Foodservice Market Update

September 2014

Market Overview —Year ending June 2014

Overall, both the economy and the foodservice industry in GB have shown encouraging signs in the 12 months to June 2014. GfK NOP reported that in Q2, consumer confidence started 24 points higher than during the same period in 2013. Also, pay growth finally caught up with and then overtook inflation. Expenditure in foodservice increased 1.4% in Q2 14 compared to the same 3-month period a year ago and 2% over 52 weeks, bringing the total spend to £50.4 billion. More families with children visited foodservice outlets with habits learned during recent years having prevailed as consumers continue to be influenced by deals and promotions. Consumers dined out of the home more often during the week, while the weekend saw a decline in visits. Further details of the impact of these trends can be found on page two of this report.

Total Sales
£50.4 Billion (+2%)

Traffic
11.0 Billion (+1.3% YOY)

Average Individual Spend
£4.57 (+0.7% YOY)

Average Price per Item
(+2.7% YOY)

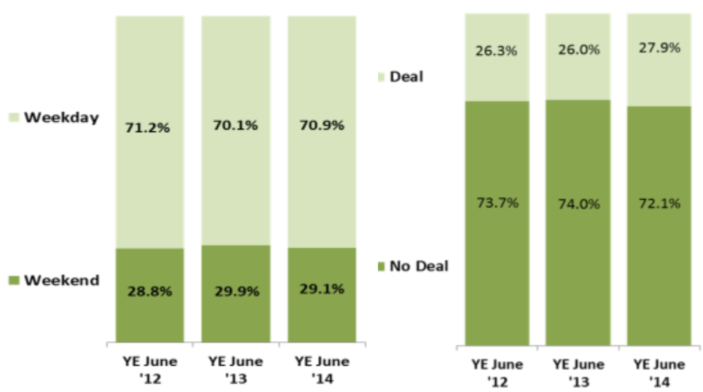
Average Number of Items
(-2.1% YOY)

Quarterly Review - OOH Channels

- Dining out is still a spending priority for GB consumers. According to Mintel, only bills and savings are more important. As financial pressures ease and incomes, which have fallen in real terms for several years rise ahead of inflation, operators in this sector are well placed to benefit from the improving economic conditions.
- In Q2 there were small increases in average spend per customer (0.7%) and price per item (2.7%). QSRs, Pubs, and Travel & Leisure channels which account for 73% of the sector showed increased traffic. Consumers might be slowly becoming more prepared to treat themselves to higher priced menu items. The fall in items per order of 2.1% has not been sufficient to prevent growth in the out-of-home market value.
- Pubs have seen a 0.1% increase in traffic for Q2 2014 compared to the same 12 weeks in 2013 and a YOY spend increase of almost 3% which is consistent with the market rise in average price per item spending. Although the rate of increase has slowed, pub channels have now seen visit growth for five consecutive quarters.
- The recovery for Full Service Restaurants from the 4% decline of Q2 2013 has stalled. FSRs have seen a fall in both weekend and weekday servings. This contrasts with the trend for Pubs, QSRs and Travel & Leisure Outlets where weekday servings have increased and those at the weekend have declined.
- The QSR channel is crucial to the sector as it makes up more than half (51.3%) of all out-of-home traffic. It has performed strongly with spend increasing by 2.5% and traffic by 1.1%. The increase of 4.3% for QS Beefburger outlets, which now account for 8.7% of all out-of-home meal traffic is a contributory factor. QS coffee, chicken, bakery, pizza/Italian and sandwich outlets have all seen visit increases.
- A slow recovery is taking place for Travel & Leisure channels. This is likely to have been influenced by the good early summer weather, which usually leads to a hike in Britons spending recreation time in this country.

FOODSERVICE CHANNELS	SHARE OF VISITS YE JUNE 2013/14		TRAFFIC CHANGE % YOY (+/-)				
	2013	2014	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
QUICK SERVICE RESTAURANTS	51.1%	51.3%	-2.4	1.2	1.2	2.6	1.1
PUBS	11.2%	11.3%	0.1	3.3	3.4	2.0	0.1
FULL SERVICE RESTAURANTS	10.6%	10.5%	-3.9	1.5	0.2	1.4	-0.8
TRAVEL & LEISURE	10.6%	10.7%	-10.5	3.5	0.6	1.9	1.5
WORKPLACE/EDUCATION	15.6%	15.3%	-9.9	1.8	-1.4	-0.6	-0.9

Total out-of-home traffic distribution

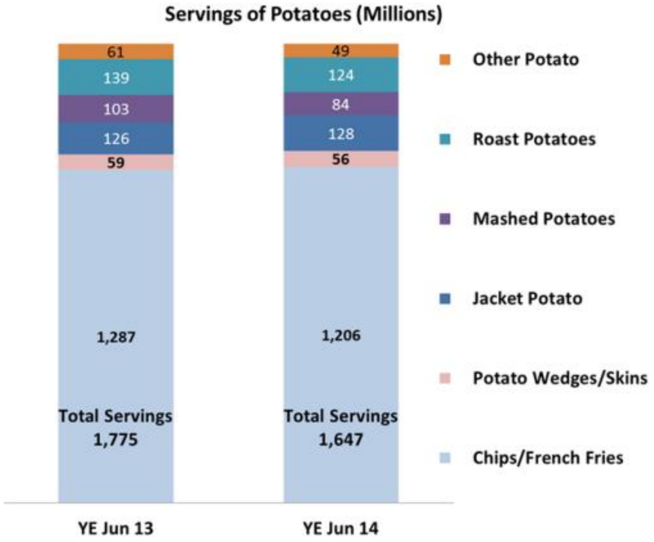


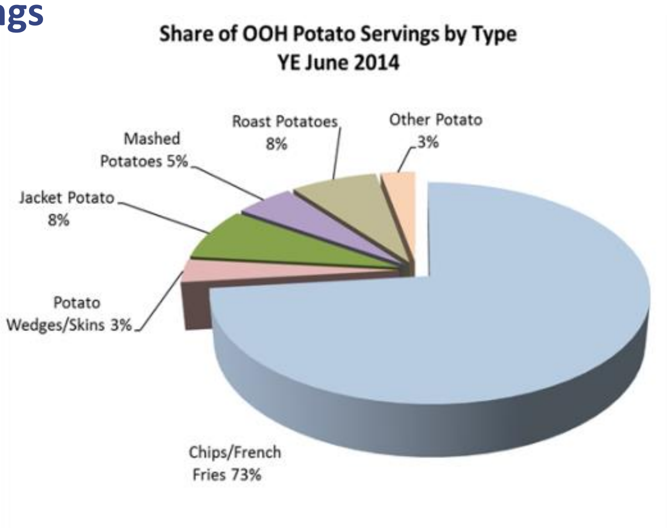
- The growth in weekday traffic (+1.8%) may be linked to the growth in deals and promotions, many of which are not valid at weekends.
- Males, those aged under 34 and those who are working, all increased out-of-home visits in Q2 2014. There may be a relationship between this and weekday increases. Their discretionary spending is constrained to a lesser extent by financial uncertainty and a barrier to eating breakfast or lunch OOH on a working day has been removed.
- Deals and promotions grew YE June 2014 (+1.9%) and now deals are part of nearly 28% of visits to OOH outlets.

Source: The NPD Group/CREST®, YE June '14

Potato Consumption - Orders and Servings

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

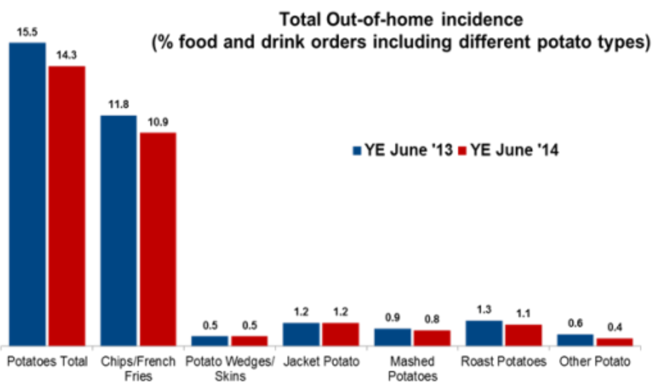




- There were 1.65 billion potato servings out of home in the year ending June 2014 — equivalent to around 4.5 million servings every day. This has fallen by 8% compared to the same period last year. The drop of 2.1% in average number of items ordered per visit may have influenced this, many side dishes and extras are potato based and sales of these menu items have suffered along with onion rings and garlic bread, which are also often served as sides.
- There has been a fall of 11% in roast potato servings over the year. The decline has been driven almost entirely by weekday traffic, which has fallen by 19%, weekend consumption is virtually unchanged.
- The share of the total potato category held by chips/french fries is stable at 73%; they still account for the majority of potato servings and remain heavily influential on the market. Servings fell again; there were 80 million fewer servings YOY to June 2014. Only age groups 18-34 did not show a decline. Consumption by those under 18, a group that ate out of the home much more frequently during Q2 2014, fell by 15%.
- In Quick Service Restaurants, servings of chips/french fries have declined by 9% in the last year with the crucial mealtimes lunch (-30 million servings) and dinner (-24 million servings being the key contributors to this downturn. This channel dominates the out-of-home market and in order for potato usage to stabilise, this decline must be arrested.
- Jacket potatoes are the only category to show an increase YOY to June 2014, rising by 1.2% over 2013. Servings at both weekends and weekdays increased. Gains were made at dinnertime but lunch remains by far the most popular time of consumption; 57% of all jacket potatoes are served at this time. ABC1s, a group that dined out in increasing numbers in the latest time period, appear to have a preference for jacket potatoes.
- All channels served less mashed potatoes over the year to June 2014. Pubs, where volume is the greatest, have increased their share to 46%, but, even here, total servings declined by 10%. FSRs and QSRs both served almost a third less mashed potato YOY to June 2014 compared to the same period a year ago. A small fall in the number of females eating out of home has also contributed to the downturn, the amount of mashed potato eaten by females has fallen by 52% in the last year.

Potato Consumption - Incidence Rate*

- Potatoes currently feature in 14.3% of OOH food and drink orders, down from 15.5% last year. This decline can be explained to some extent by the 9% dip in servings through the QSR channel YOY to June 2014.
- Included in 10.9% of food orders, chips/french fries clearly remain the most popular potato category served out of the home. Although servings have increased in Workplace and Travel & Leisure outlets, demand for chips has declined steeply in the QSR channel which makes up more than half of the market.
- Jacket potatoes and potato wedges have held on to their smaller shares of the market.



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

Deals and Promotions—Side Dishes

An important influence on the entire out-of-home market is deals and promotions. According to Mintel data, 58% of diners who have eaten out in the last 3 months have used this approach and 17% wait for a voucher or other deal/promotion to become available before eating at a particular outlet. Often promotions are not valid at the weekend and do not include side dishes. Adroit consumers are getting the best value that they can, this seems to mean only including menu items that are available as part of the offer and eating out only when vouchers are valid to ensure that the total bill remains within their budget.