KANTAR RETAIL

The Impact of Health & Wellness Trends on Beauty and Personal Care

Kate Senzamici, Principal Analyst

Skin, Bath, Cosmetics, & Fragrances EPPS

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ECRM®

Agenda

Macro Overview — *Retail health & wellness*

Competitive Landscape — *What leading retailers are doing*

Future of Naturals — *Shopper behaviors and attitudes*

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I.
Macro Overview
Retail health & wellness

Increasingly, Health and Wellness Will Be The Way Retailers Retain Shoppers

"Walmart is looking at creating more profit pools, including in financial services and **health/wellness.**"

– *Doug McMillon, President and CEO of Wal-Mart Stores Inc.*

CVS Health

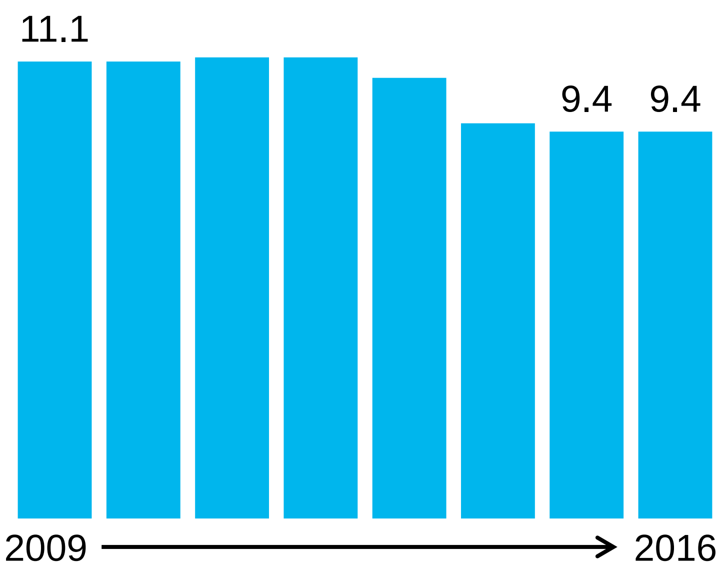
SPROUTS FARMERS MARKET

Source: Kantar Retail analysis, retailer websites

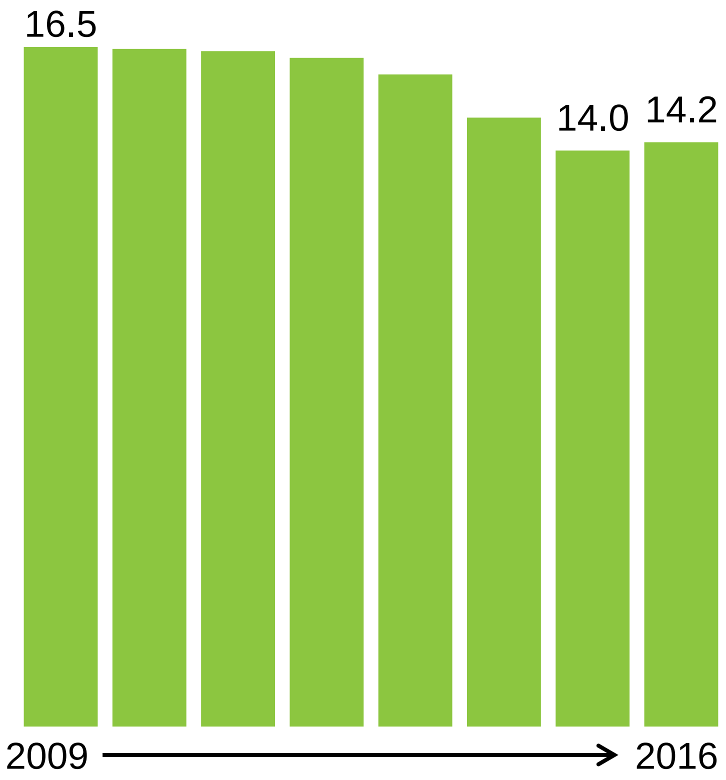
The Context of Today's Shopper Landscape

Retailer rationalization = destination reduction, but spending same/more = loyalty to "chosen fewer"

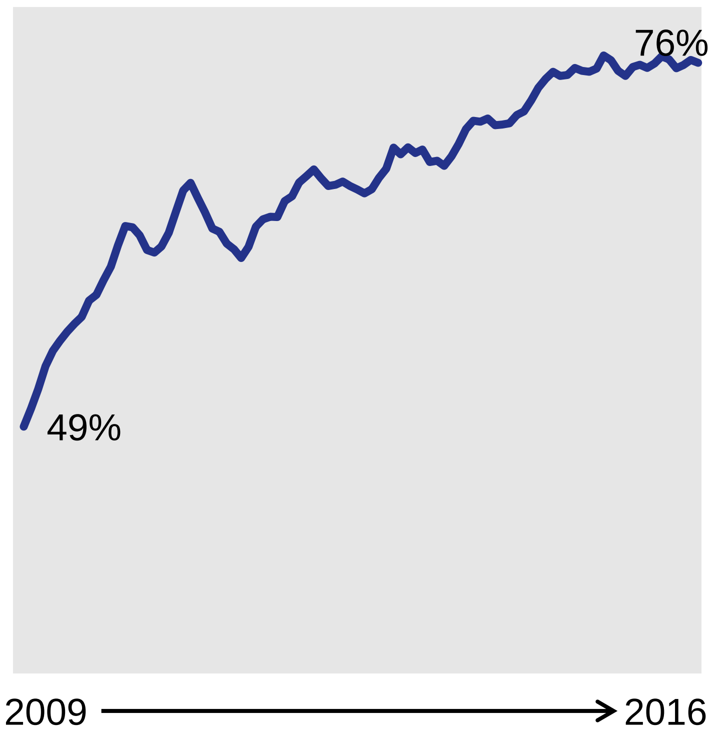
Average Number of Retailers Shopped in Past Four Weeks
(Q1-Q3 of each year)



Average Number of Categories Purchased in Past Four Weeks

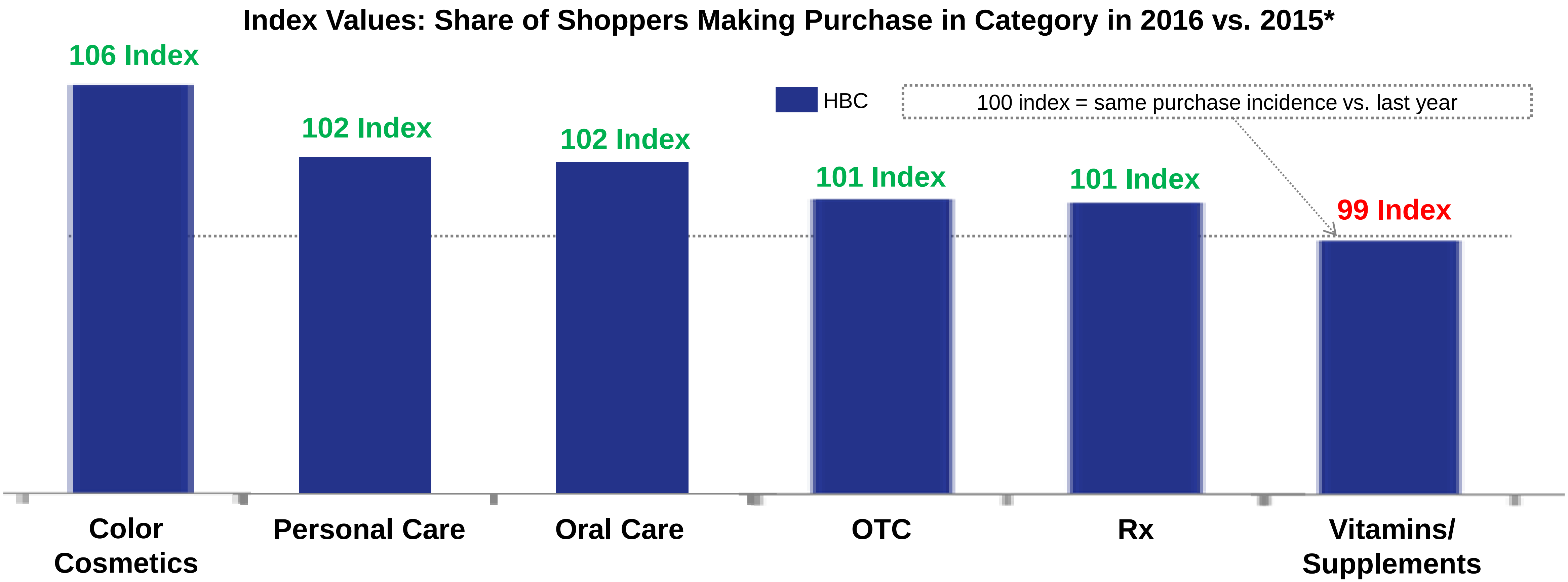


Percent Planning to Spend Same/More at Retail vs. Year Ago
(three-month moving average)



Source: Kantar Retail ShopperScape®, January 2009-December 2016

Health and Beauty Care Categories Saw More Purchasers in 2016



* Only those categories with a minimum of 5% of households purchasing the category are included here in order to prevent drastic indices due to very small bases.

Source: Kantar Retail ShopperScape®, January-December 2015 and January-December 2016

Exploring the New and Premium

Shoppers are willing to pay more for health and wellness clarity, convenience, and personalization

why — Preservation — **Health & Wellness**
Better for you” attributes define quality

what — Transparency — **Sustainability & Local**
Building a sense of “trust”

how — Purpose — **Authenticity**
Sense of “real”

Drivers of Retail’s Health & Wellness Prioritization

Source: Kantar Retail analysis

What's Driving the Growth in Retail?

Health, localization, personalization, social, and seamless experiences

Clinical in nature

Solution-based

Transparent
and naturally oriented

Interactive and fun

Source: Kantar Retail analysis

Digitally Connected and Millennial-Minded

Sephora's New Initiative — Teach, Inspire, Play

This digital concept store launched recently with a test store in San Francisco. The ambitious project features digital stations for communal tutorials, virtual cosmetic try-ons, and a host of other tech-related experiences.

‘Health’ and ‘Wellness’ Are Two Separate Trip Missions

Terms That Shoppers Associate With Being “Healthy” or Being “Well”

Healthy

- Eating healthy (76%)
- Avoiding overly processed foods (72%)
- Being active (69%)
- Exercising regularly (69%)
- Getting enough sleep (67%)
- Having a certain weight (66%)
- Not being sick (61%)
- Completing routine medical visits (60%)
- Managing chronic conditions (59%)
- Confidence my body is taking care of me and vice versa (56%)

Physical/Functional

More likely to associate terms with being healthy

Avoiding Stress

Minimizing Stress

Well

- Laughing (61%)
- Having hobbies/interests (59%)
- Being spiritually centered (59%)
- Feeling happy with how I look (58%)
- Keeping my mind sharp (58%)
- Having healthy relationships with others (57%)
- Looking a certain way (45%)

Mental/Aspirational

More likely to associate terms with being well

Note: Terms within the intersection are almost equally likely to be attributed to being healthy or being well.

Source: Kantar Retail ShopperScape®, February 2017

How Does Beauty Fit Into Health & Wellness? Every Brand Can Play!

Personalized

Functional Health

Emotional Wellness

Convenience

Key Planning Questions

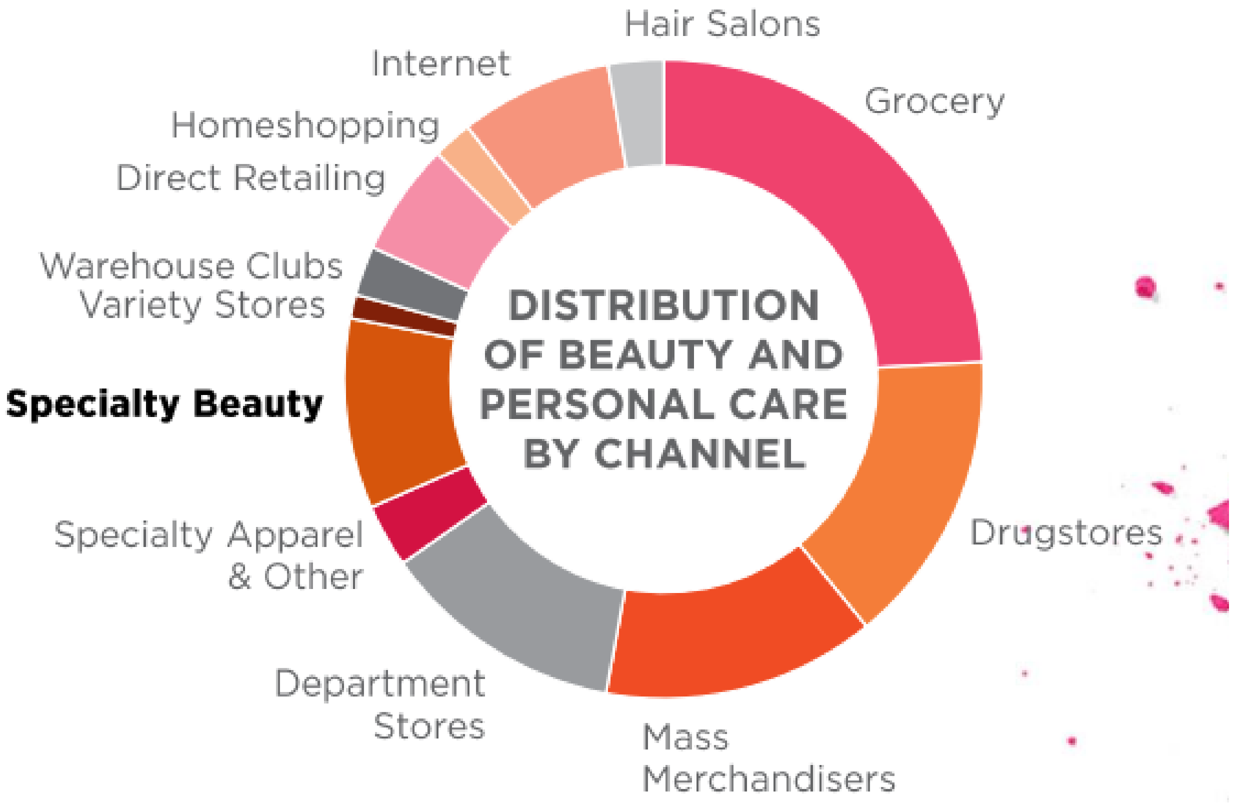
- How do we bring more healthy solutions to personal care?
- What variation of the health & wellness trip mission do you want to own?
- Are you fully capitalizing are beauty growth drivers at retail?

Source: Kantar Retail Analysis

II.
Competitive Landscape
What leading retailers are doing

Beauty Is Still a Highly Fragmented Market

The U.S. beauty category continues to steadily grow with shares shifts between retail outlets



Source: Ulta and Kantar Retail Analysis

U.S Beauty Shopper Preferences and Retail Channel Shifts

Despite heightened competition, specialists remain top retail channel, continue to steal share from more traditional formats

Share of Preference: Where Shoppers Report Spending the Most on Cosmetics

Channel/retailer	2010	2015	2016	ppt change '10-'15	ppt change '15-'16
Mass	37%	35%	33%	-2.7	-1.2
Target	8%	9%	8%	0.5	-0.2
Walmart	26%	22%	22%	-4.1	-0.4
Drug	22%	18%	15%	-4.6	-2.9
CVS	10%	9%	7%	-1.7	-1.3
Rite Aid	4%	2%	2%	-1.6	-0.7
Walgreens	8%	6%	5%	-1.5	-0.8
Supermarkets	7%	7%	7%	0.4	-0.2
Department stores	8%	7%	7%	-1.1	0
Macy's	3%	4%	4%	0.7	-0.2
Personal care/beauty specialists	n/a	17%	18%	n/a	0.8
Sephora	n/a	7%	8%	n/a	0.2
Ulta	n/a	8%	9%	n/a	0.8
Amazon	0.4%	3%	3%	**2.9**	-0.1

- **Drug:** poised to lose the most with a 2.9 ppt drop in share of preference
- **Department stores:** still holding their own, with a foundation built on a strong historical shopper base
- **Beauty specialists:** stealing share and capturing new (Millennial) beauty shoppers
- **Amazon:** strong growth and is growing steadily due to heavy investment in the category

Source: Kantar Retail ShopperScape®, January-December 2010, 2015, 2016

Retail Beauty Competitive Landscape Summary

Building profitable baskets and increasing shopper loyalty are key U.S retail beauty priorities

Omni-channel

1. On-trend luxury content
2. Engaging experiences
3. Wellness reviews

Beauty Specialists

1. Niche brands
2. Curated collections
3. BIC customer service
4. Services
5. Functional assortments
6. Loyalty rewards

Mass / Grocery Stores

1. Functional assortments
2. Price leadership
3. Celebrity exclusives
4. More display opportunities

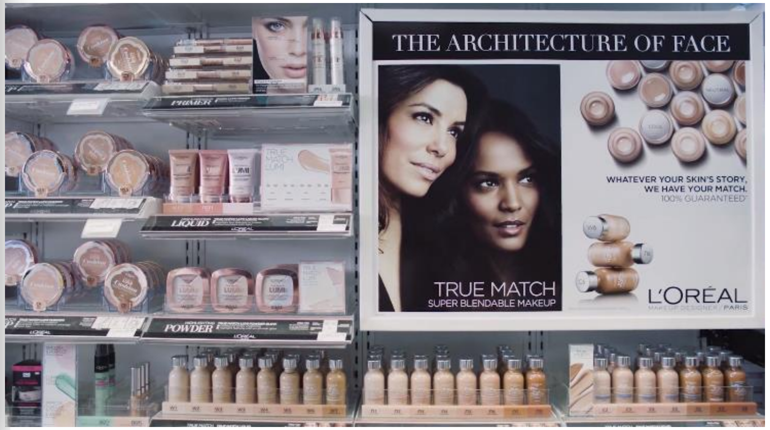
Drug Stores

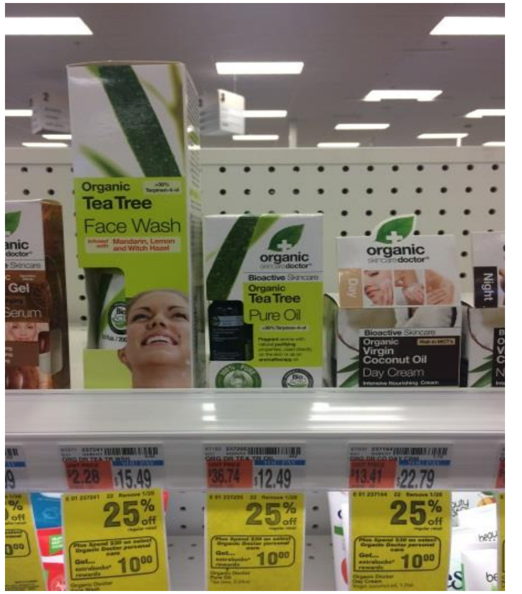
1. New formats
2. Clinical claims
3. Exclusive brands
4. Omni-channel experience

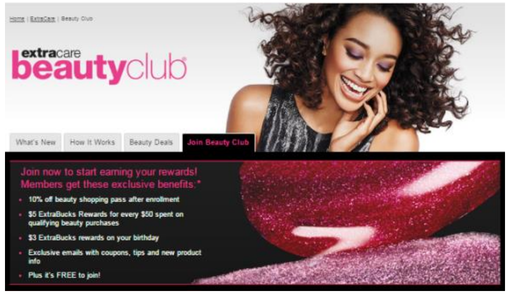
Source: Kantar Retail Analysis

New CVS Store Design Elevates Beauty to Drive Sales

CVS Health







HBC = 1.7x more profitable vs. other categories

Source: Company reports; Kantar Retail store visits

Sephora's New Flagship Stores Heavy on Personalization, Cust. Service

TEACH.
INSPIRE.
PLAY.

Boston — Prudential Center

Color iQ empowers shoppers with a personalized cosmetic palette.

- San Francisco, Boston, Chicago
- Digital stations: communal tutorials, virtual cosmetic try-ons, and other tech-related experiences.
- Communal beauty tutorials can be held at 12 different stations.
- USB ports, iPads, wi-fi allow employees to walk customers through beauty workshops.

Source: Kantar Retail analysis and store visits

WBA Brings Boots U.K. Personalization and Expert Care to U.S.

- New in-store service model focuses on beauty regimens
- Online appointments booking for health and beauty services
- Technology powering new personalized experience

Source: Kantar Retail analysis

Ulta Rewards Loyalty, Invests in Transformative Beauty Services

Loyalty customers = heart of Ulta's success

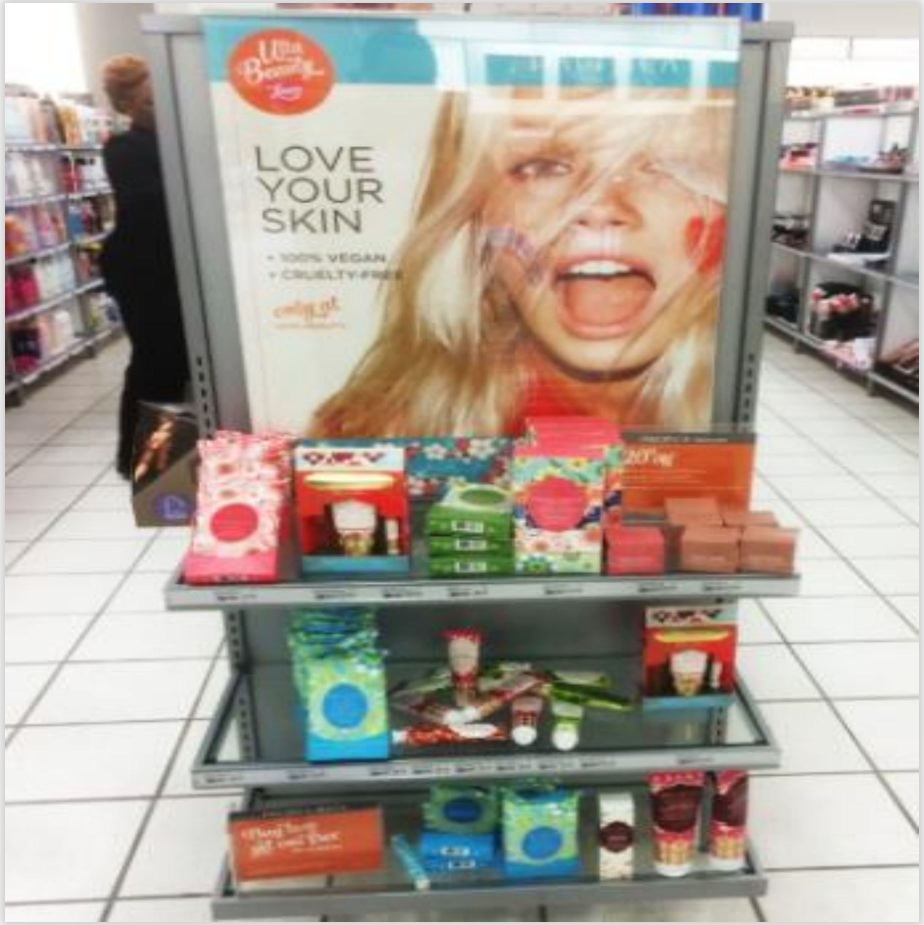
17 million active buyers in Ulta's loyalty program are responsible for more than **80%** of sales.

Source: Kantar Retail store visit

ULTA BEAUTY

Ulta Curates Skin Care Assortments to Deliver H&W Solutions

Health is the future of beauty



Rite Aid Brings Health to Beauty

Clinical skincare line compliments Rite Aid's healthcare strategy

Receutics: exclusive line of dermatologist-strength skin care products

Amazon Partners to Establish Credibility

Opinion leaders and industry experts help assert product authority

Partnering with expert advisers (e.g., the American Academy of Dermatology) provides external reassurance and builds trust

Source: Kantar Retail analysis, retailer website

Natural Has Become a Major Investment Area

Most major retailers have embraced this trend

Source: Kantar Retail analysis; store visits

Natural Solutions Showing Up in Unconventional Retail Formats

Barnes & Noble's "The Glossary" debuts on college campuses last May

Lucky's Apothecary Features National and Niche Brands

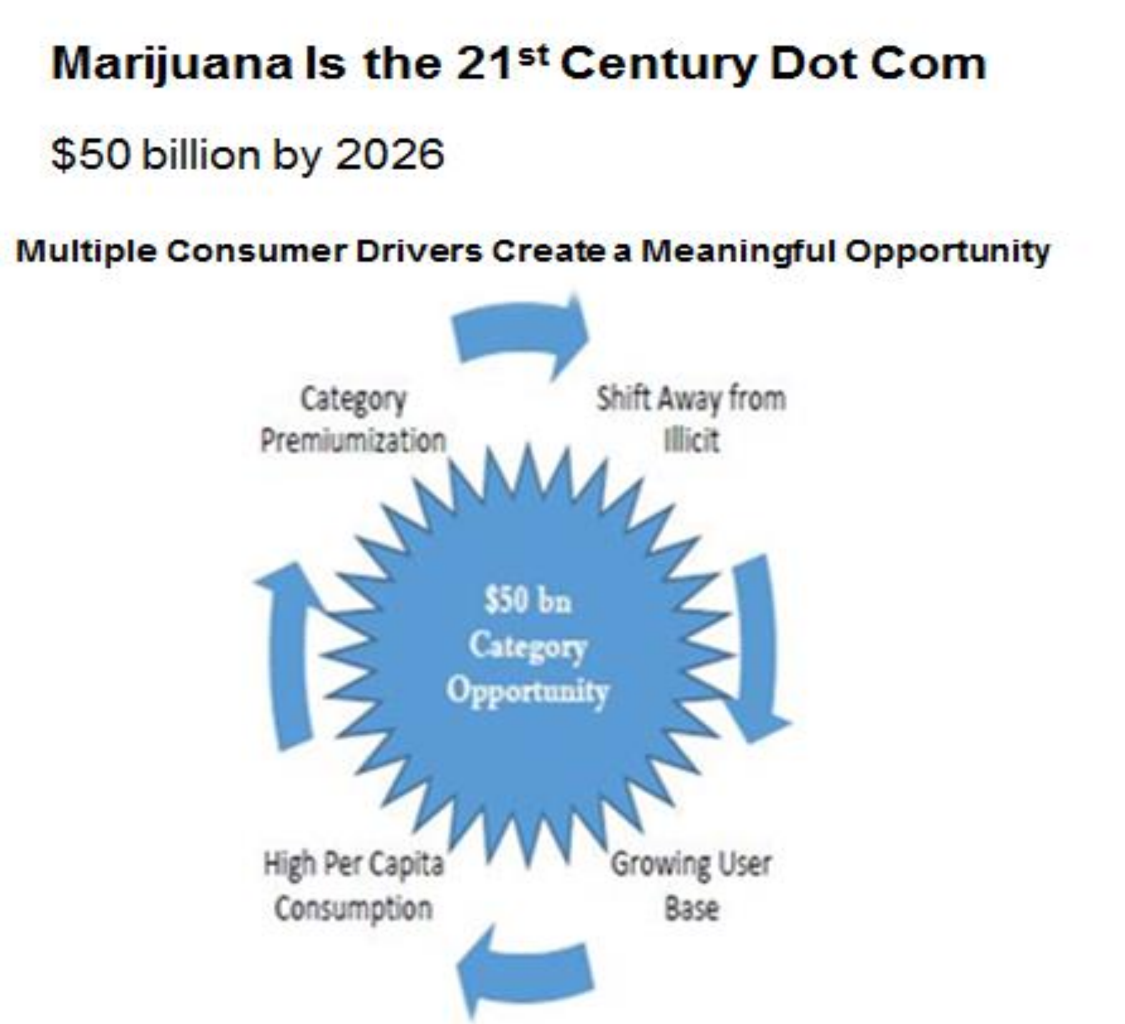
Leads shoppers across the total store in a unique way while driving loyalty

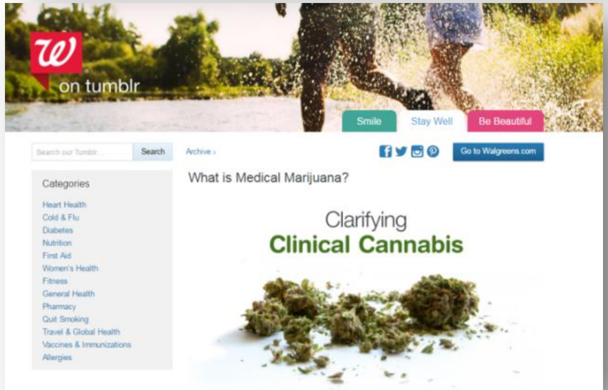
- Lucky's HBC and vitamins section is mostly national and niche brands.
- End caps feature new products/trends and educate shoppers about health benefits, building baskets and creating a treasure hunt experience.

Source: Kantar Retail store visits, research, and analysis; retailer website

Happening Now: Innovating and Meeting Consumer Demands

Cannabis = a **natural** alternative; serves a purpose & fulfills a need across evolving retail spectrum





Source: Kantar Retail analyses, company websites; Cowen & Co., September 2016; State of Legal Marijuana Markets, 4th Edition; New Frontier Data October 2016

Key Planning Questions

- How do we bring in new shoppers via the retail digital experience?
- How can we enhance the shopping experience and bring new retail partnerships?
- What exclusives SKUs can we co-create with retailers for its beauty enthusiasts?
- How do we leverage retailer loyalty programs to build bigger baskets?
- What does beauty look like in a virtual world?

Source: Kantar Retail Analysis

III.
Future of Naturals
Shopper behaviors and attitudes

Fresh, Local, Organic, Natural, Health

The new standard

Between now and 2020, **25% to 50%** of major supplier and retailer innovations will have a FLONH component to them.

Source: Kantar Retail analysis

Natural/Organics and Value Position Are Major Drivers of Growth in Supermarkets

	'20E % to Channel	'15E-'20E CAGR
Premium (ex. Nat/Org)	15.1%	5.3%
Mainstream	31.1%	1.5%
Value	47.3%	5.8%
Natural/Organic	5.9%	10.0%
Total Channel*	N/A	4.4%

10% of total supermarket sales growth will come from natural / organic formats

~50% of the growth in the channel will come from value oriented operators

~20% will come from retailers who position themselves as premium

8 of the top 15 supermarket retailers run multiple formats

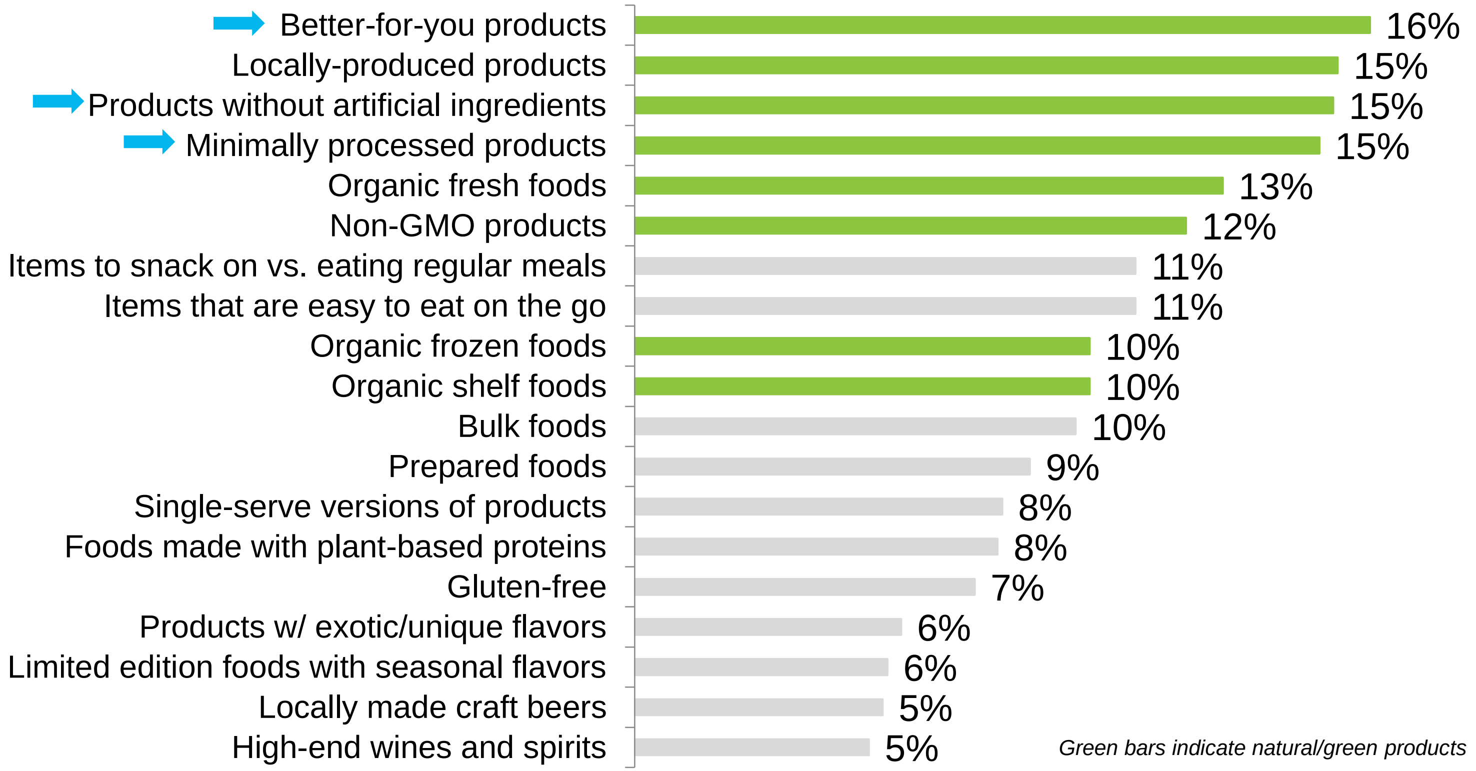
*Channel includes supermarket sales only (supermarket format only) and also includes Walmart (supermarket formats only) as well as Meijer (edible grocery sales only)

Data as of 05-21-15

Shoppers Are Increasingly Drawn to Naturals

More than just a trend: younger shoppers, parents driving new orientation

Shoppers Who Report Spending More of Grocery Budget on Products vs. Last Year
(among U.S. primary household shoppers)



- **Gen Y Parents** are upward of *50% more likely* to spend more on minimally processed and non-GMO products vs. last year
- **Gen Y shoppers** overall are *30% more likely* to spend more on these products vs. last year

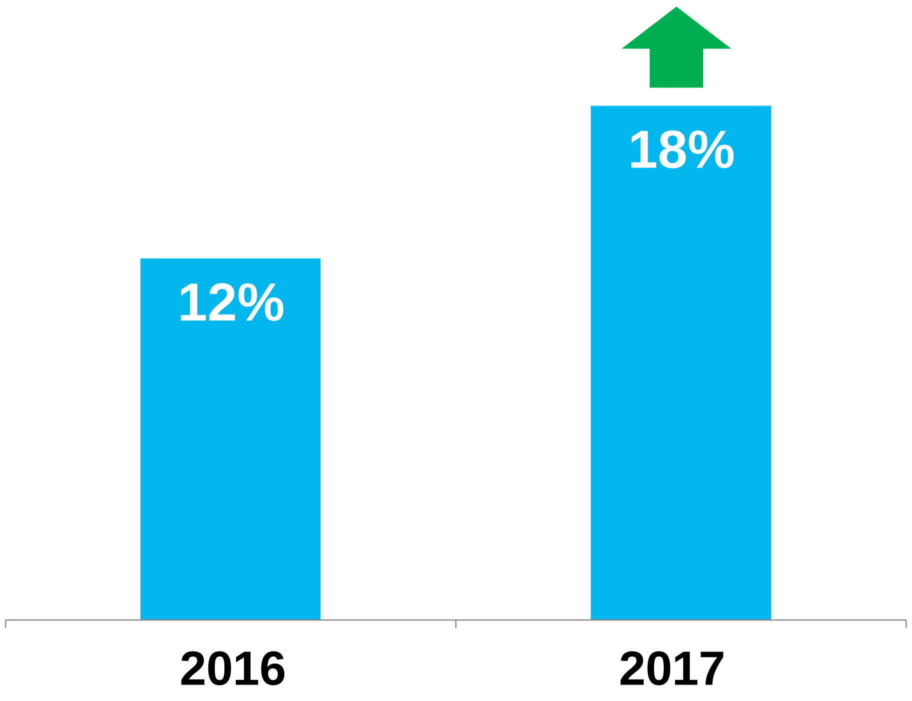
Source: Kantar Retail ShopperScape®, Nov. 2016

More Shoppers “Going Green” in Personal Care

“Naturals” extends far beyond food

Percentage of Shoppers Who Purchase “Green” Personal Care Products

(e.g., cosmetics, skin care)



Arrow indicates significant increase vs. 2016 (95% confidence level)

Shopper Demographics: Purchasers of “Green” Personal Care Products (e.g., cosmetics, skin care)

	All Shoppers	Purchase "Green" Personal Care Products
<$25K	22%	22%
$25K - $49.9K	23%	21%
$50K - $74.9K	**17%**	12%
$75K - $99.9K	12%	12%
$100K+	26%	**33%**
Generation Y (born 1982 to 2002)	24%	**33%**
Generation X (born 1965 to 1981)	30%	31%
Baby Boomers (born 1946 to 1964)	**37%**	31%
Seniors (born before 1946)	**10%**	5%
All Parents	25%	29%
Gen Y Parents	9%	11%
White Non-Hispanic	**71%**	59%
Black Non-Hispanic	13%	15%
Hispanic*	13%	**21%**
Asian	2%	4%

Highlighting indicates significant difference between column percentages (95% confidence level)
*ShopperScape® sample not representative of full U.S. Hispanic population

Source: Kantar Retail ShopperScape®, April 2016, April 2017

Natural/Organic Beauty Assortment Factors Into Product/Brand Decisions

More likely a factor in product/brand decision, though not a top determinant of retailer choice

Percent of Female Shoppers Who Consider Availability of Natural/Organic Products An Important Determinant Of Where They Shop for Beauty
(among female shoppers who shop for products listed)

	All female shoppers	Have Nots <$60k	Haves $60k+	Gen Y (born 1982 to 2002)	Gen X (born 1965 to 1981)	Boomers (born 1946 to 1964)	Seniors (born before 1946)	All Parents	Gen Y Parents
Skin care	12%	13%	12%	**20%**	9%	12%	7%	11%	**18%**
Hair care	10%	9%	11%	**14%**	10%	9%	5%	10%	13%
Cosmetics	9%	10%	8%	10%	9%	9%	8%	8%	8%

Millennial shoppers more likely to consider natural/organic beauty assortment when choosing a retailer

Shading indicates a significantly greater percentage vs. all female shoppers (95% confidence level)

Source: ShopperScape®, June 2016

Communication, Clarity, Authenticity Critical to Success

Industry must communicate that it can support shoppers' needs

Transparency and trust perpetuate engagement

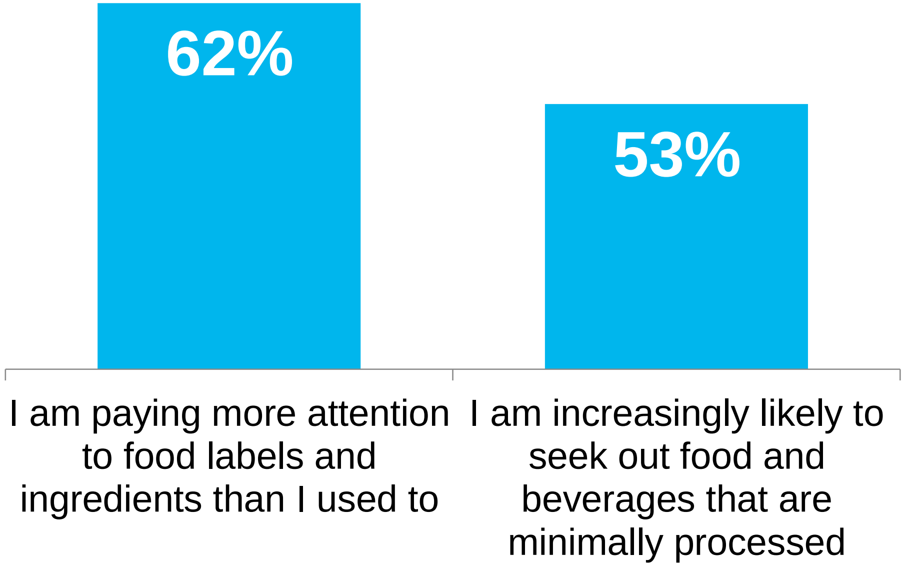
63%

of shoppers prefer to shop at retailers that are transparent about product quality

61%

of shoppers are willing to spend more money on a brand they trust

Shoppers are aware and informed



Source: Kantar Retail ShopperScape®, March 2016

Clean Labels Actively Engage Shoppers

28% increase in advertising creatives mentioning "clean label" attributes in 2016 vs. 2015

Rank	Attribute	% Change
1	Organic	+ 42% ▲
2	No Artificial Flavors	+ 79% ▲
3	Gluten-Free	- 1% ▼
4	No Artificial Colors	+ 118% ▲
5	Allergies	- 5% ▼
6	Non-GMO	+ 129% ▲
7	Antioxidants	+ 46% ▲
8	Grass-Fed	+ 56% ▲
9	Less Sugar	No Change

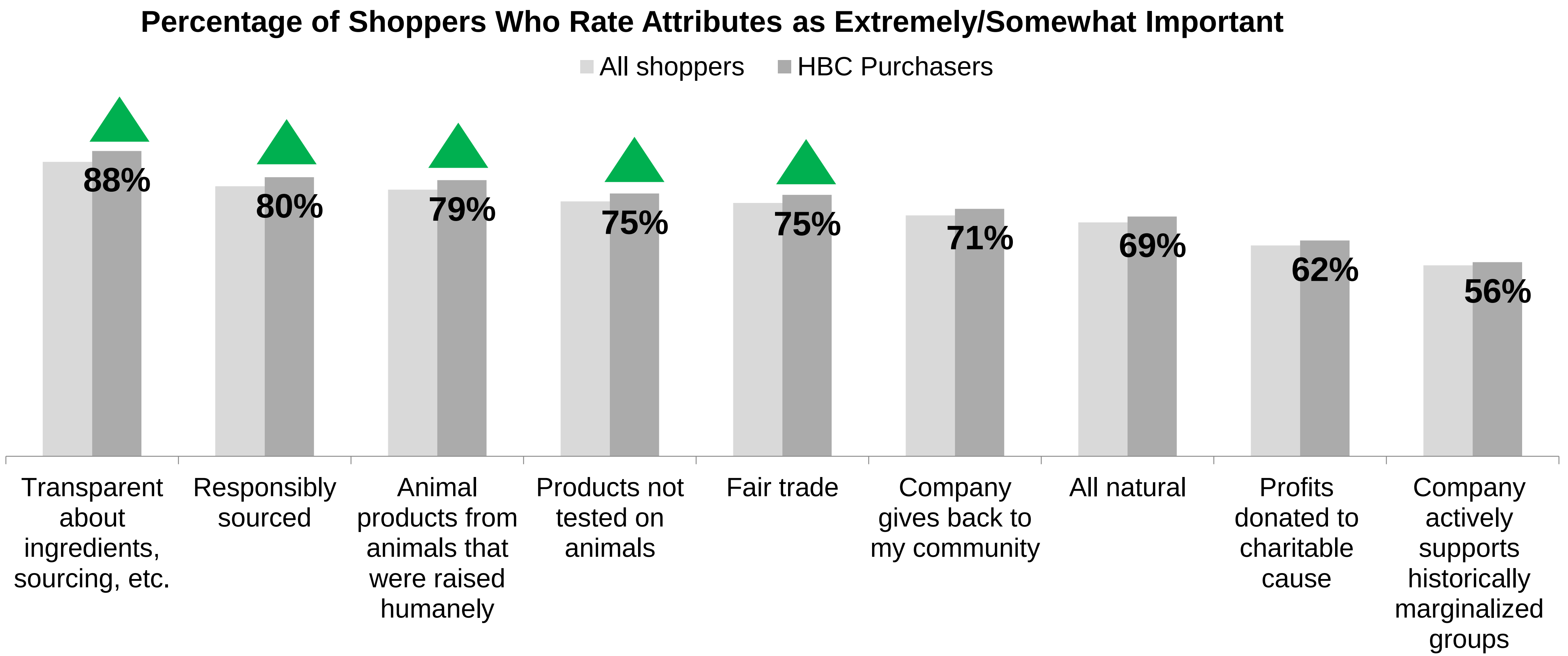
Rank	Attribute	% Change
10	Low Fat	- 48% ▼
11	No HFCS	+ 28% ▲
12	Vegan	+ 69% ▲
13	Sugar-Free	- 15% ▼
14	Scent-Free	No Change
15	No Preservatives	+ 300% ▲
16	Plant Protein	+ 11% ▲
17	Chemical-Free	- 54% ▼
18	Animal Cruelty-Free	New ▲

Note: Rank based on total number of creatives mentioning specified attribute in 2016.

Source: Kantar Media

Transparency, Sustainability Are the New Differentiators

HBC purchasers place significantly higher value on transparency



Arrows indicate significantly greater percentage vs. all shoppers (95% confidence level)

Source: Kantar Retail ShopperScape®, April 2017

Where Products Come From Matters—A Lot!

Liverpool ‘Dermo Farmacia’ in Mexico City offers transparency about sourcing & natural ingredients

Source: Kantar Retail Store Visits

Key Planning Questions

Create a “natural identity” with commitment to transparency

- How can we help clarify the definition of “natural” to the shopper?
- How can we bring more transparency?
- Do we have the emotional relationship needed to establish authenticity?
- How can we promote education on the front line?
- How can we help shoppers spend less time assessing our products?

For further information please refer to
www.kantarretailiq.com

Contact:
Kate Senzamici
Principal Analyst

T: +1 617 912 2866

kate.senzamici@kantarretail.com

@kantarretail

www.kantarretail.com