation

Vol % Chg

+0%



Vol % Chg

-2%

COLD

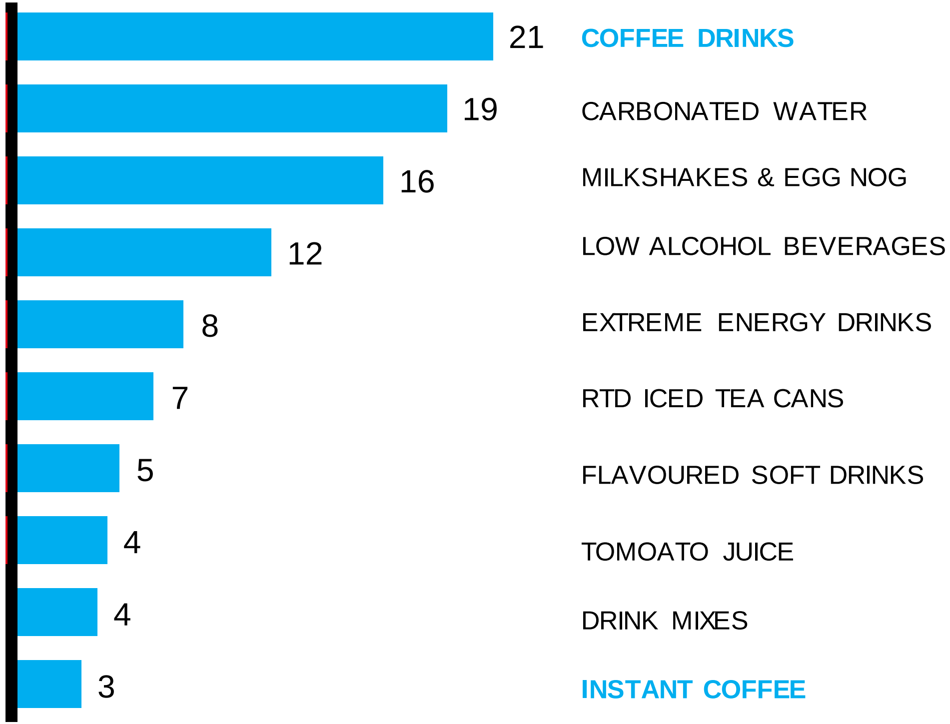
$4.6B
+3%

+5%
Inflation

Source: Nielsen MarketTrack, Canada National All Channels + C&G – 52 weeks to June 22, 2019

* Excludes dairy and dairy alternative beverages

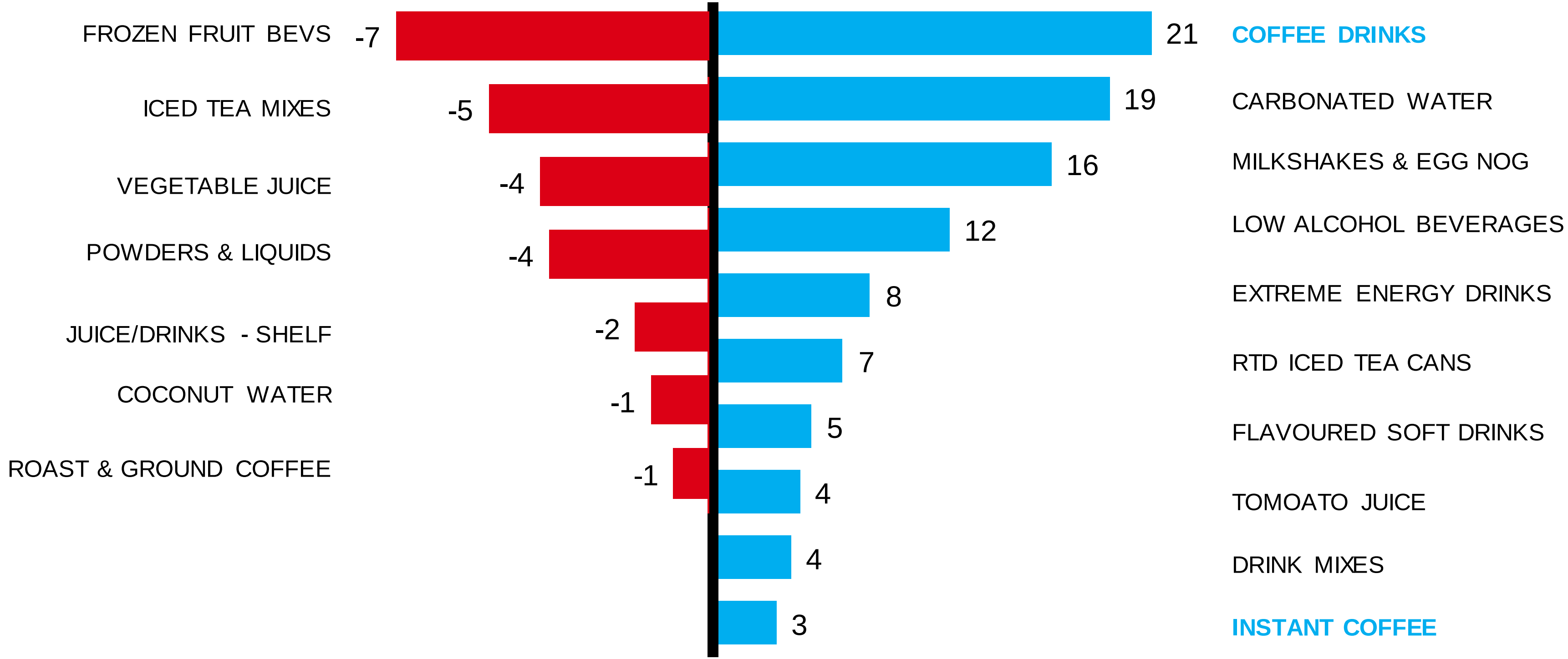
WHAT'S HOT IN BEVERAGES



Source: Nielsen MarketTrack, National All Channels, 52 weeks to June 22, 2019

* Categories with annual sales > $20 million

WHAT’S HOT AND NOT IN BEVERAGES

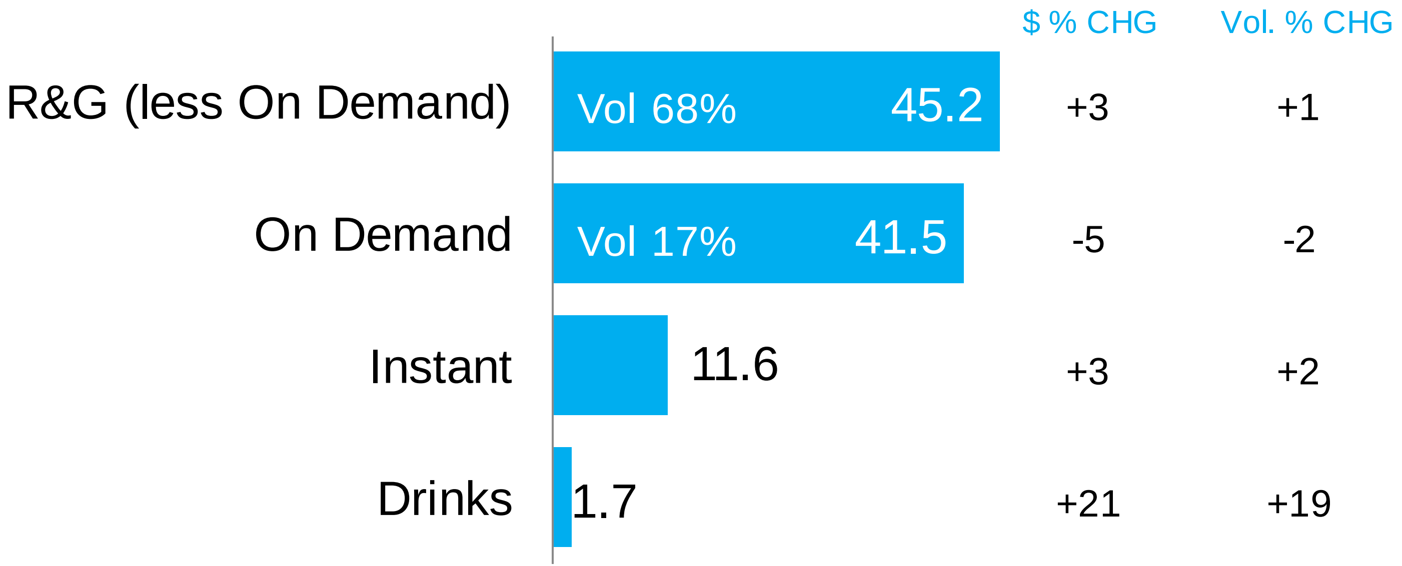


Source: Nielsen MarketTrack, National All Channels, 52 weeks to June 22, 2019

* Categories with annual sales > $20 million

R&G DOMINATES TOTAL COFFEE CONSUMPTION. ON DEMAND FUELING OVERALL SOFTNESS

COFFEE SEGMENT $ SHARE AND GROWTH: $1.6 Billion $0% V+2%

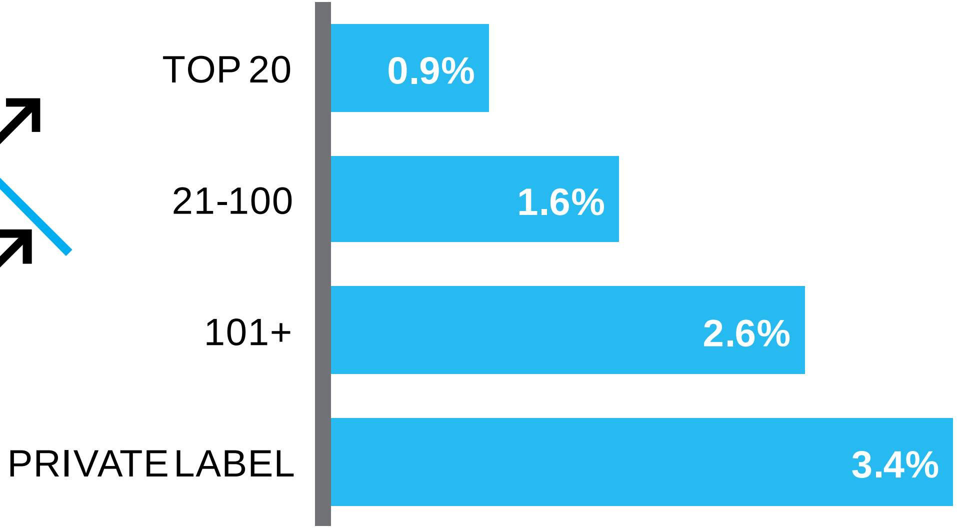


Source: Nielsen MarketTrack, Canada National All Channels – 52 weeks to June 22, 2019

Smaller Brands and Private Label are fueling polarizing growth

SMALLER MANUFACTURERS AND PRIVATE LABEL ARE DRIVING GROWTH

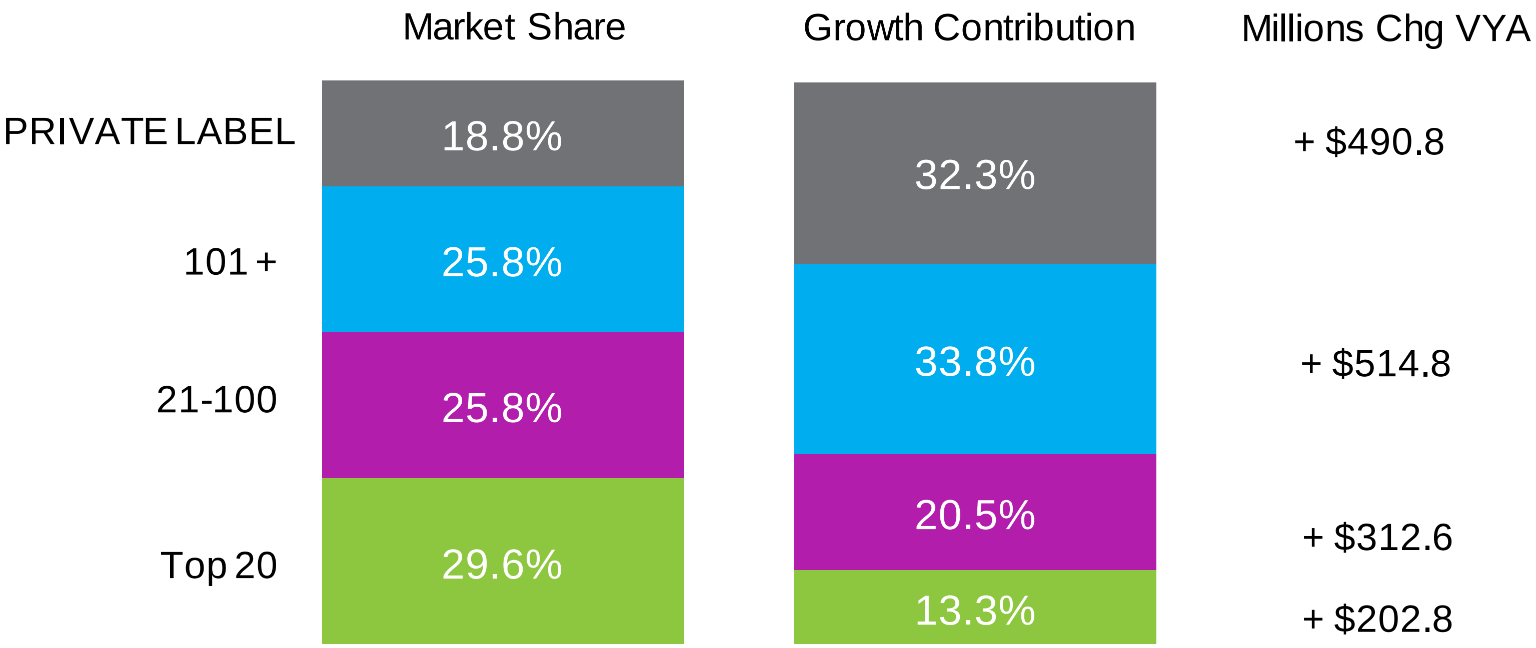
Total FMCG +2.0%



	Market Share	
	Dollar	Volume
TOP 20	29.6%	28.4%
21-100	25.8%	27.6%
101+	25.8%	20.0%
PRIVATE LABEL	18.8%	24.1%

Source: Nielsen MarketTrack, National All Channels – FMCG Manufacturers Ranked on Dollar Sales - 52 weeks Ending January 5, 2019

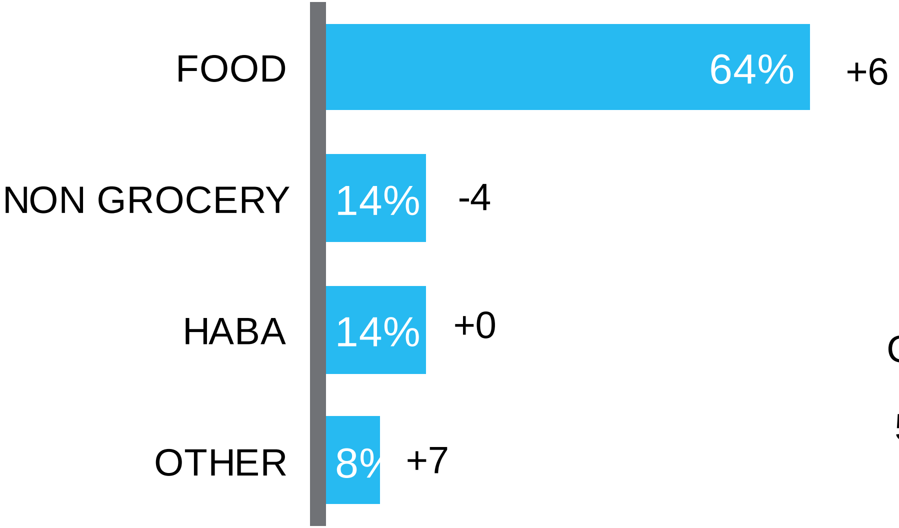
SMALLER MANUFACTURERS ARE CONTRIBUTING OVER 33% OF ANNUAL FMCG DOLLAR GROWTH



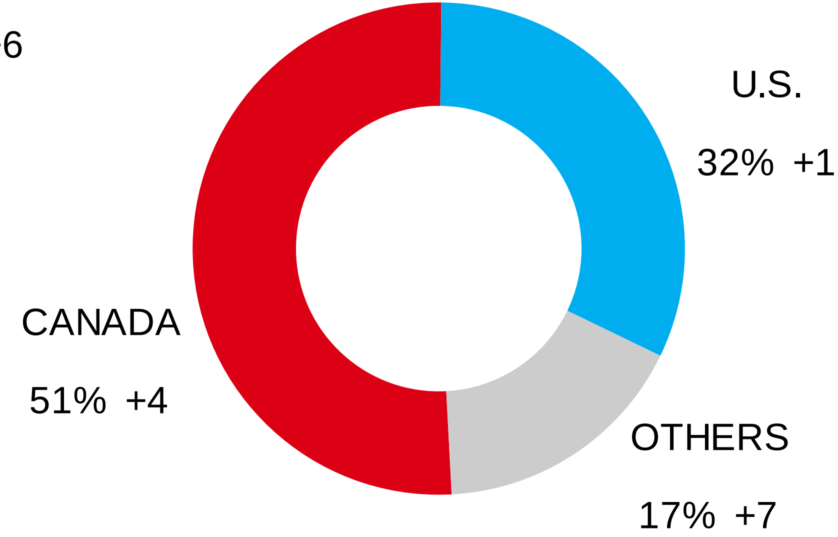
Source: Nielsen MarketTrack, National All Channels – FMCG Manufacturers Ranked on Dollar Sales - 52 weeks Ending January 5, 2019

64% OF SMALL MANUFACTURERS ARE FOOD COMPANIES AND OVER HALF ARE CANADIAN

% Dollar by Department



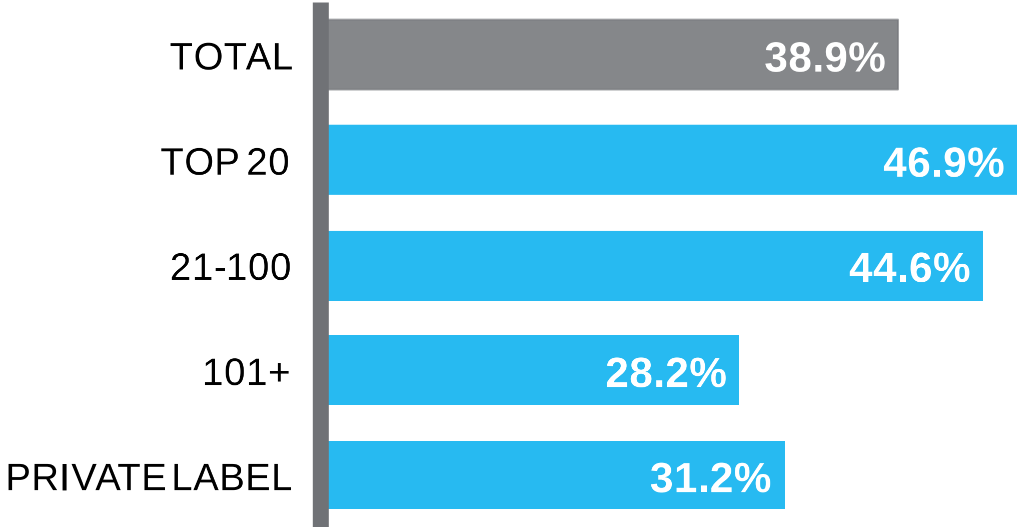
% Dollars by Country



Source: Nielsen MarketTrack, National All Channels – FMCG Manufacturers Ranked 101-350 on Dollar Sales - 52 weeks Ending January 5 2019

GROWTH AT BOTH ENDS OF THE PRICING SPECTRUM

% $'s Sold With Price Cut

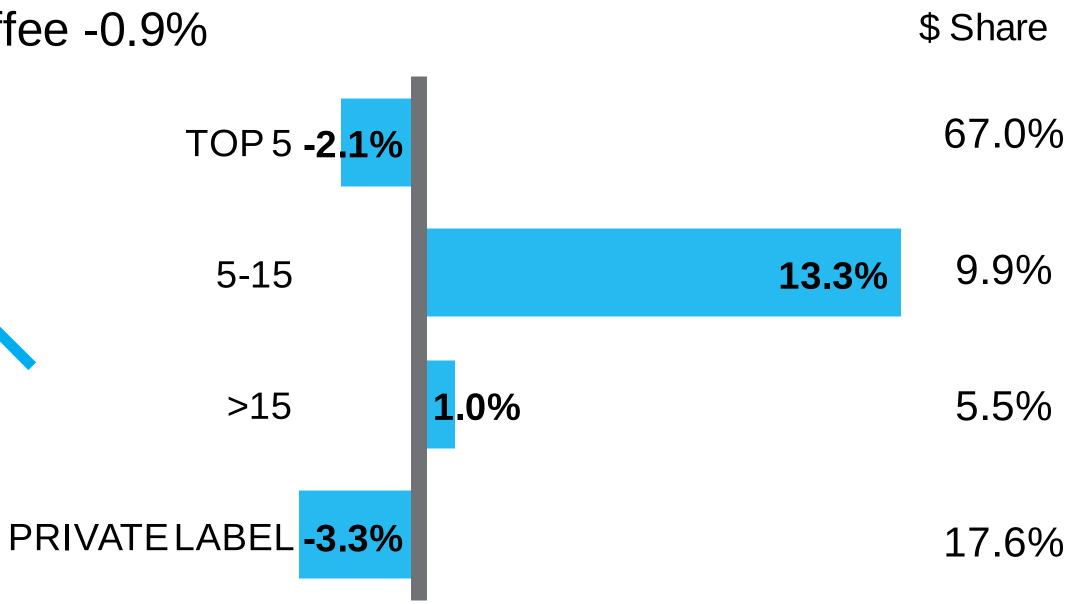


Avg. Price Per Vol	Index
$4.92	100
$5.14	105
$4.60	94
$6.33	129
$3.84	78

Source: Nielsen MarketTrack, National GDM – FMCG Manufacturers Ranked on Dollar Sales - 52 weeks Ending January 5, 2019

FOR R&G COFFEE, IT'S THE MID-TIER BRANDS DRIVING GROWTH – BUT OFF A SMALLER BASE

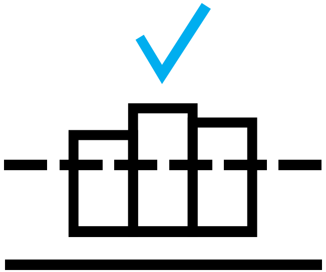
Total R&G Coffee -0.9%



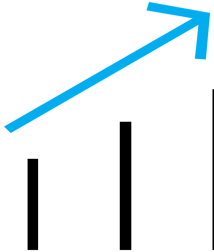
Source: Nielsen MarketTrack, National All Channels – R&G Coffee Manufacturers Ranked on Dollar Sales - 52 weeks Ending June 22, 2019

HOW CAN LARGER BRANDS COMPETE?

MERGERS AND ACQUISITIONS



BE NIMBLE AND LOWER THE BAR



STAY RELEVANT AND ON TREND

Consumers are shifting purchases to polarizing retail formats

SPECIALTY, ONLINE AND VALUE BASED FORMATS ARE LEADING RETAIL SALES GROWTH FOR FMCG

$ % Chg

+15% Ethnic Stores*
+12% Dollar Stores*
+8% General Merch*
+7% Online*
+4% Pet Stores*
+3% Convenience & Gas
+3% Warehouse Clubs*

+2% Grocery + Mass
-0% Drug Stores

-33% Department Stores*
-10% U.S. Cross Border*
-8% Health Food Stores*
-5% Toy Stores*
-3% Hardware/DIY*

Source: Nielsen MarketTrack, 52 weeks Ending June 22, 2019
* Nielsen Homescan Channel Watch – 52 weeks Ending June 29, 2019 - Total Expenditures

THE DIGITAL FUTURE IS HERE AND NOW

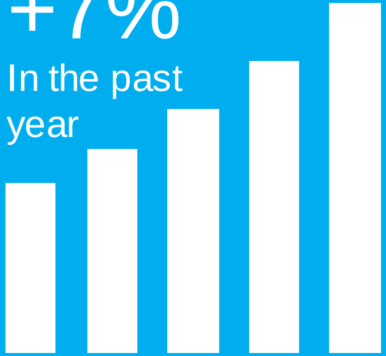
Online share for FMCG is forecasted to almost **<u>triple</u>** by 2021

2.3% ▶ 5.3%

FMCG online sales are growing

+7%

In the past year



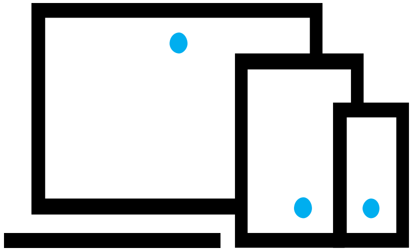
6:1

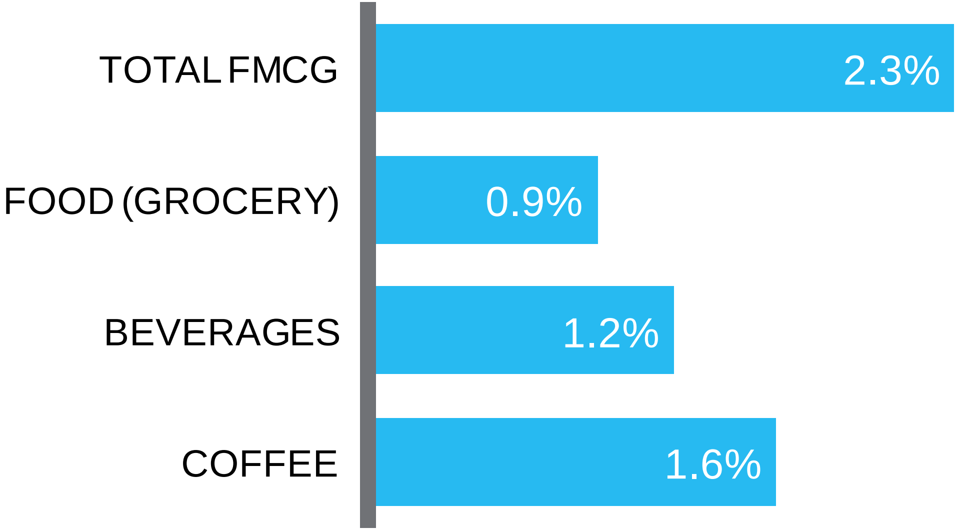
Margin by which e-commerce sales growth is outpacing brick & mortar

Source: Nielsen Homescan Cross Outlet Facts, 52 weeks ending June 29, 2019 – E-Commerce Share

ONLINE SHARE OF COFFEE SALES LAGS TOTAL FMCG BUT TRENDING HIGHER THAN GROCERY

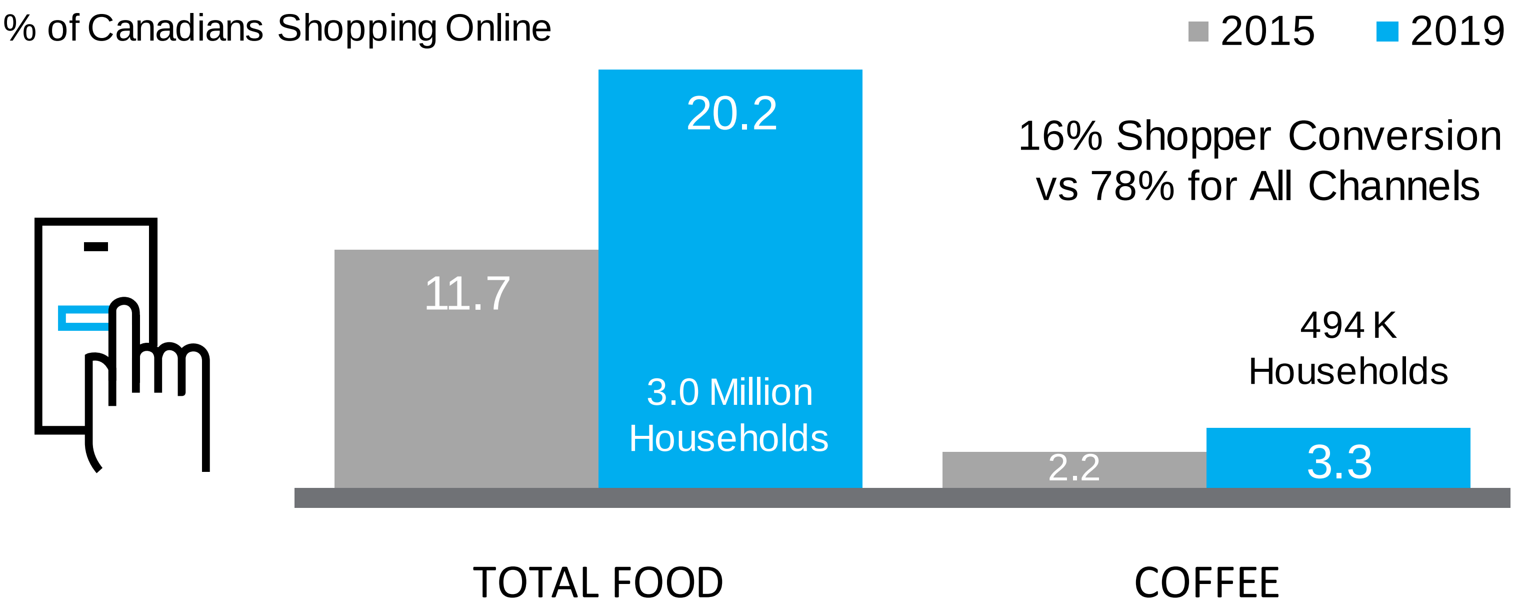
Online Channel Share





Source: Nielsen Homescan Cross Outlet Facts, 52 weeks ending June 29, 2019 – E-Commerce Share

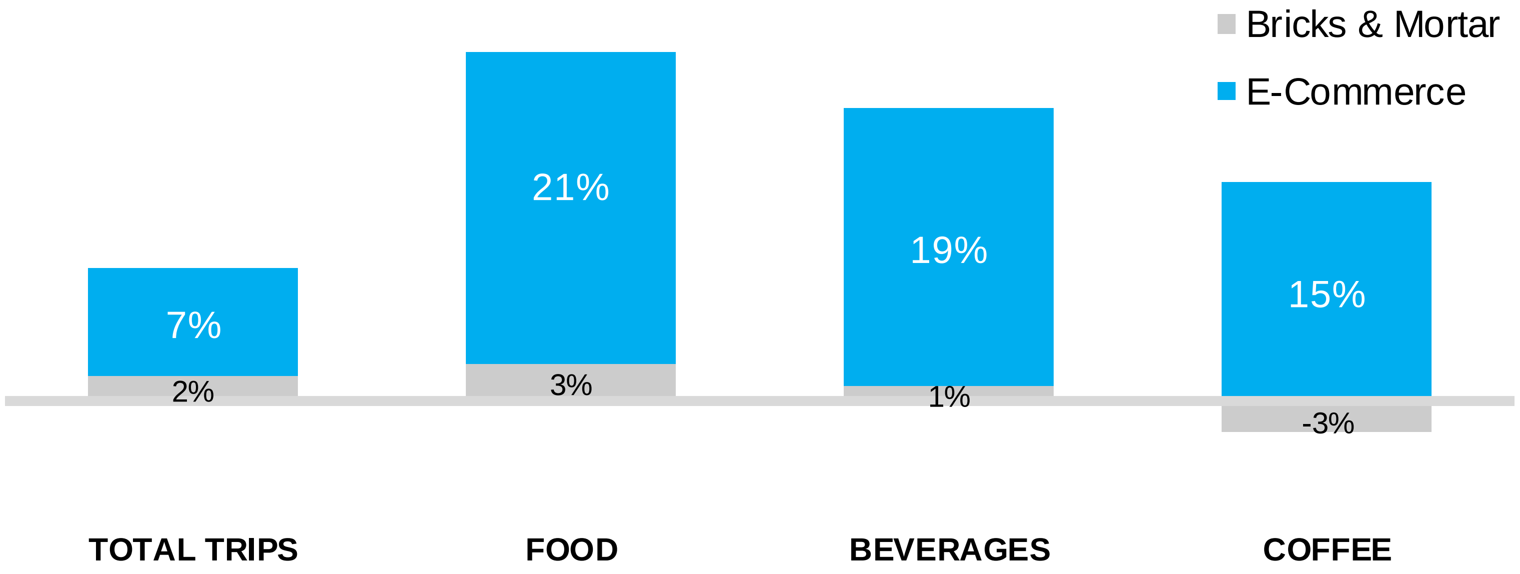
ECOMMERCE PENETRATION GROWING AS MORE CONSUMERS SHIFT THEIR SPENDING ONLINE



Source: Nielsen, Homescan Cross Outlet Facts, 52 weeks ending June 29, 2019 – E-Commerce Penetration

BRICKS AND MORTAR GROWTH STATIC WHILE E-COMMERCE GAINING MOMENTUM

DOLLAR SALES GROWTH VS. YAGO



Source: Nielsen Homescan Cross Outlet Facts, 52 w eeks ending June 29, 2019– National

THERE IS NO SINGLE ONLINE FMCG SHOPPER

DIGITAL DODGERS		INDIFFERENT & IMPULSIVE		DIGITAL DEAL DIGGERS		CLICKING CONNOISSEURS
34% -4 pts		20% -2 pts		35% +5 pts		11% +1 pts
Technology Averse	Digital Reluctants	Grab & Go	Non-Planners	Tech Savvy Value Seekers	Researcher	Digital Advocates
LOW TRUST LOW TECH-SAVVY		LOW VALUE SEEKING LOW SHOPPING ENJOYMENT		RESEARCH DRIVEN TECH SAVVY		ENJOY SHOPPING ONLINE

Source: Nielsen PanelViews, Digital Shopping Survey, 2018 – Pt Chg vs 2016

DISCOUNT RETAIL FORMATS CONTINUE TO WIN OVER THE CONSUMER WALLET

Grocery Composite

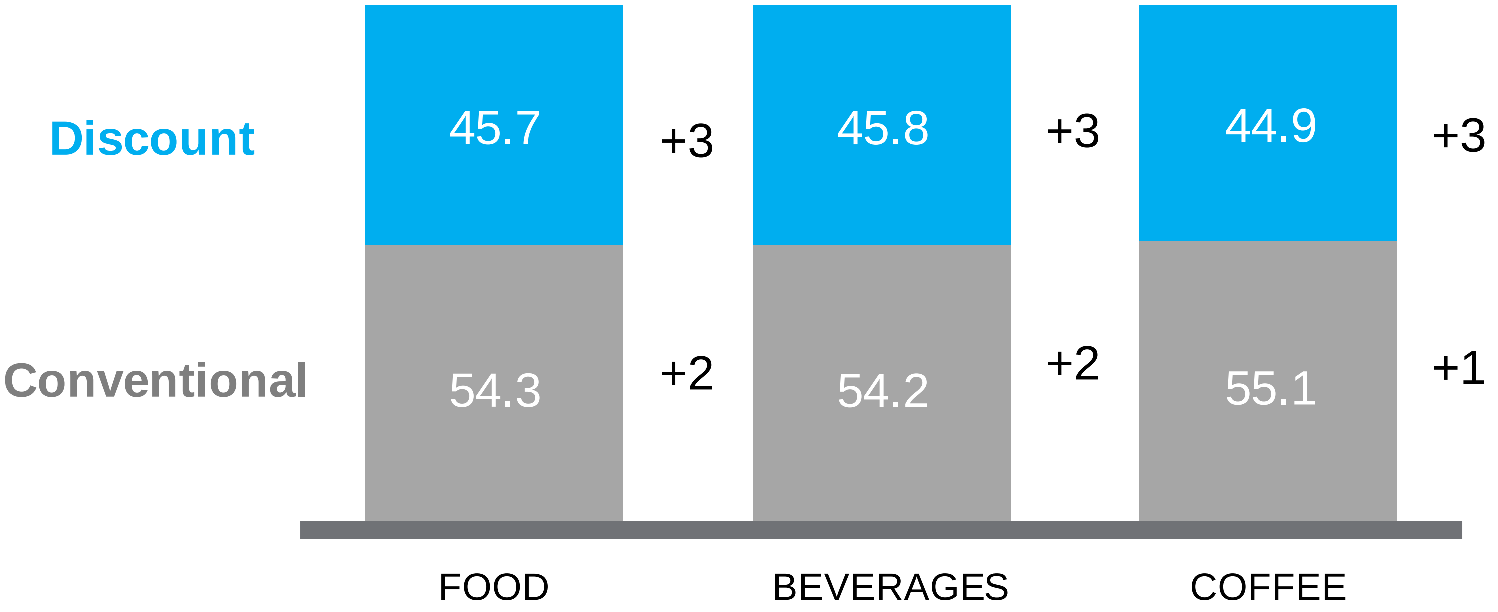
Discount	40.7	+3%
Conventional	59.3	+2%

Discount Share & Growth

Maritimes	18.7	+22
Quebec	37.5	+4
Ontario	47.6	+2
West	39.0	+2

Source: Homescan Grocery Watch, National All Channels - 52 weeks to June 29, 2019 Grocery Composite

DISCOUNT RETAILERS GAINING SHARE AMONG FOOD, BEVERAGES AND COFFEE



Source: Nielsen MarketTrack, National GDM– 52 weeks Ending June 22, 2019 - Total Tracked Sales excluding General Merch Fresh Random Weight

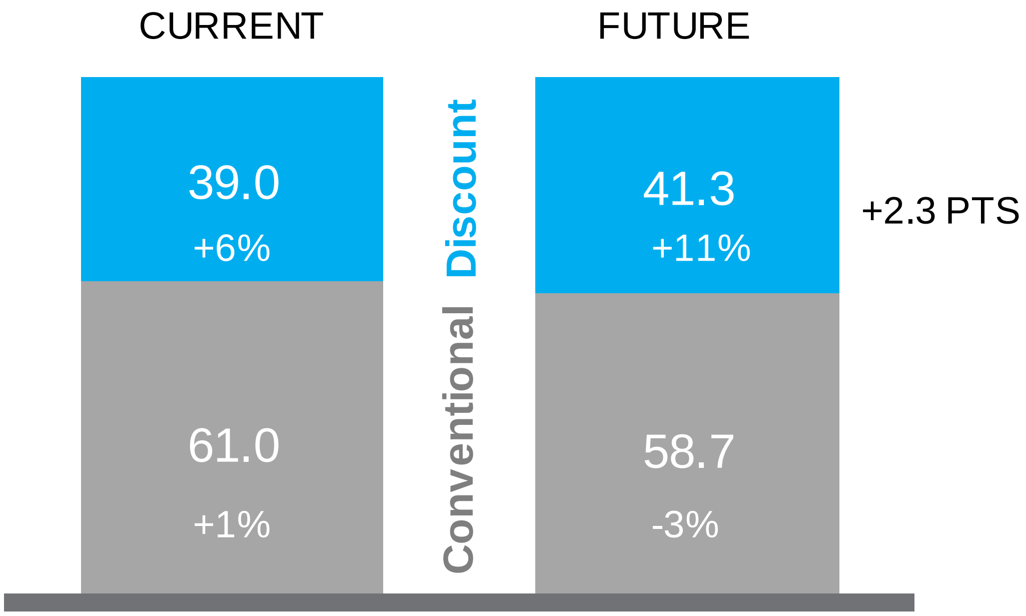
WESTERN DISCOUNT FORECASTED TO INCREASE WITH SAFEWAY'S CONVERSION TO FRESHCO

STORE CONVERSIONS

Sobeys Inc. to convert 25% (65) of their 255 Safeway banners to Freshco.

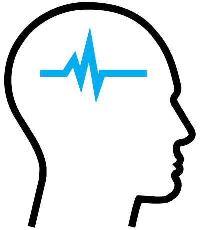
STORE PERFORMANCE

Freshco banners in Ontario average sales per store 25% higher than Western Safeway stores



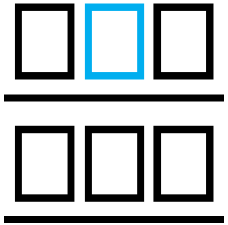
Source: Homescan Grocery Watch, National All Channels - 52 weeks to June 22, 2019 Grocery Composite

POLARIZING GROWTH IMPACTING FMCG



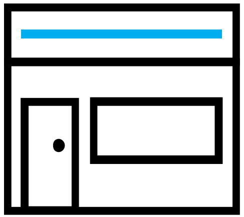
CONSUMERS

Economics and life-stages are fueling polarizing growth



MANUFACTURERS

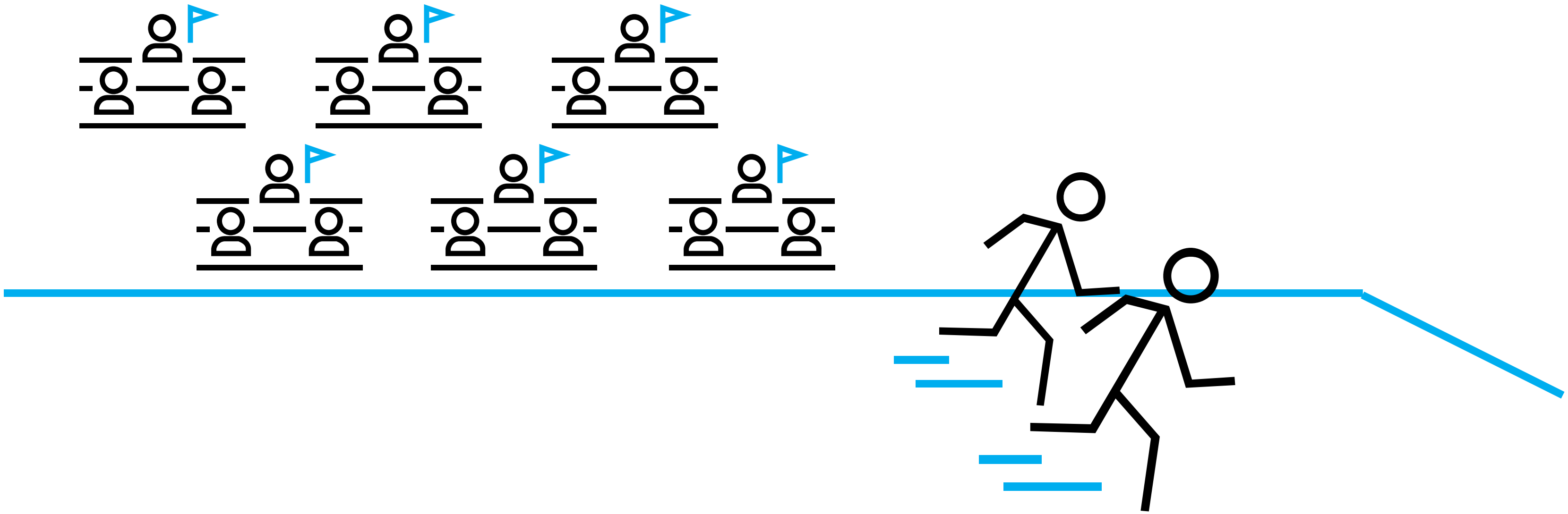
Smaller Brands and Private Label are fueling incremental growth



RETAILERS

Consumers are shifting purchases to online and discount retail formats

IT'S HARD TO WIN THE RACE IF YOU'RE JUST KEEPING PACE



Thank you

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