WHAT MAKES THE CONSUMER TICK
CONNECTING AND UNDERSTANDING THE SAVVY SHOPPER

CARMAN ALLISON
VP, CONSUMER INSIGHTS
TRENDS DEFINING A NEW MARKETPLACE

- Improving Consumer Confidence
- Spending Power on the Rise
- FMCG Sales Growth Slowing
- Distruption in Retail Continues
CONSUMER CONFIDENCE RISING

CANADA

CONSUMER CONFIDENCE INDEX

106

100

+9

UNITED STATES

121

+15

Source: Nielsen Global Online Consumer Confidence Surveys – Q3 2017- Chg VYA
CONSUMER OPTIMISM INCREASES

% Positive

CHG VYA

<table>
<thead>
<tr>
<th>Job Prospects</th>
<th>Personal Finances</th>
<th>Good Time to Buy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>U.S.</td>
<td></td>
</tr>
<tr>
<td>57% +13</td>
<td>64% +14</td>
<td>49% +6</td>
</tr>
<tr>
<td>64% +4</td>
<td>72% +11</td>
<td>63% +11</td>
</tr>
</tbody>
</table>

Source: Nielsen Global Online Consumer Confidence and Opinion Survey - Q3 2017 - % Agree: Good and Excellent
TOP 5 CONCERNS AMONG CANADIANS

- 29% Economy
- 22% Food Prices
- 22% Rising Utilities
- 18% Jobs
- 18% Debt

- 24% Food Prices
- 20% Economy
- 19% Debt
- 19% Health
- 17% Rising Utilities

Source: Nielsen Global Omnibus Consumer Confidence Survey Q3 2017 – Canada – Top 2 Combined
CANADIANS ARE FEELING MORE OPTIMISTIC ABOUT THEIR SPENDING POWER

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$$$  FREE SPENDERS</td>
<td>8.9%</td>
<td>10.7%</td>
</tr>
<tr>
<td>$$  LIVING COMFORTABLY</td>
<td>60.0%</td>
<td>60.9%</td>
</tr>
<tr>
<td>$    SHOPPING BASICS</td>
<td>31.3%</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

Source: Nielsen Panel Views Survey Canada
Despite economic and consumer sentiment improvements, FMCG sales growth is slowing
FMCG RETAIL GROWTH SLOWING IN 2017

Dollar Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.5%</td>
</tr>
<tr>
<td>2014</td>
<td>2.0%</td>
</tr>
<tr>
<td>2015</td>
<td>3.4%</td>
</tr>
<tr>
<td>2016</td>
<td>2.8%</td>
</tr>
<tr>
<td>YTD 2017</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Tonnage Trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-0.6%</td>
</tr>
<tr>
<td>2014</td>
<td>-0.1%</td>
</tr>
<tr>
<td>2015</td>
<td>0.5%</td>
</tr>
<tr>
<td>2016</td>
<td>1.7%</td>
</tr>
<tr>
<td>YTD 2017</td>
<td>0.6%</td>
</tr>
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</table>

Source: Nielsen MarketTrack, Canada National All Channels – 52 weeks Year End - Total Tracked Sales (UPC Only) YTD 36 weeks to September 16, 2017
LOWER REGULAR PRICES ARE CHANGING THE GROWTH MIX

REGULAR PRICES

$ % Chg  Tonn % Chg

-0.2%  +3.2%  +3.4%

PROMOTED PRICES

+2.7%  -0.9%  -3.6%

Source: Nielsen MarketTrack – Grocery+Drug+Mass, Total Tracked Sales excluding Fresh – 52 weeks to September 16, 2017
MAKING SENSE OF JUST 3 CENTS

For each 1% increase in retail prices, translates to a potential increase of $768 million in sales

Growth opportunities need to be more strategic since consumers are not consuming more to offset lower prices

Source: Nielsen MarketTrack National G+D+MM, Total Regular Prices Sales excluding Fresh Random Weight – 52 weeks to September 16, 2017 – 1% Change in Retail Price Per Unit X Total Sales Units
FUTURE HEADWINDS FOR PRICING

Current Environment

Labour Cost Increasing
Value Retailer & Online Growth
Low Inflation

Retailer Impact

Layoffs
Store Closures
Declining Promo Effectiveness
Price Wars

Future pricing strategies need to be more strategic to increase margin and focus on profitability.
DESPITE LOWER PRICES, TRAFFIC STILL IN DECLINE

TOTL FMCG TRIPS

2,263.9 Million
-2%

ANNUAL SHOPPING TRIPS PER HOUSEHOLD

- Millennials: 116
- Gen X: 147
- Boomers: 186
- Greatest: 193

Nielsen Homescan Cross Outlet Facts: 52 weeks to September 30, 2017, Trips
HH National All Channels 52 weeks ending April 19, 2016
MILLENNIALS MAKE THE LEAST TRIPS TO THE STORE BUT FREQUENT RESTAURANTS THE MOST

Source: the NPD Group Eating Patterns in Canada Report 2017
PRAIRIES LAGGING THE REST OF CANADA

52 week Regional CPG Performance = $ % Chg

Source: Nielsen MarketTrack, National All Channels – 52 weeks Ending September 16, 2017 - Total Tracked Sales including Fresh Random Weight
ALBERTA NO LONGER LEADS REGIONAL GROWTH

Source: Nielsen MarketTrack, National All Channels – Annual Years, YTD 36 weeks Ending September 16, 2017 - Total Tracked Sales excluding Fresh Random Weight
TRENDS IMPACTING PATH TO PURCHASE

CONNECT

REACH

ENGAGE
Online and Digital is creating new and exciting touch points along the shopper journey
THE DIGITAL FUTURE IS HERE AND NOW

Online shopping for CPG is forecasted to almost **triple** by 2020:
- 2.1% to 5.3%

CPG online sales are projected to grow **+20% year over year**.

Margin by which retail e-commerce sales growth will outpace brick & mortar sales growth by 2020: **7:1**

Source: Nielsen, Cross Outlet Facts, 52 weeks ending September 30, 2017 – E-Commerce Share
CLICKS VS BRICKS: ONLINE TRIPS ARE UP WHILE VISITS TO PHYSICAL STORES ARE IN DECLINE

TOTL FMCG TRIPS

2,263.9 Million
-2%

BRICKS & MORTAR

2,233.2 Million
-2%

E-COMMERCE

30.7 Million
+22%

Source: Nielsen Homescan Channel Watch 52 weeks ending September 30, 2017
ECOMMERCE PENETRATION GROWING AS MORE CONSUMERS SHIFT THEIR SPENDING ONLINE

% of Canadians Shopping Online

Source: Nielsen, Cross Outlet Facts, 52 weeks ending September 30, 2017 – E-Commerce Penetration
BRICKS AND MORTAR GROWTH STATIC WHILE E-COMMERCE GAINING MOMENTUM

DOLLAR SALES GROWTH VS. YAGO

Source: Nielsen, Cross Outlet Facts, 52 weeks ending September 30, 2017
BARRIERS TO ONLINE GROCERY SHOPPING

**IN-PERSON EXPERIENCE**
- 75% prefer to examine the products before purchasing

**QUALITY AND FRESHNESS**
- 63% are concerned over freshness and expiration dates

**FULFILLMENT AND DELIVERY**
- 48% are concerned deliveries happen when not at home

**EASE OF SITE USAGE**
- 48% find browsing to find products too time consuming

Source: Nielsen Global Connected Commerce Survey, Q3 2015 - Canada

% who agree
THERE IS NO SINGLE ONLINE GROCERY SHOPPER

**DIGITAL DODGERS**
- Technology Averse
- Digital Reluctants

**INDIFFERENT & IMPULSIVE**
- Grab & Go
- Non-Planners

**DIGITAL DEAL DIGGERS**
- Tech Savvy Value Seekers
- Researcher

**CLICKING CONNOISSEURS**
- Digital Advocates

<table>
<thead>
<tr>
<th>Technology Averse</th>
<th>Digital Reluctants</th>
<th>Grab &amp; Go</th>
<th>Non-Planners</th>
<th>Tech Savvy Value Seekers</th>
<th>Researcher</th>
<th>Digital Advocates</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW TRUST</td>
<td>LOW VALUE SEEKING</td>
<td>LOW TRUST</td>
<td>LOW VALUE SEEKING</td>
<td>VALUE SEEKING</td>
<td>RESEARCH DRIVEN</td>
<td>ENJOY SHOPPING</td>
</tr>
<tr>
<td>LOW TECH SAVVY</td>
<td>LOW SHOPPING</td>
<td>LOW TECH SAVVY</td>
<td>LOW SHOPPING</td>
<td>LOW TECH SAVVY</td>
<td>TECH SAVVY</td>
<td>ONLINE</td>
</tr>
</tbody>
</table>

38% 22% 30% 10%

More consumers are shifting their purchase destinations to non-traditional retailers
CONSUMER SAVING STRATEGIES ARE SHAPING RETAIL FORMAT TRENDS

CANADA

% TRYING TO SPEND LESS ON FMCG

71%

TOP SAVING STRATEGIES

80% Stock-up
68% Buy on Sale
57% Coupons
55% Switch Stores
52% Store Brands
50% Large Sizes

Source: Homescan Panel View Survey 2017
OVER THE PAST 5 YEARS, $3.8 BILLION HAS SHIFTED TO ONLINE, DOLLAR STORE AND WAREHOUSE CLUBS

THE OPPORTUNITY

+$3.8 Billion Increase

+30% $ growth since 2013

251 million trips in 2017

+16% trip increase since 2013

Source: Nielsen, Cross Outlet Facts, 52 weeks ending September 30, 2017 – VAPs adjusted
THE DISRUPTION IN RETAIL WILL CONTINUE

$ Share of Market

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2017</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales $</td>
<td>$13.0B</td>
<td>$16.9B</td>
<td>$24.5B</td>
</tr>
<tr>
<td>Online</td>
<td>12.8%</td>
<td>15.8%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Dollar Stores</td>
<td>1.6%</td>
<td>2.1%</td>
<td>5.3%</td>
</tr>
<tr>
<td></td>
<td>1.1%</td>
<td>1.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Warehouse Clubs</td>
<td>10.1%</td>
<td>12.2%</td>
<td>14.5%</td>
</tr>
</tbody>
</table>

With potentially an additional $7.6 Billion by 2020

Source: Nielsen, Cross Outlet Facts, 52 weeks ending September 30, 2017 – VAPs adjusted
ENGAGE

Health and Wellness is influencing and changing purchase decisions
FACTORS HEIGHTENING FOCUS ON CLEAN EATING

CANADA GRAYING
CHRONICALLY AILING
FOOD AS MEDICINE
EVOLVING HEALTH & WELLNESS
CONSUMERS ARE PUTTING THEIR MONEY WHERE THEIR MOUTH IS

54% OF CANADIANS SAY THEY’RE WILLING TO PAY MORE FOR FOODS AND DRINKS THAT DON’T CONTAIN UNDESIRABLE INGREDIENTS.

DRIVEN BY:

47% Enlighten Eating
% who follow a specific diet which limits specific foods and ingredients

28% Sensitive Stomachs
% of households with a food allergy or intolerance

• 7% Gluten Free

Source: Nielsen Global Health and Ingredient Sentiment Survey Q1 2016 – Canadian respondents
LESS IS MORE WHEN IT COMES TO INGREDIENTS

DIETARY DIVERSITY:
THE INGREDIENTS WE AVOID

PERCENTAGE WHO SAY THEY TRY TO AVOID SPECIFIED INGREDIENT OR ATTRIBUTE

- MSG: 63%
- ARTIFICIAL SWEETENERS: 63%
- FOOD IN BPA PACKAGING: 62%
- ANTIBIOTICS OR HORMONES: 62%
- ARTIFICIAL PRESERVATIVES: 60%
- ARTIFICIAL FLAVOURS: 59%
- ARTIFICIAL COLOURS: 55%
- SODIUM: 53%
- GMO's: 52%
- SATURATED / TRANS FAT: 47%
- GLUTEN: 20%

Source: Nielsen  Global Health and Ingredient Sentiment Survey Q1 2016 – Canadian respondents
SENSITIVITY AND LIFESTYLE CHOICE ARE THE PRIMARY REASONS FOR AVOIDING GLUTEN

Reasons Why Consumers Have Been Reducing Intake of Gluten

- Makes me feel bloated: 48%
- Personal choice / change of lifestyle: 45%
- Limits my carbohydrate intake: 26%
- Dieting/ weight loss: 24%
- Allergy: 18%
- Instructed by a doctor: 18%
- Don't enjoy eating foods that contain gluten: 12%

Source: Nielsen PanelViews Health & Wellness Survey 2016 – Q9 *Multiple Mentions
WHICH CATEGORIES ARE ON THE CONSUMER’S GLUTEN FREE HIT LIST?

% REDUCING CONSUMPTION

- Bread: 74%
- Pasta: 65%
- Wheat: 64%
- Cookies: 61%
- Flour: 61%
- Crackers: 54%
- Breakfast Cereal: 48%
- Chips: 48%
- Granola bars: 46%
- Beer/Alcohol: 40%

BACK TO BASICS IS BACK IN DEMAND

MORE PLEASE!
FOOD PRODUCTS WE WANT MORE OF

PERCENTAGE WHO SAY THEY WISH THERE WERE MORE OF THESE FOOD PRODUCTS ON THE STORE SHELVES

- ALL NATURAL: 46%
- LOW SUGAR: 37%
- LOW SODIUM: 37%
- NO ARTIFICIAL COLOURS: 35%
- NO ARTIFICIAL FLAVOURS: 35%
- LOW FAT / FAT FREE: 29%
- GMO FREE: 27%
- ORGANIC: 26%
- PORTION CONTROL: 22%
- LOW CALORIE: 20%

Source: Nielsen Global Health and Ingredient Sentiment Survey Q1 2016 – Canadian respondents
OPPORTUNITIES ALONG THE PATH TO PURCHASE

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Health and Wellness is changing and influencing in-store purchase decisions
How are you adapting to the changing path to purchase?
Thank you

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