Foodservice Market Update

December 2014

Market Overview —Year ending September 2014

Solid Q3 performance led to a fourth consecutive quarter of both traffic and average spend growth. Total sales grew by 2.0% in the year ending September 2014 when compared with a year earlier, with consumers spending £1.0 billion more on out of home (OOH) food. This increase is due to the average price per item rising, as on average, consumers are actually purchasing a reduced number of items per visit. Those aged 25-34 are driving the growth and the proportion of servings belonging to this age group increased from the year earlier. It appears that consumers have responded to a number of positive signals about the growth of the UK economy and consumer confidence remains high against recent years. IGD's ShopperVista suggests consumers concerns about their financial situation are easing, with 34% of shoppers saying they're going to spend a bit more on eating/drinking out this year.

Total Sales
£50.6 Billion (+2.0%)

Traffic
11.0 Billion (+0.9% YOY)

Average Individual Spend
£4.58 (+1.1% YOY)

Average Price per Item
(+2.7% YOY)

Average Number of Items
(-1.7% YOY)

Quarterly Review - OOH Channels

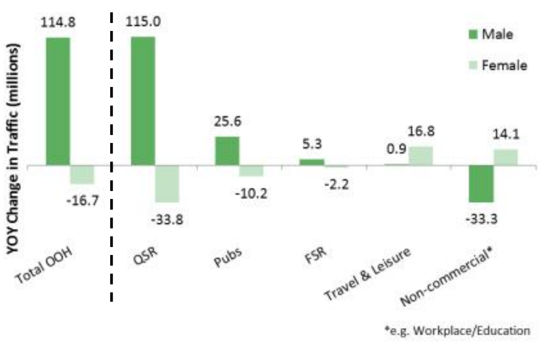
- Although consumers are eating out more, they are going to cheaper outlets. Quick Service Restaurants (QSR) remain in steady growth, with traffic rising by 1.5% in the YE Sep 2014, while Full Service Restaurants (FSR) lag behind.
- Consumer spending in QSR increased by 1.4% this year. Most quick service categories are in growth, with the exception of QS Ethnic, which had a 0.4% decline in traffic. Burger outlets have been the main driver of the overall growth in QSR, with a 3.3% increase in traffic to these outlets. Consumers aged 18-24 account for 10.4% of all servings to this channel, but have been the only age break to be slow in trading back to QSR.
- Deals and promotions were included in 28.3% of all OOH traffic in the YE Sep 14. Outlets with higher and growing importance of deals/promotions are in better shape than other channels. For pubs, the use of deals/promotions rose by 10.1% over the year and now account for 32.5% of all visits. Growth in this channel had previously been more reliant on breakfast, but a 6.3% increase in dinners at pubs helped to push growth over the year. However, this is supported by Q4 2013 and Q1 2014, as YOY growth by quarter has eased over 2014.
- Along with pubs, FSR outlets remain popular for family dining and parties with kids account for 20.9% of all meal occasions. However, growth in visits by this group has slowed recently to 0.3% for the YE Sep 14—down from 4.9% in June. Those aged over 50 have contributed positively to traffic, consumers aged 65+ especially have returned to the market.
- In a similar manner to QSR and Pubs, Travel & Leisure outlets are supported by the high importance of deals and promotions. The 1.5% increase in traffic this year is linked to even higher deal rates, which now account for 37% of all its visits.
- Traffic in the non-commercial channel such as workplace/ education remained in decline in the YE Sep 14. Spend was unchanged, with only inflation said to be preventing significant spend decreases. Consumers aged 35-49 account for 34% of traffic, however, it is a segment which is notably cutting back.

FOODSERVICE CHANNELS	SHARE OF VISITS YE SEPTEMBER2013/14		TRAFFIC CHANGE % YOY (+/-)				
	2013	2014	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
QUICK SERVICE RESTAURANTS	51.0%	51.3%	1.2	1.1	2.6	1.1	1.0
PUBS	11.3%	11.3%	3.3	3.4	2.0	0.1	-0.2
FULL SERVICE RESTAURANTS	10.6%	10.5%	1.5	0.2	1.4	-0.8	0.3
TRAVEL & LEISURE	10.6%	10.7%	3.4	0.6	1.9	1.5	2.0
WORKPLACE/EDUCATION	15.6%	15.2%	1.8	-1.4	-0.6	-0.9	-1.6

Total out-of-home traffic distribution

- Total OOH visits by males increased by 2.1% over the year, while visits from females declined. Consequently, male consumers now account for a greater proportion of OOH traffic.
- The QSR channel makes up more than half of all OOH visits but there is clearly a gender divide within this channel. When compared with the YE Sep 2010, the number of visits by women to the QSR channel has fallen by 4.9%. By contrast, QSR increasingly attracts males through most dayparts and demographics.

Total YOY change in traffic YE Sep 2014



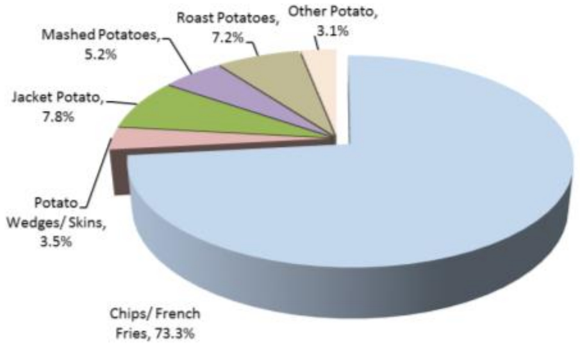
Source: The NPD Group/CREST®, YE Sep '14

Potato Consumption - Orders and Servings

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

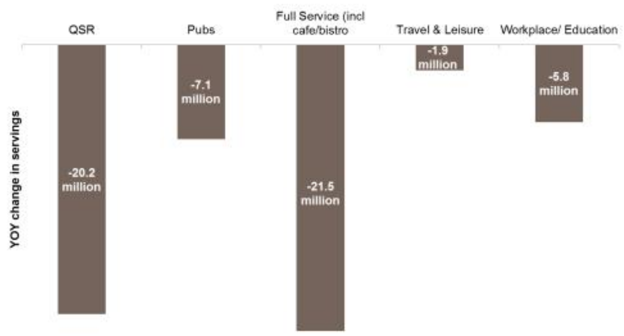
Servings (000s)	YE Sep 13	YE Sep 14	YOY % change
Total Potatoes	1,723,837	1,667,218	-3.3%
Chips/ French Fries	1,247,201	1,221,820	-2.0%
Potato Wedges/ Skins	57,106	57,774	1.2%
Jacket Potato	126,206	129,853	2.9%
Mashed Potatoes	99,787	86,803	-13.0%
Roast Potatoes	134,670	119,938	-10.9%
Other Potato	58,867	51,031	-13.3%

Share of OOH Potato Servings by Type YE Sep 14



- There were 1.67 billion potato servings out of home in the year ending September 2014 — equivalent to around 4.6 million servings every day.
- The decline in total potatoes is seen across all channels, but especially in FSRs, where servings of potatoes are down by 10% over the year. At FSRs, chips/fries account for a smaller proportion (61%) of potato servings and therefore slower growth here has more of an over-arching effect on all potato products.
- There were 20 million fewer servings of potatoes at QSRs over the year, primarily from chips, which make up 89.5% of all potato servings at this channel.

YOY change in OOH servings of potatoes, YE Sept 14



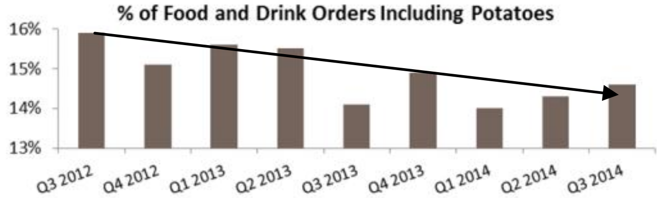
- Chips/French fries make up the greatest proportion of total out of home servings of potato products, at 73.3%. While the number of servings of chips declined by 2% in the year ending September 2014 when compared with a year earlier, the decline in other options such as mashed and roast potatoes was greater, helping chips to actually grow market share by servings.
- 24% of chips are served at QS Burger outlets. While QS Burger has been the main driver of total QSR growth, servings of chips did not grow in line with this. In the YE Sep 14, there were 33 million fewer servings of chips/fries at these outlets.
- The strong performance of jacket potatoes eaten OOH has been from a rise in consumption by most age groups. Consumers aged 35-49 were then main exception, having purchased 8.9 million fewer jacket potatoes, while growth came from consumers at both ends of the age spectrum; there was a 68% increase with consumers aged 13-17 and a 48% increase for those aged 65+.
- In-home consumption of roast potatoes has been impacted by fewer roast dinners, a trend replicated out-of-home. In the YE September 2014, there were 16 million fewer servings of traditional roasts dinners, primarily due to a fall in servings at pubs, where 53% of roast potatoes are consumed.

Potato Consumption - Incidence*

- The incidence rate belonging to potatoes has been on a downward trend over the last two years and in the YE Sep 14 stood at 14.5%. When considering Q3 alone, incidence was greater than in Q3 2013 but still lagged 1.3 percentage points behind Q3 2012.
- The proportion of meals featuring chips/fries fell by 0.3 percentage points over the year, impacted by the decline in servings through the QSR channel.
- Jacket potatoes were the only potato option to see a rise in incidence, with 1.2% of orders featuring a jacket potato over the year. Key growth outlets are supermarket cafés, hotels and QS Sandwich

Total Out of Home - Incidence							
	Total Potatoes	Chips/ French Fries	Potato Wedges/ Skins	Jacket Potato	Mashed Potatoes	Roast Potatoes	Other Potato
YE Sep 13	15.0%	11.4%	0.5%	1.1%	0.9%	1.2%	0.5%
YE Sep 14	14.5%	11.1%	0.5%	1.2%	0.8%	1.1%	0.5%

% of Food and Drink Orders Including Potatoes



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

Snacking

'Snacking' accounts for 29.5% of out of home traffic but is the one daypart which is still in decline, with a 3.9% year-on-year decrease in traffic in the year ending September 2014. Much of this has been influenced by 32 million fewer servings of crisps over the year (of which half are consumed as snacks), but there was also a 5.5% fall in servings of chips consumed as a snack. While these potato-based options declined over the year, servings of chocolate bars eaten as a snack rose by 2.9%. Other snack items, particularly cereal/energy bars are performing well.

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