HEALTH & WELLNESS TRENDS

IMPLICATIONS FOR SNACKS AND BEVERAGES

July 26th, 2016

INTRO SLIDE

Andrew Mandzy, Director of Strategic Insights, Nielsen

"I have been with Nielsen for 10 years"

"NJ born and raised, but I live in NYC"

"I currently lead our H&W Growth & Strategy Team."

"I have worked with a broad collection of clients, including retailers, food and OTC manufacturers"

AGENDA FOR TODAY'S PRESENTATION

CONSUMER LANDSCAPE

The economy has improved, but challenges remain

HEALTH & WELLNESS

Americans are more focused on Health & Wellness

RETAILERS & MANUFACTURERS

Retailers and manufacturers are responding to the consumer demand for H&W

LOOKING AHEAD

Implications for snacks and beverages moving forward

DESPITE IMPROVED INDICATORS, CHALLENGES REMAIN

	Consumer Confidence Index June 2016	Chg vs Prev Month	Unemployment June 2016	Chg vs YA
U.S.	**98**	**+5.6 pts**	**4.9%**	**-0.4 pts**

>9% UNEMPLOYMENT NUMBERS DON'T TELL THE FULL STORY

Unemployed + Underutilized

-6.5% STAGNANT WAGE GROWTH

Median HH income down since 2007

15% HOUSEHOLDS LIVING IN POVERTY

When looking at <18, 21% are living under poverty

35% LIVING PAYCHECK TO PAYCHECK

Housing, Insurance all greater % of consumer expenditures

SOURCE: Bureau of Labor Statistics

Conference Board

Nielsen Consumer Shopper Survey

INCOME POLARIZATION GROWING, SQUEEZING THE MIDDLE CLASS

INCOME INEQUALITY RATIO BETWEEN MOST & LEAST AFFLUENT HOUSEHOLDS (TOP 10% and BOTTOM 10%)

1967	2009	2013	2014
9.2	11.4	12.1	12.8

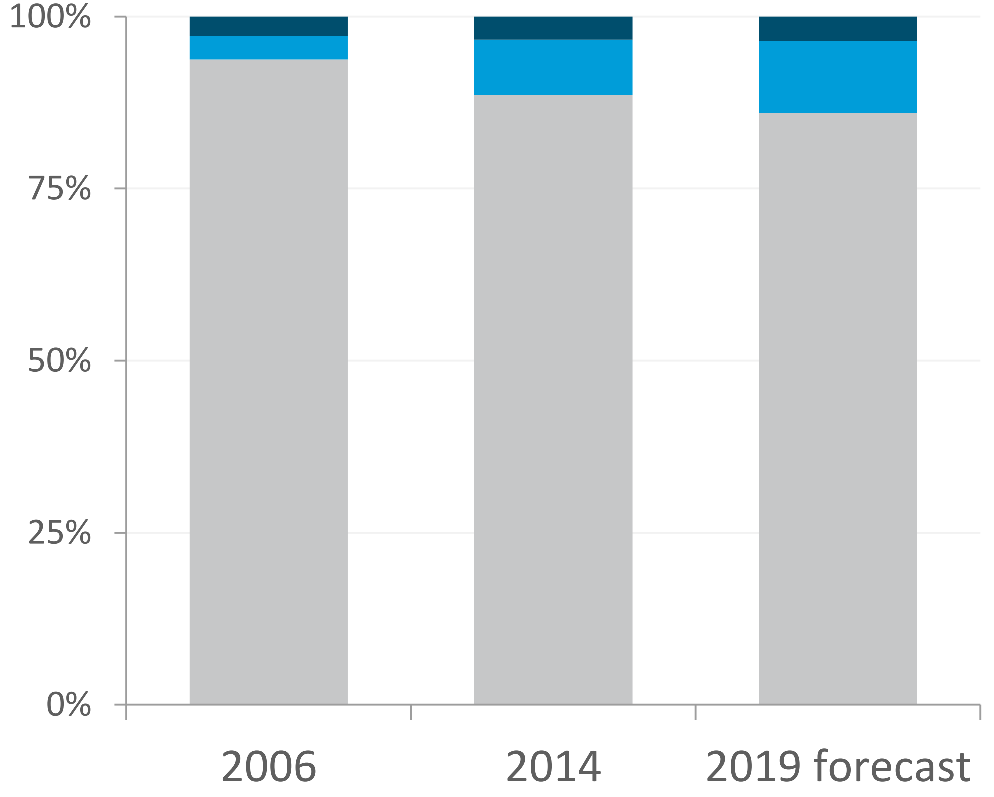
Widest gap ever

The number of **HOUSEHOLDS** among most and least affluent cohorts is growing

Source: US Census Bureau

MAINSTREAM SUPERMARKETS ARE PROJECTED TO LOSE SHARE TO NATURAL GOURMET AND DEEP DISCOUNT STORES

Supermarket Channel $ Shares

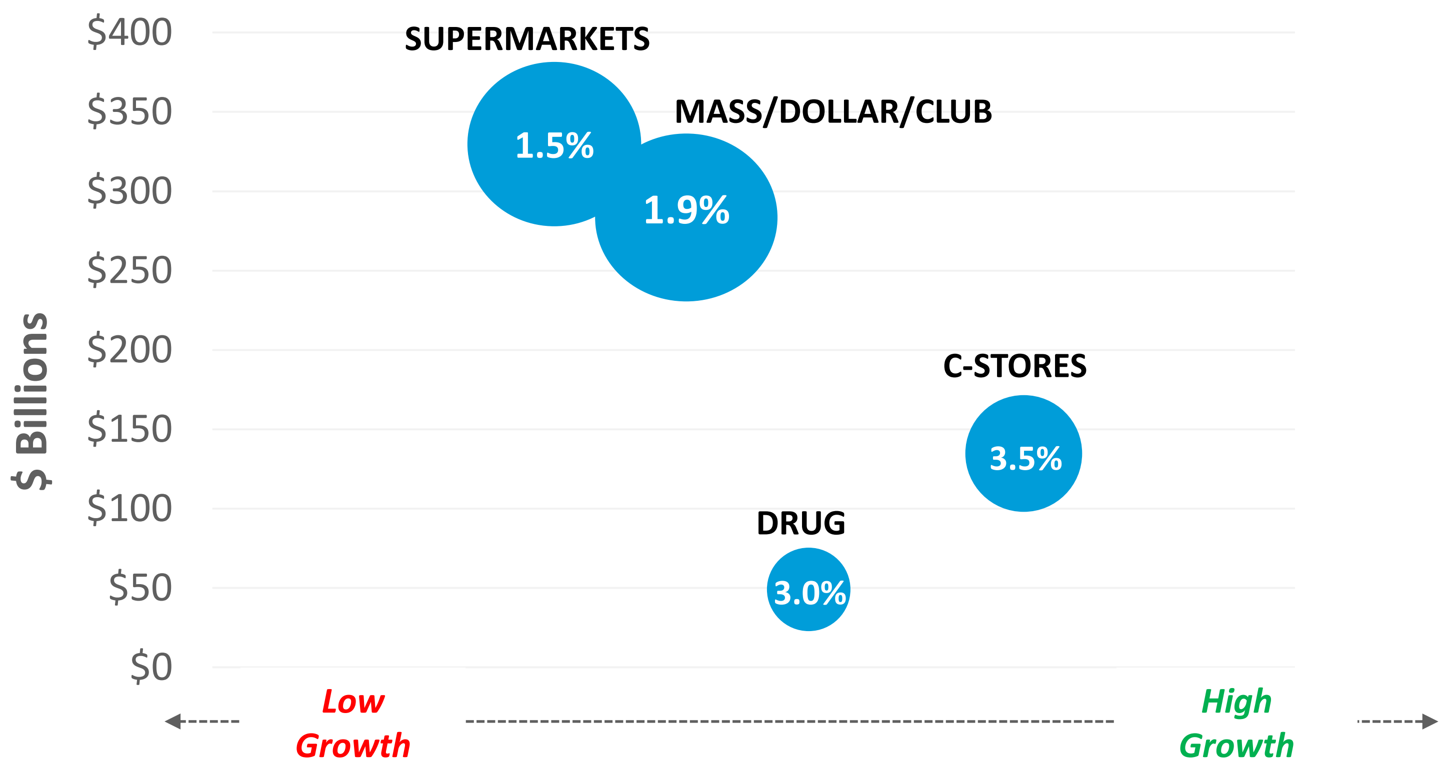


	Point Change 2019 forecast vs. 2014
Limited Assortment Deep Discount*	+ 0.1
Natural Gourmet**	+ 2.2
Mainstream Supermarkets	-2.3

Source: Nielsen TDLinx & Nielsen Analytics; *Aldi & Save-A-Lot; **Whole Foods, Trader Joe's, Fresh Market & Sprouts

RETAIL GROWTH HAS BEEN SLOW OVER RECENT YEARS

All Departments – Dollar Sales & Trend



C-stores and the Drug Channel are outpacing total retail, but Dollar has grown within the Value channels.

Total measured channels: $825 Billion & up 2.1%

Source: Nielsen Answers, Total U.S., 52 weeks ending 4/2/16 (vs. year ago); *Club Stores, Dollar Stores, Mass-Merchandisers, Supercenters, & Military UPC items only

THE FOCUS ON HEALTH & WELLNESS

THE MAINSTREAM MOVEMENT OF HEALTH & WELLNESS

SOURCE: forbes.com/cartoons

AMERICANS ARE MORE FOCUSED ON HEALTH & WELLNESS

U.S. Consumers…

Exercise, on average, 3 days a week

63% are trying to eat healthier

49% are consciously eating more fruits and vegetables

LOW FAT/SUGAR

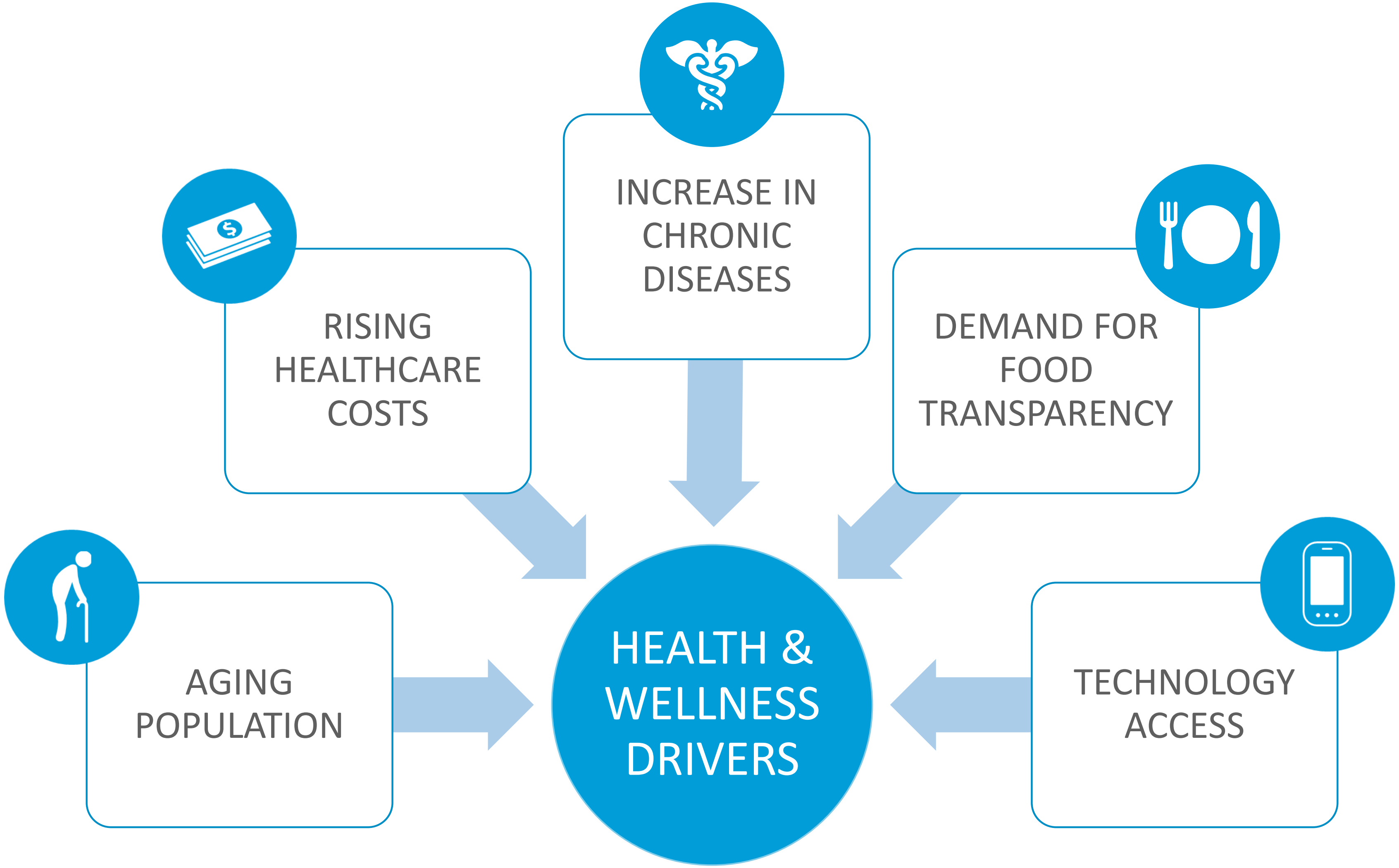
45% read food labels to make healthier choices

85% have seen a doctor at least once

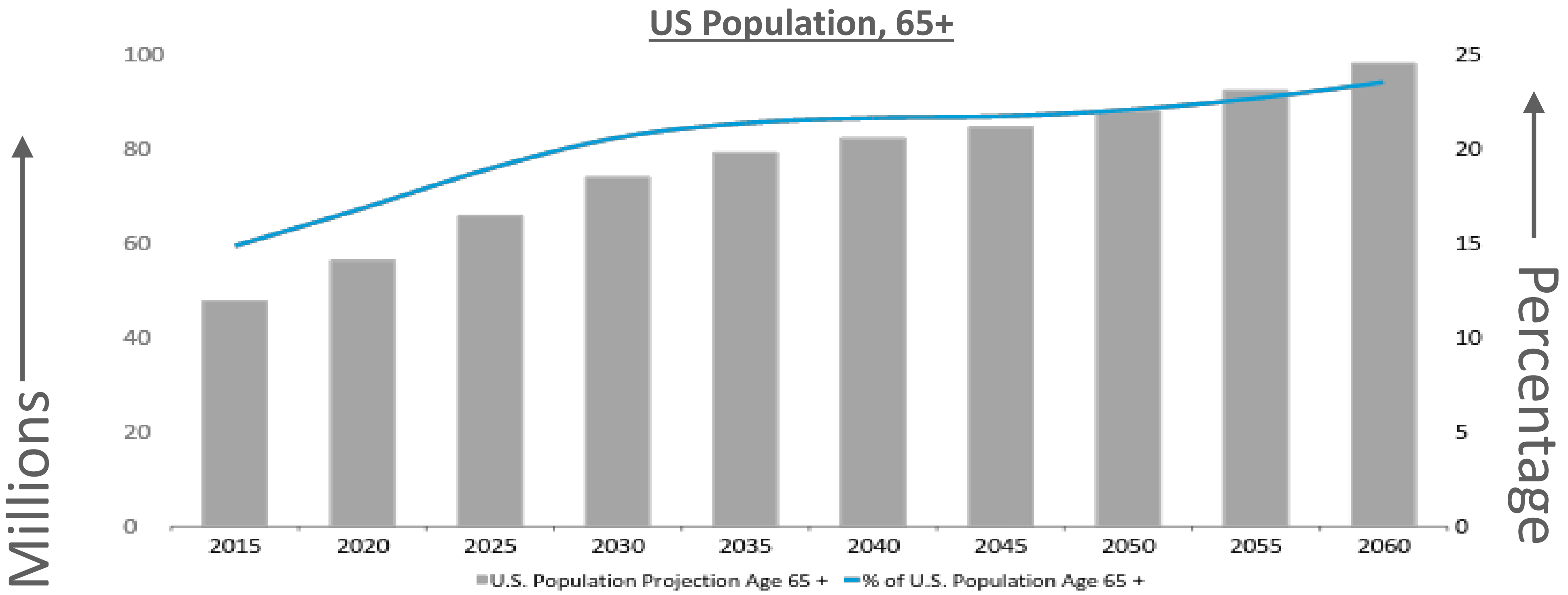
68% have gotten health information online

Source: Q870: In a typical week, on how many days do you do vigorous physical exercise?; Q885: Which of the following describes your approach to eating?

THIS IS DUE TO THE CONVERGENCE OF SEVERAL MACRO FACTORS



THE US POPULATION IS GETTING OLDER, WHICH WILL LIKELY PUT STRAINS ON THE HEALTHCARE SYSTEM



Expected to be a lack of about 90k primary care physicians by 2025

Sources: U.S. Census Bureau, Population Division, Table 3. Projections of the Population by Selected Age Groups for the United States: 2015 to 2060 (NP2014-T3) and Table 6. Percent Distribution of the Projected Population by Selected Age Groups for the United States: 2015 to 2060, Release Date: Dec 2014

RISING HEALTH INSURANCE PREMIUMS ARE CAUSING CONSUMERS TO MAKE TRADEOFFS

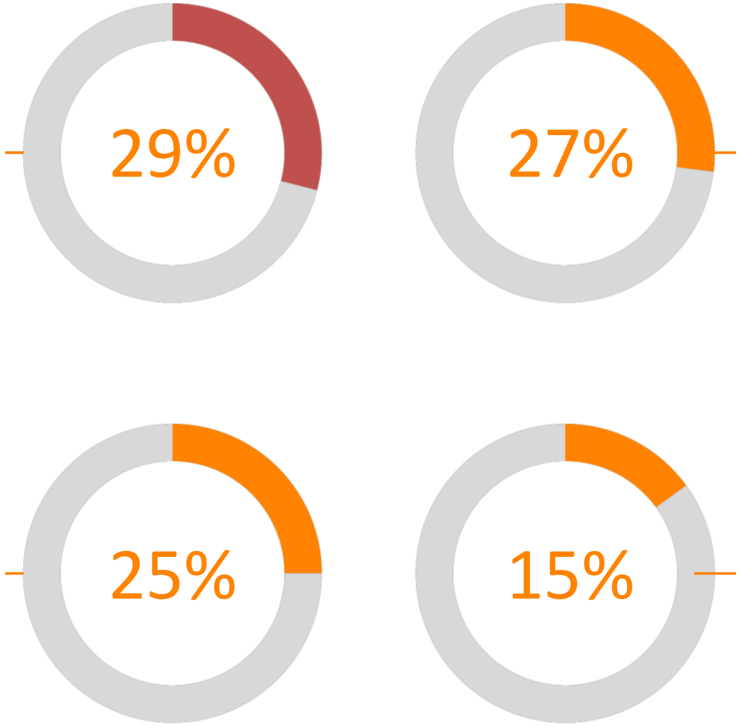
Cost Related Tradeoffs

Using more OTC medications because Rx is too expensive

Ask the doctor or pharmacist for a less expensive Rx

Stretching or skipping doses of injectable biologic medication due to cost*

Had a specific medical condition but did not visit a doctor



Prepared for: Strategic Health Perspectives
Base: All US Adults 2016
Source: Q30 Please indicate your level of agreement (OTC /Base all qualified n=30049)
Q675: Which of the following have you done because of the cost of your injectable or infusion treatment? (Base n=10370 users of biologic therapy)
Q680: In the past 12 months, was there a time because of cost when you…(doctor visit/ Base all qualified/split sample, n=10011)

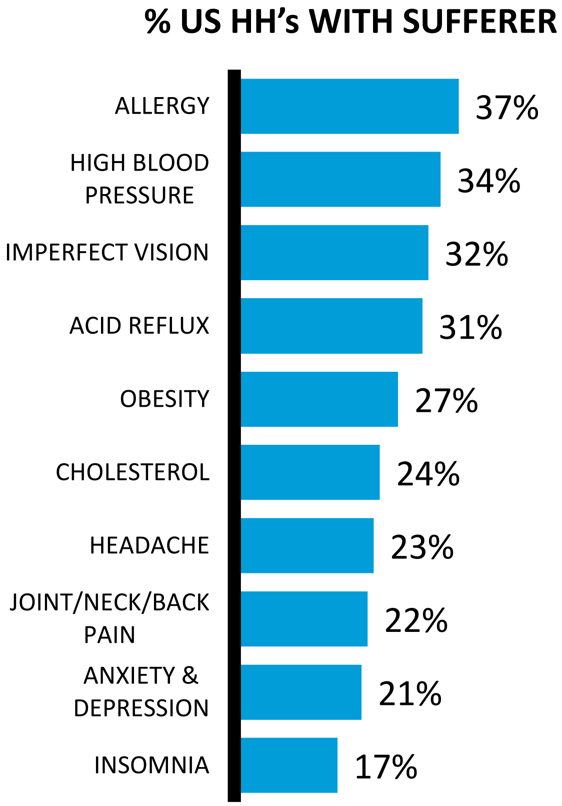
ALMOST 4 OUT OF 10 SUFFER FROM AN AILMENT

In many cases, ailment management requires use of medicines, better nutrition, and lifestyle changes

39%

Suffer from an ailment

*In many cases, these are ailments that are **manageable***



50%

Do not seek medical attention

*They turn to **OTC products, exercise, and better eating** to improve their situation*

Source: World Health Organization; Centers for Disease Control 2012
Nielsen Ailment Panel 2015

PEOPLE ARE USING TECHNOLOGY TO FIND H&W INFORMATION

% who use social networks to share health & wellness information and tips

FACEBOOK	INSTAGRAM	TWITTER	GOOGLE +	PINTEREST
74%	**32%**	**31%**	**27%**	**25%**
(-1 pt.)	**(+ 13 pt.)**	**(+2 pt.)**	**(+ 1 pt.)**	**(+ 5 pt.)**

Source: Nielsen two week online survey (April 2016) of 1176 respondents – chg vs. 2014

“Let food be thy medicine and medicine be thy food”

HIPPOCRATES

FOOD FOCUS ON HEALTH & WELLNESS

BACK TO BASICS

Consumers are focused on healthier foods with simpler ingredients. Products that are less processed with fewer ingredients are outpacing the total store.

HEALTHY INDULGENCE

Consumers aren't just eating vegetables all day. People still want to indulge. But, growth is coming from H&W even within categories that are indulgent.

FOOD FIGHT – CENTER STORE vs FRESH

Sales are shifting to the perimeter, but center store maintains a majority of food sales. The biggest manufacturers are focusing on H&W as a growth driver.

FOOD AS MEDICINE

Consumers are using food as medicine, as they manage ailments and maintain their general wellness. Functional foods and medical foods are gaining traction.

HEALTH & WELLNESS CLAIMS ARE GROWING IN SALES, ITEM COUNTS

Important to understand which ones matter in your categories

BIGGEST AND FASTEST GROWING CLAIMS
TOTAL STORE

NO ARTIFICIAL COLORS/ FLAVORS
+7.6% CAGR
+100 more items

GMO FREE
+14.3% CAGR
+204 more items

GLUTEN FREE
+13.6% CAGR
+433 more items

KOSHER
+3.3% CAGR
+645 more items

NATURAL
+11.7% CAGR
+239 more items

ORGANIC
+15% CAGR
+117 more items

SOY
+3.9% CAGR
+170 more items

ANCIENT GRAINS
+25% CAGR
+34 more items

NO HIGH FRUCTOSE CORN SYRUP
+8.7% CAGR
+82 more items

NO ARTIFICIAL SWEETENERS
+4.1% CAGR
+52 more items

Source: Nielsen x AOC. Period Ending December 26, 2015; growth since 2012

HEALTH & WELLNESS BASKETS ARE DIVERSE

GLUTEN FREE	ORGANIC	ANTIBIOTIC FREE
SALTY SNACKS	FRESH VEG & HERBS	MILK
VITAMINS & SUPPLEMENTS	MILK	YOGURT
YOGURT	FRESH FRUIT	ICE CREAM
CANDY	EGGS	CHEESE
CREAM	NUTRITIONAL	EGGS
BABY FORMULA	YOGURT	POULTRY FRESH
LUNCHMEAT	BABY FOOD	LUNCHMEAT
CHEESE	SHELF STABLE LIQUID SOUP	FRZ ENTREES
WHOLESOME SNACKS	SALTY SNACKS	FRESH MEAT
MILK	RTE CEREAL	REFRIG MEALS

Source: AOD RMS, Total U.S. – 52 weeks ending 3/28/15
Total $ Sales and % change versus year ago reflects Total CPG Sales By Health Claim, ( ) = % of Total CPG $ accounted for by the Top 10 categories

HEALTH & WELLNESS GROWING IN TRADITIONALLY INDULGENT CATEGORIES

Consumers still want to indulge, but want to do it smartly

SALTY SNACKS

CHIPS

TOTAL CATEGORY
$20.4 BILLION IN ANNUAL SALES
SALES GROWTH +2.6%

NATURAL SALTY SNACKS
+8.3% SALES GROWTH
9.3% OF SALTY SNACK SALES

ORGANIC SALTY SNACKS:
+20.7% SALES GROWTH
1.8% OF SALTY SNACK SALES

NOT JUST MADE FROM POTATOES…NOW WITH:

ANCIENT GRAINS

LENTILS

CHIPS

KALE

QUINOA

SOURCE: NIELSEN SCAN DATA, 52 weeks 1/23/16

NEW AGE BEVERAGES HAVE GROWN ALONG WITH H&W CLAIMS

Category has grown over the past few years, while H&W claims have outpaced it

Total Category
$16.8 Billion in Annual Sales (2015)
+17% growth in $ Sales vs 2012

NATURAL
$ Sales growth vs '12
+44%

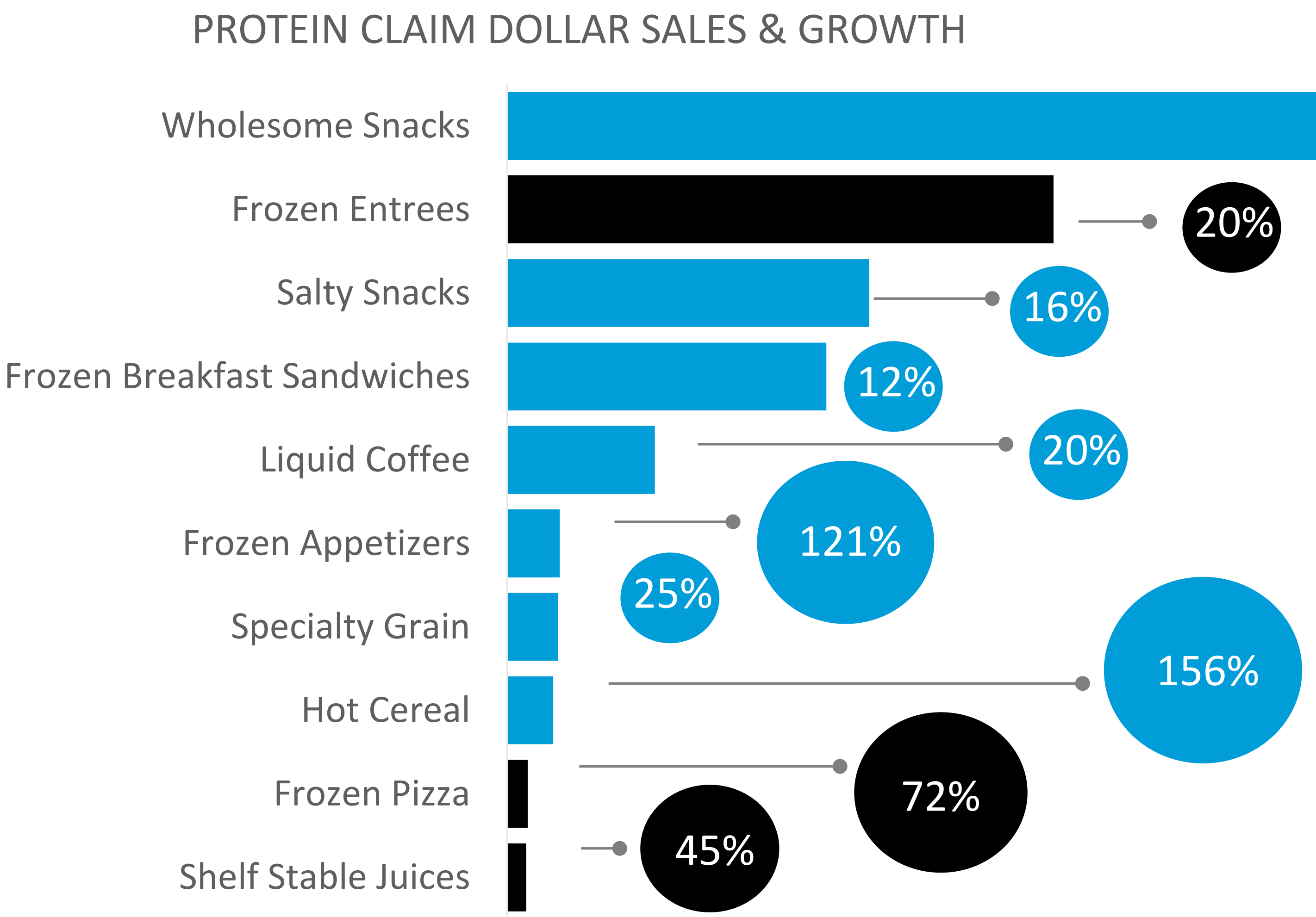
GMO FREE
$ Sales growth vs '12
+120%

NATURAL PRESENCE
$ Sales growth vs '12
+13%

GLUTEN FREE
$ Sales growth vs '12
+102%

SOURCE: NIELSEN Answers AOD, ending 12/26/15

PROTEIN IS A GROWTH DRIVER ACROSS THE STORE

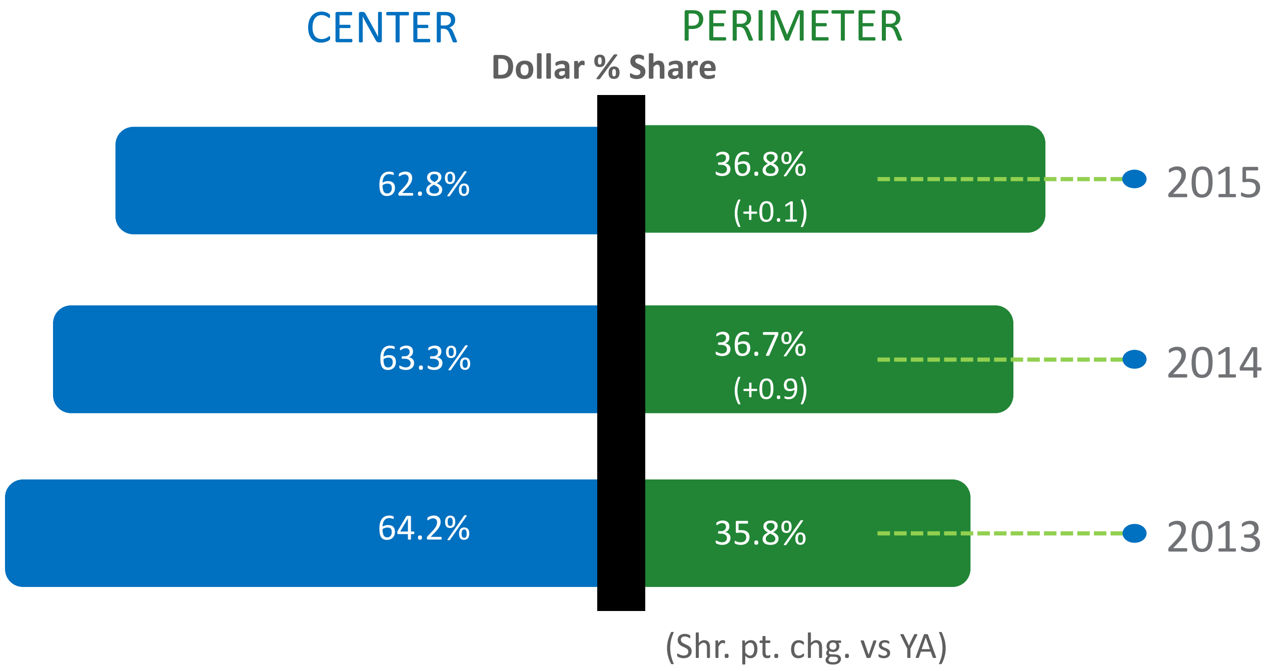


Protein drives a
GROWING SUBSET
of these
CONTRACTING CATEGORIES

Source: NIelsen

THE FRESH FOODS PERIMETER OF THE STORE IS GROWING

Over two years, share of perimeter sales to total food sales increased 1 share point



In top-performing fresh retailers

50%

total food sales are **fresh**

Source: Nielsen Advanced Fresh Perspective – Food – Calendar Year Ends; Nielsen Perishables Group FreshFacts® Total U.S. (FCA does not include convenience, drug or dollar), 52 Weeks Ending 12/26/15; Total U.S. All Outlets Combined plus Convenience), 52 Weeks Ending 12/26/15, UPC Only

THERE IS COMPETITION FOR FRESH ACROSS CHANNELS, TOO

SHARE OF CHANNEL SHOPPERS PURCHASING FRESH WITHIN EACH CHANNEL

DRUG

19%

CONVENIENCE/ GAS

35%

MASS/ SUPERCENTER

85%

WAREHOUSE/ CLUB

89%

GROCERY

99%

GROCERY SEGMENTS

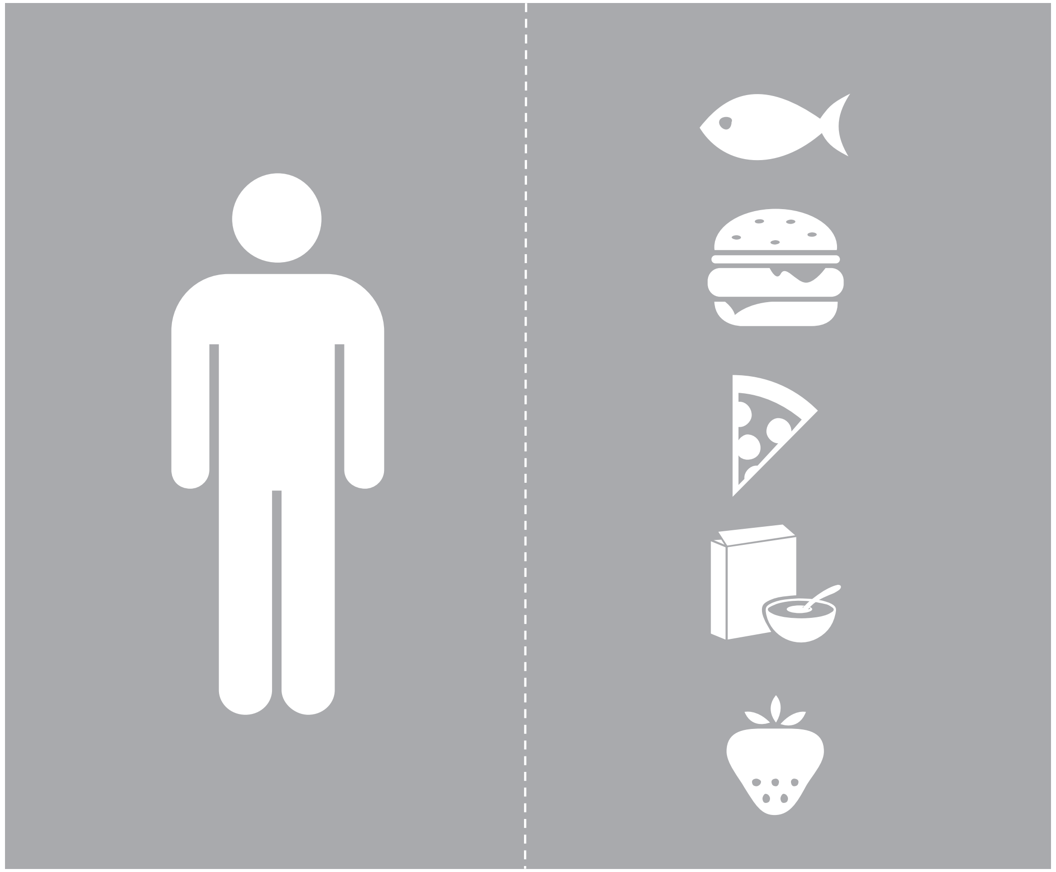
94% VALUE GROCERY

89% PREMIER FRESH

Source: Source: Nielsen Homescan Total Shopper View Specialty Panel,

HEALTH ATTRIBUTES ARE INFLUENCERS OF FOOD PURCHASES

% who ranked important in influencing purchase



62%	Made from vegetables/fruits
61%	High in protein
57%	High in fiber
57%	Portion control
57%	Whole grain

Source: Nielsen two week online survey (April 2016) of 1176 respondents

DIABETICS LITERALLY USING FOOD AS MEDICINE

Categories with high levels of growth after Diabetes diagnosis

Fresh Strawberries

Precut Fresh Salad Mix

Sugar/Sugar Substitutes

Fresh Carrots

Fresh Onions

Categories with high levels of declines after Diabetes diagnosis

Refrigerated Juice & Drinks

Candy

Ice Cream

Puddings/Desserts Dairy

Frozen Novelties

Milk

$/HH versus YA Growth or Decline Relative to Total US Trends

Source: Nielsen Diabetes Survey; Nielsen Homescan All Outlets 52 W/E 12/26/15 vs YA

RETAILERS AND MANUFACTURERS HAVE RESPONDED TO CONSUMER H&W DEMAND

H&W MATTERS ACROSS THE ENTIRE STORE

RETAILERS ACROSS ALL CHANNELS ARE USING H&W AS A GROWTH STRATEGY

Examples of strategic initiatives in retail:

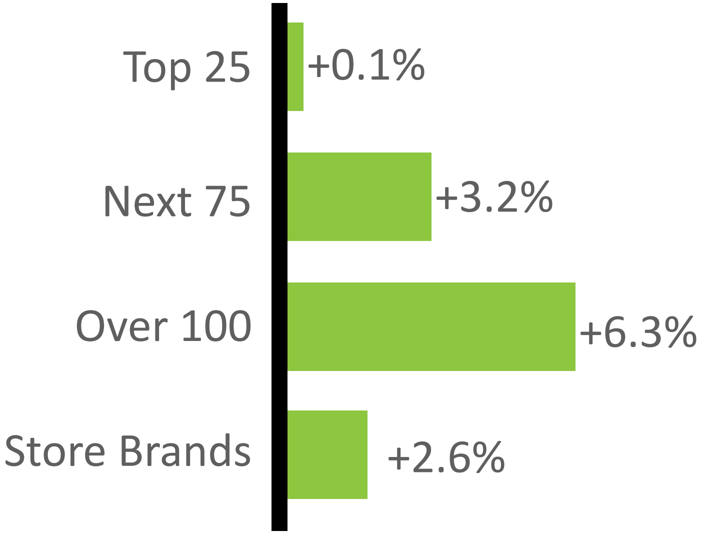
- Prioritizing healthy foods and better-for-you brands in center store
- Emphasizing fresh and perishable foods around the perimeter of the store
- Training associates and using dieticians to be more knowledgeable on healthy products
- Focus on specific health categories (i.e. Allergy, Vitamins, Beauty)
- Focus on a specific ailment sufferer (i.e. Diabetics) or older shoppers
- Increased healthcare related services like via retail clinics

THE LARGEST MANUFACTURERS ARE NOT GROWING, WHILE SMALLER MORE NIMBLE PLAYERS GROW SHARE

Nimble, quicker competitors are taking share from the largest food manufacturers

FOOD MANUFACTURERS

4 YR CAGR



Source: Nielsen U.S. Scantrack xAOC 52 weeks ending 2011 vs 2015

THE BIGGEST FOOD MANUFACTURERS ARE STRATEGICALLY FOCUSED ON H&W

They are focusing on product transparency and making changes to their product portfolio

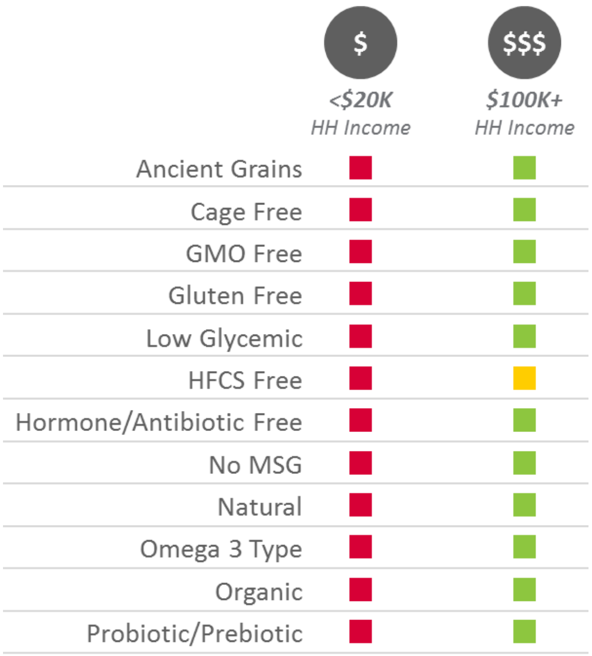
- Reducing sugar and removed artificial colors/flavors from brands
- Removing undesirable ingredients like artificial preservatives and dyes
- Using simple, easy to read ingredients and sustainable ingredient sourcing
- Creating organic and natural options to existing brands
- Starting Venture Capital Funds to identify up and coming brands
- Acquiring disruptive health & wellness brands

LOOKING AHEAD

HEALTH & WELLNESS IS NOT A ONE-SIZE-FITS ALL APPROACH

Understanding the drivers of engagement with H&W is critical

LOWER INCOME HH's UNDER-INDEX AMONG TOP WELLNESS CLAIMS



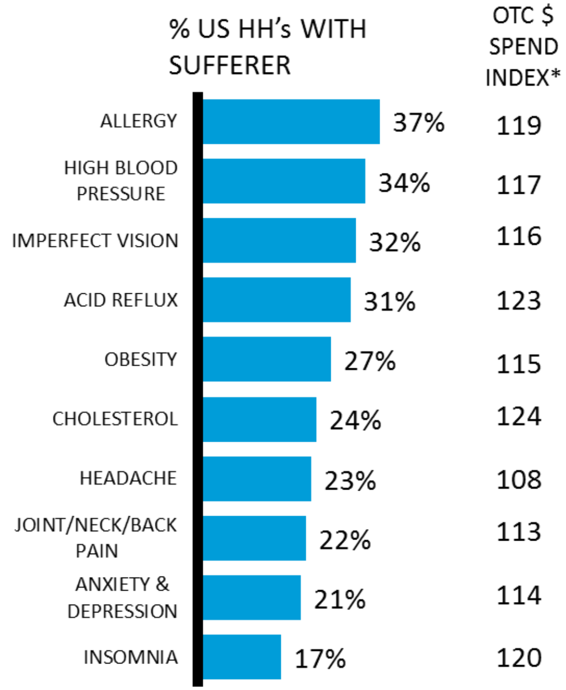
Source: Nielsen Answers On-Demand Syndicated Panel, 52 weeks ending 12/26/2015

THERE IS A DIFFERENCE IN CONSUMER ENGAGEMENT ACROSS HEALTHIER CATEGORIES

	WELL BEINGS	FOOD ACTIVES	MAGIC BULLETS	FENCE SITTERS	EAT, DRINK & BE MERRYS
Produce	134	101	90	95	85
Vitamins & Supplements	121	119	109	85	45
Water	112	100	99	99	91
Soft Drinks	72	88	112	98	116
Tobacco & Alternatives	68	82	130	80	107

Source: Homescan, NMI H&W segmentations, 52 weeks ending 12/26/2015

AILMENT SUFFERERS BUY DISPROPORTIONATELY MORE HEALTHCARE RELATED PRODUCTS



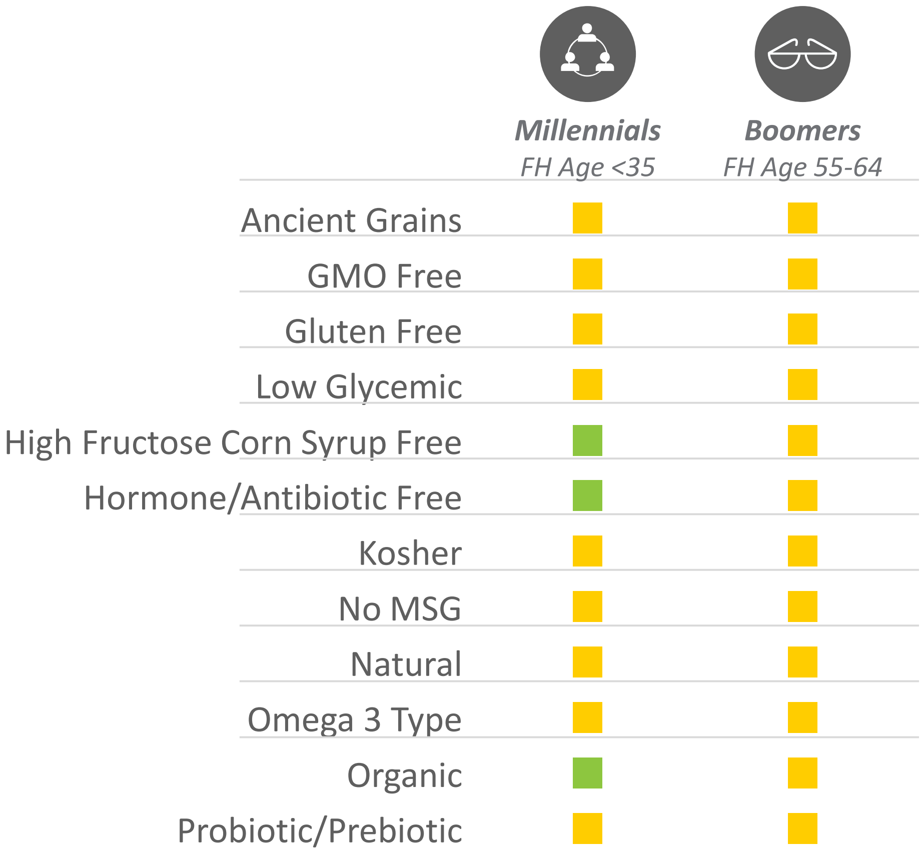
Source: Nielsen Health Survey 2015

*OTC $ PER HH AMONG SUFFERER GROUP DIVIDED BY TOTAL OTC $ PER HH*100

52 WEEKS ENDING JUNE 2015

MILLENNIALS SKEW TOWARDS MORE TRANSPARENCY DRIVEN H&W CHARACTERISTICS

POPULAR WELLNESS CLAIMS $ Sales per 1000 Households Index



Index is: *120 or greater* *between 80–120* *80 or less*

HIGHER INCOME MILLENNIALS REPRESENT AN OPPORTUINTY FOR TRANSPARENCY CLAIMS

INDEX TO TOTAL US

< $25K	118
$25 - $50K	111
$50 - $75K	105
$75 - $100K	95
> $100K	68

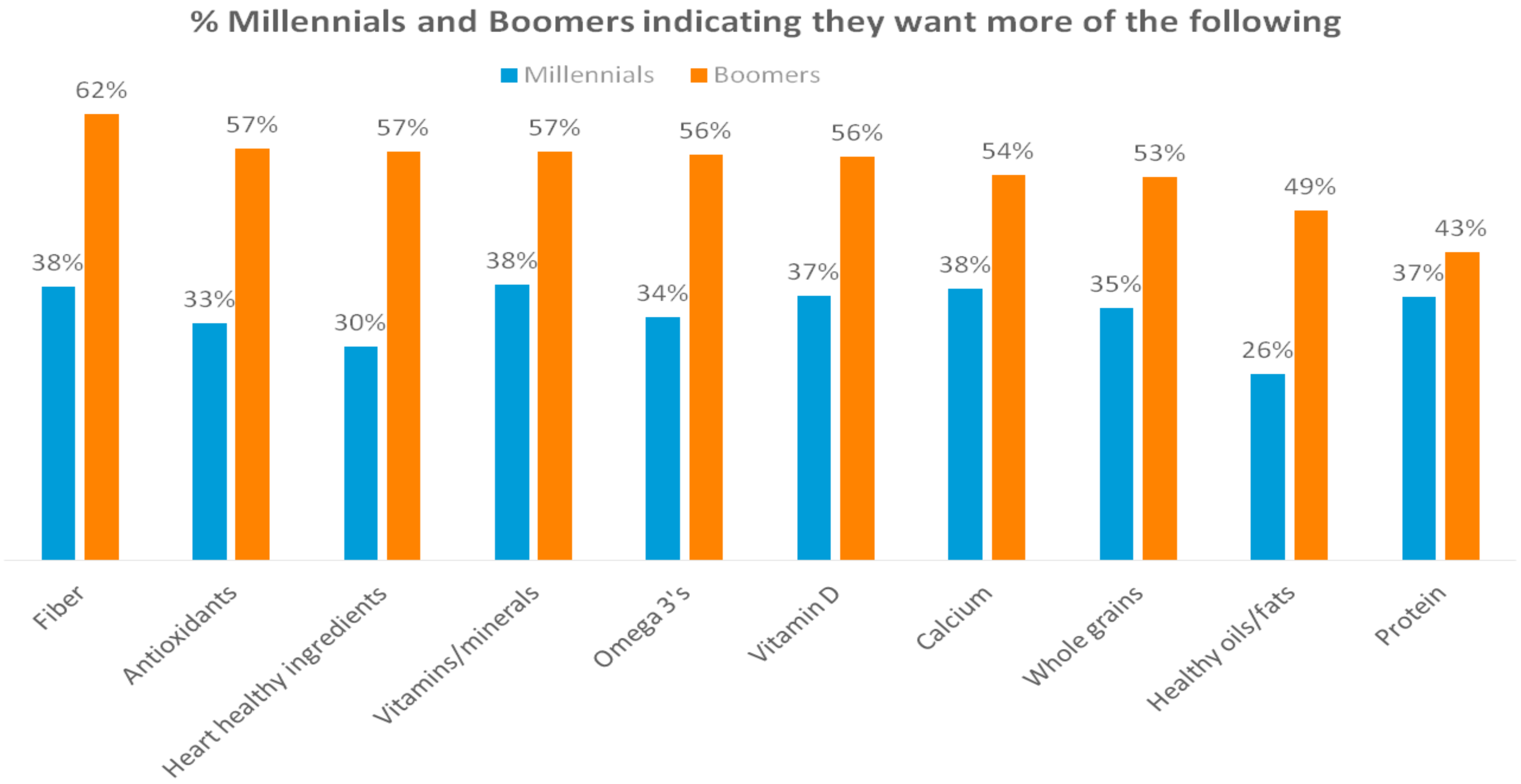
MEDIAN HH INCOME:
MILLENNIALS **$48,797**
TOTAL US **$53,657**
INDEX 91

UPSCALE MILLENNIALS
27% OF MILLENNIALS
$109K MEDIAN INCOME
51% COLLEGE EDUCATED

Source: Nielsen Answers On-Demand Syndicated Panel, 52 weeks ending 10/24/2015; ranking on retail dollar sales; retail dollar sales % change versus year ago UPC-coded items

BOOMERS DRIVE DEMAND ACROSS HEALTH INGREDIENTS

Fiber is the most important ingredient for Boomers



Source: Natural Marketing Institute, all rights reserved

NIELSEN UNDERSTANDS THE HEALTH & WELLNESS CONSUMER

NIELSEN'S HEALTH & WELLNESS CONSUMER FRAMEWORK

WHO/WHAT INFLUENCES THE H&W CONSUMER

Socio-economic factors
Lifestage
Geography
Healthcare costs
General wellness
Ailment management
Media/technology
Healthcare professionals
Social causes
Sustainability

IMPACTS

WHAT THEY EAT

Food consumption
Beverage consumption
Center store & Fresh

HOW THEY TREAT

Pharmaceuticals
OTC / Personal Care
Supplements

WHERE/HOW THEY SEEK CARE

Doctors
Retail clinics
Hospitals
Self-care

FINAL TAKEAWAYS

- Focus on H&W will continue as the population ages, as healthcare costs increase, as technology allows us to research more, and as consumers increase their demand for food transparency.
- Identify the influencers of your shoppers' H&W behaviors (socio-economic, age, lifestyle). It is not a one-size-fits all approach. Execute locally.
- Understand across categories which H&W characteristics matter. Assess which claims actually influence decision making.
- Retailers that skew across all income groups are focusing on providing healthier food assortments. Identify opportunities for growth in these retailers, and beware of increased competition for the H&W consumer.

THANK YOU!

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AN UNCOMMON SENSE OF THE CONSUMER™