Optimization in an age of inflation

Navigating Disruption

State of the U.S. Consumer

August 2022

Drivers of disruption are complex and map to longer-term shifts

And will be exacerbated with Ukraine crisis as effects will ripple longer term

Market pressures impacting inflation

Rising costs of raw ingredients

Rising costs of shipping

Rising delivery volumes

Rising costs of labor

Underlying factors of inflation

- Extreme weather events
- Reverse migration
- Added cross border complexities
- Shipping & port bottlenecks
- More labor intensive operating models
- Increased demand of online & delivery
- Labor gaps in low wage employment

Key drivers of inflation

Climate change	COVID uncertainty	Shifted consumption	Financial polarization	**Political conflict**
Long-term	Mid-term	Long-term	Long-term	Long-term

Consumer confidence decreased again in July versus last month, is down -7.5 pts from year ago

Consumer Confidence

95.7

▼ -2.7 pts July '22 vs June ‘22

▼ -7.5 pts July '22 vs May ‘22

Unemployment

3.6%

▼ **0.0** pts (June '22 vs May '22)

▼ **-2.3** pts (June '22 vs YAGO)

Unemployment is down

Savings Rate

5.4%

▲ **+0.2** pts (May '22 vs Apr ‘22)

▼ **-5.0** pts (May '22 vs YAGO)

Savings rates continue to fall

Sources: Consumer Confidence Board, Latest Update: July 2022; Federal Reserve Bank of St. Louis | Latest Update: June 2022

Top 5 concerns for Americans

38% Rising Food Prices

22% Rising Gas Prices

21% Economic Downturn

20% COVID-19 Resurgence

16% Rising Cost of Utilities

Source: NielsenIQ Consumer Outlook Survey June 2022 – US – Top 2 concerns combined

Consumer pressures impacting spending power

Inflationary Pressures	Rising Interest Rates	Rising Gas Prices*
Inflation*: +8.2%	Household Debt	+51%
CPG: +9.0%	$15.6 Trillion in ’21	Monthly increase of +$88/ car
Income: +5.9%	+$1 Trillion	
Net Loss		

Source: NielsenIQ. Total US xAOC 4 weeks ending April 30/22. *US Media Gas May 2022 $4.60 / gallon

Rising gas prices are rerouting consumers

Impact of Rising Gas Prices

34% Driving less

25% Shop online

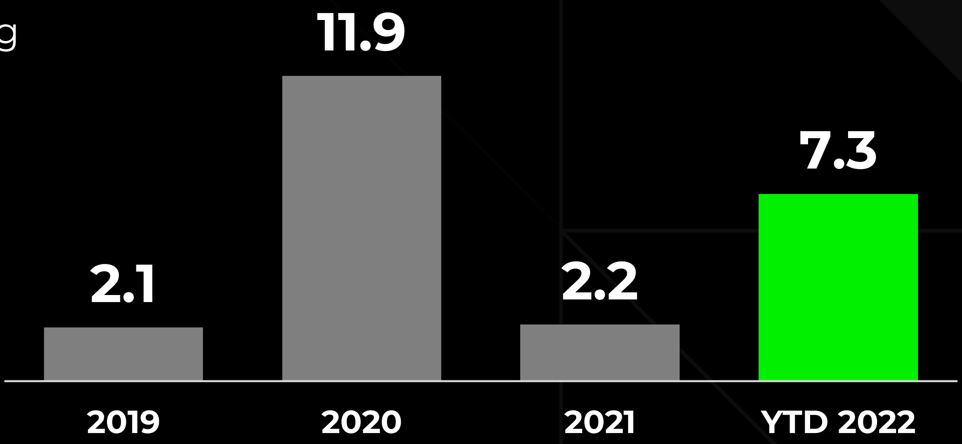
24% Shop closer to home

Source: NielsenIQ, Total US Homescan Panel Views Survey May 2022

YTD 2022 dollar growth is off to strong start

Total CPG

$ % Chg



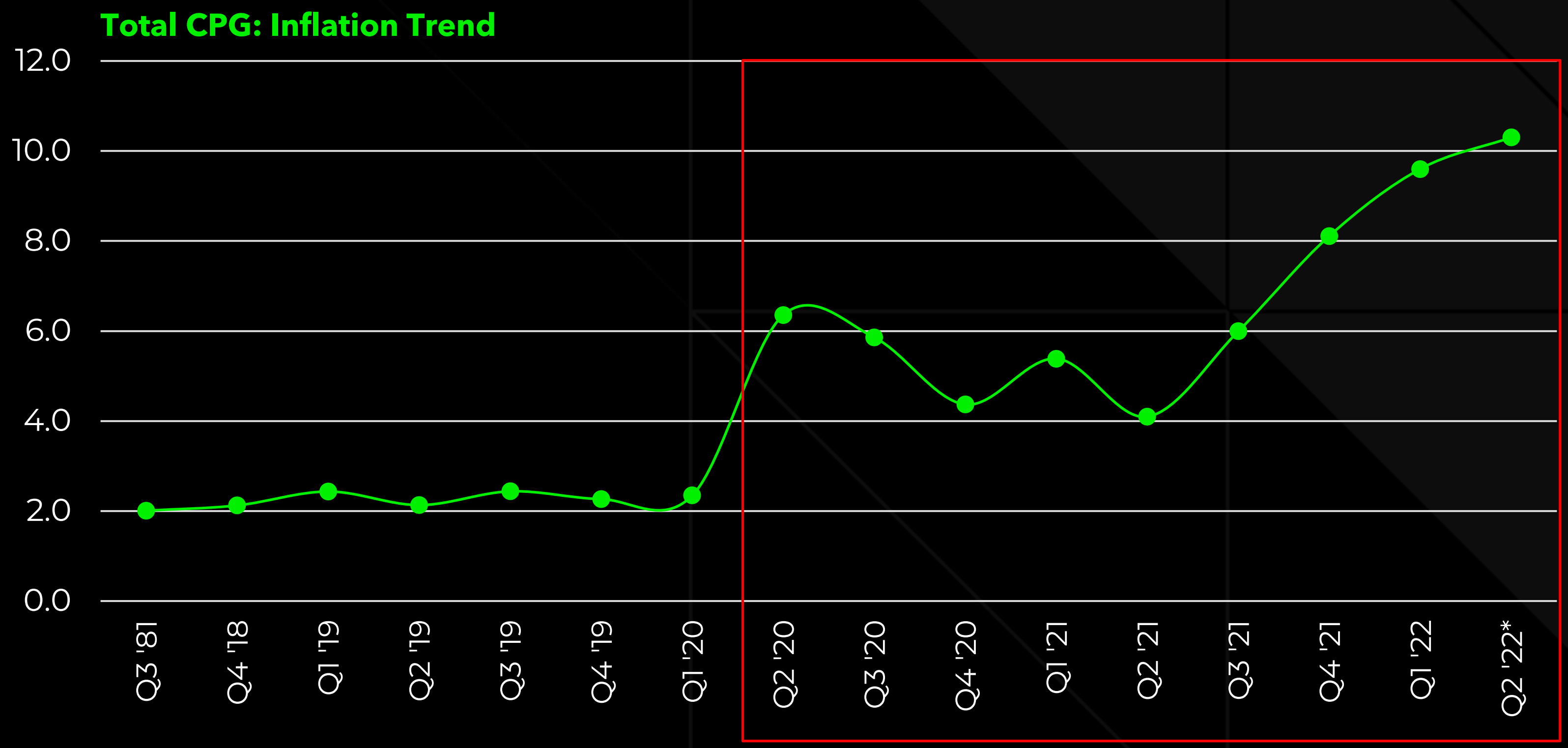
Unit % Chg	-0.2	+6.9	-3.5	-2.4

But...

Growth is fueled by rising prices, with unit sales soft

Source: NielsenIQ, Total US xAOC, YTD: 23 weeks to June 11, 2022

CPG prices continue to rise, now reaching 10%



Source: NielsenIQ, Total US xAOC, – Average Unit Price Change   * Q2 '22 Preview: 10 weeks to June 11, 2022

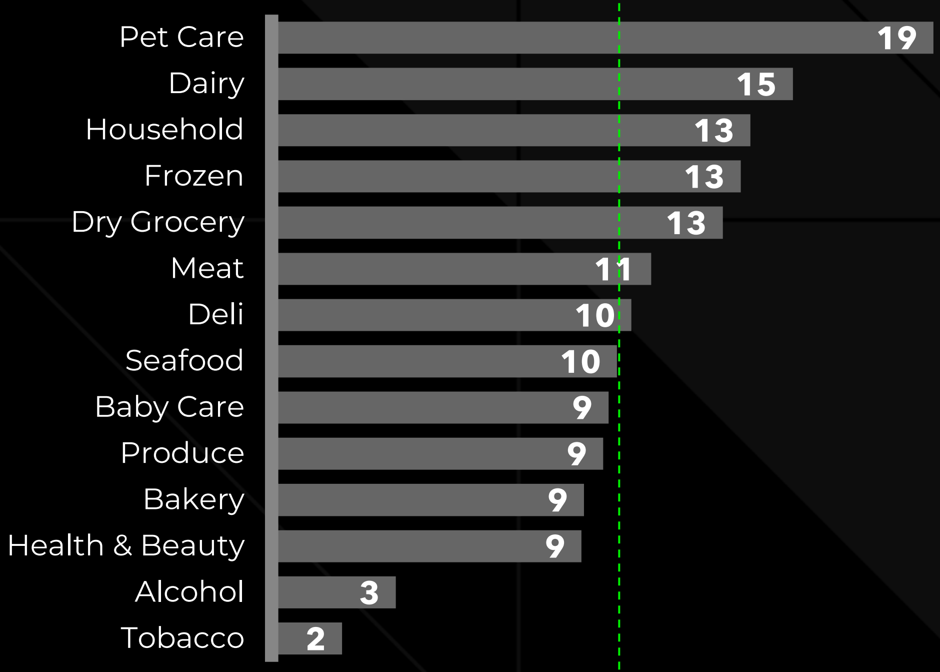
CPG inflation primarily driven by food departments

Q2 ’22* CPG Inflation

+10%

Regular Price	Promoted Price
+9%	+14%

Inflation Varies By Department



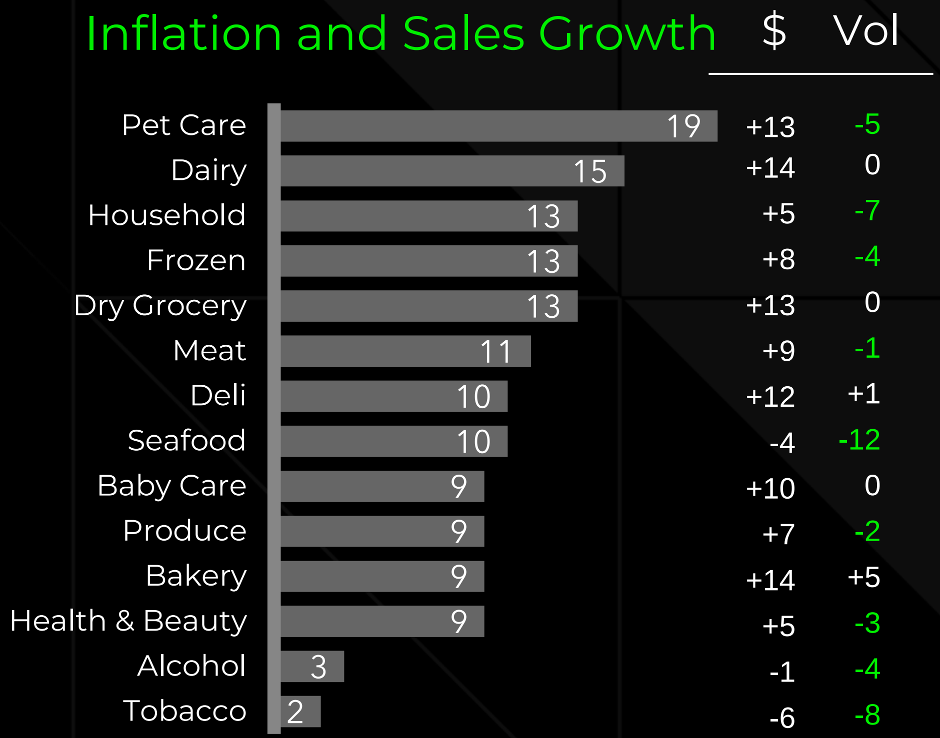
Source: NielsenIQ, Total US xAOC, Q2 ‘22 Preview: 10 weeks ending June 11, 2022

Stagflation? As prices rise, the majority of CPG departments are reporting softness in volume sales

Q2 '22* CPG Inflation

+10%

$ % Chg	Vol % Chg
+8	**-2**



Source: NielsenIQ, Total US xAOC, Q2 '22 Preview: 10 weeks ending June 11, 2022

As expected, the majority of consumers are concerned about rising prices

Q: How concerned would you be if prices were to increase for everyday items over the next 12 months?

Yes: 97%

Level of Concern

45%	Extremely
26%	Very
20%	Somewhat
6%	A Little

Source: NielsenIQ, Total US Homescan Panel Views Survey May 2022

Given the choice, consumers would prefer a larger size option to deal with rising prices

Q: If raw material cost rose substantially for manufacturer of food, household and/or personal care products, what you prefer they do

28%	Offer economy size for lower cost of use
19%	Maintain same product and quality and increase price
17%	Use cheaper packing material
10%	Use cheaper / substitutable ingredients
8%	Offer smaller sizes at lower price points
7%	Offer smaller sizes at same price (downsizing)
7%	Offer less frequent price promotions
4%	Offer shallower promotional price points

Source: NielsenIQ Consumer Outlook Survey June 2022 – US

While economic impacts of COVID soften, cautiousness in spend prevails

	Strugglers	Rebounders	Cautious	Unchanged	Thrivers
Dec 2021	25%	16%	33%	18%	8%
June 2022	17%	11%	42%	23%	7%

Strugglers: Have suffered financial insecurity and continue to do so today.

Rebounders: Experienced income or job loss but now feel they are back on track.

Cautious: Not impacted financially but are cautious with spending.

Unchanged: Not impacted and continued to spend the same.

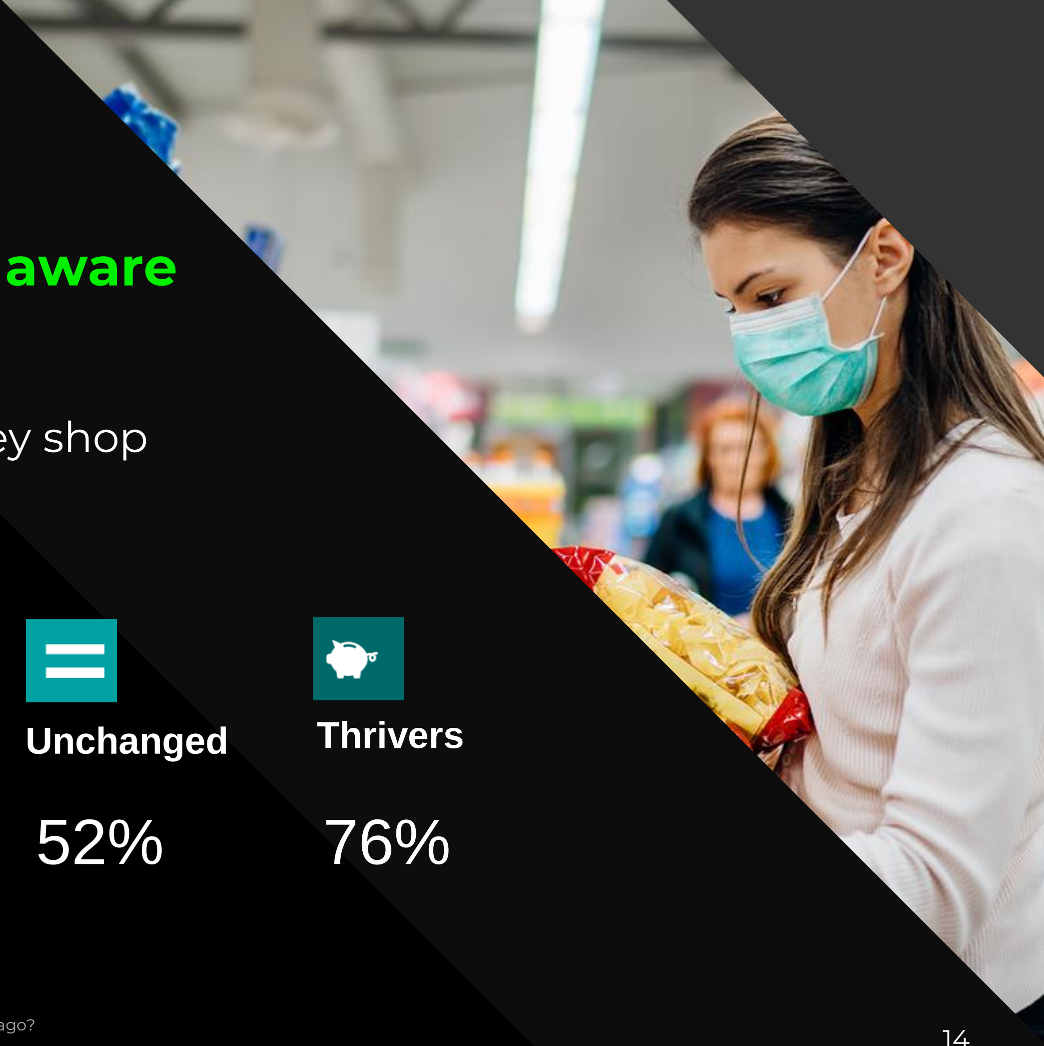
Thrivers: Saved money and feel more financially secure.

Source: NielsenIQ 2022 Consumer Outlook Survey, Dec 2021 vs June 2022
Q. Which of the following best describes how COVID-19 impacted your overall household financial situation over the last 2 years?

More impacted = more price aware

81% have changed the way they shop to manage expenses

Strugglers	Rebounders	Cautious	Unchanged	Thrivers
91%	93%	83%	52%	76%



Source: NielsenIQ 2022 Consumer Outlook Survey, December 2021. US
Q. Which of the following best describes your normal weekly grocery spend compared to 6 months ago?

On average, consumers are implementing 4.6* strategies to save money

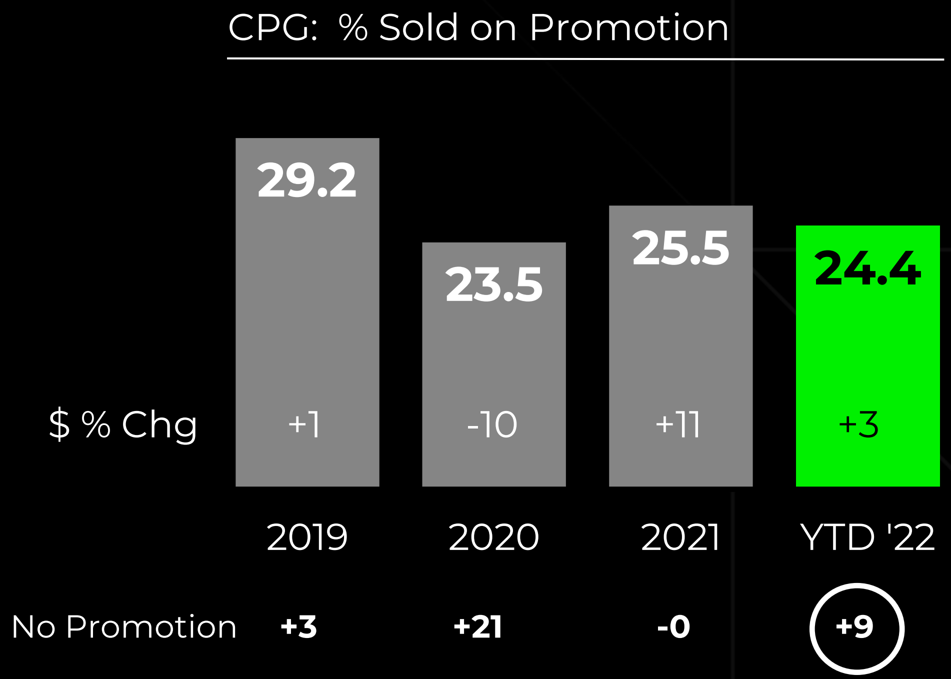
Q: Which of the following activities, if any, have you been doing to reduce your expenses?

Top 10 ▶

50%	Stock-up when on sale
42%	Use coupons
38%	Seek out stores with lower prices
37%	Buy store brands
31%	Only buy the essentials
28%	Buy less expensive national brands
28%	Only buy items on sale
28%	Buy less expensive alternatives
27%	Build loyalty points for savings
24%	Buy larger sizes for lower cost per use

Source: NielsenIQ, Total US Homescan Panel Views Survey May 2022 * based on 16 strategies surveyed

Despite the new pressures on consumer wallets, promotional sales lag regular priced sales

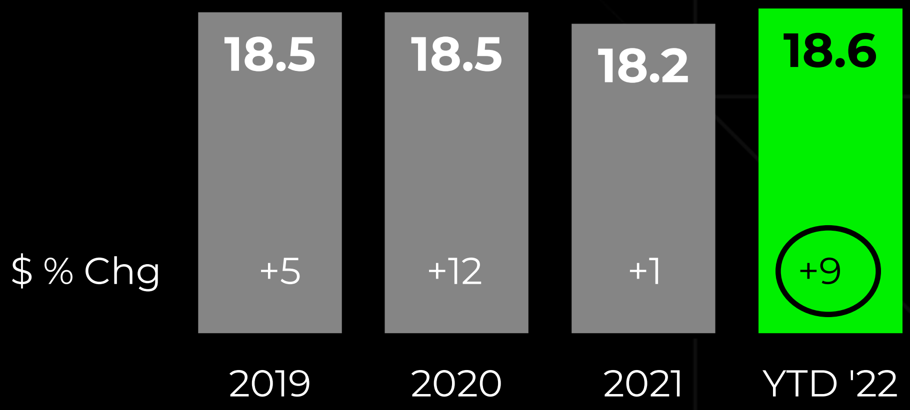


YTD	% Promo	% Chg
Alcohol	31.9%	-1
Meat	31.8%	+12
Seafood	29.7%	-8
Dry Grocery	28.2%	+4
Produce	27.4%	+2
Health & Beauty	23.7%	+8
Household	21.6%	+11
Dairy	21.1%	-4
Bakery	20.8%	+7
Frozen	20.8%	-10
Baby Care	16.0%	+4
Deli	15.8%	-3
Pet Care	11.3%	-5
Tobacco	5.9%	+3

Source: NielsenIQ, Total US xAOC, 52 week periods – YTD 23 weeks to June 11, 2022

After a slight loss in share last year, private label has returned as a sales growth driver

CPG: Private Label $ Share



National Brand **+2** **+12** **+3** **+7**

YTD	$ Share	% Chg
Bakery	40.9%	+13
Dairy	33.5%	+13
Deli	26.0%	+11
Household	26.0%	+8
Frozen	23.9%	+5
Meat	22.0%	+12
Health & Beauty	16.4%	+3
Produce	15.7%	+14
Pet Care	15.2%	+7
Dry Grocery	13.5%	+10
Baby Care	13.3%	+12
Tobacco	7.0%	-3
Seafood	5.9%	-6
Alcohol	0.7%	-1

Source: NielsenIQ, Total US xAOC, 52 week periods – YTD 23 weeks to June 11, 2022

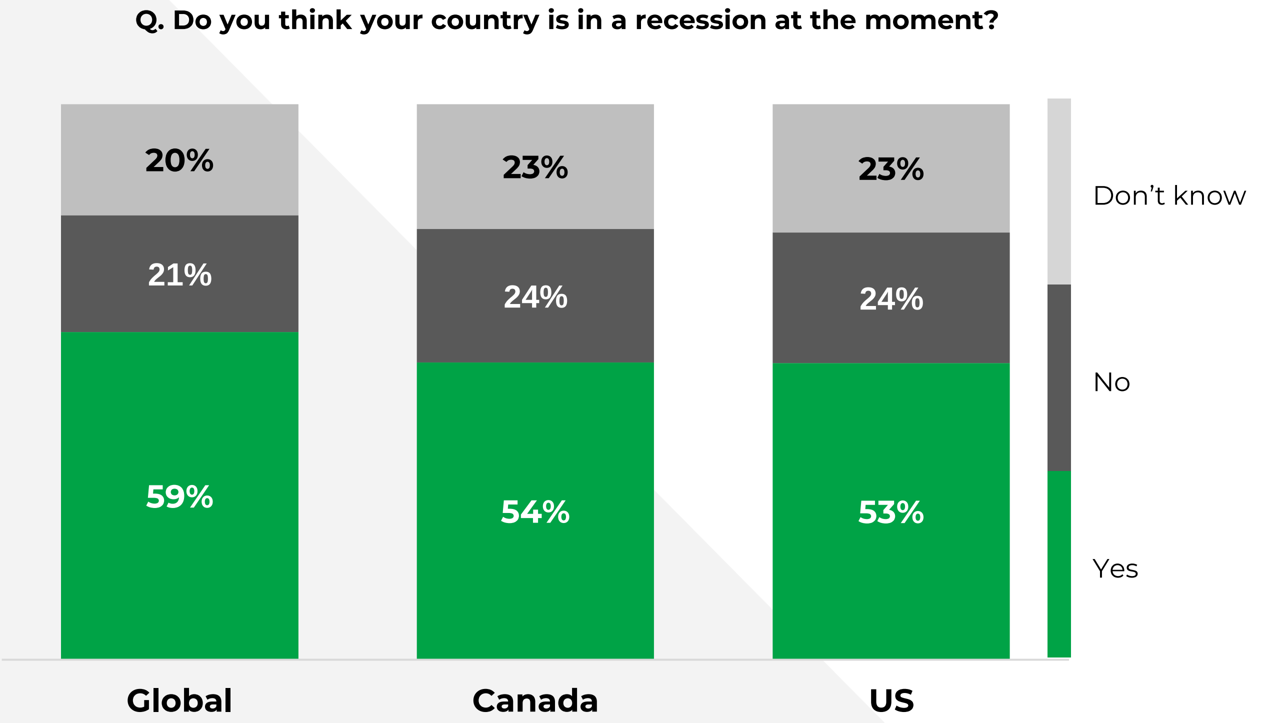
Navigating the change provides unique growth opportunities

Strugglers	The most economical offer will hold appeal but will appreciate brands who can bring excitement or relieve daily pressures.
Rebounders	Recovering from financial insecurity they remain cost-conscious. They will attempt to embrace the advantages of their at-home lifestyles, including online shopping.
Cautious	This group has the ability to spend but will need more convincing. While still prioritizing affordable prices, brands and retailers that emphasize the details that matter most will convince them to spend.
Unchanged	Consumers who have been insulated from COVID-19 financial stresses are the most likely to say they are loyal to their regular brands, regardless of price. Earn their loyalty by catering to their desire to make healthier lifestyle choices.
Thrivers	Though a smaller pool of consumers, this group can spend disproportionately on products, brands and experiences. Be sure that your offerings align with their growing focus on health and wellness, environmental credentials, and social responsibility.

What does the remainder of 2022 and beyond look like?

Is a recession on the horizon?

Recessionary times are already here for majority of Americans



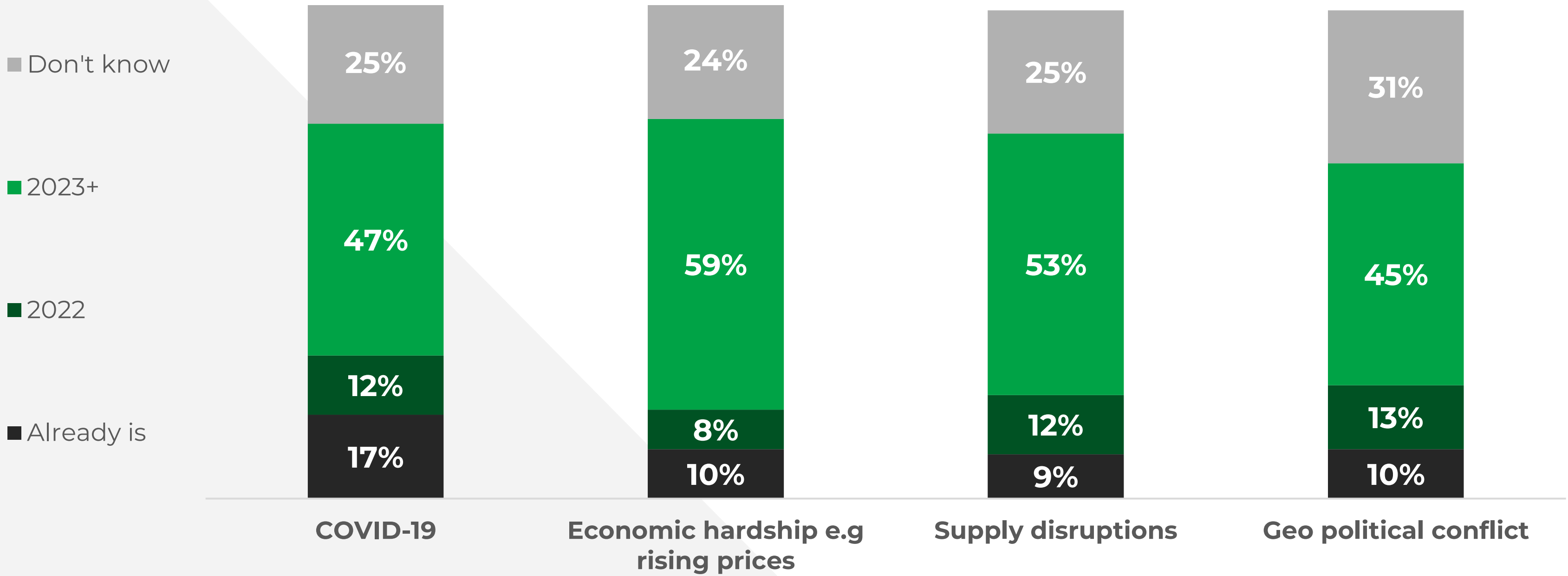
While the circumstances of **2022 are not comparable,** history shows just how high the recessionary sentiment could go

% Yes	2008	2009
Global	84%	85%
Canada	26%	95%
U.S.	85%	91%

Source: NielsenIQ Consumer Outlook Survey June 2022

Most Americans fear disruption and uncertainty will continue beyond 2022 – especially economic hardship

Q. When do you the U.S. will be free from the following disruptions

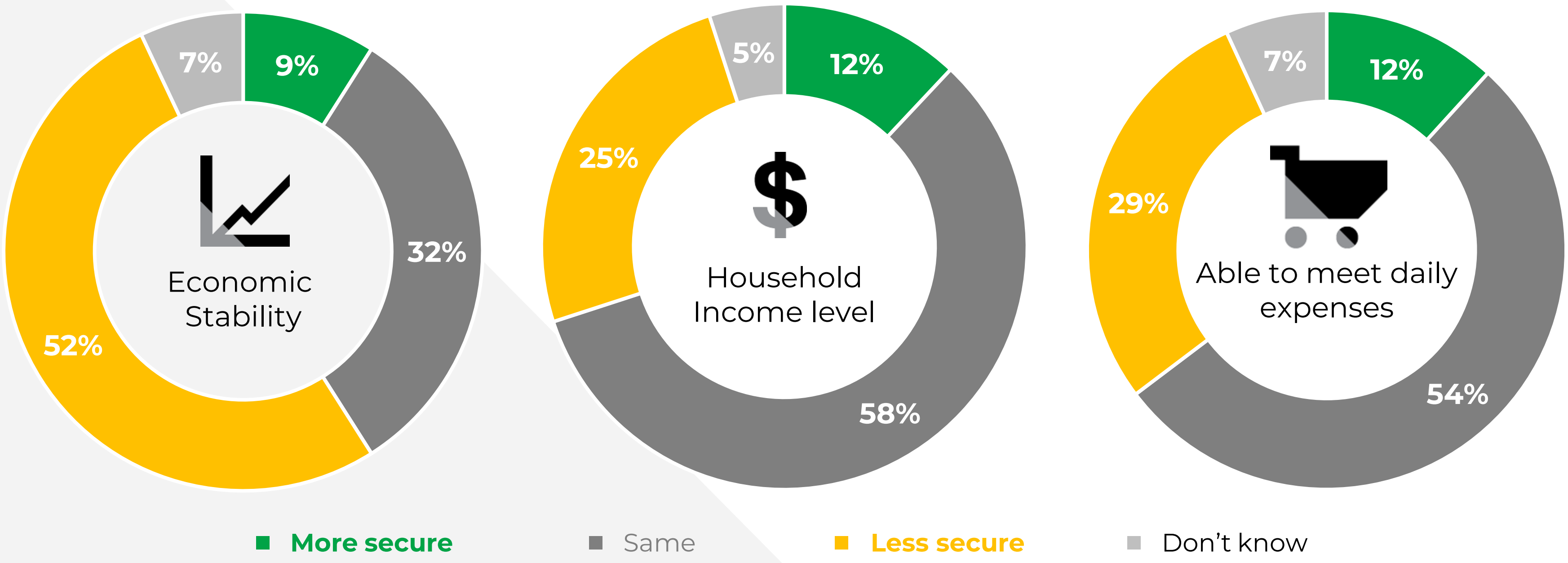


Source: NielsenIQ 2022 Consumer Outlook Survey, June 2022 – U.S.

Declining confidence stemming from growing insecurity

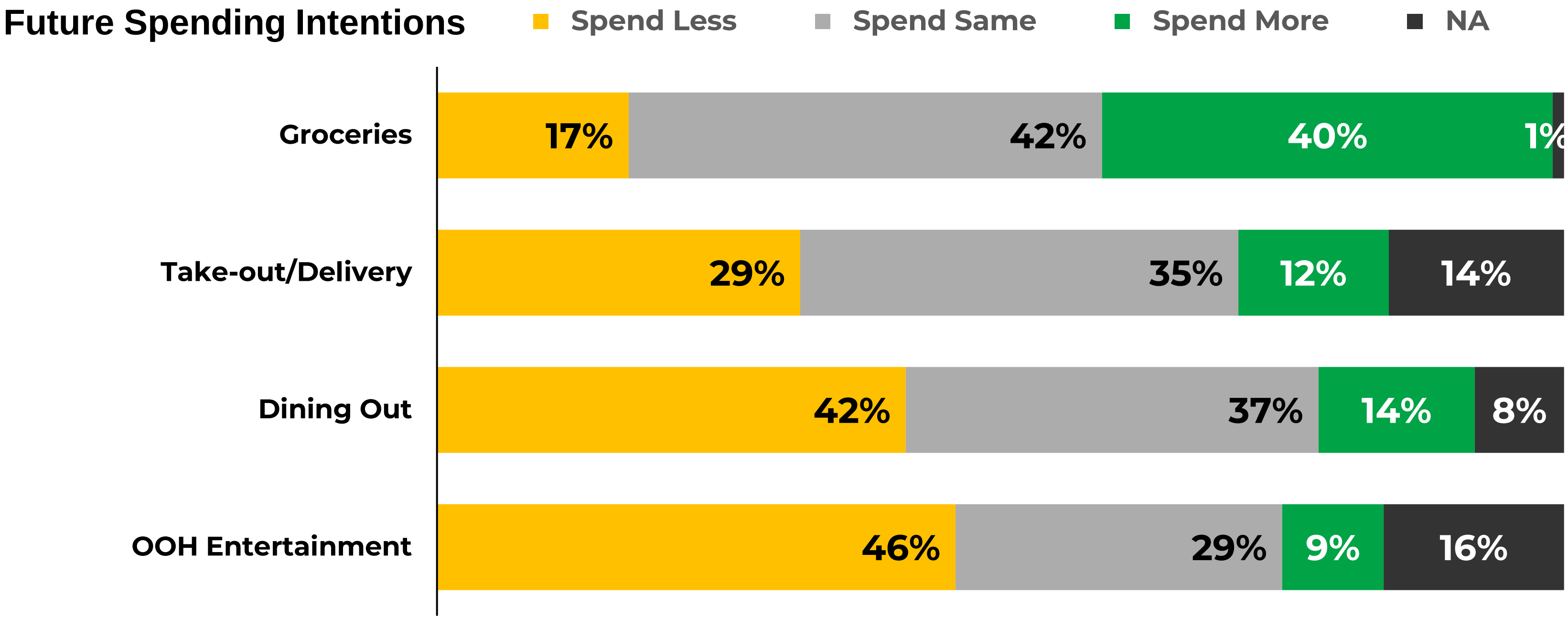
Americans are feeling less secure about economy, income and ability to meet daily expenses

Q. How secure do you feel in the next 6 months compare to today?



Source: NielsenIQ 2022 Consumer Outlook Survey, June 2022 - US

Grocery spend is expected to increase as consumers shift their spending and eating occasions back into the home



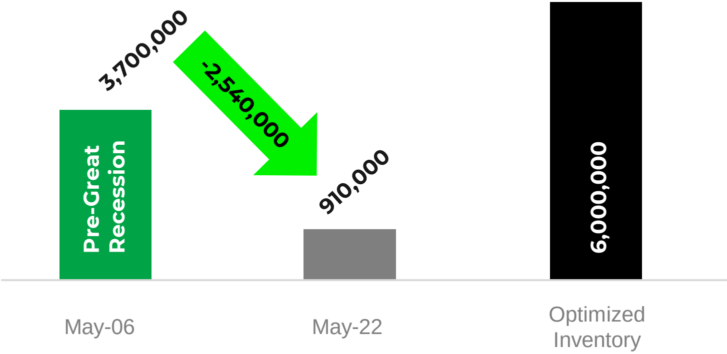
Source: NielsenIQ 2022 Consumer Outlook Survey, June 2022 – US – Spending in next 12 months

How Could a Recession Be Different Now?

When the economy overheats this is a precursor to a recession…usually

- **Overheating means demand is outpacing supply**
- **Two things must happen for the economy to "overheat"**
  - ✓ Rising inflation
  - ✓ Unemployment below its "natural" rate
- **Eventually spending falls so that supply can catch up to demand**
- **The last two recessions (2001 and 2007-2009) were caused by asset bubbles bursting**
  - ✓ 2001: dotcom bubble burst
  - ✓ 2007 – 2009: housing bubble burst
- **A recession now <u>would not</u> be linked to asset bubbles, which would make it significantly different**
  - ✓ Homes for sale leading into the Great Recession (May '06) were 3.7 million versus only 910,000 in May of 2022
  - ✓ Optimal inventory is ~6,000,000 homes on the market to satisfy at least 6 mhousingonths of demand

Homes for Sale Comparison



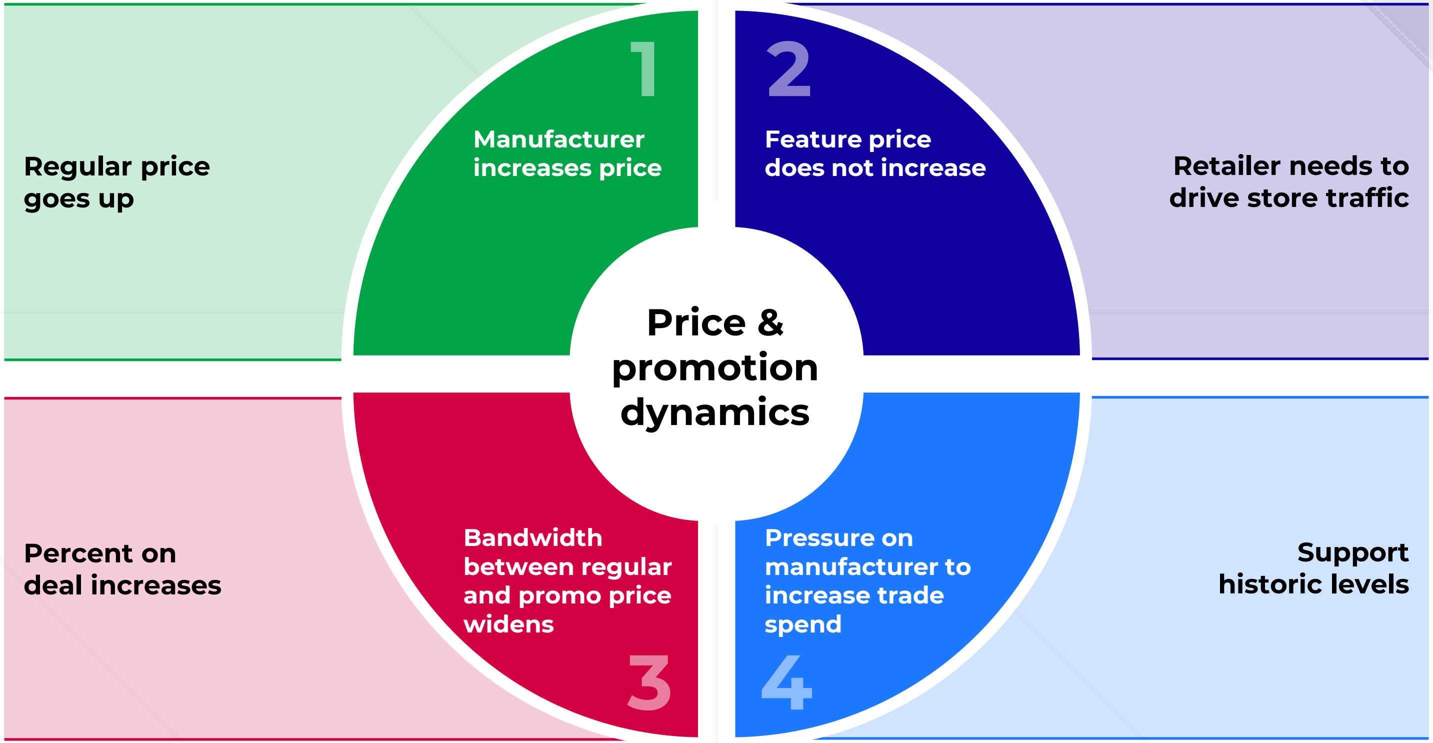
Source: National Association of Realtors

Source: Megan Henney, "What is a recession, and should Americans be worried?", May 1, 2022

Shopping behavior has changed

1. **Prioritize different attributes**
2. **Adjusting to manage grocery expenses**
3. **Shifting to online purchases**
4. **Shifting to private label**
5. **Focus on necessities**

It All Starts with a Price Increase



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