











2019 INDUSTRY OVERVIEW

Looking Ahead to 2020



ECONOMIC OVERVIEW

The Top 10 Retailers of 2019

Retailer	\$ Sales (Billion) 2019E	CAGR 2014–2019E
 Walmart <small>Save money. Live better.</small>	398.5	3.1%
 amazon	136.3	23.9%
 Kroger	122.0	2.4%
 COSTCO WHOLESALE	110.9	6.8%
 THE HOME DEPOT	102.2	6.6%
 Walgreens Boots Alliance	101.9	7.1%
 CVS pharmacy	88.7	5.5%
 TARGET	78.0	1.4%
 LOWE'S	65.7	3.7%
 Albertsons Companies	60.8	25.6%

MULO Sales Up 2% in 2019, Driven by Growth in Food, Dollar and Convenience

Geography Total US	\$ Sales	Change vs YA
Food	321B	+2%
Walmart	192B	+4%
Drug	48B	-1%
Dollar	20B	+12%
Convenience	10B	+14%
Other	222B	+4%
All Outlet	813B	+2%

Q4 2019 Retail Winners & Losers Market Performance

Positive

Amazon
Costco
Aldi
Dollar General
Ahold Delhaize

Negative

Target
Walgreens
Kohl's
GameStop
Home Centers
Family Dollar

Mixed

Walmart
Mall-Based Retailers
CVS
Lidl
Natural
Kroger
Auto Aftermarket
Sporting Goods
Independent Grocers
Dollar Tree



ECONOMIC OVERVIEW

Consumer Spending Remains Steady While Business Investment Slows and Tariffs Impact CPG Retailers

- U.S. is in the longest period without a recession ever (June 2009-Current)
- Consumer spending remains steady; growth is slightly slower than 2018 but still very strong (5.2% 2018 vs 4.0% Q3 2019)
- Overall business investment peaked Q1 2019, still growing but at a slower pace than 2018
- Tariffs announced in September and December of 2019 targeted consumer products, but partial trade deal signed Jan 15, 2020 may help
- Retailers are pushing for incremental digital ad spend from vendors and taking action to offset existing/upcoming tariffs
- The consumer remains the linchpin to growth, but uncertainty prevails. Americans are wary of policy changes, debt bubbles or military conflict that could contribute to a recession

Growth in Wages, Declines in Unemployment and High Consumer Confidence Bode Well for 2020

- Closing out 2019, the labor market was steady, with YOY growth in wages. Retail trade, leisure and hospitality, and wholesale trade drove above-average earnings growth, and unemployment declined to 3.5%, the lowest level since 1969
- Consumer confidence ratings decreased marginally in December 2019, following slight increase in November, but remain near 20-year highs, even with declines driven by reactions to tariff announcements
- Confidence is improving most among younger segments and those with incomes less than \$50,000 a year
 - Increases in low-wage earners' incomes may be affecting confidence
 - Low-income segments look good; income growth is outpacing expenses



CPG INDUSTRY PERFORMANCE

Established Brands Continue to Battle Growth in Smaller Companies and Private Label Products

- In the last four weeks of 2019, private label share remained stable at 21.3% across 125 food categories
- Expect private label to continue to outperform national brands as retailers build out their offerings in an effort to preserve margin
- Private label sales rose 4.6% in the 12-week period ending Dec. 28, 2019, above its 3.6% 52-week run rate
- General focus on item-level productivity has increased, partially due to private label expansion
- Smaller food and beverage brands outperformed well-established companies leading up to the holidays
 - 25 largest food and beverage companies drove just 3% of total category growth
 - Smallest 20,000 companies drove 49% of all category growth, growing at a rate of 6.3%

Retailers Expand Use of Technology

- Retailers use geolocation to target shoppers
 - Target shoppers with digital ads in close proximity to their stores
 - Augmented reality lets retailers enhance shopping experience through digital devices
- Digital loyalty programs essential to deeper partnerships with largest grocery retailers
- Machine learning and AI help retailers find smarter ways to rationalize assortment, minimize costs and improve operations

Tariffs Impact CPG Costs

- The burden of tariffs has been absorbed by Chinese producers, U.S. importers and consumers rather than U.S. retailers
- Costs likely to remain higher, highlighting importance of implementing cost control measures, optimizing freight spend and securing lower raw materials cost





SHOPPING ENVIRONMENT

Shopping Environment Must Adapt to Need for Speed and Ease

- 71% of consumers say they shop in “micro-moments,” which means they’re “always on”
- 71% of shoppers say a stress-free environment is top priority
- 62% like to get shopping done as quickly as possible
- Half consider their smartphone to be an important shopping tool

Retailers Compete on Fulfillment Immediacy, Offering Delivery or Pickup in as Little as 30 Minutes

- Poor performing, centrally located stores have been transformed into fulfillment centers
- Amazon opened more brick-and-mortar stores and continued to expand physical touchpoints
- Store-based retailers like Home Depot, Kroger, Target and Walmart intensified efforts to leverage their stores as assets for online fulfillment and pickup

Shoppers Embrace Omnichannel Shopping

- 3 in 4 American adults buy both online and offline
- 10% of online grocery shoppers accounted for 50% of growth
- A quarter of all grocery sales occur via click-and-collect
- 47% of online buyers expect delivery within two days or fewer, with groceries expected to be delivered fastest among product categories
- New technology continues to empower consumer choices. This comes in the form of iPad menus, more seamless tech-driven payment options and educational experiences in augmented reality
- Mobile wallet adoption is on the rise. Seven in 10 shoppers said they’re interested in adding cash to an app or digital wallet for use while in store. U.S. retailers can drive engagement and foot traffic in their stores by leveraging omnichannel payment experiences and catering to the digital shopper
- Full-shop supermarkets still have an important role to play as the era of online grocery evolves
- Only those with superior physical assets, sharp pricing and a plan for omnichannel relevance are likely to garner improved market share over time



SHOPPER & CONSUMER TRENDS

Shoppers Embrace Broad Definition of Health; Brands Must Follow Their Lead

- 360-Degree Wellness:
 - Shoppers are health-conscious, proactive and informed
 - Seek wellness involving more than simply diet and exercise
- Environmental and ethical considerations are now playing a prominent role in helping shoppers determine the overall health benefits of a product
- Attention to minimal packaging is key to future success
- Most consumers fall into two big groups: 41% are value-driven (want good value, convenience and products/services to simplify life) and 40% are purpose-driven (seek products and brands that align with their lifestyle and those with health/wellness benefits)
- Public sentiment is shifting from “climate change” to “climate crisis.” Sustainability has become increasingly important and shoppers want action

Monitoring the Trend Cycle Helps Identify What’s New and What’s Mainstream

Happy Planet = Happy People

81% of global consumers consider “living an ethical or sustainable lifestyle” to be important in creating a feeling of well-being or wellness

Plant-Based Trend

The plant-based trend is driven by more than personal health benefits

25% of global consumers would consider eating “vegan meat” for environmental reasons

Organic Products = Superior Health

Millennials are particularly inclined to associate organic products with superior health

47% of global Millennials perceive “healthy” to mean “organic”





SHOPPER & CONSUMER TRENDS

Brands Must Provide Solutions to Help Shoppers Manage Their Busy Lives

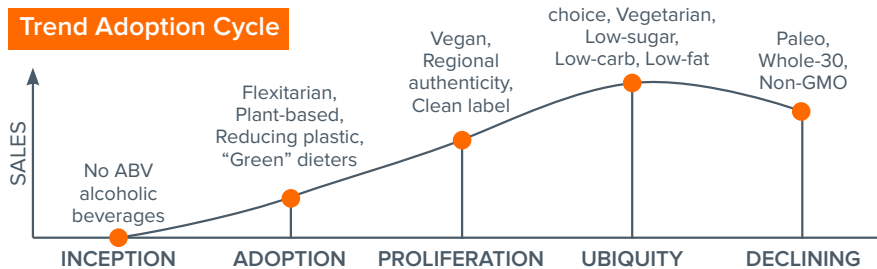
- Shoppers expect retailers to help them by offering: click-and-collect programs, convenient store layouts and products that facilitate speed and ease of use
- 69% of North Americans are more likely to buy products that are convenient and help them manage their time
- Shoppers will pay more for an enhanced brand experience as consumption moves away from the purely material
- At any given time, shoppers may be looking for a party, gift or meal while doing something else. They're looking for efficiency and ways to simplify their lives

Fads and Limited Time Offers Allow Shoppers to Gain a Sense of Connection and Purpose from Shopping

- To stay ahead of the curve, retailers are jumping on fads instead of waiting for trends (e.g. limited time offers)
- More than a third of shoppers say they are more likely to try a new or unique flavor if it is only available for a limited time
- Established brands can learn from the competition, especially tech-enabled startups that aim to disrupt and solve consumer pain points

Monitoring the Trend Cycle Helps Identify What's New and What's Mainstream

Trends We're Tracking





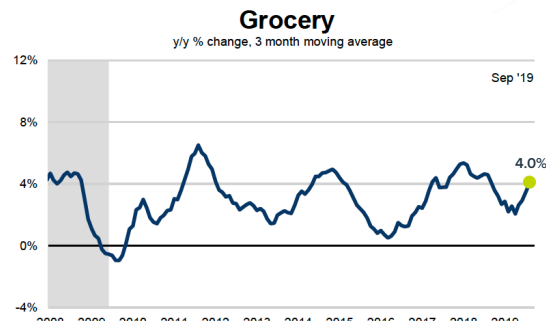
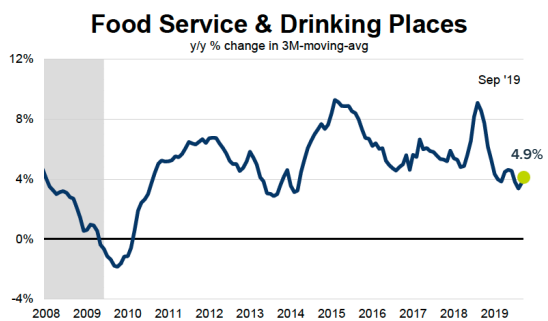
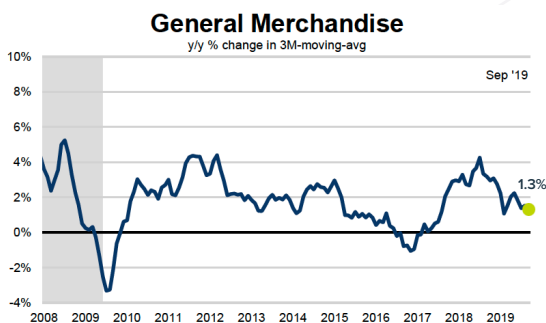
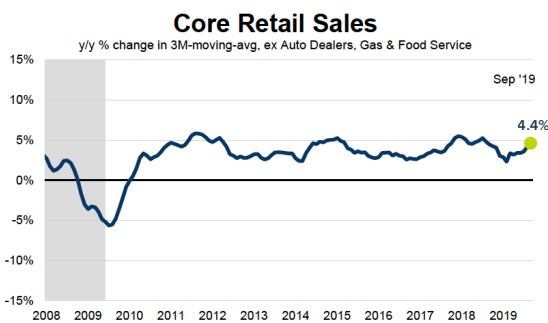
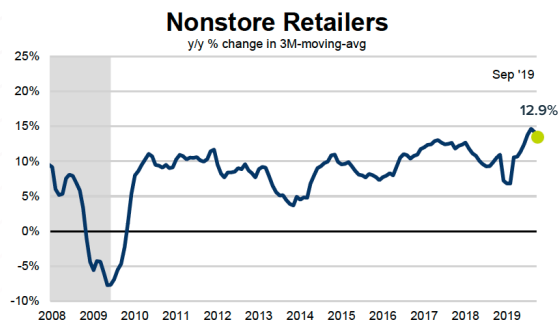
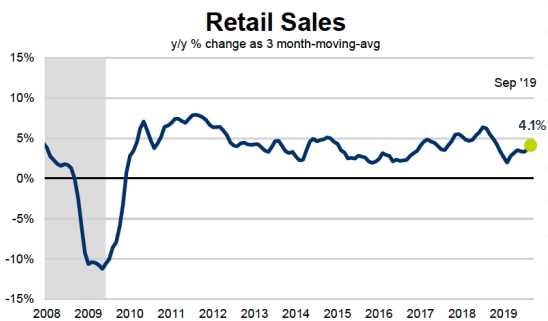
IMPLICATIONS

- The overall economic outlook entering 2020 is positive, but a slowing economy and upcoming election could impact future performance
- Caution is beginning to creep into consumer spending behavior. Expect a back-to-basics mentality to bubble up, as consumers increasingly trade down to lower-priced occasions across grocery and foodservice segments
- Shoppers' desire for convenience and growth in click-and-collect means retailers must embrace omnichannel or get left behind
- Even though e-commerce continues to grow, the brick-and-mortar store remains very important to shoppers. Explore automation to free up time for store associates, improve the in-store experience and provide services that help simplify shoppers' lives
- Two-day shipping has become an expectation for many online shoppers, and online retailers need to meet or exceed this distribution hurdle to remain competitive
- By investing in new payment methods that marry cash, loyalty and digital at the point of sale, retailers can increase shopper engagement and improve wallet share
- Plant-based foods are becoming more mainstream and consumer demand for sustainability is growing. Food companies that are transparent and offer responsible, convenient solutions will win
- In the CPG industry, the successes of private label and smaller companies indicate established brands need to be more agile to compete
- Manufacturing processes need to be updated regularly, or designed to be flexible, to meet growing consumer demand for trends with a limited shelf life
- Brands must incorporate wellness aspects into their products and messaging. Focus on sustainability by retooling processes and ingredients
- Both brands and retailers must respond to consumers' demand for health-conscious focus, including mental, physical and environmental solutions



APPENDIX

Retail Key Charts



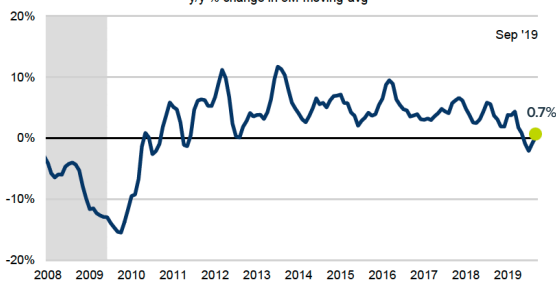


APPENDIX

Retail Key Charts

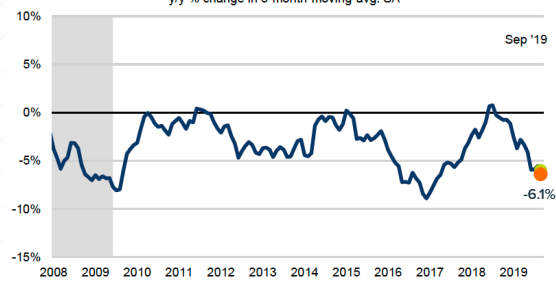
Building Materials & Garden Supplies

y/y % change in 3M-moving-avg



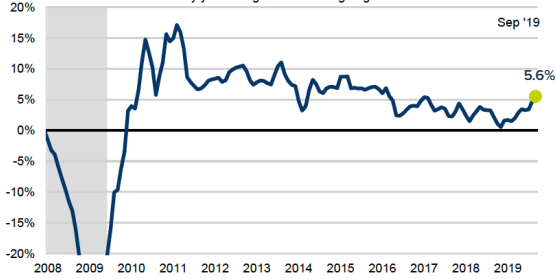
Department Stores

y/y % change in 3-month-moving-avg, SA



Motor Vehicles & Parts Dealers

y/y % change in 3M-moving-avg



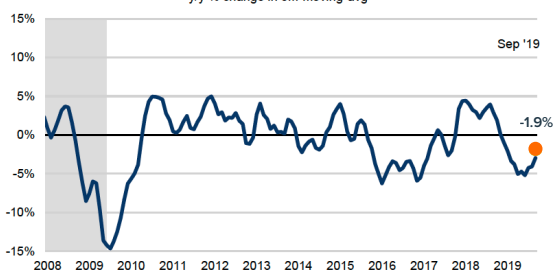
Clothing & Accessories

y/y % change in 3M-moving-avg



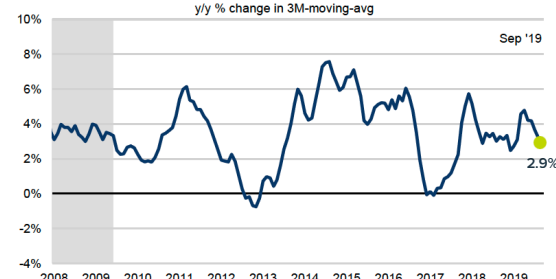
Electronics & Appliances Stores

y/y % change in 3M-moving-avg



Health & Personal Care Stores

y/y % change in 3M-moving-avg



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