U.S. Confectionery Industry

The Power of Sweet

Larry Wilson | VP, Industry Affairs | NCA
Confectionery is a big industry with high household penetration

$36B
TOTAL CATEGORY U.S.

98.8%
HOUSEHOLD PENETRATION U.S.

SOURCE: NCA PROJECTIONS SOURCED FROM DEPARTMENT OF COMMERCE/EUROMONITOR INTERNATIONAL/IRI WORLDWIDE
Confectionery has an enormous economic impact.

DIRECT ECONOMIC IMPACT IN THE U.S.

- **ECONOMIC OUTPUT**: $44.6B
- **WAGES**: $8.9B
- **FEDERAL, STATE & LOCAL TAXES**: $13.3B

and nearly **1,300** manufacturing facilities in all **50** states.
NATIONAL MULTIPLIER EFFECT

ONE U.S. confectionery manufacturing job

SUPPORTS

TEN other jobs in the U.S. economy
Supporting more than 607K jobs across the U.S.

JOBS IN THE U.S.

- 218,385 Supplier Jobs
- 18,788 Wholesale/Broker Jobs
- 53,871 Manufacturing Jobs
- 114,560 Retail Jobs
- 202,056 Induced Jobs

187,219 DIRECT JOBS

607,660 TOTAL JOBS
With high household engagement comes responsibility.

$36B
TOTAL CATEGORY U.S.*

98.8%
HOUSEHOLD PENETRATION U.S.

* Estimated Retail Sales

SOURCE: NCA PROJECTIONS SOURCED FROM DEPARTMENT OF COMMERCE/EUROMONITOR INTERNATIONAL/IRI WORLDWIDE
Confectionery...

- Strong emotional bond
- Unique, fun, affordable and special
- Engrained in family traditions and seasonal celebrations
- 97% is still sold in-store
Candy is **unique**: Always a treat

MOST PEOPLE ENJOY chocolate & candy **2-3 TIMES per week**¹

92% OF AMERICANS AGREE THAT CANDY IS ALWAYS A TREAT²

Sources: USDA, NHANES 2008-2014, 210 Analytics shopper research
As a treat...

CHOCOLATE & CANDY account for about ONE TEASPOON OF ADDED SUGAR PER DAY

&

AMERICANS AVERAGE about 40 calories PER DAY FROM CONFECTIONERY ITEMS
Delivering on emotional well-being

People are passionate about their favorite treats and have strong emotional connections to them.

4 out of 5 Americans say that emotional well-being is as important as physical well-being.

3/4 of people think treats are more fun when shared with a friend.

90% of Americans give gifts of chocolate and candy to loved ones every year.

Sources: 210 Analytics shopper research; The Hartman Group; Mars Wrigley Confectionery Research
Candy is an in-between-meals treat 90% of the time.

**How consumed**

- **88.9%**  As a treat
- **8.0%**    With a meal
- **3.1%**    As a meal replacement

Sources: 210 Analytics shopper research;
Treating mostly happens at home

7 in 10 total candy eatings occur at home

68.6% of candy is consumed at home

<table>
<thead>
<tr>
<th>Candy Type</th>
<th>At Home Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chocolate</td>
<td>72.0%</td>
</tr>
<tr>
<td>Chewy</td>
<td>65.2%</td>
</tr>
<tr>
<td>Hard</td>
<td>56.9%</td>
</tr>
<tr>
<td>Gum</td>
<td>34.3%</td>
</tr>
<tr>
<td>Mints</td>
<td>34.3%</td>
</tr>
</tbody>
</table>

Functional candy indexes higher for out-of-home

% = at home share

NCA Sweet Insights 2018 | 12
Helping shoppers enjoy treats while managing sugar intake

**BY 2022:**

**PORTION GUIDANCE, OPTIONS & CHOICES**

1/2 of our individually wrapped products will be available in sizes that contain 200 calories or less per pack.

**TRANSPARENCY & INFORMATION**

90% of the best-selling treats we make will have calorie information printed on the front of the pack, helping consumers make informed choices.
Along with **education** to support a happy, balanced lifestyle

**CONSUMER EDUCATION & SUPPORT**

Visit AlwaysATreat.com to find a digital resource full of easy-to-use information about the unique role that confections play in a happy, balanced lifestyle.

**OUR PARTNERSHIP**

Our progress over the term of our five-year commitment will be monitored and reported by the Partnership for a Healthier America in conjunction with a well-respected, nonpartisan policy research organization called the Hudson Institute.

[www.AlwaysATreat.com](http://www.AlwaysATreat.com)
Responsibility while managing the business

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chocolate Candy</td>
<td>59%</td>
<td>+0.9%</td>
</tr>
<tr>
<td>Non-Chocolate Candy</td>
<td>31%</td>
<td>+3.9%</td>
</tr>
<tr>
<td>Gum</td>
<td>10%</td>
<td>+0.9%</td>
</tr>
</tbody>
</table>

Total Confections: +1.2%

Source: NCA/Euromonitor 2018 sales estimates total market
Total store sales are recovering, yet units remain relatively flat

2013-2018 Total store $ growth and unit growth

<table>
<thead>
<tr>
<th>Year</th>
<th>$ Growth</th>
<th>Unit Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>+1.8%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>2014</td>
<td>+2.5%</td>
<td>+0.6%</td>
</tr>
<tr>
<td>2015</td>
<td>+3.1%</td>
<td>+0.8%</td>
</tr>
<tr>
<td>2016</td>
<td>+1.5%</td>
<td>+0.5%</td>
</tr>
<tr>
<td>2017</td>
<td>+1.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>2018</td>
<td>+2.0%</td>
<td>+0.4%</td>
</tr>
</tbody>
</table>

Source: IRI, MULO+C, 2013-2018
And center-store is now outpacing the mighty perimeter

Center-store edibles $ sales outgrew the perimeter in 2018

Source: IRI, MULO, 2014-2018
Total store growth > confectionery gains

Confectionery $ growth dips back to 2016 levels

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</tr>
</tbody>
</table>
Bringing everyday & seasonal joy

Source: IRI 52 weeks; MULO+C; Total Confections vs. Total Store
<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa beans</td>
<td>759 million lbs</td>
<td>$673M+</td>
</tr>
<tr>
<td>Sugar</td>
<td>2.3 billion lbs</td>
<td>$205.8M+</td>
</tr>
<tr>
<td>Corn syrup</td>
<td>1.4 billion lbs</td>
<td>$664.1M+</td>
</tr>
<tr>
<td>Milk/milk products</td>
<td>1.0 billion lbs</td>
<td>$173.3M+</td>
</tr>
<tr>
<td>Peanuts</td>
<td>320 million lbs</td>
<td>$500.4M+</td>
</tr>
<tr>
<td>Almonds/other nuts</td>
<td>70 million lbs</td>
<td>$149.7M+</td>
</tr>
</tbody>
</table>
Trend spotting

- Consumers responding - 2019 and beyond
- Red flags
Consumers are responding

1. Expanded assortment relates to $ growth
   - 1,596 average Confectionery items per store
     - Down 0.8%  $ Sales: +1.2%
   - Chocolate
     - 865 average items per store
     - -2.8%  $ sales: +0.7%
   - Non-chocolate
     - 572 average items per store
     - +4.0%  $ sales: +2.9%
   - Gum & mints
     - 159 average items per store
     - -5.9%  $ sales: -0.2%

Source: IRI 52 weeks ending 12/30/2018 MULO+C
Younger generations: Broader appeal for a wider array of treats – Variety critical

Nearly 1/2 of Candy sales and 87% of growth attributed to Millennials and Gen X

Source: IRI Consumer Network_52 Weeks ending 12-31-17
Consumers are responding

2 Mid Market Brands – Bring variety, innovation

- Brand Dollar Sales
  - Top 5 manufacturers +0.8%
  - Mid-market manufacturers +3.1%
  - Private brands – retailer brands +1.2%

Source: IRI 52 weeks ending 12/30/18 MULO+C
Consumers are Responding
Defined as $11/pound or more in the IRI universe

3

Premium chocolate sales

Total chocolate:  
+0.6%

Premium chocolate:  12% share  
+19%

Source: IRI, 52 weeks ending 11/4/2018
Consumers enjoy across the chocolate spectrum

Consumption of one type does not exclude consumption of another

Types of chocolates consumed:

**90%** Mainstream chocolate
(i.e. Hershey’s, Snickers or Baby Ruth)

**70%** Premium chocolate
(i.e. Lindt, Ghirardelli or Ferrero)

**27%** Fine/artisan chocolate
(i.e. made by chocolatiers, like hand-made truffles)

Source: NCA | The Fine Chocolate Consumer Explored, n=1503, December 2018
Consumers are responding

4 Novelty chocolate

- New business – fueled by new items/innovation
  - Small segment – 1.4 share of chocolate category
  - New +3 items/store
  - Absolute dollar gains, at +$174.5M

Source: IRI 52 weeks ending 12/30/2018 MULO+C
Consumers are responding

5 Chewy candy

- $3.7 billion segment
  - 49.8% of total non-chocolate category

- 2018 $ growth rate of +3.5%
  - Volume +1.5%
  - $125M in new dollars between 2017-2018
  - High interest among Millennials

Source: IRI 52 weeks ending 12/31/17 MULO+C
Consumers are responding

6

Caramel/taffy
- Dollars: +5.4%
- Volume: +4.0%

7

3 out of 4 seasons
- Valentine’s Day +2.4%
- Halloween +6.7%
- End-of-Year +4.4%

Source: IRI 52 weeks ending 12/30/18 MULO+C
2019 and beyond

1. Transparency — Leverage consumer interest in product ingredients and production process
   - Claims and certifications
   - Ingredient simplicity
   - Origin/authenticity
   - Showing double digit gains in consumer takeaway

Source: IRI 52 weeks ending 12/31/17 MULO+C
# CSR/environmental responsibility matters

<table>
<thead>
<tr>
<th>All Consumers</th>
<th>Importance of Cacao Farming/Production Practices</th>
<th>Fine Chocolate Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>Traceability of ingredients</td>
<td>74%</td>
</tr>
<tr>
<td>53%</td>
<td>Transparency of production process</td>
<td>73%</td>
</tr>
<tr>
<td>56%</td>
<td>Sustainable sourcing avoiding deforestation</td>
<td>74%</td>
</tr>
<tr>
<td>62%</td>
<td>Engaging in responsible labor practices</td>
<td>81%</td>
</tr>
<tr>
<td>49%</td>
<td>Initiatives to reduce water and energy usage</td>
<td>75%</td>
</tr>
<tr>
<td>53%</td>
<td>Initiatives to reduce product/package waste</td>
<td>76%</td>
</tr>
</tbody>
</table>

Source: NCA | The Fine Chocolate Consumer Explored, n=1503, December 2018
2019 and beyond – addressing marketplace forces

3 Segmentation: “One-size-fits-me”

- Generational gaps
- Income gaps
- Multi-cultural society
- New ways of working
- Ecommerce
- Smart homes
- Convenience
- Health and wellness
- Ethical living and more

Targeted, relevant, segmented approach to:
- Branding
- Marketing
- Merchandising
- Advertising

Source: IRI 52 weeks ending 12/31/17 MULO+C
Red Flags

1. Younger generations have a greater attraction to snacks - under index for confectionery

2. Abundant and blurry choices means shoppers can get their treat or reward outside the store/aisle

3. Hybrid products causing blurred line and taking people out of the candy aisle

4. War on sugar, is not a war on candy

Source: IRI 52 weeks ending 12/31/17 MULO+C
Growth scenarios highly depend on managing input costs and demand.
With continued volume pressure a possibility.
Questions?

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