the environment is improving, but with headwinds from the shift back to restaurants

Retail Food Sales in the U.S. at Home and Away from Home, 1992-2012

**YoY Growth**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Away from Home</td>
<td>7%</td>
<td>5%</td>
<td>3%</td>
<td>-1%</td>
<td>3%</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Food at Home</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
<td>3%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: USDA Economic Research Service Food Expenditure Series
fresh format, dollar, and club continue to lead food & beverage retail growth

Total U.S. Food and Beverage Sales and Growth by Retail Channel, 2011-2012

Source: Willard Bishop: The Future of Food Retailing (June 2013)
where is the volume moving in traditional grocery?

Chain Grocery Store*

- Dairy and Eggs
- Meat and Deli
- Frozen Foods
- Beverages
- Housewares
- Cleaners
- OTC
- Personal Care
- Infant Care
- Sauces and Spreads
- Baking
- Snack Foods
- Breakfast Foods
- Canned Goods and Pasta
- Alcohol
- Checkout
- Produce

*Supermarket 2 Year VOLUME Growth, LTM Jan ‘12 vs. LTM Jan ‘14
categories with large declining volumes

Chain Grocery Store*

Source: Nielsen Scantrack
all categories with declining volumes

Chain Grocery Store*

Source: Nielsen Scantrack
categories with large increasing volumes

Chain Grocery Store*

Frozen Foods

Beverages

Housewares

Cleaners

OTC

Personal Care

Infant Care

Sauces and Spreads

Baking

Snack Foods

Breakfast Foods

Coffee

Canned Goods and Pasta

Bread

Liquor

Checkout

Alcohol

Bottled Water

Vitamins

Refrig.
Dips and Spreads

Fresh Meat

Deli

Produce

Beverages

Breakfast Foods

Snack Foods

Cooking Sauces

Housewares

Frozen Foods

Chain Grocery Store*

*Supermarket 2 Year VOLUME Growth, LTM Jan ‘12 vs. LTM Jan ‘14

Source: Nielsen Scantrack
all categories with increasing volumes

Chain Grocery Store*

The Parthenon Group

*Supermarket 2 Year VOLUME Growth, LTM Jan ‘12 vs. LTM Jan ‘14

Source: Nielsen Scantrack
growth is found in pockets around the grocery store

Chain Grocery Store*

**2011-2013 CAGR**
- >3.0%
- 1.0 to 3.0%
- -1.0 to 1.0%
- -3.0 to -1.0%
- <-3.0%

*Source: Nielsen Scantrack*
we are also in the midst of significant demographic shifts in the consumer base

Share of U.S. Adult Population, Millennials vs. Baby Boomers

Hispanic Share of U.S. Adult Population

13% more Millennials than Boomers in 2020

17% of the adult population by 2020

Source: U.S. Census
Targeting trends that are resonant with Millennials will generally carry weight with Hispanics

- millennials represent one-third of the adult Hispanic population
- vs. one-fifth of the non-Hispanic population (the Boomer proportions are inversed)
In 1985 there was no state with an obesity level greater than 14%...

Source: Behavioral Risk Factor Surveillance System, CDC; Note: States with no data available are colored 0-9%
Percentage of Americans that are Obese (BMI>30), by State

% Obese

- 0-9%
- 10-14%
- 15-19%
- 20-24%
- 25-29%
- 30+

Source: Behavioral Risk Factor Surveillance System, CDC; Note: States with no data available are colored 0-9%
Percentage of Americans that are Obese (BMI>30), by State

Source: Behavioral Risk Factor Surveillance System, CDC
Percentage of Americans that are Obese (BMI>30), by State

Source: Behavioral Risk Factor Surveillance System, CDC
Percentage of Americans that are Obese (BMI>30), by State

Source: Behavioral Risk Factor Surveillance System, CDC
…by 2010 there was no state with an obesity level less than 20%!

Percentage of Americans that are Obese (BMI>30), by State

2010

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Source: Behavioral Risk Factor Surveillance System, CDC
fortunately, recent studies show obesity stabilizing; consumers are shopping with health in mind
Not surprisingly, everyone is thinking about investments in this area. So...

How should we think about picking winners in this environment?
picking winners in Food & Nutrition:

1. It’s hard to pick whether a niche is a trend or a fad...so look for underlying macro trends

2. Value is being redefined by consumers; they view value as the ratio of quality to price

3. Leverage macro trends to create new segments of established stagnant categories

4. Distribution will make-or-break the success of a growing product

5. Packaging/Labeling is often an overlooked opportunity that can lead to profitable growth
picking winners in Food & Nutrition:

1. It’s hard to pick whether a niche is a trend or a fad...so look for underlying macro trends
trend or fad?

News Reports by Topic (1980-2013)
Indexed at 2013 Media Levels

Note: Data was collected by counting news reports mentioning specific search terms: “Atkins,” “Gluten-Free AND food NOT pet,” “Low Sodium,” and “Fat free”; Gluten-free news reports exclude coverage of pet food contamination; Data has been re-indexed to correct for any reduction in database coverage for historical time periods.

Source: Factiva
“hot” trends in Food & Nutrition investing are all around us

- convenience
- organic
- fortified
- non-GMO
- natural
- locally sourced
- gluten-free
- raw
- single serve
- nut-free
- reduced packaging
- no preservatives
- low/no fat
- ADA
- nutraceuticals
long-term macro trend: return to the basics

<table>
<thead>
<tr>
<th>What’s In It</th>
<th>How It Was Made</th>
<th>Who Made It</th>
</tr>
</thead>
<tbody>
<tr>
<td>• “Negatives” in the product?</td>
<td>• How was it manufactured/cooked?</td>
<td>• Do I know who made the product?</td>
</tr>
<tr>
<td>• Inherent positives in the product?</td>
<td>• Is it highly processed?</td>
<td>• Where did the food come from?</td>
</tr>
<tr>
<td>• Do I know the ingredients?</td>
<td>• How was the food grown/produced/raised?</td>
<td>• Were the ingredients sustainably sourced?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LaraBar</th>
<th>18 Rabbits</th>
<th>Budweiser</th>
</tr>
</thead>
<tbody>
<tr>
<td>lists only nine ingredients and is gluten-free, dairy free, kosher, and soy free</td>
<td>granola and granola bars are made from scratch in small batches using homemade recipes</td>
<td>helps you find the Brewmaster who made your beer</td>
</tr>
</tbody>
</table>
continued growth in select restaurant concepts illustrates this “return to basics” mentality

Prepared in Front of You

Knowing Who Made Your Food

and Where It Came From
picking winners in Food & Nutrition:

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2. Value is being redefined by consumers; they view value as the ratio of quality to price
private brand penetration has been reset to a new post-recession level...

Source: Nielsen Scantrack
Note: Private Brand unit share is for the U.S. Food, Drug, and Mass channel, excluding Walmart
...and store brands don’t look like they used to!

- **Target**
  - Archer Farms

- **Costco**
  - Kirkland Signature

- **Safeway**
  - Safeway Select
  - Open Nature

- **Stop & Shop**
  - Nature’s Promise
  - Simply Enjoy
picking winners in Food & Nutrition:

1. It’s hard to pick whether a niche is a trend or a fad…so look for underlying macro trends

2. Value is being redefined by consumers; they view value as the ratio of quality to price

3. Leverage macro trends to create new segments of established stagnant categories
### Yogurt

<table>
<thead>
<tr>
<th></th>
<th>Yoplait</th>
<th>Chobani</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 Share</td>
<td>32%</td>
<td>6%</td>
</tr>
<tr>
<td>2013 Share</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Change</td>
<td>-10%</td>
<td>+13%</td>
</tr>
</tbody>
</table>

### Macaroni & Cheese

<table>
<thead>
<tr>
<th></th>
<th>Kraft</th>
<th>Annie’s Homegrown</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 Share</td>
<td>82%</td>
<td>5%</td>
</tr>
<tr>
<td>2013 Share</td>
<td>78%</td>
<td>7%</td>
</tr>
<tr>
<td>Change</td>
<td>-4%</td>
<td>+2%</td>
</tr>
</tbody>
</table>
picking winners in Food & Nutrition:

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4. Distribution will make-or-break the success of a growing product
2007: PepsiCo and Israeli-based Strauss Group form a 50-50 joint venture to operate the Sabra brand of hummus, dips, and spreads in North America. PepsiCo’s clout with retailers and product sampling tactics helped propel the Sabra brand from #4 in the category in 2006 to the dominant leader with 60% share today.
distribution case study: KIND Bars

KIND has used the growth in its bars to extend into multi-packs, granolas, and other bar products.

Source: Nielsen Scantrack
picking winners in Food & Nutrition:

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packaging case studies:

La Brea Bakery

- Dough-shaped ‘B’ logo changed to lowercase with a loaf of bread drawn into the hole of the letter
- “Warmer” red used to attract shoppers
- Paper bags that cover the bread are similar in texture and color to brown deli paper
- Variety of bread and slogan printed horizontally around the package, evoking the feel of being individually wrapped by a baker

Miss Vickie’s

- Frito-Lay needed a potato chip product for the Foodservice channel
- Frito took Miss Vickie’s and repackaged it into a new, non-shiny package
- The non-shiny packaging and the heritage feel set the brand apart (and was the entire marketing budget!)
Ingredients Not Allowed in Simply Balanced Foods

- acesulfame-K
- acetylated esters of mono- and diglycerides
- ammonium chloride
- ammonium bicarbonate
- artificial colors, flavors
- aspartame
- ADA
- benzoates in food
- Benzoil peroxide
- BHT
- brominated vegetable oil
- flour, bromated
- flour, bleached
- fumaric acid
- calcium bromate
- calcium disodium EDTA
- calcium peroxide
- calcium propionate
- calcium saccharin
- calcium sorbate
- calcium stearoyl-2-lactylate
- calcium sulfate
- caprocaprylo-behenin
- chicory root extract
- cochineal
- colors-synthetic, certified, FD&C cyclamates
- cysteine (l-cysteine), as an additive for bread products
- DATEM (Diacetyl tartaric and fatty acid esters of mono and diglycerides)
- diacetyl tartaric and fatty acid esters of mono and diglycerides
- diacetyl tartaric and fatty acid esters of mono and diglycerides
- diacetyl tartaric and fatty acid esters of mono and diglycerides
- disodium calcium EDTA
- disodium dihydrogen EDT
- disodium dihydrogen pyrophosphate
- disodium guanylate
- disodium inosinate
- disodium phosphate
- EDTA
- ethyl vanillin
- ethylene oxide
- ethoxyquin
- food starch, modified
- Glyceral ester of wood rosin (ester gum)
- hexa-, hepta-, octa-, esters of sucrose
- high fructose corn syrup
- hydrogenated fats
- Inulin
- invert sugar
- irradiated foods
- lactic acid
- lead soldered cans
- methyl silicon dioxide
- milk protein
- monoglycerides
- modified starch
- monosodium glutamate (MSG)
- natriamyacin
- neotame
- nitrates/nitrites
- partially hydrogenated oil
- polydextrose
- polyethylene glycol
- potassium bisulfite
- potassium carbonate
- potassium metabisulfite
- potassium nitrate or nitrite
- potassium sorbate
- propionates
- propyl gallate
- propylene glycol
- propylene oxide
- propylparaben
- saccharin
- silicon dioxide
- sodium aluminum phosphate
- sodium aluminum sulfate
- sodium benzoate
- sodium bisulfite
- sodium diacetate
- sodium erythorbate
- sodium glutamate
- sodium metabisulfite
- sodium nitrate/nitrite
- sodium propionate
- sodium stearoyl-2-lactylate
- sodium sulfite
- sodium tripolyphosphate
- sorbic acid
- sucralose
- sucroglycerides
- sucrose
- acetate
- isobutyrate
- sucrose polyester
- Sulfur dioxide
- TBHQ (tertiary butylhydroquinone)
- Tetrasodium EDTA
- trans fatty acids
- tripolyphosphate
- vanillin

Simply Balanced

“at the heart of the Simply Balanced brand is giving guests more of the ingredients they know and want – like great-tasting, wholesome food that's free of artificial flavors, colors, and preservatives”
eating right will continue to be a priority...

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About The Parthenon Group

The Parthenon Group is a leading advisory firm focused on strategy consulting, with offices in Boston, London, Mumbai, San Francisco, and Shanghai. Since its inception in 1991, the firm has embraced a unique approach to strategic advisory services built on long-term client relationships, a willingness to share risk, an entrepreneurial spirit, and customized insights. This unique approach has established the firm as the strategic advisor of choice for CEOs and business leaders of Global 1000 corporations, high-potential growth companies, private equity firms, educational institutions, and healthcare organizations.

About Parthenon’s Consumer Growth Practice
Over the past few decades Parthenon has developed an extraordinary consumer practice, consulting to large and mid-cap corporations, private equity firms, and portfolio companies. In the simplest sense our toolkit is organized to give answers to the key growth questions facing executives today. Parthenon distinguishes itself by:

– Putting senior executives and industry leaders on the job: ex-CEO’s and CMO’s from major consumer companies
– Embedding econometric insight from a world-class economic team
– Deploying extraordinary, rapid market research capabilities with a strategic twist
– Leveraging a private equity mentality gained from hundreds of diligences by our consumer private equity practice

About Parthenon’s Private Equity Practice
The Parthenon Group’s Private Equity Practice advises clients in all stages of investment, including target identification and screening, strategic due diligence, portfolio company strategy and operational improvement, and sell-side support. In addition to the firm’s advisory work in consumer, retail and restaurants, Parthenon serves clients in a wide range of sectors including education, industrial, information and media, and healthcare.

The combination of Parthenon’s Private Equity Practice, which has advised clients on over 1,300 transactions, and our deep roots in Consumer, Retail and Restaurants – with senior team members with long advisory and operating positions – makes The Parthenon Group the advisor of choice for private equity firms considering investments in the industry.

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