U.S. Confectionery Industry

The Power of Sweet

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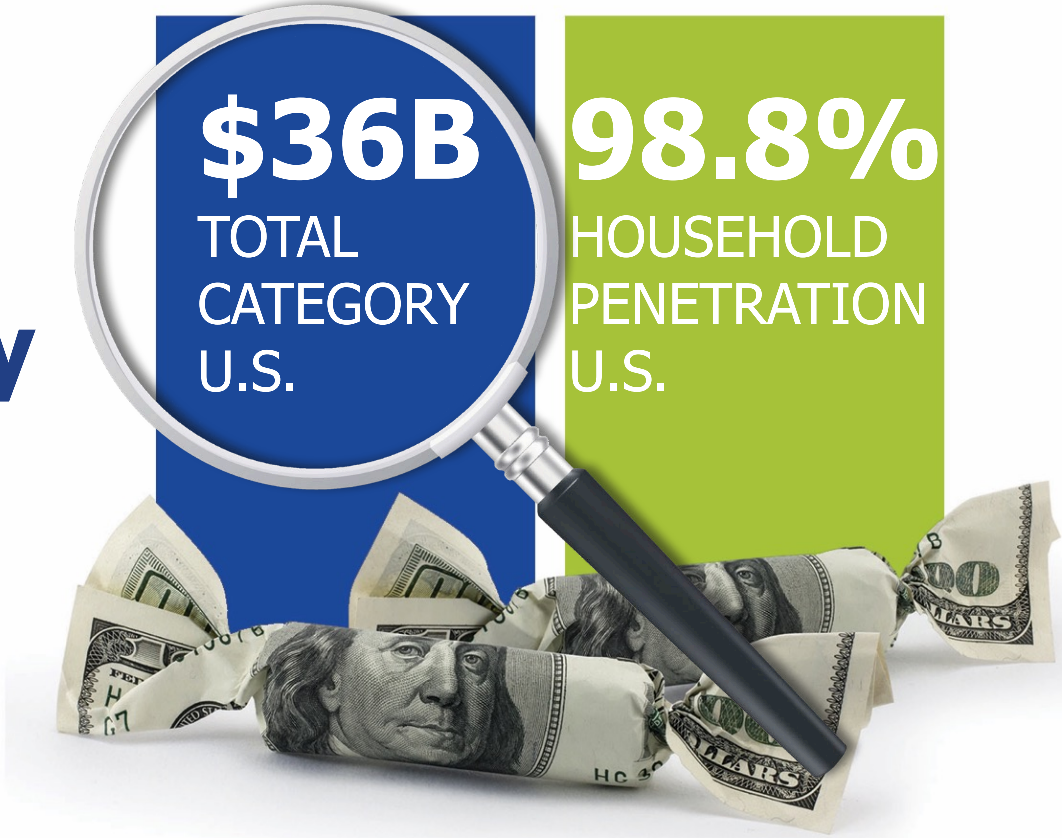
NCA
National Confectioners Association
ALWAYS A TREAT

Confectionery is a big industry with high household penetration



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	WAGES	FEDERAL, STATE & LOCAL TAXES++
$44.6B	$8.9B	$13.3B

and nearly 1,300 manufacturing facilities in all 50 states

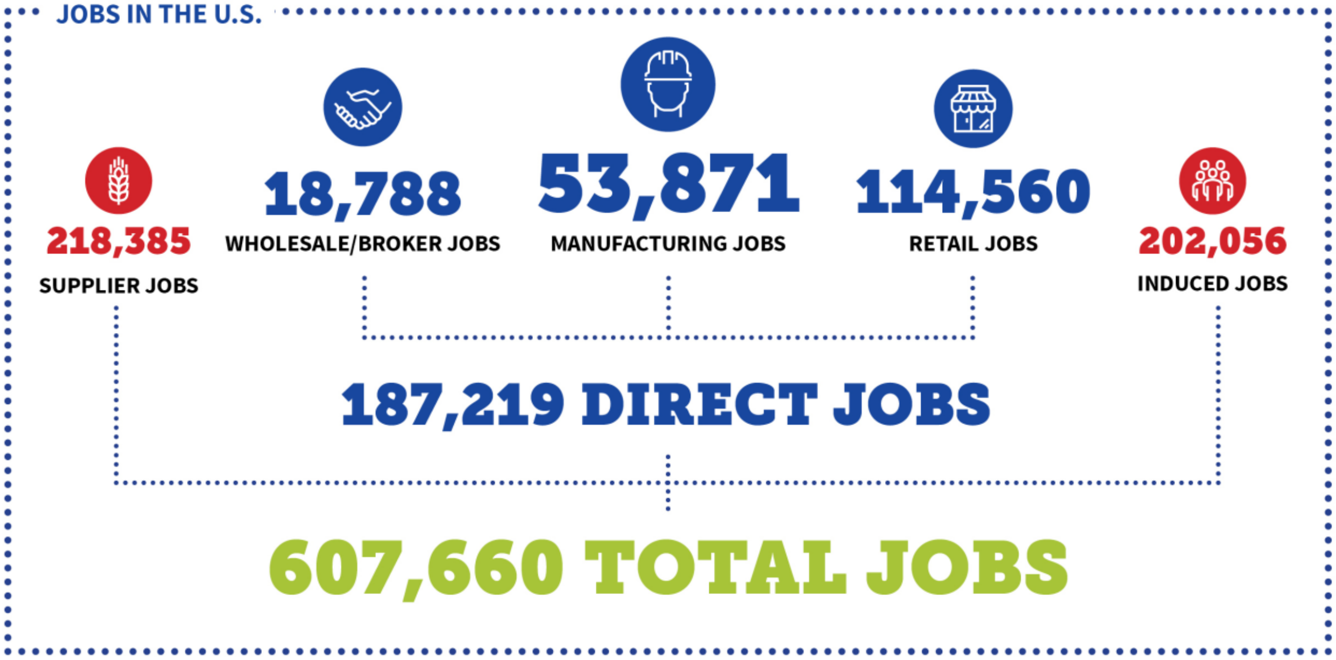
NATIONAL MULTIPLIER EFFECT

ONE U.S. confectionery manufacturing job

SUPPORTS

TEN other jobs in the U.S. economy

Supporting more than 607K jobs across the U.S.



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

2-3x

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

92%

OF AMERICANS
AGREE THAT CANDY
IS ALWAYS A TREAT[2]

Sources: USDA, NHANES 2008-2014, 210 Analytics shopper research

As a treat...

CHOCOLATE & CANDY account for about **ONE TEASPOON**

OF ADDED SUGAR PER DAY [1]

&

AMERICANS AVERAGE **about 40 calories** PER DAY FROM **CONFECTIONERY ITEMS** [1]

Delivering on emotional well-being

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]

3/4 of people think **TREATS ARE MORE FUN** WHEN SHARED **with a friend**[4]

90% OF AMERICANS give gifts of **chocolate and candy** TO LOVED ONES EVERY YEAR[2]

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

Chocolate

72.0%

Chewy

65.2%

Hard

56.9%

Gum

34.3%

Mints

34.3%

Functional candy indexes higher for out-of-home

%=at home share

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

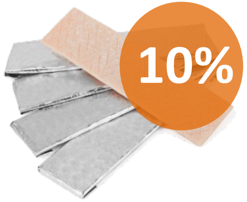
Our progress over the term of our five-year commitment will be monitored and reported by the Partnership for a Healthier America in conjunction with a well-respected, nonpartisan policy research organization called the Hudson Institute.

www.AlwaysATreat.com

Responsibility while managing the business

Chocolate Candy

Non-Chocolate Candy



Gum

Chocolate Candy	Non-Chocolate Candy	Gum
+0.9%	+3.9%	+0.9%

Total Confections: +1.2%

Source: NCA/Euromonitor 2018 sales estimates total market

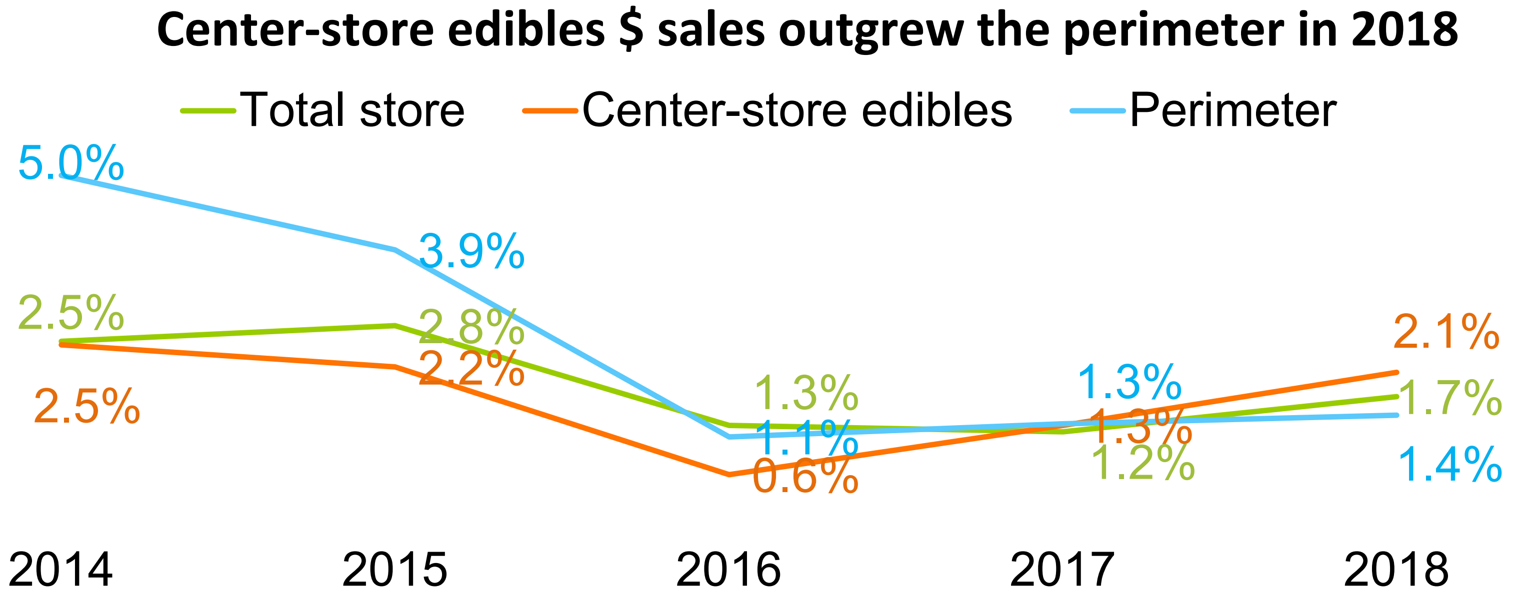
Total store sales are recovering, yet units remain relatively flat

2013-2018 Total store $ growth and unit growth

	2013	2014	2015	2016	2017	2018
$ growth	+1.8%	+2.5%	+3.1%	+1.5%	+1.3%	+2.0%
Unit growth	+0.3%	+0.6%	+0.8%	+0.5%	-0.3%	+0.4%

 Source: IRI, MULO+C, 2013-2018

And center-store is now outpacing the mighty perimeter



Source: IRI, MULO, 2014-2018

Total store growth > confectionery gains

Confectionery $ growth dips back to 2016 levels

$ Growth	2013	2014	2015	2016	2017	2018
	+1.8%	+2.5%	+3.1%	+1.5%	+1.3%	+2.0%
	+2.3%	+1.9%	+3.2%	+1.2%	+1.8%	+1.2%

Source: IRI 2013-2018. 2018: 52 weeks ending 12/30/2018 Total CMG MULO+C

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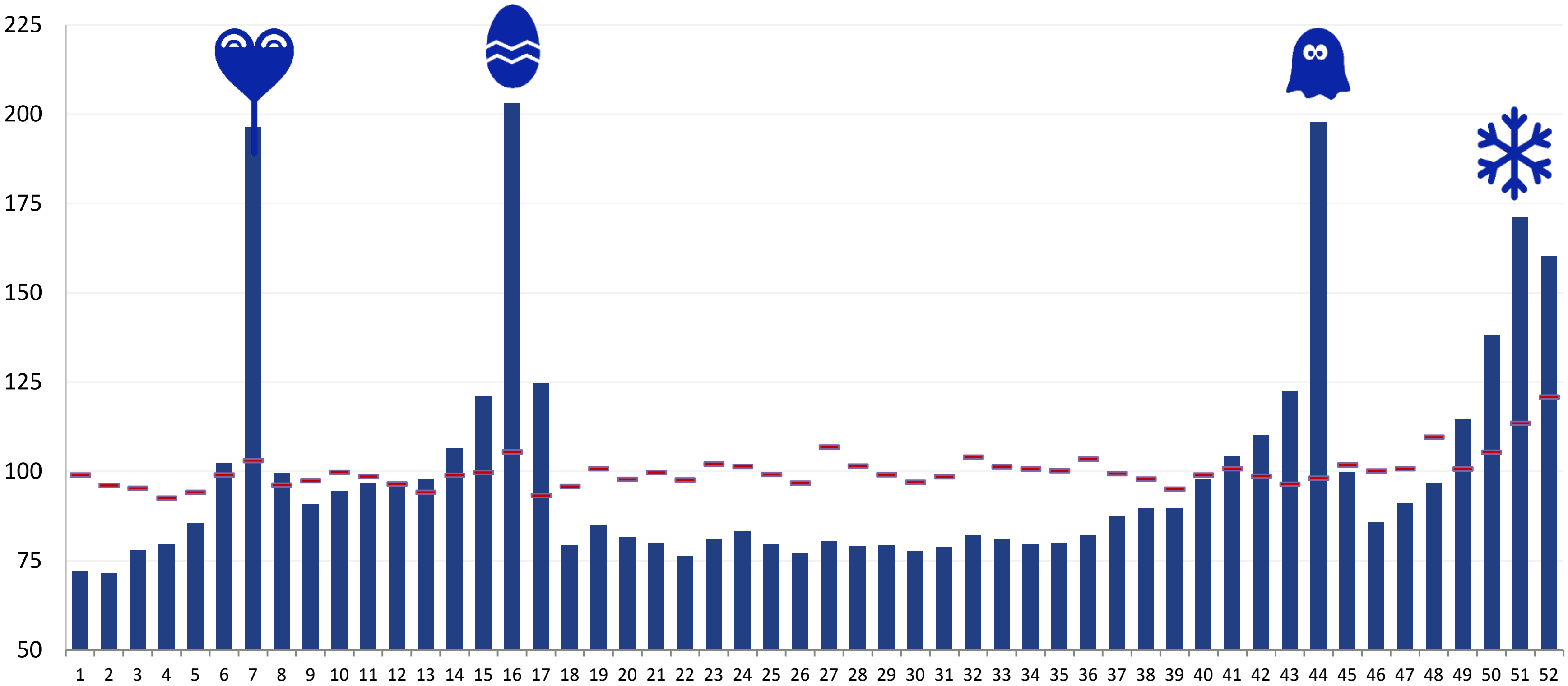
Bringing everyday & seasonal joy



Source: IRI 52 weeks; MULO+C; Total Confections vs. Total Store

Using...

Cocoa beans
- 759 million lbs
- $673M+

Sugar
- 2.3 billion lbs
- $205.8M+

Corn syrup
- 1.4 billion lbs
- $664.1M+

Milk/milk products
- 1.0 billion lbs
- $173.3M+

Peanuts
- 320 million lbs
- $500.4M+

Almonds/other nuts
- 70 million lbs
- $149.7M+

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

HIGH PURCHASE INDEX

Millennial Young

Choc. Box/Bag/Bar

Gift box chocolates

Licorice

Chewy Candy

Millennial Older

Plain Mints

Choc. Box/Bag/Bar

Licorice

Hard Sugar Candy

GenX

Plain Mints

Chewy Candy

Gift box chocolates

Hard Sugar Candy

Boomer Young

No Strong Index across any group

Boomer Older

No Strong Index across any group

Senior

Novelty Non Choc

Chewy Candy

Gift box chocolates

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)

NCA National Confectioners Association ALWAYS A TREAT
Fine Chocolate INDUSTRY ASSOCIATION FCIA
PENNSTATE

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

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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

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Consumers are responding

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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

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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

2 CSR/environmental responsibility matters

ALL CONSUMERS	IMPORTANCE OF CACAO FARMING/PRODUCTION PRACTICES	FINE CHOCOLATE CONSUMERS
54%	Traceability of ingredients	74%
53%	Transparency of production process	73%
56%	Sustainable sourcing avoiding deforestation	74%
62%	Engaging in responsible labor practices	81%
49%	Initiatives to reduce water and energy usage	75%
53%	Initiatives to reduce product/package waste	76%

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

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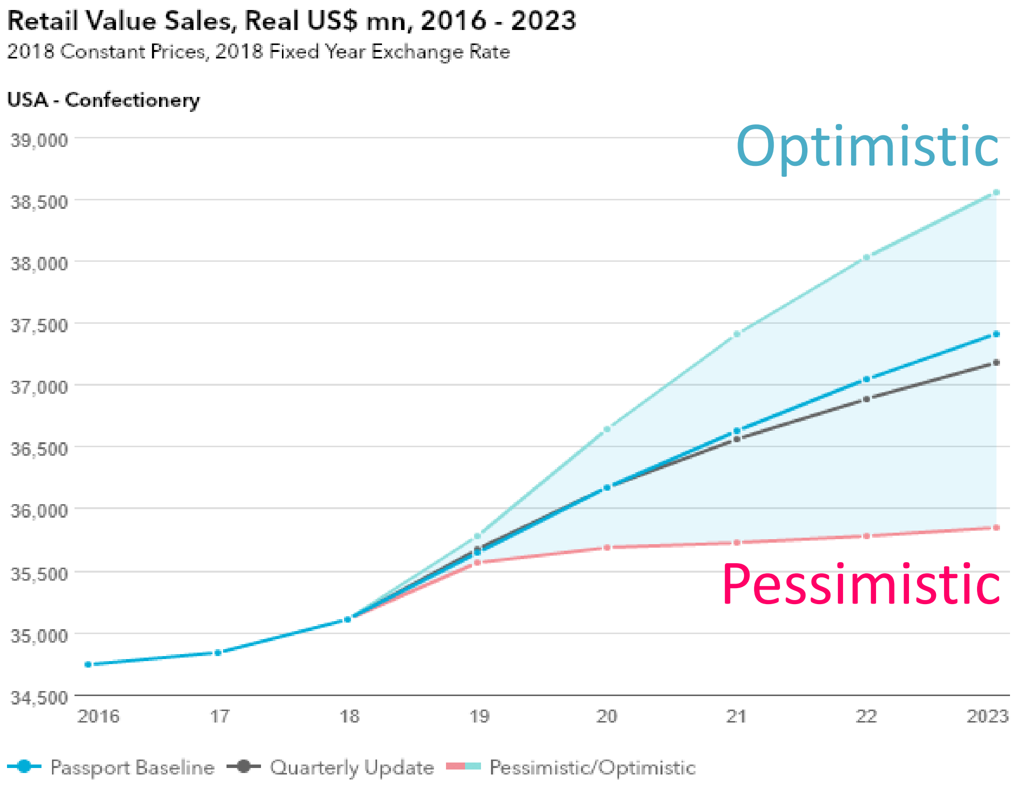
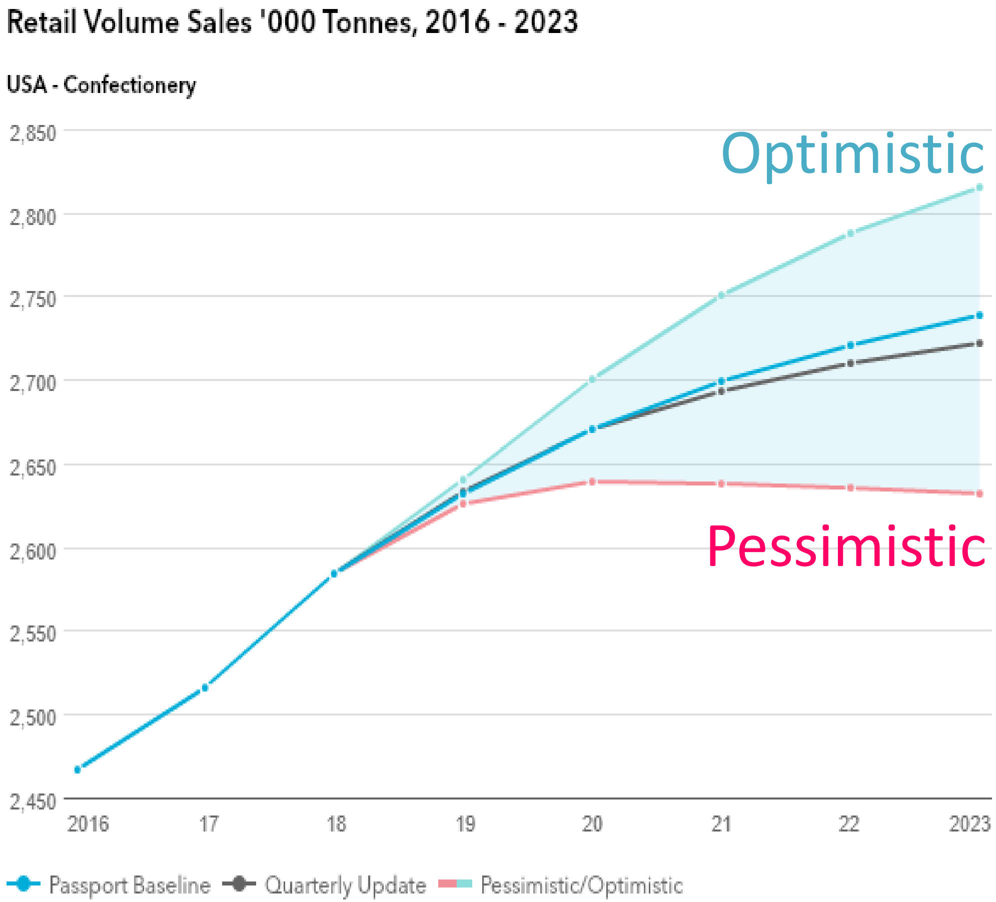
Growth scenarios highly depend on managing input costs and demand



With continued **volume pressure** a possibility



Questions?

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