Foodservice Market Update

June 2013

Market Overview —Year ending March 2013

- In the year ending (YE) March 2013, the total out-of-home (OOH) market was worth £49.5 billion, up 0.5% from last year.
- OOH traffic levels declined very slightly (-0.2%). Post-Christmas cutbacks, a continued sluggish economy and particularly cold weather contributed to the poor performance across the industry. Breakfast and weekend visits, however, reported some growth.

Total Sales
£49.5 Billion (+0.5%)

Traffic
11.0 Billion (-0.2% YOY)

Average Individual Spend
£4.49 (+0.7% YOY)

Average Price per Item
(+1.7% YOY)

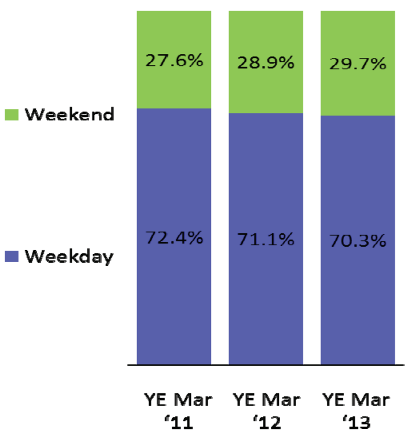
Average Number of Items
(-1.2% YOY)

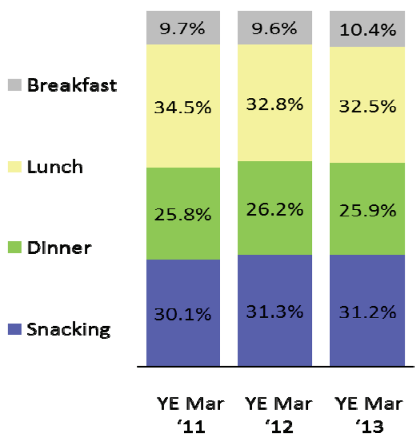
Quarterly Review — OOH Channels

- Quick Service Restaurants (QSR) remain the bright spot within the foodservice industry. In the latest quarter, sales were up 0.6%, and visits remained steady compared to last year. Over the 12-month period, sales grew 2.0% and visits increased 0.6%. This performance has been supported by growth at weekends, which represent 30.2% of all visits; weekday visits are in decline. Traffic gains have been seen this year at lunchtime and growth has continued at breakfast, which now accounts for nearly 1 in 10 QSR visits.
- Pub visits in the latest quarter have remained fairly static year-on-year. Sales, however, have declined, due to a fall in average spend. The trend over the year shows that sales declined 0.5%, while visits fell slightly by 0.4%. Small pub brands in particular have outperformed the channel, while independents are still in decline. Breakfast is still the biggest opportunity for pubs being the only day part in growth, and like QSRs, weekend visits are also making gains.
- Full Service Restaurants (FSR) have not performed as well this quarter, with sales down 1.6%. The poor weather at the start of 2013 made growth difficult. However, there have been gains over the year at breakfast, declines at lunch have slowed and recovery is expected in the coming months. Off-premises gains have also been made, suggesting another potential opportunity.
- The travel and leisure sector saw a small increase in visits in the latest quarter, although sales declined 1.9%. The year as a whole has seen traffic levels remain flat year-on-year. The breakfast occasion grew over the year, as with other channels, but dinner appears to be the main opportunity with two years of growth.
- In the latest quarter, visits to workplace/education outlets fell by 1.9% and sales were down 2.4%. Lunch continues to decline as consumers turn to snacking and breakfast. Looking at the full year performance, sales were down slightly by 0.5%, while visits were down 2.1%. Snacking has seen an uplift of 2.4% in the year ending March 2013, and accounted for 48.4% of all visits.

	SHARE OF TRAFFIC YE MARCH 2012/13		TRAFFIC CHANGE % YOY (+/-)				
FOODSERVICE CHANNELS	2012	2013	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
QUICK SERVICE RESTAURANTS	50.5	50.9	1.0	0.9	1.2	0.6	-0.2
PUBS	11.1	11.1	0.2	-1.2	-0.7	0.4	-0.2
FULL SERVICE RESTAURANTS	10.7	10.6	-1.2	-2.0	-2.8	0.2	-0.2
TRAVEL & LEISURE	10.7	10.8	-1.1	-0.4	+0.8	-0.7	0.4
WORKPLACE	14.2	13.9	-0.5	-5.4	-0.1	-1.9	-1.6

Total out of home traffic distribution



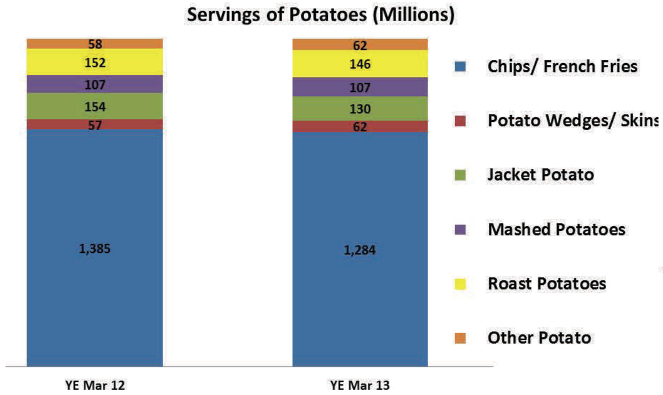


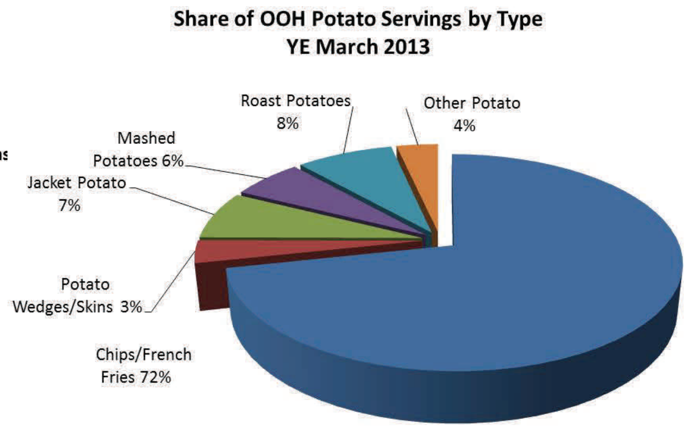
- Looking at traffic distribution by day, weekday visits make up the bulk of occasions (70.3%), although this is a slight under-index. Growth over the last few years, however, has come almost exclusively at weekends. The chart displaying meal occasions shows that over 1 in 10 visits are now at the breakfast occasion. Snacking also remains a key day part, with the focus moving from midday to morning and evening snacks in the last year.

Data Source: NPD Crest Q1 - Year ending March 2013, GB Only

Potato Consumption - Orders and Servings

This section refers to OOH servings that contain a particular product.

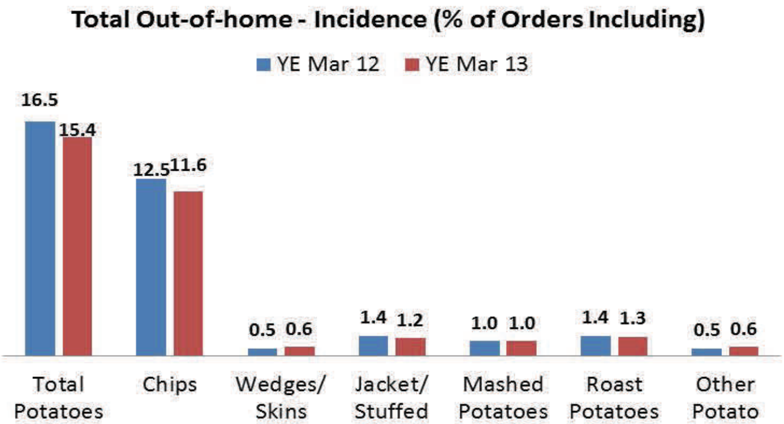




- There were 1.79 billion potato servings OOH in the year to March 2013, which represents a 6.3% fall compared to a year earlier. This decline has mainly been driven by chips, which now account for 71.7% of all potato servings. Servings of chips have declined in most types of outlet; at QSRs, in particular, chip servings declined 6%.
- There is likely to have been some impact in the latest quarter due to the horse meat scandal. Beef burgers, a key product in the OOH industry, have seen servings down 9.3% in the latest quarter. As a result, the number of potato servings that included beef burgers has also declined. 16.2% of potato servings included beef burgers, compared to 20.6% last year. In contrast, there have been gains in other protein products such as lamb, bacon and fish, where potatoes feature less heavily.
- Jacket potatoes have also seen a decline in OOH servings, down 15.4% YOY. This decline has been impacted by a reduced number of servings at QSRs and Pubs in particular, with weekday and lunchtime occasions seeing the largest declines.
- Mashed potato servings are similar to last year, at 107 million per year. Pubs provide the largest share of mash, accounting for just under half of all servings. However, it is at QSRs and FSRs where mash has shown some growth YOY.
- Roast potato servings have fallen by 3.7%. Declines have been driven by Travel/leisure and FSRs. In the total OOH market, 41.8% of roast potatoes are served at the weekend, and weekend servings have shown the largest declines YOY. This is opposite to the total traffic trend seen; roast potatoes are not benefiting from the total traffic growth seen at weekends.
- The OOH breakfast has shown some gains over recent months, and benefiting from this is hash browns, which have seen servings increase 9.3% YOY, just behind total breakfast growth of 10.3%.

Potato Consumption - Incidence Rate*

- Potatoes currently feature in 15.4% of OOH meal orders, which is less than last year. Most potato types have seen a decline in orders.
- Chips in particular have seen a decline in their incidence rate of just under 1 percentage point since last year, now featuring in 11.6% of all OOH meals. Incidence has fallen at QSRs and Pubs but remained steady at FSRs.
- The potato type with the second highest incidence is roast potatoes – served with 1.3% of all OOH orders.
- Mashed potato incidence has remained steady at 1.0% of all meals, while wedges/skins have seen a slight uplift YOY.



Incidence rate refers to the percentage of orders that contain that specific food

Focus on wider food: Levels of potato servings

- In the latest quarter, a third of all lamb dishes were served with potatoes, compared to 46.6% of all beef dishes. Only 18.6% of pork dishes (including bacon) were served with potatoes. Around a third of chicken dishes are accompanied by potatoes.
- 35.3% of fish dishes were served with potatoes - but when looking at fried fish, just over half (51.6%) of servings include potatoes.