

# Trouble in Aisle 5

Jefferies **AlixPartners**

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The authors would like to thank Frank Jones, AlixPartners, for his help with conducting the market research for this study.

## Trouble in Aisle 5

### Executive Summary

**There is trouble in Aisle 5: trouble that in all likelihood will accelerate over the next few years.** Indeed, the maturation of the Millennials and the aging of the Baby Boomers, in our opinion, appear poised to rapidly transform the food-at-home industry, long thought of as a bastion of stability. This transformation has the potential to create a chaotic marketplace that markedly changes where and how consumers shop for groceries, as well as what products they bring home. Based on our research, including a survey of 2,000 adult grocery shoppers, we envision an environment that will require increased nimbleness and a relentless focus on the consumer for established manufacturers and retailers, and the potential for rapid growth for new concepts/products. The bottom line for food-at-home industry stalwarts who have struggled over the last few years to understand the consumer landscape...you have not seen anything yet! Changes are likely to accelerate, perhaps rapidly as it appears we are only in the early stages of this transformation, and business models need to be expeditiously updated or risk being marginalized.

**The root cause of the transformation lies in demographics...Millennials coming of age and Boomers entering the twilight of their lives.** Over the next decade, the baton will be passed from one mega-generation to the next, a generation (Millennials, born from 1982 to 2001) that has a much different value equation for everyday items. In fact, Millennials over the age of 25 will make up roughly 19% of the U.S. population by 2020, up from just over 5% in 2010. The actual numbers – 64.1 million in 2020, up from 17.1 million in 2010 – are perhaps even more eye-popping. 25 years old is an important milestone, as it is when income and household formation start to accelerate, creating the catalyst for increased consumption. The Baby Boom generation, on the other hand, will fall below 20% of the population in the next 8 years. Even more important, however, is that while relatively wealthy (although not wealthy as people a decade earlier), the Boomers' earning power will erode and the generations' focus will undoubtedly continue to turn toward lifestyle preservation.

**The Millennials, sometimes referred to as the technology generation or the first multi-cultural generation, are just different.** It is perhaps not surprising that this more culturally diverse group that came of age in a rapidly changing world where a plethora of information was available almost instantaneously, is much less brand loyal and much more willing to engage in different distribution models to fulfill its consumable needs. This generation appears to want what they want, when/where they want it; consumption will be on their terms. Ubiquity for the sake of conformity is so Baby Boomer. Convenience, fresh/healthy, value (this is not always price), variety and natural/organic all seem to be important attributes (at least for now) for this very independent cohort. Interestingly, the income/education level creates a distinct difference in the shopping patterns for the Millennials. Food appears destined to rapidly bifurcate along income/education lines, driven, we believe, in large part by the values of the YEMMie (young, educated Millennial Mother).

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**The Baby Boomers will still have a big influence and age is changing some of their preferences.** A generation that 30 years ago drove a fitness craze, is now turning their attention toward what they put in their bodies as a means of remaining healthy and extending longevity. Fresh and healthy will clearly continue to gain importance, as will products that help with specific dietary needs that result from growing older. Generally, Boomers are more brand/retailer loyal and remain committed to shopping the old-fashioned way: going to the local grocer armed with coupons to save money. With income falling, this generation appears less willing to pay additional money for what they desire. The combination of having less wealth than expected due to the financial crisis and falling income seem to be making Baby Boomers “cheap”. With longer ties to the community and with a strong awareness of environmental issues, Baby Boomers are generally more interested in purchasing locally produced products than their kids.

**Collectively, these factors have implications from “farm to fork”.** For food companies there will be greater pressure to deliver more for less—fresher, higher-quality products, with more choices and more convenience. At the same time, driven by the Millennials, consumers are becoming less brand-loyal, they are more willing to shop across channels and are less aligned with traditional grocers. This will require food companies to be more nimble, with more innovative product development, leaner and efficient supply chains and more effective use of trade spend, in our opinion. For traditional grocers, there appears to be a need to redefine the model, focusing on perishables while engaging/re-engaging customers in the center store. While Millennials have yet to lock in their preferences for a lifetime, they are clearly much less loyal to the ‘one stop shop’ supermarket format than their parents were, creating significant obstacles for traditional retailers. But trouble for the grocery store looks to be a boon for speciality, mass merchants, club stores, and even on-line purveyors of everyday items.

## Trouble in Aisle 5

### Key Findings & Implications

There is trouble in Aisle 5 — trouble that in all likelihood will accelerate over the next few years. Indeed, the maturation of the Millennials and the aging of the Baby Boomers, in our opinion, appear poised to rapidly transform the food-at-home industry, long thought of as a bastion of stability.

### Passing the Baton

- By 2020, Millennials over 25 will be 19% of the population, up from ~5% in 2010
- Just following a person's 25<sup>th</sup> birthday, median income historically jumps 60%
- The Millennial generation is on pace to be more educated than the Baby Boomers, and education is highly correlated with earnings and wealth
- The Millennials are much more diverse than the Baby Boomers
- Baby Boomers under 60 will decrease to 17.6mm in 2020 from 59.8mm in 2010
- After 60, median income has historically fallen sharply, dropping roughly 16%
- These shifts lead to an annual \$50bn increase in food-at-home spending by Millennials and a \$10-15bn decrease for Baby Boomers by 2020

### Millennials

- Millennials are about to double in importance regarding the spend they control
- Millennials are less loyal to specific brands/retailers: it appears they buy what they want, when they want, wherever they want
- Millennials appear much more focused on lowest price rather than brand loyalty, but at the same time are much more willing to pay for specific attributes
- Millennials show little retailer loyalty and spread their shops for everyday essentials across more channels
- More fresh, more choices, more flavors and more variety
- Millennials place high value on convenience in shopping for food
- Natural and organic products look to be quite important to the Millennials
- Higher income and education levels, driven by the emergence of the YEMMie, increase the bifurcation between the haves and have nots
- Brands do matter more for top-earning Millennials — these just might not be their parents' brands!
- Traditional supermarkets are losing the high-income Millennial as they shop specialty stores for fresh products and mass merchants for everyday essentials

### Baby Boomers

- Boomers' influence will start to wane as incomes slide and households shrink
- Fresh and healthy items will continue to gain importance, as will products that help with specific dietary needs that result from growing older
- Stronger ties to the community produce more desire for locally produced and more environmentally friendly products
- Boomers, however, seem much less willing to pay up for sought-after attributes
- Baby Boomers like their traditional brands and traditional supermarkets
- Baby Boomers tend to shop more conventionally
- Aging will drive Boomers to smaller package sizes and magnify health/wellness and fresh trends
- Income levels significantly influence Baby Boomer purchasing behavior

### Winners

- Mass, specialty (ethnic, natural & organic, fresh-focused) and online retailers
- Natural & organic and specialty distributors
- Private label manufacturers
- Branded natural & organic manufacturers
- Producers/distributors of perishable items
- Manufacturers that tailor products to specific dietary needs and/or general health-focused attributes

### Losers

- Grocery stores
- Branded processed food manufacturers

### Food Company Implications

- **Branding:** Need to build relationships with Millennials that resonate and build loyalty. Use technology to reach Millennials in an authentic way.
- **Trade Spend:** Need to rethink where and how dollars are allocated to maximize ROI. Need to refine traditional trade spend allocation to target diverging demographic cohorts.
- **Innovation:** Will require more effective innovation as consumers want more sku's and retailers have minimum velocity thresholds for sku's
- **Sourcing:** Need to effectively manage raw material supply lines and volatility while appealing to Millennials' desire for new ingredients; need to extend innovation into supply chain.
- **Supply Chain:** Will need a supply chain that provides fresher product, offers more convenience and delivers more sku's faster and at a lower cost with less inventory.
- **Production/Processing:** Greater complexity from more sku's and more special needs will lead to more, but shorter production runs. Freshness will require quicker and less processed throughput.
- **Pricing:** Once again, we're in a value environment. That said, developing and communicating the right attributes to a specific segment can lead to pricing improvements.

### Retailer Implications

- **Distribution:** Will require leaner distribution networks that reduce "farm to fork" time.
- **Merchandising:** Combine having consumer favorite products available and easy to find with unique products/events to get customers in your store. Handle more sku's.
- **Price/Promotions:** Need to re-think how to win back the center store and reduce customer 'cherry picking'. Increase pricing analytics to maximize pricing & promotion effectiveness.
- **Store Labor:** More demands will be placed on labor to move fresh product quicker, handle more sku's and increase shopping convenience (e.g. shorter checkout). In Perishables and Prepared Foods, need to provide more value to the end consumer while controlling labor costs.
- **Private Label/Store Brands:** A key strength for stores. Over 2/3<sup>rd</sup> of customers are willing to travel and/or pay more for unique product. Build your brand, especially with Millennials.
- **Store Format:** Future center store formats likely need to be smaller, but with more organized backstock and labor to replenish accordingly.

# Passing the Baton

**The root cause of the transformation lies in demographics...Millennials coming of age and Boomers entering the twilight of their lives.** Over the next decade, the baton will be passed from one mega-generation to the next, a generation (Millennials, born from 1982 to 2001) that has a much different value equation for everyday items. In fact, Millennials over the age of 25 will make up roughly 19% of the U.S. population by 2020, up from just over 5% in 2010. The actual numbers...64.1 million in 2020, up from 17.1 million in 2010...are perhaps even more eye-popping. 25 years old is an important milestone, as it is when income and household formation start to accelerate, creating the catalyst for increased consumption. The Baby Boom generation, on the other hand, will fall below 20% of the population in the next 8 years. Even more important, however, is that while relatively wealthy (although not as wealthy as people a decade earlier), the Boomers' earning power will erode and the generations' focus will undoubtedly continue to turn toward lifestyle preservation.

### Key Takeaways

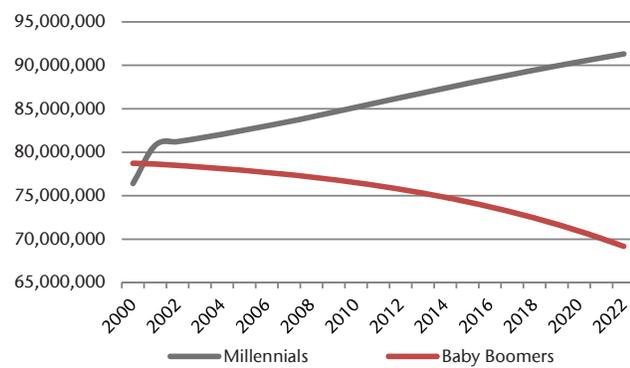
- By 2020, Millennials over 25 will be 19% of the population, up from ~5% in 2010
- Just following a person's 25<sup>th</sup> birthday, median income historically jumps 60%
- The Millennial generation is on pace to be more educated than the Baby Boomers, and education is highly correlated with earnings and wealth
- The Millennials are much more diverse than the Baby Boomers
- Baby Boomers under 60 will decrease to 17.6mm in 2020 from 59.8mm in 2010
- After 60, median income has historically fallen sharply, dropping roughly 16%
- These shifts lead to an annual \$50bn increase in food-at-home spending by Millennials and a \$10-15bn decrease for Baby Boomers by 2020

## The Rise of the Millennials

**In 2001, the Millennial generation (born 1982-2001) surpassed the Baby Boomer generation (born 1946-1964) as a percent of the U.S. population.**

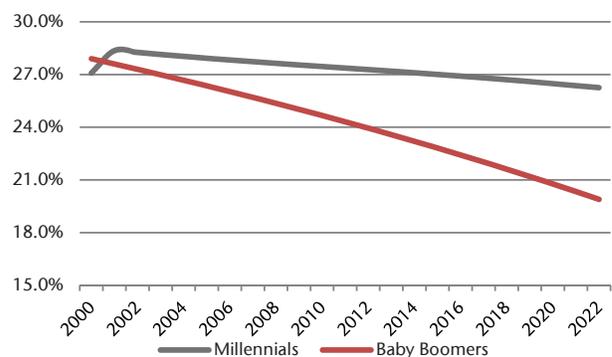
Based on the most recent projections by the U.S. Census Bureau, there are more than 86mm Millennials and that number is expected to surpass 90mm by 2020, driven by immigration. Meanwhile, as the Baby Boomers age, the population of their generation will likely fall to just over 70mm in 2020, or a drop of nearly 8mm since 2000. As of 2020, Boomers will represent less than 20% of the U.S. population, down from nearly 28% in 2000. Even more important, is that Millennials are entering their prime years for earnings and household formation, while Boomers are likely to see income fall and households empty out.

**Chart 1: Projected Population of Millennials and Baby Boomers**



Source: U.S. Census Bureau

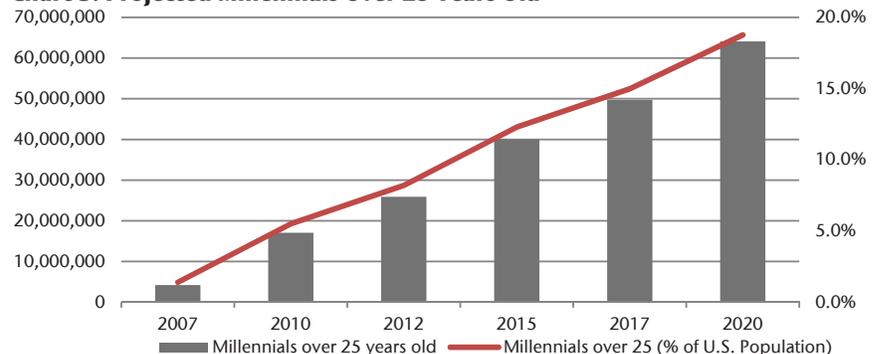
**Chart 2: U.S. Population Projections: % of U.S. Population**



Source: U.S. Census Bureau

**Reaching their prime.** Over the past five years, the first group of the Millennials have reached 25 years of age, an important threshold as incomes typically begin to accelerate and household formation hits its peak years. By 2020, Millennials over 25 years old will represent roughly 19% of the U.S. population, up from 5.5% in 2010. These 64mm Millennials will see significant spending power increases in coming years, as the median income for those households has historically jumped 60%, to over \$45,000 from about \$28,000. What is interesting is that the Great Recession has curtailed household formation over the last few years, suggesting not only an acceleration due to the bulge of Millennials but also pent up formation potential. Conversely, if the current economic climate persists, the acceleration in household formation may be delayed further.

**Chart 3: Projected Millennials Over 25 Years Old**



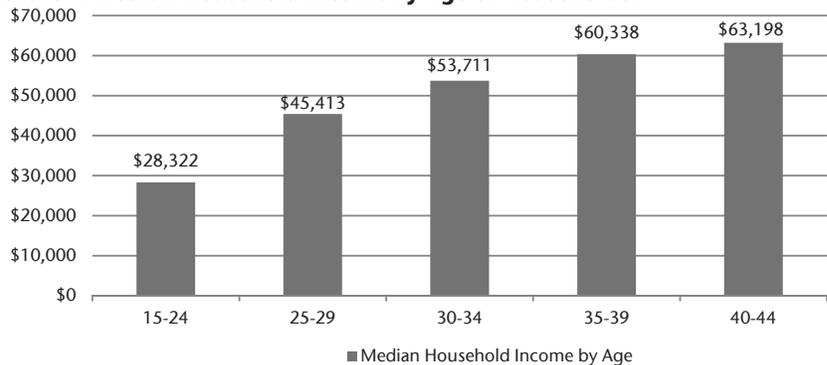
Source: U.S. Census Bureau

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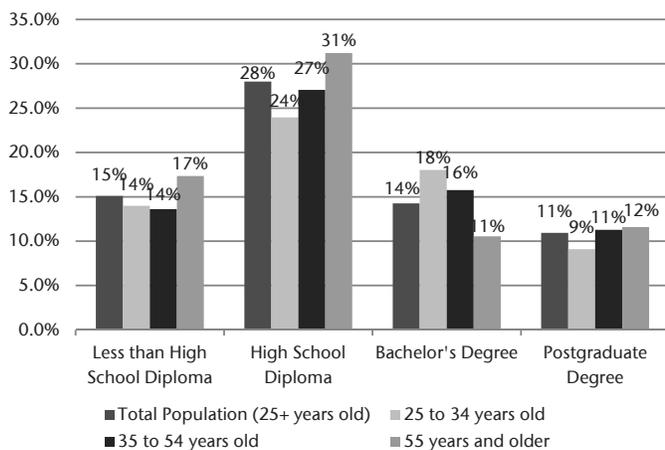
**Chart 4: Median Household Income by Age of Householder**



Source: U.S. Census Bureau

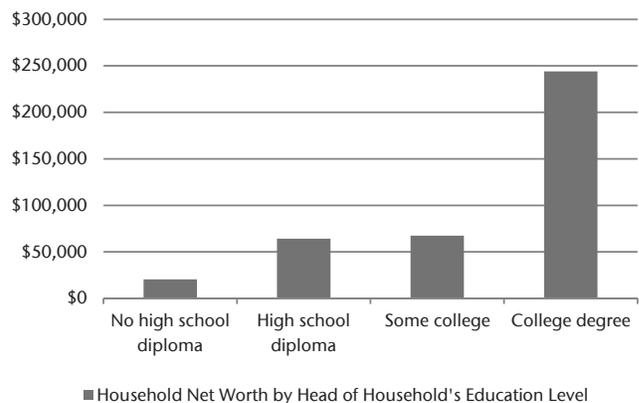
**The Millennial generation appears to be on pace to be more educated than the Baby Boomers, and education is highly correlated with earnings and wealth.** Millennials thus far have a higher percentage of people receiving college degrees, similar postgraduate degrees (with less time to complete thus far) and lower levels of those who stopped school after graduating from high school when compared to Baby Boomers. Over time, the higher levels of education suggest that the Millennials should earn higher wages and build more wealth than their parents' generation.

**Chart 5: Education Level by Age Groups**



Source: Federal Reserve Board

**Chart 6: Household Net Worth by Education Level of Householder**



Source: Federal Reserve Board

**The Millennials are much more diverse than the Baby Boomers.** Indeed, the percentage of Millennials that are non-Hispanic white is 67%, compared to 79% for Boomers, according to the most recent U.S. Census. Digging deeper, the cultural variety of the younger generation is notable, with significantly more people with heritage from many areas of the globe and with many more people of multi-ethnic backgrounds. This diversity seems to adversely impact the traditional food-at-home channel that thrived on the large, ubiquitous middle class that was the hallmark of the Baby Boom generation. In many ways, the current food-at-home channel was built for a different time—a time that is waning with Boomers. Balkanisation of the food vertical appears almost inevitable, as shoppers seek out different formats and products that suit their unique needs.

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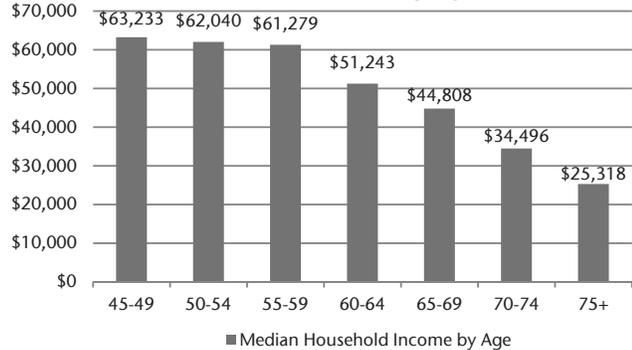
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## Driving into the Sunset

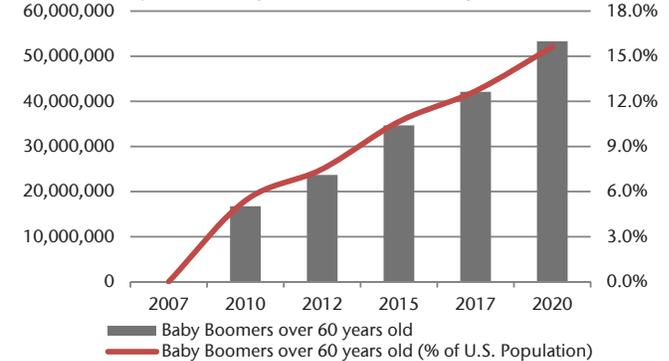
**The Baby Boomers' influence is set to slowly wane.** For roughly 30 years, up until 2009, the Baby Boomer generation represented over 25% of the nation's population and has had an outsized impact on consumer trends. However, with the weighted average age of the Baby Boomers now at 56, the generation is set to move out of their peak earnings years and into retirement. In fact, by 2020 Baby Boomers over the age of 60 will make up 15% of the U.S. population, up from 5% currently. Median household income for people aged 60-64 has historically dropped 16% to just under \$51,250 from more than \$61,250 for people 55-59 years old.

**Chart 7: Median Household Income by Age of Householder**



Source: U.S. Census Bureau

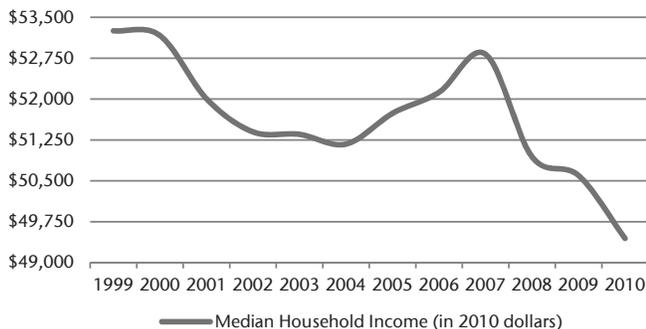
**Chart 8: Projected Baby Boomers over 60 years old**



Source: U.S. Census Bureau

**Budgets may be tighter for the Boomers as retirement approaches, which may limit discretionary food spending.** The recent recession that took a heavy toll on many retirement accounts, as well as real estate prices, may have lingering effects on the food vertical as the Baby Boomers who approach retirement may have lower net worth than anticipated. Indeed, total household net worth in the U.S. remains just under 7% lower than the peak in mid-2007 before the recession, while incomes are expected to fall roughly 16% in the coming years. These factors could put pressure Baby Boomers' future food-at-home spending.

**Chart 9: U.S. Median Household Income**



Source: U.S. Census Bureau

**Chart 10: Household Net Worth**



Source: Federal Reserve Board

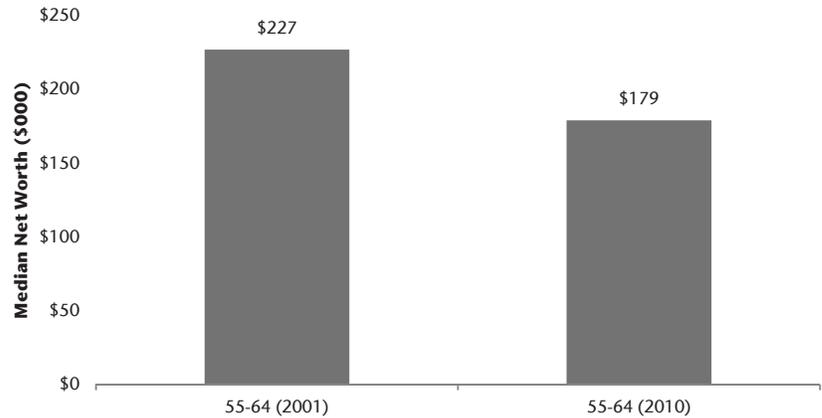
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**Even though Baby Boomers were in their highest wage earning years, they saved little money over the last decade.** For those closest to retirement (55-64 in 2010), they saw their median net worth increase by less than 9% in their key savings years right before retirement. In 2001, the 55-64 age-group had a median net worth of \$227k, 10 years later the people in 55 to 64 cohort (i.e. the first Baby Boomer to approach retirement) are a lot less wealthy, having median net worth of \$179k, 21% below the group in 2001.

**Chart 11: Median Net Worth by Age of Head of Household**



Source: Bureau of Labor Statistics

## Millennials

**The Millennials, sometimes referred to as the technology generation or the first multi-cultural generation, are just different.** It is perhaps not surprising that this more culturally diverse group that came of age in a rapidly changing world where a plethora of information was available almost instantaneously, is much less brand loyal and much more willing to engage in different distribution models to fulfill its consumable needs. This generation appears to want what they want, when/where they want it...consumption will be on their terms. Ubiquity for the sake of conformity is so Baby Boomer. Convenience, fresh/healthy, value (this is not always price), variety and natural/organic all seem to be important attributes (at least for now) for this very independent cohort. Interestingly, the income/education level creates a distinct difference in the shopping patterns for the Millennials. Food appears destined to rapidly bifurcate along income/education lines, driven, we believe, in large part by the values of the YEMMie (young, educated Millennial Mother).

### Key Takeaways

- Millennials are about to double in importance regarding the spend they control
- Millennials are less loyal to specific brands/retailers: it appears they buy what they want, when they want, wherever they want
- Millennials appear much more focused on lowest price rather than brand loyalty, but at the same time are much more willing to pay for specific attributes
- Millennials show little retailer loyalty and spread their shops for everyday essentials across more channels
- More fresh, more choices, more flavors and more variety
- Millennials place high value on convenience in shopping for food
- Natural and Organic products look to be quite important to the Millennials
- Higher income and education levels, driven by the emergence of the YEMMie, increase the bifurcation between the haves and have nots
- Brands do matter more for top earning Millennials... these just might not be their parents' brands!
- Traditional supermarkets are losing the high-income Millennial as they shop specialty stores for fresh products and mass merchants for everyday essentials

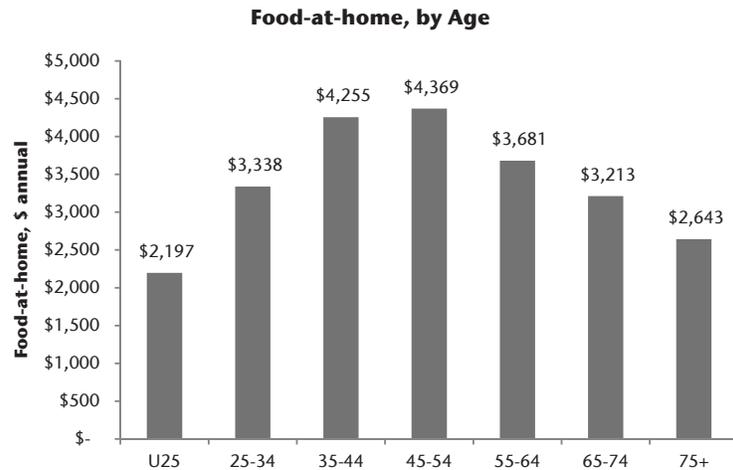
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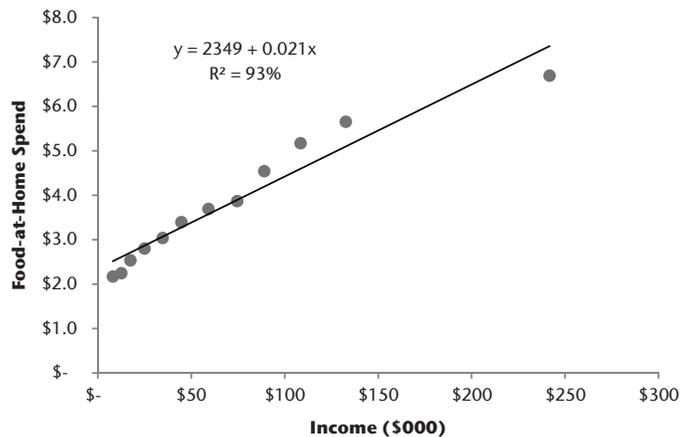
**Millennials are about to double in importance regarding the spend they control.** In the food-at-home channel this cohort, we estimate, will spend approximately \$50bn more per year in 2020. This represents roughly a doubling of Millennial buying power for food-at-home, with the increase primarily driven by household/family formation. A smaller, but notable factor is the income effect. Indeed, as people earn more, they tend to spend more...for every \$1,000 of added income, people typically spend approximately \$21 more on food-at-home items. Earlier we noted that Millennials' median income is projected to increase from \$28k to \$45k, implying an increase in food-at-home spend of approximately \$360/year.

**Chart 12: Food-at-Home Spend by Age Group**



Source: The Food Institute, Bureau of Labor Statistics

**Chart 13: Food-at-Home Spend by Income**



Source: The Food Institute, Bureau of Labor Statistics, Jefferies, AlixPartners

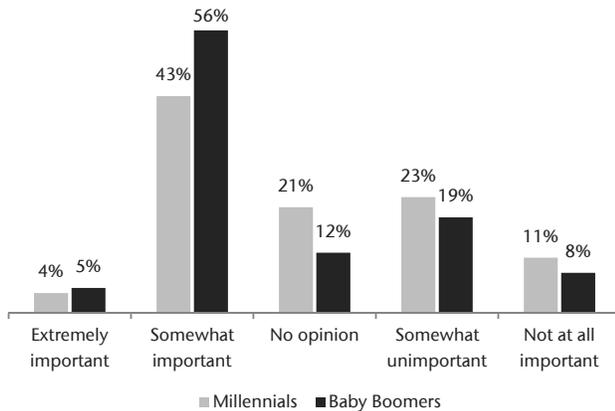
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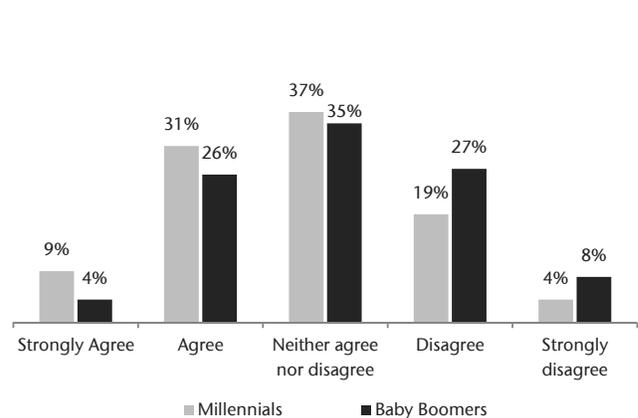
**Millennials are less loyal to brands.** Our survey of 2,000 adult grocery shoppers (500 Millennials, 500 Baby Boomers and 1,000 of the general U.S. population) suggests Millennials have weaker ties to brands than those of the Baby Boomers, as 23% fewer Millennials rate brand names as ‘extremely’ or ‘somewhat’ important compared to Baby Boomers. In Chart 15, 40% of Millennials ‘agree’ that they change brands frequently while only 30% of Baby Boomers switch frequently. When asked about seven different food groups, Millennials were generally more likely to say “I like to buy different brands for variety and/or to try new products” as well as “I have little loyalty to brands”.

**Chart 14: How important are brand names in your purchasing decision for groceries?**



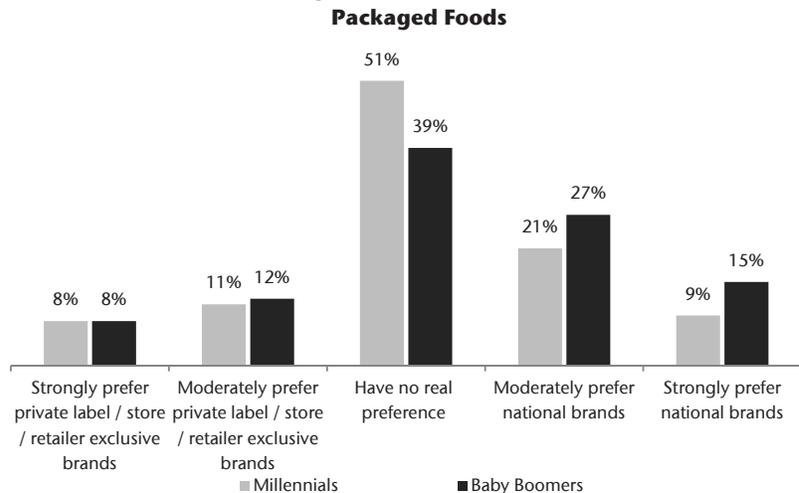
N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 15: Indicate how well the statement describes your shopping behaviour: I change brand names frequently**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 16: Indicate your preference for private label/store/retailer exclusive brands vs. the national brand products**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

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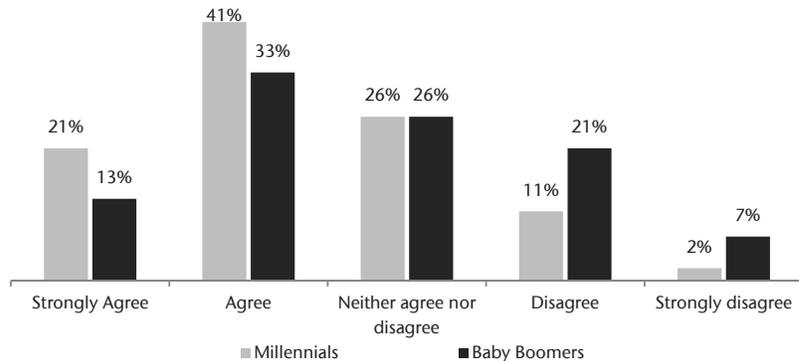
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### Millennials appear much more focused on lowest price than brand loyalty.

Below, Chart 17 shows 62% of Millennial respondents focused on lowest price over brands, while only 46% of Baby Boomers 'agree' or 'strongly agree' that they focus on price rather than brands. Concurrently, only 13% of Millennials 'disagree' or 'strongly disagree' suggesting they value brand over price compared to Baby Boomers.

**Chart 17: Indicate how well the statement describes your shopping behaviour: I don't focus on brands, I focus on the lowest price**



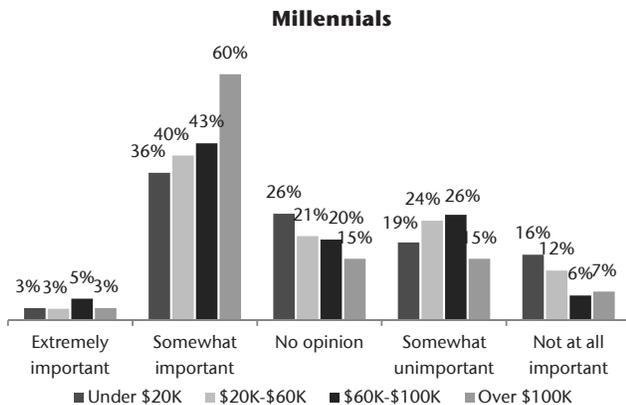
N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

### Brands do matter more for top-earning Millennials – these just might not be their parents' brands!

In general, food brands are less important to Millennials at this point of their lives. However, brand relevance for Millennials is greatly affected by their income level. In Chart 18, you can see that higher-income Millennials value brands much more than other Millennials. Meanwhile, Baby Boomers display less change across income cohorts and value brands more consistently across all income levels.

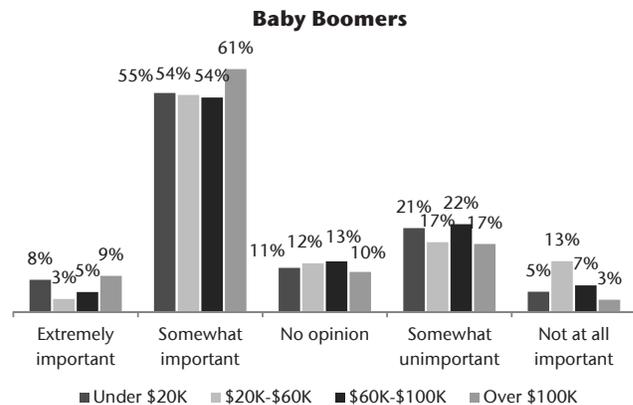
**Chart 18: How important are brand names in your purchasing decision for groceries?**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

**Chart 19: How important are brand names in your purchasing decision for groceries?**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

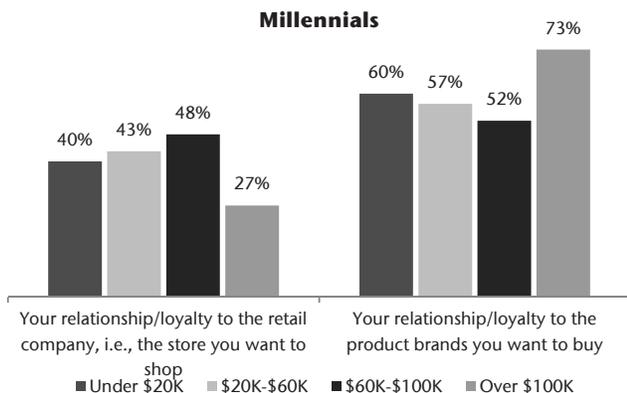
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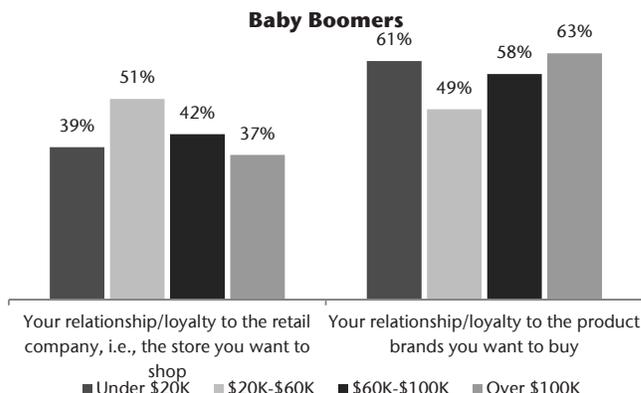
**Brands trump retailers, especially for the wealthy Millennials.** Both customer segments profess a stronger affinity for product brands over their relationship to a given retailer. The affinity towards brands over retailers is strongest for \$100k and above earners, particularly for Millennials (Chart 20)

**Chart 20: When you shop for groceries for your household, what is more important to you?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

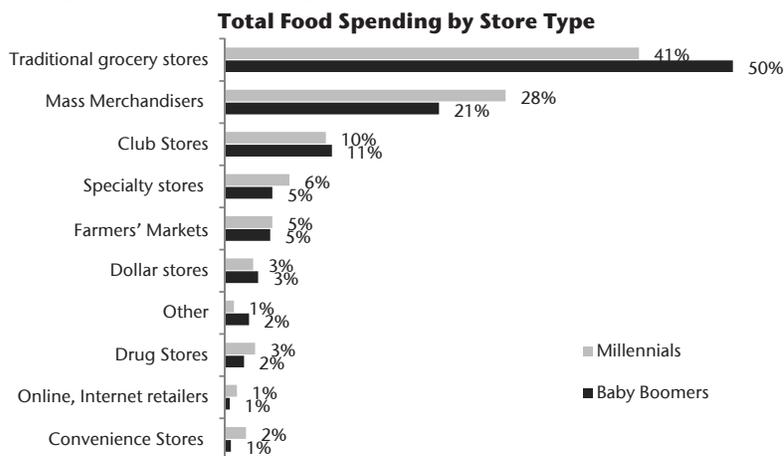
**Chart 21: When you shop for groceries for your household, what is more important to you?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Millennials show little retailer loyalty.** In addition to being less loyal to food brands, Millennials have more diverse shopping patterns than Baby Boomers. While Millennials still shop for food predominantly at grocery stores, they are more likely than Baby Boomers to shop at mass merchandisers and other channels. Respondents to our survey indicated that just over 40% of Millennials' food spend is at traditional grocers, compared to 50% for Baby Boomers, which translates into approximately \$8bn less spend per year in traditional grocers.

**Chart 22: Approximately what percent of your spending for food-at-home is currently done at the following types of stores?**

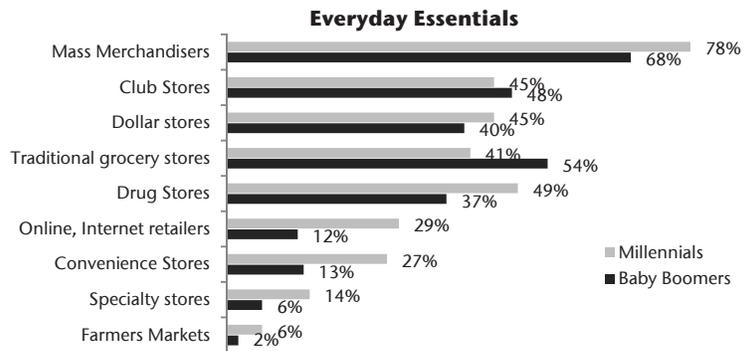


N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Millennials spread their shops for Everyday Essentials across more channels.**

Perhaps even more striking is the fact that Millennials who split their spend across different stores, rate traditional grocery stores as the fifth most frequent place they purchase everyday essentials behind mass merchandisers, club stores, dollar stores and drug stores. Millennials are more likely to buy everyday essentials at a broader array of channels than Baby Boomers. In Chart 23, Millennials identified more shopping options for everyday essentials than the Baby Boomer counterparts and had seven channels with at least 20% responses vs. five channels for Baby Boomers.

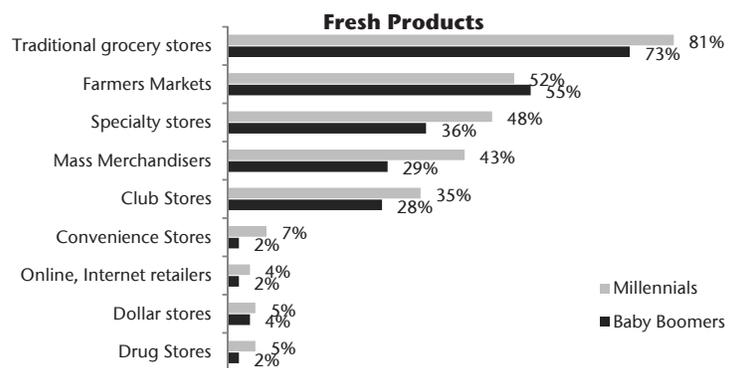
**Chart 23: Where do you most frequently buy each of the following product types?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**All is not lost for the Traditional Grocery Stores yet.** Despite the younger generation’s greater acceptance of mass merchants, drug stores and online vendors for “everyday essentials”, more than 80% of the group continue to shop traditional grocery stores for “fresh products”. As the trend of “more fresh” continues into the near future, supermarkets have the opportunity to lever the generally better fresh offering in its stores to drive Millennials to larger basket sizes with more competitive pricing on some of these everyday essential items.

**Chart 24: Where do you most frequently buy each of the following product types?**



N=500 Millennials, 500 Baby Boomers  
Note: Both charts are among those indicating that they sometimes buy fresh products from one store and everyday essentials from another location (73% of Millennials, 78% of Baby Boomers)  
Source: Jefferies-AlixPartners customer research

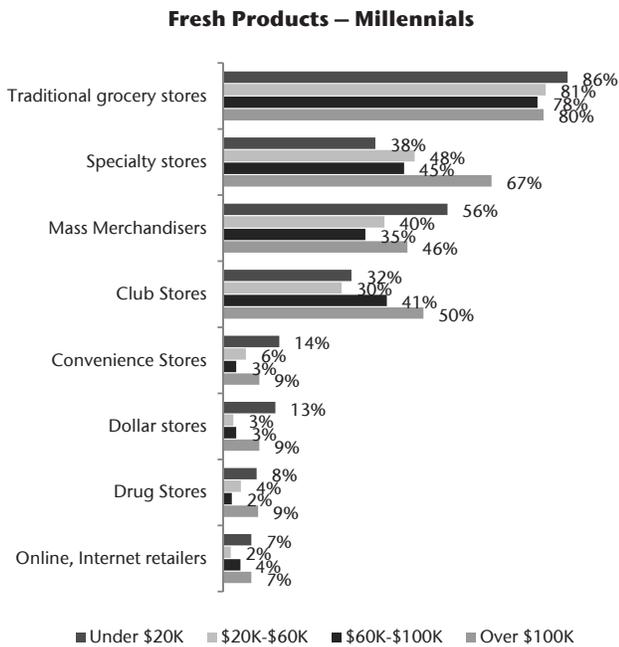
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**For fresh products, moreover, Millennials visit specialty stores and club stores more as their income increases (Chart 25).** Millennials' use of traditional grocers declines slightly with income, but remains the dominant channel. Contrast that with Chart 26, which shows Baby Boomers' use of traditional grocery stores and mass merchandisers decline with income, while usage of specialty stores and club stores increases with income.

**Chart 25: Where do you most frequently buy each of the following product types?**

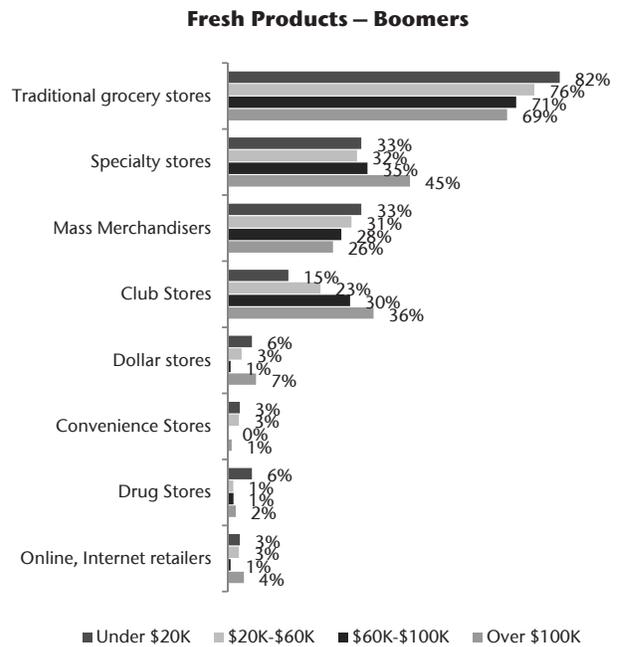


N=500 Millennials, 500 Baby Boomers

Note: Among those indicating that they sometimes buy fresh products from one store and everyday essentials from another location (73% of Millennials, 78% of Baby Boomers)

Source: Jefferies-AlixPartners customer research

**Chart 26: Where do you most frequently buy each of the following product types?**



N=500 Millennials, 500 Baby Boomers

Note: Among those indicating that they sometimes buy fresh products from one store and everyday essentials from another location (73% of Millennials, 78% of Baby Boomers)

Source: Jefferies-AlixPartners customer research

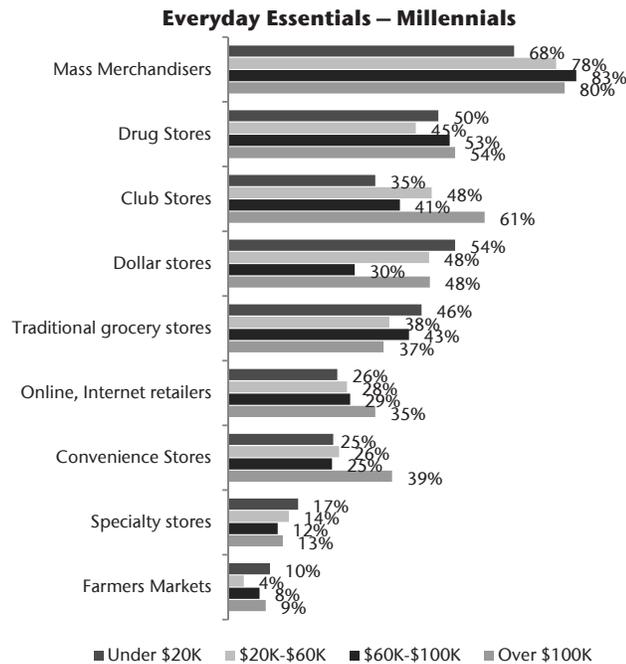
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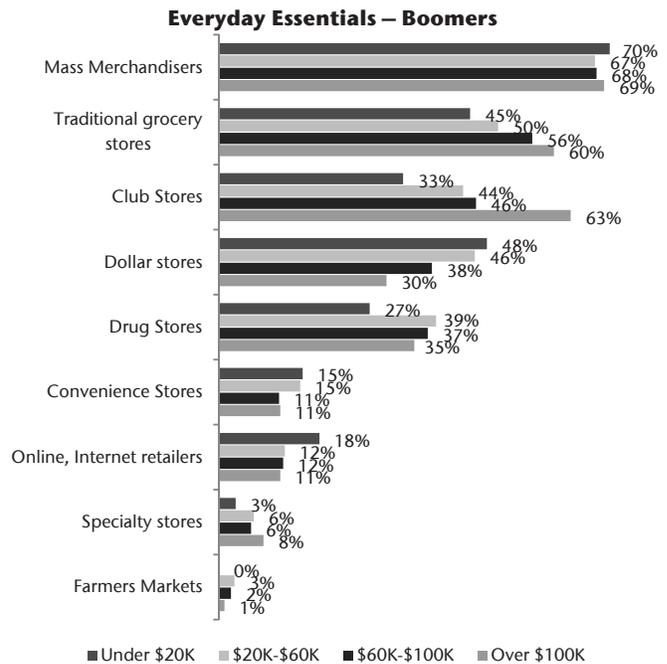
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**More bad news for traditional supermarkets: higher-income Millennials use supermarkets less for everyday essentials.** Millennial usage decreases for traditional grocery stores as income increases while usage increases with income for other channels such as club stores, convenience stores, online retailers, mass merchandisers, drug stores (Chart 27). For Millennials making over \$100k, they list traditional grocery stores as the sixth most frequented channel where they buy Everyday Essentials at 37%, whereas wealthy Baby Boomers cite it as the 3rd most frequented channel at 60%. For Baby Boomers, spending at grocery stores and club stores increases with income while dollar stores decrease (Chart 28).

**Chart 27: Where do you most frequently buy each of the following product types?**



**Chart 28: Where do you most frequently buy each of the following product types?**



N=500 Millennials, 500 Baby Boomers

Note: Among those indicating that they sometimes buy fresh products from one store and everyday essentials from another location (73% of Millennials, 78% of Baby Boomers)

Source: Jefferies-AlixPartners customer research

N=500 Millennials, 500 Baby Boomers

Note: Among those indicating that they sometimes buy fresh products from one store and everyday essentials from another location (73% of Millennials, 78% of Baby Boomers)

Source: Jefferies-AlixPartners customer research

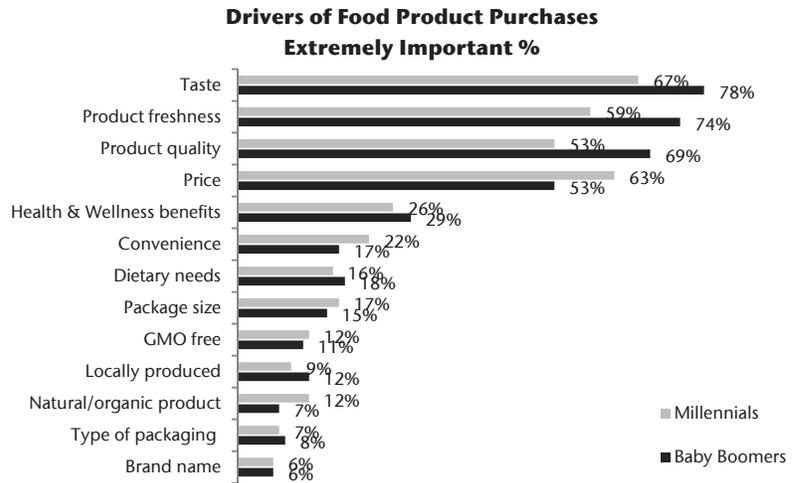
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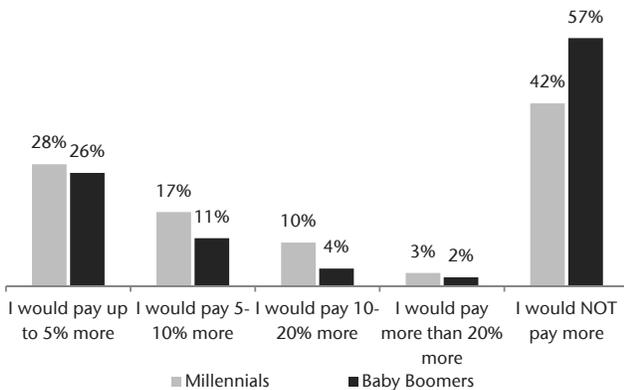
**Millennials appear more price sensitive, but are more willing to pay for specific attributes.** Indeed, throughout our survey, as seen in Chart 29, we saw Millennials show strong sensitivities to price, including how they choose brands, private label and even retailers. However, as seen in the charts highlighted below, Millennials are clearly more willing to pay up for specific qualities, such as natural & organic products (58% willing to pay up vs. only 43% for Baby Boomers).

**Chart 29: How important are each of the following factors to you when buying food products for your household?**



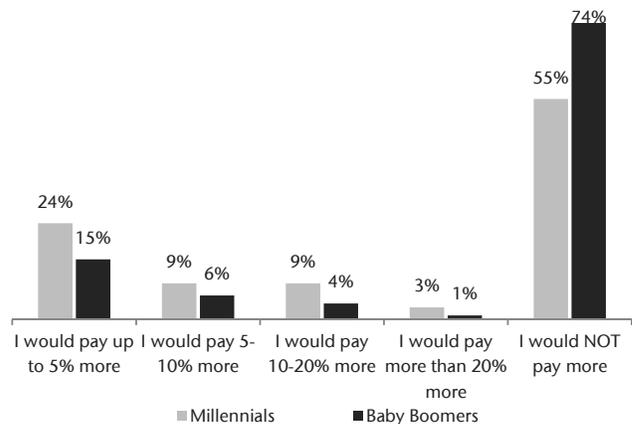
N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 30: In buying food products for your household, are you willing to pay more for each of the following?**  
**Natural/Organic Products**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 31: In buying food products for your household, are you willing to pay more for each of the following?**  
**GMO Free Products**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

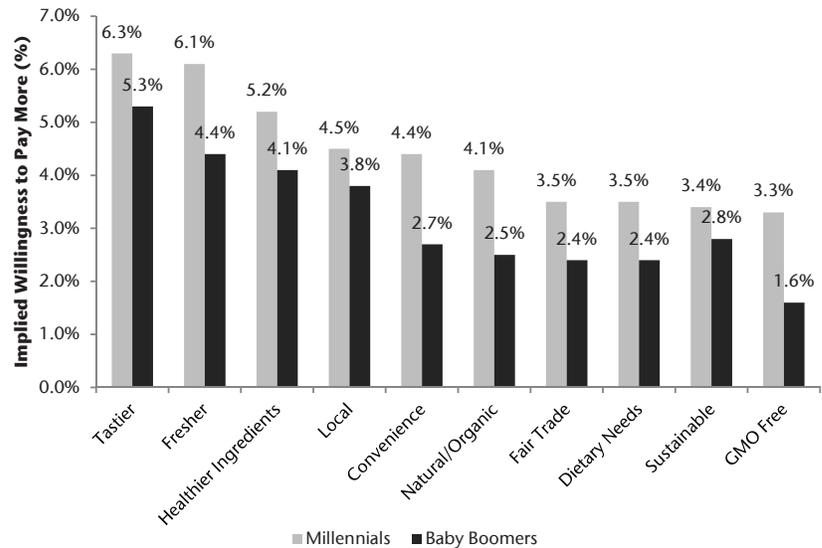
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**A bright spot for food companies and retailers is that Millennials are willing to pay more for desired attributes than the Baby Boomers.** Based on similar answers to the ones above, we estimate the approximate price increase customers say they are willing to spend for given attributes. Consistent with other themes of the study, customers are most inclined to pay more for tastier, fresher, healthier product.

**Chart 32: In buying food products for your household, are you willing to pay more for each of the following?**



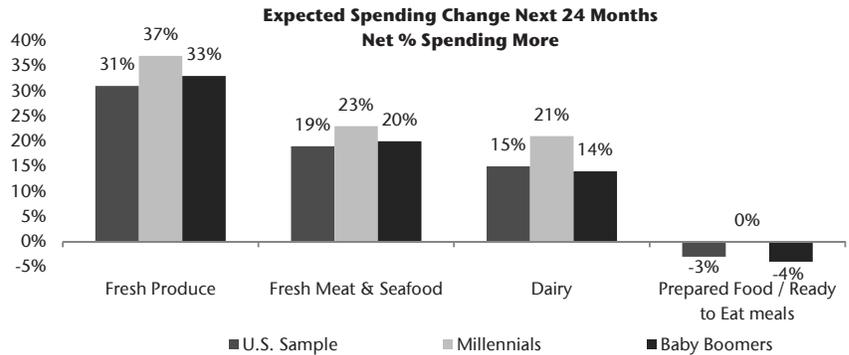
N=500 Millennials, 500 Baby Boomers

Note: Based on weighted average of respondents who indicated they were or were not willing to pay a certain amount more for the given attribute.

Source: Jefferies-AlixPartners customer research

**Much more fresh.** The desire for more fresh transcends generations, but the Millennials stand out. This group, according to our survey, intends to spend quite a bit more on fresh products, perhaps even further accelerating the trends to the perimeter of the store over the coming few years.

**Chart 33: How do you expect your purchasing behavior may change over the next 24 months in the following food categories?**

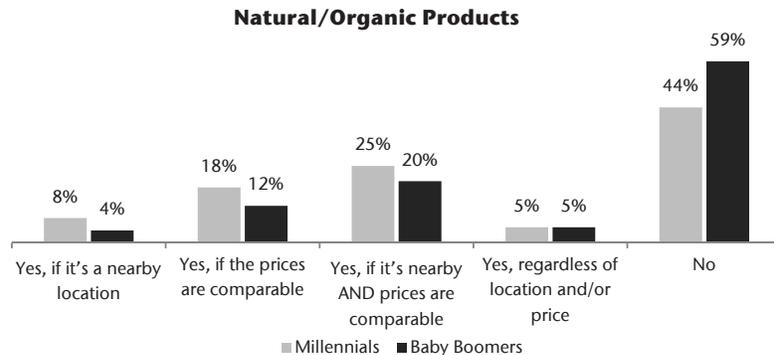


N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
 Source: Jefferies-AlixPartners customer research

**Natural and organic products look to be quite important to the Millennials.**

Across the seven food categories we surveyed, Millennials responded that buying natural & organic food was far more important to them than it was for the Baby Boomers. These trends were especially true in fresh food categories including fruits & vegetables as well as meat & seafood (see charts below). Perhaps the most interesting observation, and one that certainly has implications for manufacturers and retailers, is that wealthy Millennials are much more likely to buy natural and organic products and are much more likely to have a brand preference for those purchases, which on the surface is good news for branded manufacturers of natural & organic items. We would note, however, that consumers in our survey appear to blur the lines between retailers and manufacturers as was demonstrated by the fact that Millennials named Trader Joe’s (the natural & organic/specialty retailer) as one of their favorite packaged food brands.

**Chart 34: When selecting a store where you buy food, do you choose it due to availability of select products that are unique to that store, such as each of the following?**



N=500 Millennials, 500 Baby Boomers  
 Source: Jefferies-AlixPartners customer research

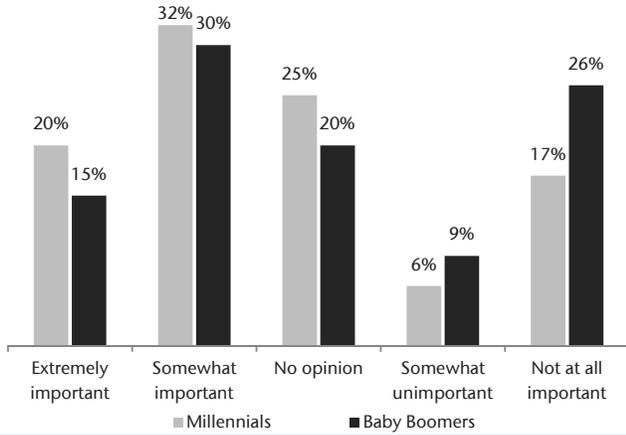
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**Chart 35: How important is it to you to buy natural / organic products in the following product categories?**

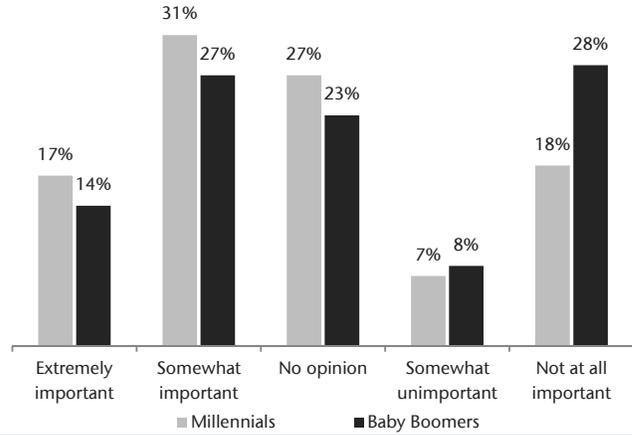
### Fresh Fruits & Vegetables



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 36: How important is it to you to buy natural / organic products in the following product categories?**

### Fresh Meat & Seafood



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 37: How important are brand names in your purchasing decision for groceries?**

### Natural/Organic Products – Millennials



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

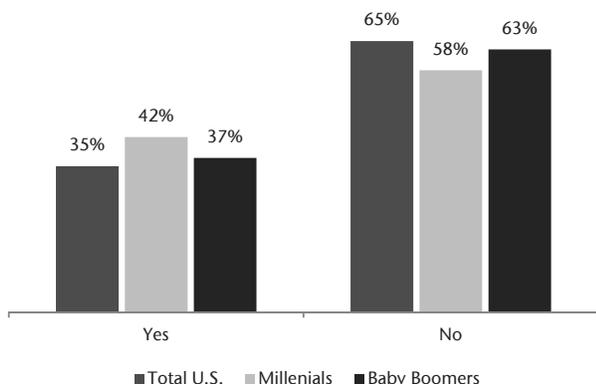
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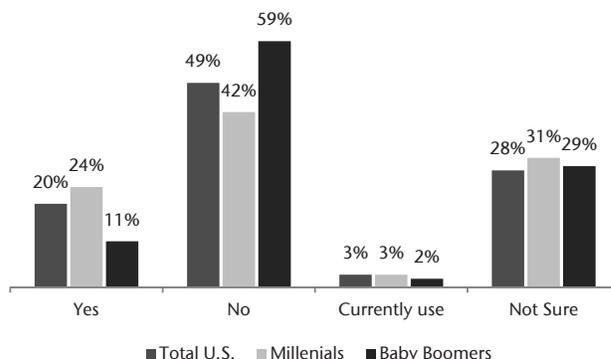
**Millennials place high value on convenience in shopping for food.** Millennials eat more meals on the go and value ease of use in their meals on the go. Additionally, Millennials are more willing to consider alternative distribution approaches such as buying groceries from Amazon.com (AMZN, \$220.07, Buy) (Chart 38) and using a food delivery service (Chart 39).

**Chart 38: Would you be willing to buy groceries online from a retailer such as Amazon?**



N=1000 general population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 39: Are you interested in a food delivery service for household food purchases?**

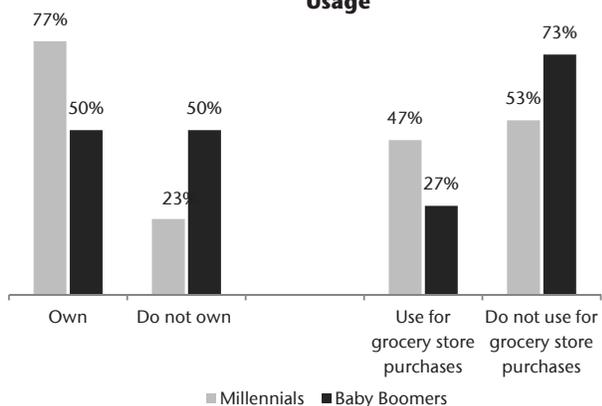


N=1000 general population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**More Millennials are using smartphones for food shopping.** The Millennial generation also uses smartphones at a higher rate, and among those who use them, a higher number of Millennials will use the smartphone for food shopping purposes. Usage also increases with income for those with smartphones (see Chart 42).

**Chart 40: How do you currently use your tablet device/smart phone for grocery store purchases?**

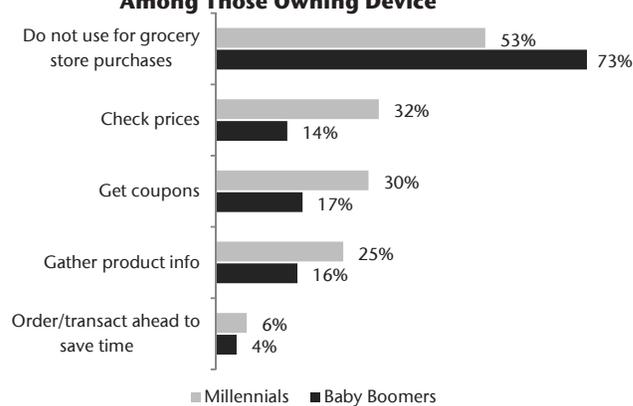
### Tablet/Smart Phone Device Ownership & Usage



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 41: How do you currently use your tablet device/smart phone for grocery store purchases?**

### Tablet/Smart Phone Device Usage Among Those Owning Device



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

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**Chart 42: How do you currently use your tablet device/smart phone for grocery store purchases?**

**Tablet/Smart Phone Device Usage – Millennials  
Among Those Owning Device**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

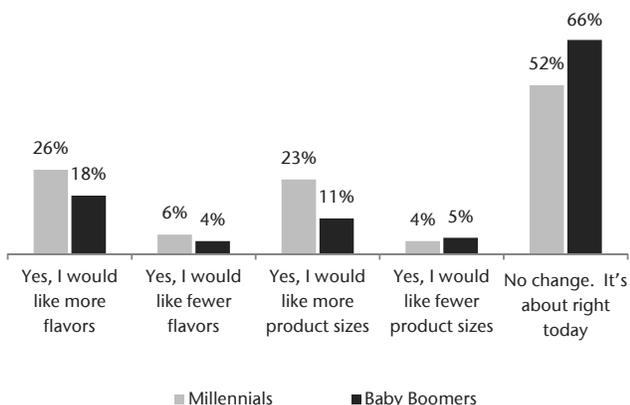
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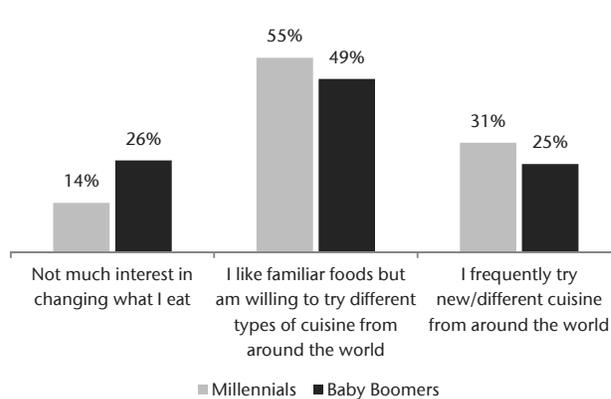
**More flavors, more choices, more variety.** Millennials' desire for consumption on their terms appears to carry over to sizes and choices, as almost 50% of the generation desire more product flavors and sizes compared to just 29% for the Baby Boomers. Millennials are also much more willing to try different types of cuisines, as seen in Chart 44, with only 14% saying they would not change what they eat while 26% of the older generation said they do not change cuisines.

**Chart 43: Would you like more or less product choices in the following food/grocery categories?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

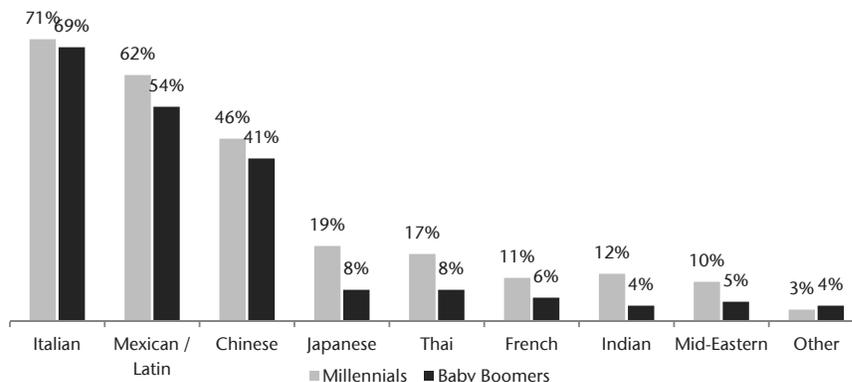
**Chart 44: What best describes your willingness to try new and different cuisine/food types from around the world than you currently consume in your household meals?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**More exotic tastes.** Millennials have a greater desire for more exotic flavors, with at least 10% of respondents indicating they have at least one of eight different types of cuisines at least once a week, compared to only three types for Baby Boomers. These types include some of more exotic and/or flavorful cuisines such as Thai, Indian, and Middle-Eastern. These trends also accelerate with income, as the highest earners appear to have more diverse palate.

**Chart 45: Which of the following types of cuisine do you and/or your family consume at least weekly?**



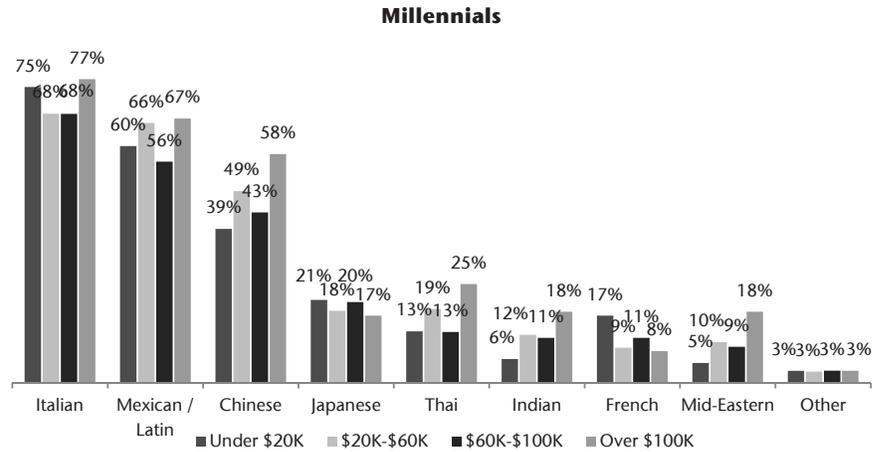
N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

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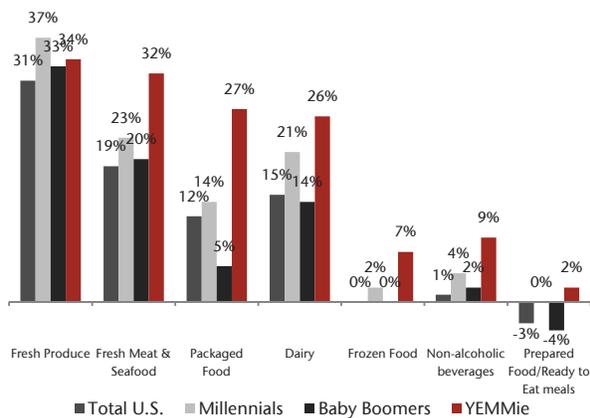
**Chart 46: Which of the following types of cuisine do you and/or your family consume at least weekly?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

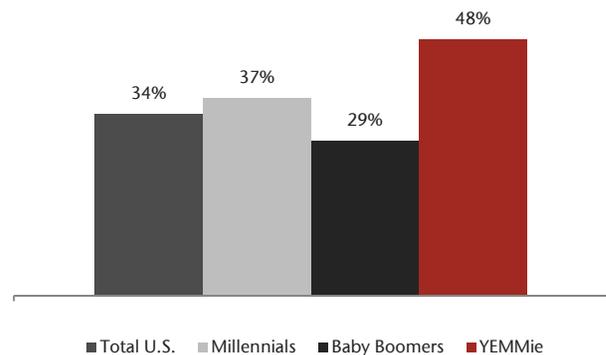
**Income and education levels magnify the trends witnessed with the Millennials.** Indeed, this seems particularly true with the young, educated Millennial mother, the YEMMie. Her buying patterns will most likely set trends for spending throughout the economy in the coming years, and she is even more dedicated to shopping on her terms, dashing into a mass merchant for ubiquitous brands or going to diapers.com for baby needs, while at the same time loyally shopping for organics and better-for-you foods, particularly perishables, at retailers dedicated to that mission.

**Chart 47: How do you expect your purchasing behavior may change over the next 24 months in the following food categories?**



N=1000 Total U.S., 500 Millennials, 500 Baby Boomers, 82 YEMMie  
Source: Jefferies-AlixPartners customer research

**Chart 48: How important are each of the following factors to you when buying food products for your household?**



N=1000 Total U.S., 500 Millennials, 500 Baby Boomers, 82 YEMMie  
Source: Jefferies-AlixPartners customer research

## Baby Boomers

**The Baby Boomers will still have a big influence and age is changing some of their preferences.**

A generation that 30 years ago drove a fitness craze, is now turning their attention toward what they put in their bodies as a means of remaining healthy and extending longevity. Fresh and healthy will clearly continue to gain importance, as will products that help with specific dietary needs that result from growing older. Generally, Boomers are more brand/retailer loyal and remain committed to shopping the old-fashioned way: going to the local grocer armed with coupons to save money. With income falling, this generation appears less willing to pay additional money for what they desire. The combination of having less wealth than expected due to the financial crisis and falling income seem to be making Baby Boomers “cheap”. With longer ties to the community and with a strong awareness of environmental issues, Baby Boomers are generally more interested in purchasing locally produced products than their kids.

### Key Takeaways

- Boomers’ influence will start to wane as incomes slide and households shrink
- Fresh and healthy items will continue to gain importance, as will products that help with specific dietary needs that result from growing older
- Stronger ties to the community produce more desire for locally produced and more environmentally friendly products
- Boomers, however, seem much less willing to pay up for sought-after attribute
- Baby Boomers like their traditional brands and traditional supermarkets
- Baby Boomers tend to shop more conventionally
- Aging will drive Boomers to smaller package sizes and magnify health/wellness and fresh trends
- Income levels significantly influence Baby Boomer purchasing behavior

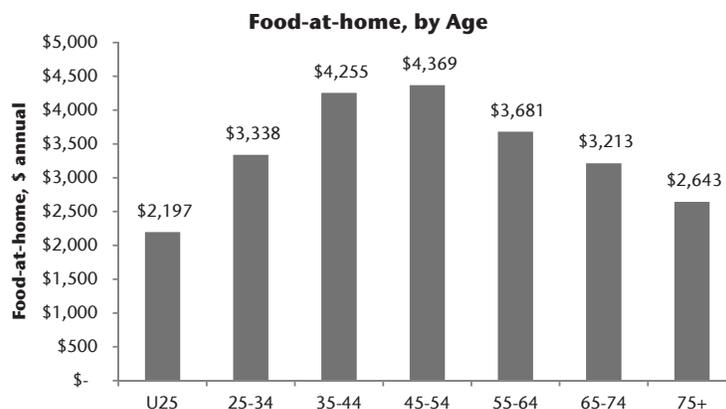
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**Baby Boomers' influence will start to wane in coming years.** In the food-at-home channel, Boomers, we estimate, will spend approximately \$10-15bn less per year on food-at-home by 2020. Indeed, as you earn less, you spend less...for every \$1,000 of lost income people typically spend \$21 less on food-at-home. In addition, Boomers that are starting to retire have saved significantly less than the generation before them, which could further pressure spending as we move out in time. So like their kids, Boomers want what they want, but unlike the Millennials, they are not as willing to pay for it.

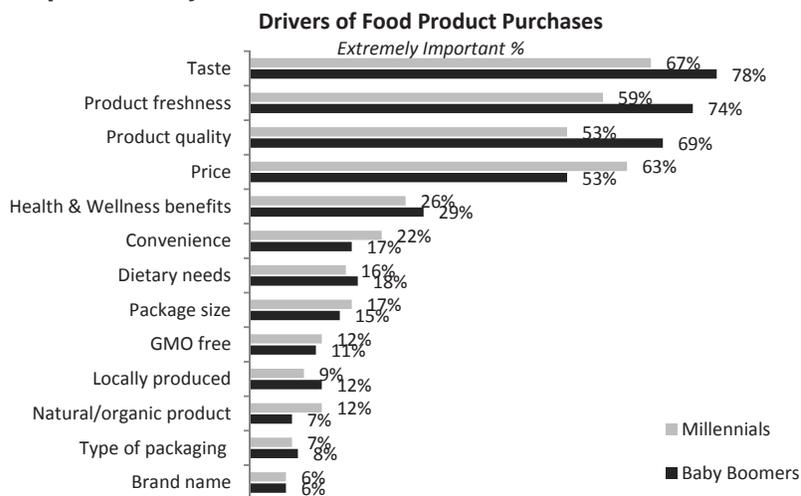
**Chart 49: Food-at-Home Spend by Age Group**



Source: The Food Institute, Bureau of Labor Statistics.

**Tasty, fresh, high-quality product is more important to Baby Boomers.** Baby Boomers state that they place more emphasis on tasty, healthier, higher-quality products than Millennials. This could be a function of more experience in differentiating quality over time and higher expectations for taste and freshness.

**Chart 50: How important are each of the following factors to you when buying food products for your household?**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

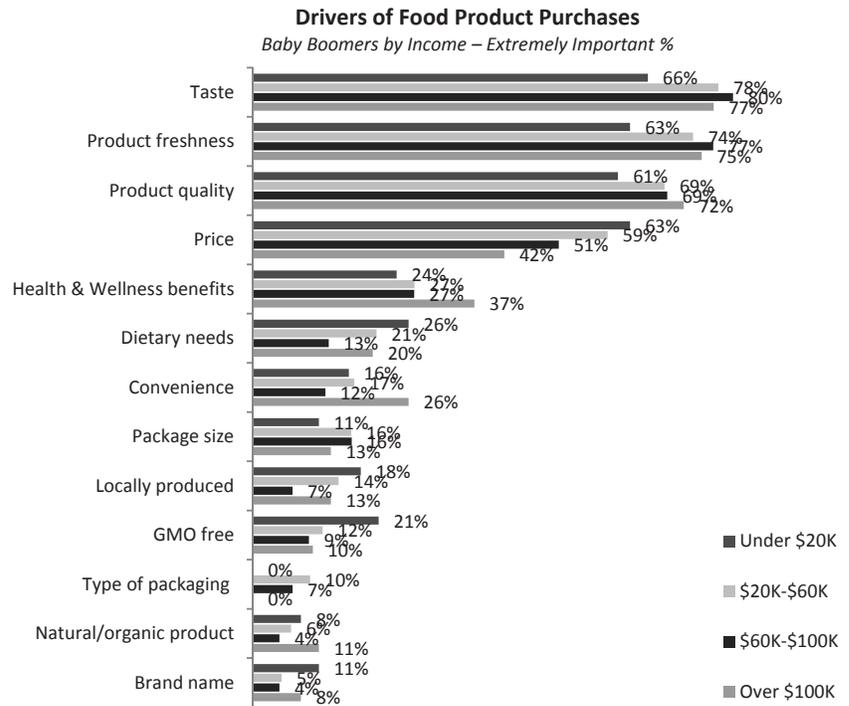
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**Income levels significantly influence Baby Boomer behavior.** Naturally, the importance of price is affected by income. For those making under \$20k, 63% identified price as an “extremely important” attribute while only 42% of those making over \$100k viewed it as an “extremely important” attribute, well below taste at 77%. In another example, health & wellness increases as a priority with income while dietary needs actually decreases in importance with income. Finally, the big 3 drivers of food product purchases – taste, freshness and quality – increase in importance for those making over \$20k but for people making less than \$20k, price is just as important as these characteristics.

**Chart 51: How important are each of the following factors are to you when buying food products for your household?**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

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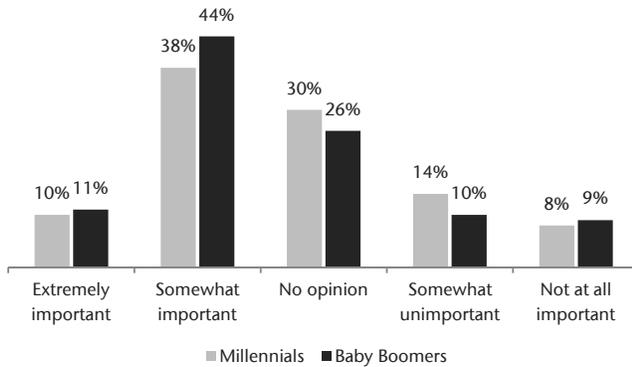
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**Baby Boomers also have a greater affinity for local product than the rest of the population.** More Baby Boomers expressed an interest in local meat & produce as well as local brands (Charts 52 and 53). Local products are more important for both cohorts in meat & produce, reflecting the strong interest in freshness described earlier.

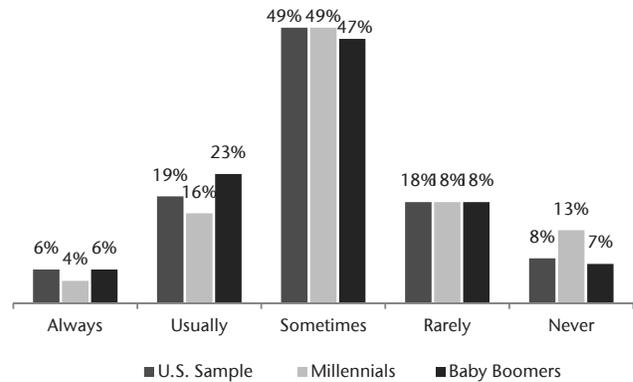
**Chart 52: How important is it to you to buy locally sourced meat and produce?**

### Importance of Locally Sourced Meat & Produce



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research.

**Chart 53: When purchasing food/grocery products for your household, how often do you actively look for local or regional brands?**

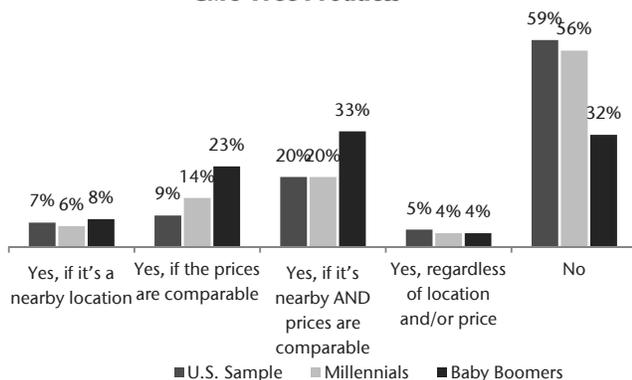


N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research.

**Baby Boomers have a greater affinity for social consideration when making food decisions which could be impacted by the deeper community roots.** For example, Boomers place greater value on GMO free products and are more inclined to recycle (Chart 55). The Boomers also have a greater desire that retailers share their values.

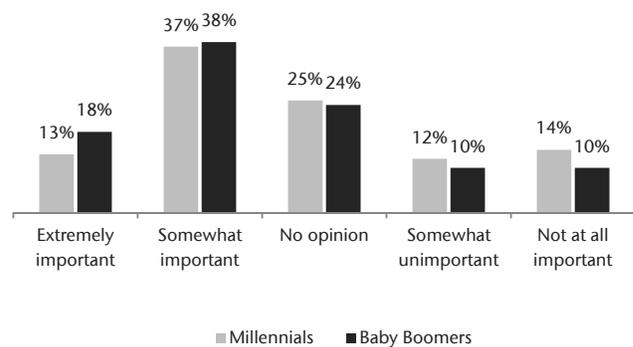
**Chart 54: When selecting a store where you buy food, do you choose it due to availability of select products that are unique to that store, such as each of the following?**

### GMO-Free Products



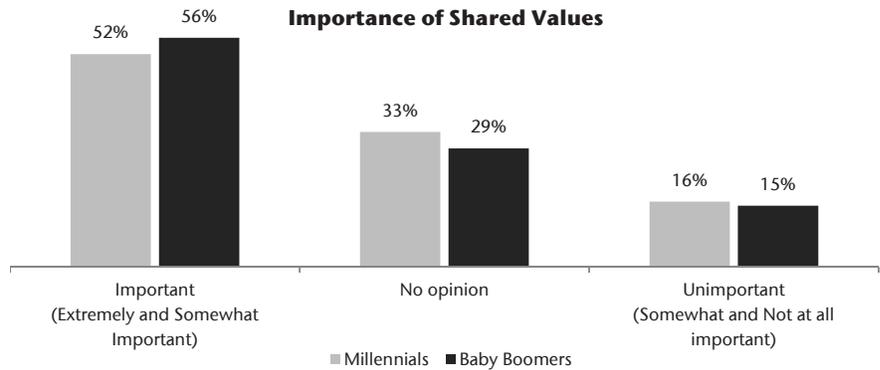
N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research.

**Chart 55: How important is the recyclability/ environmental impact of the packaging when deciding what food items to purchase for you and/or your family?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research.

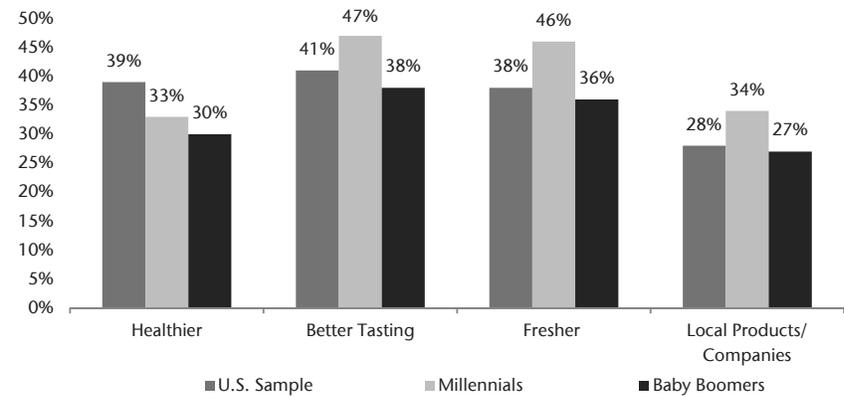
**Chart 56: How important is it to you that a food retailer shares/reflects your value system?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**While Boomers seek out certain attributes, they are less willing as a whole to pay up for them.** For example, Boomers repeatedly indicated they want fresher products, but when asked if they would pay more, only 36% of respondents noted that they would pay more than a 5% premium, while 47% of Millennials, a more cash-strapped demographic, said they would pay a premium of more than 5%.

**Chart 57: In buying food products for your household, are you willing to pay more for each of the following?**



N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

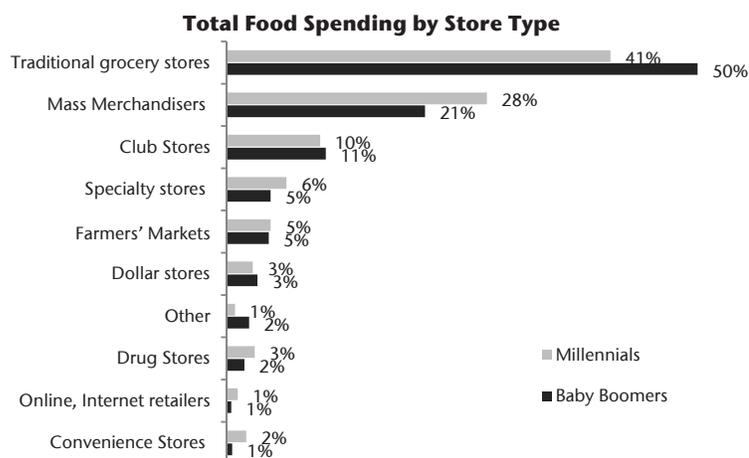
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**Boomers are more traditional shoppers.** For many years, the Baby Boomers have shopped traditional grocers for traditional brands using conventional methods. As Chart 60 shows, Baby Boomers look for more coupons, more items on sale and more EDLP (everyday low prices). More Baby Boomers identified online coupons even though Millennials are greater users of technology. Similar to Millennials, over 2/3<sup>rd</sup> of Baby Boomers did express a willingness to travel more and/or pay more for Store Brand/Private Label products.

**Chart 58: Approximately, what percent of your spending for food-at-home is currently done at the following types of stores?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

**Chart 59: When selecting a store where you buy food, do you choose it due to availability of select products that are unique to that store, such as each of the following?**



N=500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

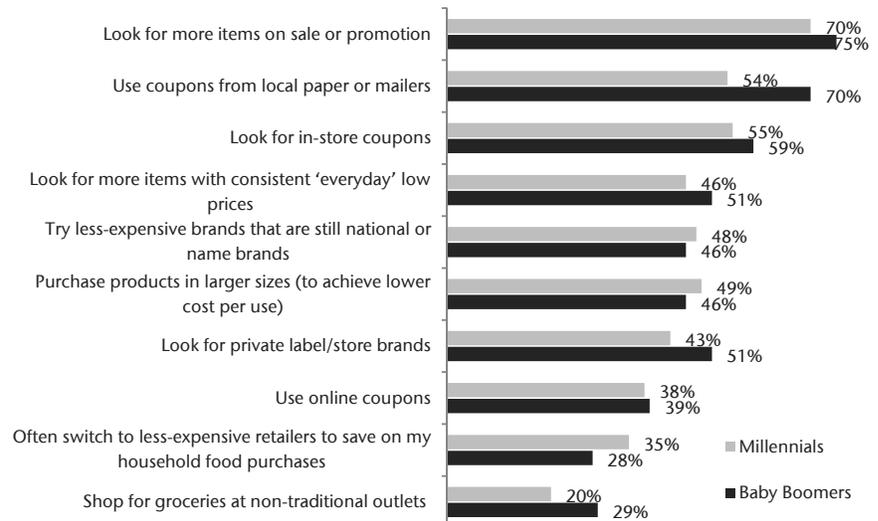
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**Baby Boomers pursue more cost saving strategies.** While Millennials are more price conscious and generally more budget constrained, Baby Boomers appear to be more comprehensive in their use of their cost savings strategies. Baby Boomers look for sales, promotions and EDLP more frequently and seek on-line as well as off-line coupons more than Millennials. Additionally, Boomers are more willing to consider Private Label or Store brands more than the younger cohort.

**Chart 60: In looking for lowest price on household food purchases, which of the following describes your shopping behavior?**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

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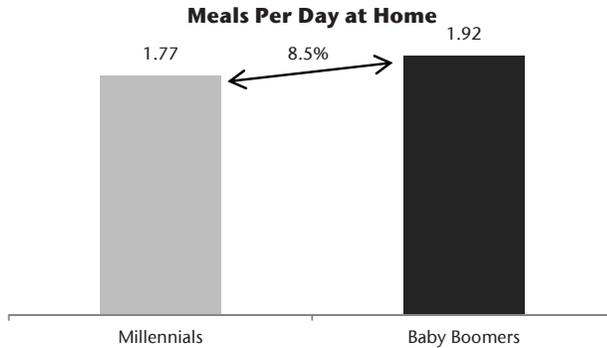
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### Baby Boomers are on the go too but value different attributes for portable meals.

Baby Boomers eat slightly more meals at home and are willing to spend slightly more time making meals. Concurrently, both cohorts displayed the need for 'on the go' meals made at home. On average, they are having about 1.4 meals per day 'on the go' (this could be a snack or a snack replacing a meal). While the total is similar, Baby Boomers have Lunch 'on the go' more while Millennials have dinner 'on the go' but made at home.

**Chart 61: Excluding food purchased at restaurants/dining establishments, how many 'sit down meals' (meals prepared and consumed at home) do you eat per day?**

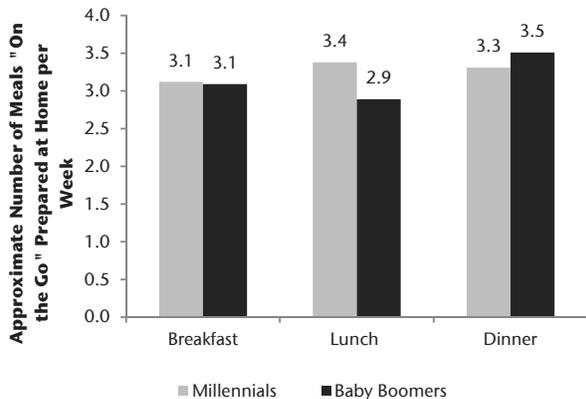


N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

**Baby Boomers differ with Millennials for qualities of 'on the go' meals.** Boomers value Taste more than Millennials and also place more importance on portion control and dietary management.

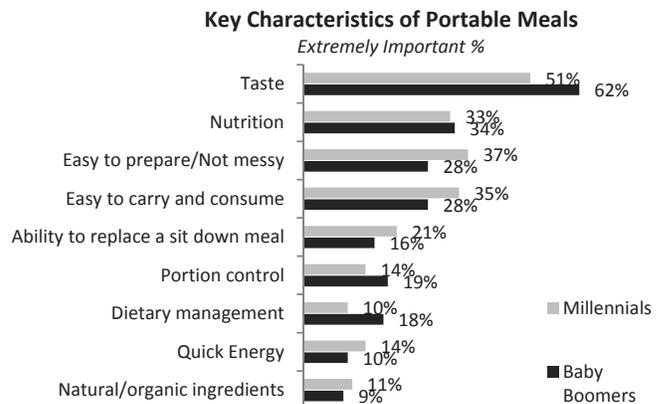
**Chart 62: Approximately how often do you eat meals prepared at home (excluding snacks) 'on the go'? (per week)**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

**Chart 63: For meals 'on the go' (portable meals) cooked/prepared at home, how important are these attributes using the following scale?**

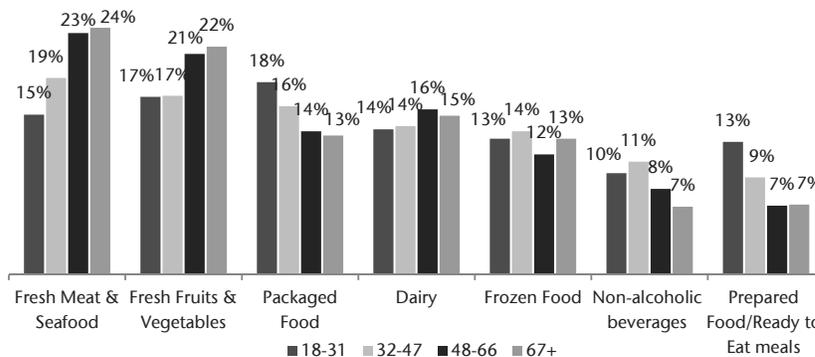


N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

**So where are Baby Boomers headed?** To evaluate this, we looked our survey of the general population (1,000 respondents who span all demographic age groups). In this study we found many of the attributes Baby Boomers value more than Millennials increase with age and may foreshadow Baby Boomer behavior in years to come. As you can see in Chart 64, the mix of food-at-home changes over time. Purchases of fresh meat & seafood, and fruits & vegetables increase with age while packaged foods and prepared food decline as a percent of spend as people age.

**Chart 64: Approximately what percentage of your total spending for food-at-home is for products in the following categories?**



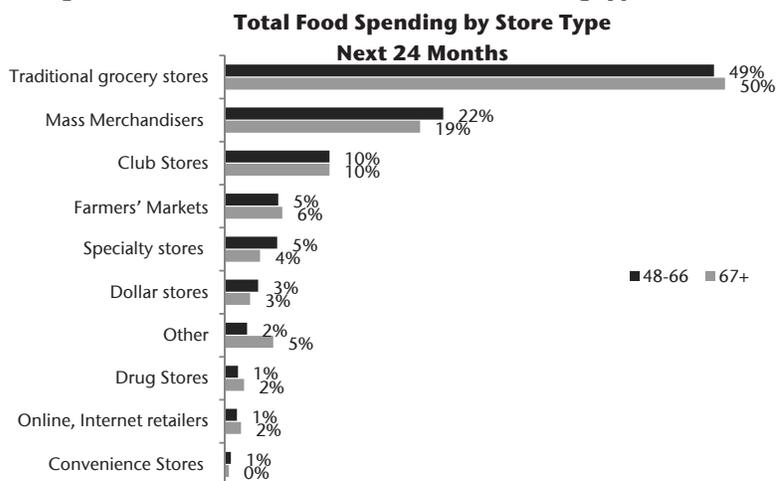
N=1,000 general population.

Note: Sample size is different than our core study, therefore numbers may differ slightly.

Source: Jefferies-AlixPartners customer research

**Age is a big determinant in assessing where people plan to shop.** As Chart 65 shows, older cohorts continue to shop at traditional Grocery stores. However, with a declining population, supermarkets cannot simply rely on this group to sustain their business.

**Chart 65: Over the next 24 months, approximately what percent of your spending for food-at-home will be done at the following types of stores?**



N=1,000 general population

Note: Sample size is different than our core study, therefore numbers may differ slightly.

Source: Jefferies-AlixPartners customer research

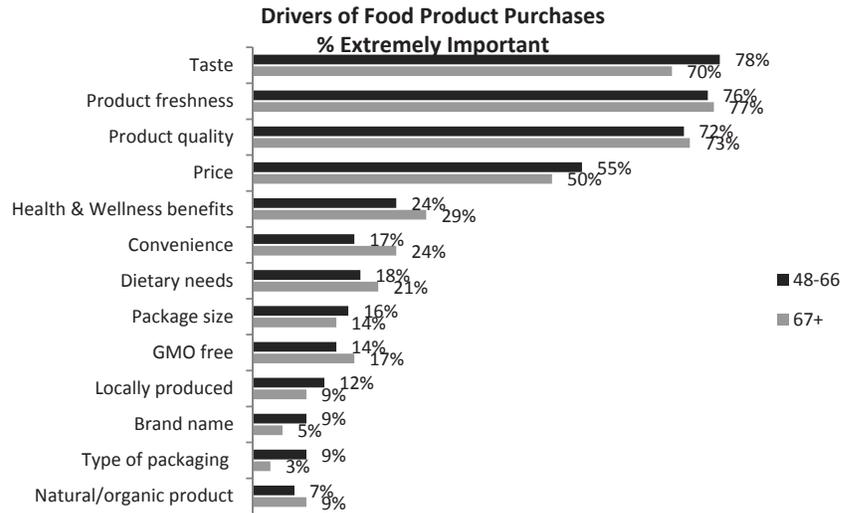
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**More senior cohorts generally focus on health/wellness and dietary attributes, and also desire convenience.** Other attributes such as natural & organic and GMO free also drive purchases for the seniors, but brand name and packaging sizes appear to fall in importance compared to the Baby Boomers.

**Chart 66: How important are each of the following factors to you when buying food products for your household?**



N=1,000 general population

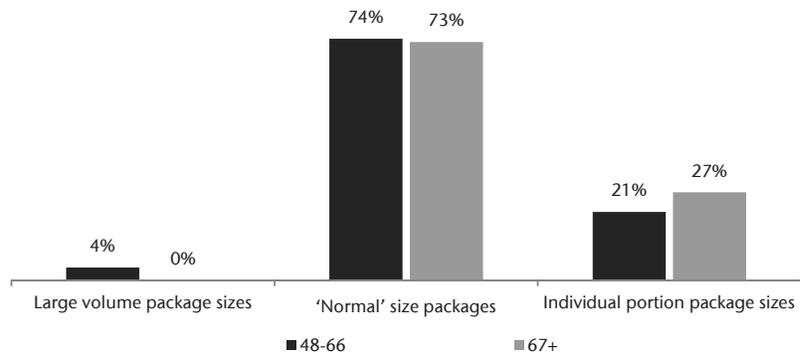
Note: Sample size is different than our core study, therefore numbers may differ slightly.

Source: Jefferies-AlixPartners customer research

**Finally, as you would anticipate, the interest in large volume packaging declines with age.** For example, in Prepared Food, seniors are not interested in large package sizes. However, they do want more individual sized packages.

**Chart 67: When buying food for your household, do you generally prefer to purchase large volume sizes, normal size packages, or individual portion package sizes?**

(Prepared Food/Ready to Eat Meal Example)



N=1,000 general population

Note: Sample size is different than our core study, therefore numbers may differ slightly.

Source: Jefferies-AlixPartners customer research

## The Pass of the Baton Will Have Implications from “Farm to Fork”

### Projected Winners

- Mass, specialty (ethnic, natural & organic, fresh-focused) and online retailers
- Natural & organic and Specialty distributors
- Private label manufacturers
- Branded Natural & Organic manufacturers
- Producers/distributors of perishable items
- Manufacturers that tailor products to specific dietary needs and/or general health-focused attributes

### Projected Losers

- Grocery stores
- Branded processed food manufacturers

**Collectively these factors have implications from “farm to fork”.** For food companies there will be greater pressure to deliver more for less—fresher, higher quality products, with more choices and more convenience. At the same time, driven by the Millennials, consumers are becoming less brand loyal, they are more willing to shop across channels and are less aligned with traditional grocers. This will require food companies to be more nimble, with more innovative product development, leaner and efficient supply chains and more effective use of trade spend, in our opinion. For traditional grocers, there appears to be a need to redefine the model, focusing on perishables while engaging/re-engaging customers in the center store. While Millennials have yet to lock in their preferences for a lifetime, they are clearly much less loyal to the ‘one stop shop’ supermarket format than their parents were, creating significant obstacles for traditional retailers. But trouble for the grocery store looks to be a boon for speciality, mass merchants, club stores, and even on-line purveyors of everyday items.

**“The Times They are a-Changin”.** It may seem a bit paradoxical to quote Bob Dylan in a study about Millennial economic power replacing Baby Boomer dominance of the economy. But his words recorded nearly 50 years ago in 1963, ironically, speak to the economic shift of power from Baby Boomers to Millennials. As demographic changes play out, it will likely mean significantly more buying power for Millennials and less total buying power for Baby Boomers, corresponding with a shift towards Health & Wellness.

### **The changes in the food vertical could well accelerate in the coming years.**

There will not be an announcement of the changing of the guard, but this change will occur over time and will lead to meaningful changes in what food we buy and where we buy food. We’re not suggesting the demise of the world’s leading brands or retail chain. However, we believe these trends are still in their early stages and that they may accelerate in the next 5-10 years versus the previous period, as consumer economics remain stretched, Millennials establish their preferences, demands on time increase and new technologies take hold.

### **The next several years are critical for food companies and retailers to develop lasting relationships with Millennials.**

In upcoming years, they will form households, increase their income and likely establish more consistent shopping patterns. Meanwhile, Baby Boomers will spend less for food-at-home and the generations’ focus will undoubtedly continue to turn toward lifestyle preservation. Fresh and healthy will clearly continue to gain importance, as will products that help with specific dietary needs that result from growing older.

**“Your sons and your daughters are beyond your command”.** The Millennial generation values freedom and independence. The Millennials, sometimes referred to as the technology generation or the first multi-cultural generation, are just different. It is perhaps not surprising that this more culturally diverse group that came of age in a rapidly changing world where a plethora of information was available almost instantaneously, is much less brand loyal and much more willing to engage in different distribution models to fulfil its consumable needs.

**This generation appears to want what they want, when/where they want it: consumption will be on their terms.** Convenience, fresh/healthy, value (this is not always price), variety and natural/organic all seem to be important attributes (at least for now) for this very independent cohort. At the same time, they will likely develop. It’s critical for Food companies and Retailers to capture more of their loyalty soon to maximize the lifetime benefit of the customer.

**“He that gets hurt will be he who has stalled”.** In our final homage to Mr. Dylan, the situation is clear and compelling for Food companies and Retailers - Win over the Millennial generation or be left behind.

**Today, we see different levels of performance within industries suggesting varying levels of success in meeting customer needs.** As we see Millennial economic power emerging and Baby Boomer power waning, we observe significant variation in the level of performance across Food companies and Retailers. Many factors go into company performance and the Millennial – Baby Boomer shift is only one of them.

**But we do see variation today.** For example, in Packaged Foods we see companies generating 20%+ EBITDA and others struggling to generate positive EBITDA. Leading food companies are growing at more than 30% CAGR (2009-11), while other have flat or even negative growth. In retail, companies focused on fresh segments are generating 10% EBITDA while some traditional grocers are generating near breakeven EBITDA. Leading retailers are growing at 12% while the overall market has experienced low single digit growth.

**Going forward, we see a food value chain with more choices, with more delivery options and greater customer expectations.** Concurrently, we see greater polar disparity across customer segments and income, leading to more splinter segments. This will likely lead to a broader playing field – with more pure price buying and more affluent, indulgent choices purchased at a broader array of channels and locations. To win Millennials, food companies will require better messaging, more effective innovation and leaner supply chains able to deliver more sku’s to more locations to meet Millennials’ desire for “want what they want, when/where they want it”.

**For traditional grocers, there appears to be a need to redefine the model focusing on perishables while engaging/reengaging customers in the center store.** While Millennials have yet to lock in their preferences for a lifetime, they clearly are much less loyal to the ‘one stop shop’ supermarket format, creating significant obstacles for traditional retailers. But trouble for the grocery store looks to be a boon for speciality, mass merchants, club stores, and even on-line purveyors of everyday items.

**The bottom line for food-at-home industry stalwarts, change has cometh and business models need to be expeditiously updated or risk being marginalized.**

### Food Company Implications

- **Branding:** Need to build relationships with Millennials that resonate and build loyalty. Use technology to reach Millennials in an authentic way.
- **Trade Spend:** Need to rethink where and how dollars are allocated to maximize ROI. Need to refine traditional trade spend allocation to target diverging demographic cohorts.
- **Innovation:** Will require more effective innovation as consumers want more sku's and retailers have minimum velocity thresholds for sku's
- **Sourcing:** Need to effectively manage raw material supply lines and volatility while appealing to Millennials' desire for new ingredients; need to extend innovation into supply chain.
- **Supply Chain:** Will need a supply chain that provides fresher product, offers more convenience and delivers more sku's faster and at a lower cost with less inventory.
- **Production/Processing:** Greater complexity from more sku's and more special needs will lead to more, but shorter production runs. Freshness will require quicker and less processed throughput.
- **Pricing:** Once again, we're in a value environment. That said, developing and communicating the right attributes to a specific segment can lead to pricing improvements.

### Retailer Implications

- **Distribution:** Will require leaner distribution networks that reduce "farm to fork" time.
- **Merchandising:** Combine having consumer favorite products available and easy to find with unique products/events to get customers in your store. Handle more sku's.
- **Price/Promotions:** Need to re-think how to win back the center store and reduce customer 'cherry picking'. Increase pricing analytics to maximize pricing & promotion effectiveness.
- **Store Labor:** More demands will be placed on labor to move fresh product quicker, handle more sku's and increase shopping convenience (e.g. shorter checkout). In Perishables and Prepared Foods, need to provide more value to the end consumer.
- **Private Label/Store Brands:** A key strength for stores. Over 2/3<sup>rd</sup> of customers are willing to travel and/or pay more for unique product. Build your brand, especially with Millennials.
- **Store Format:** Future center store formats likely need to be smaller, but with more organized backstock and labor to replenish accordingly.

## Appendix A: Themes that Transcend Generations

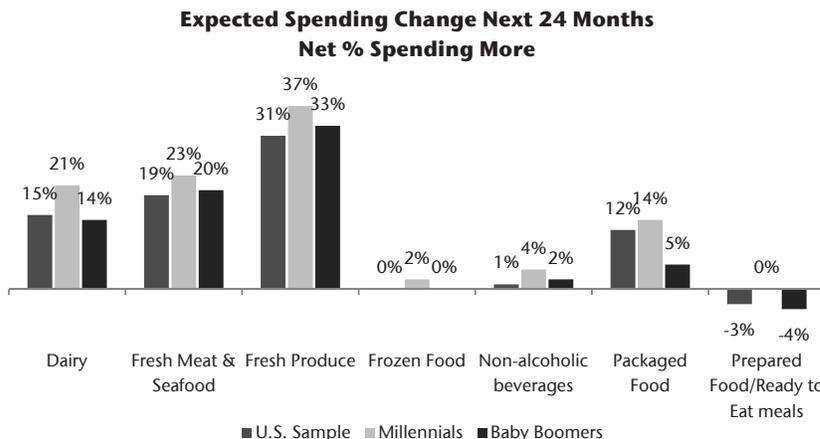
**There is clear evidence that the Trouble in Aisle 5 is not just generational.** Indeed, pressure on the industry also stems from two main trends:

- More fresh food, but not more prepared food
- Value is king...but this is not always about price

### More Fresh Food But Not More Prepared Food

**Throughout our proprietary survey of 2,000 consumers (500 Millennials, 500 Baby Boomers, 1,000 General Population) we observed a strong interest in fresh goods.** While there are differences across cohorts, the majority of respondents plan to purchase more fresh food in the future. Millennials and Baby Boomers plan to purchase more Fresh Produce, along with Meat & Seafood. At the same time, there is little to no growth in prepared food, frozen food and non-alcoholic beverages (Chart 68). It is interesting to note that convenience matters but that it is not leading to more planned purchases of prepared foods.

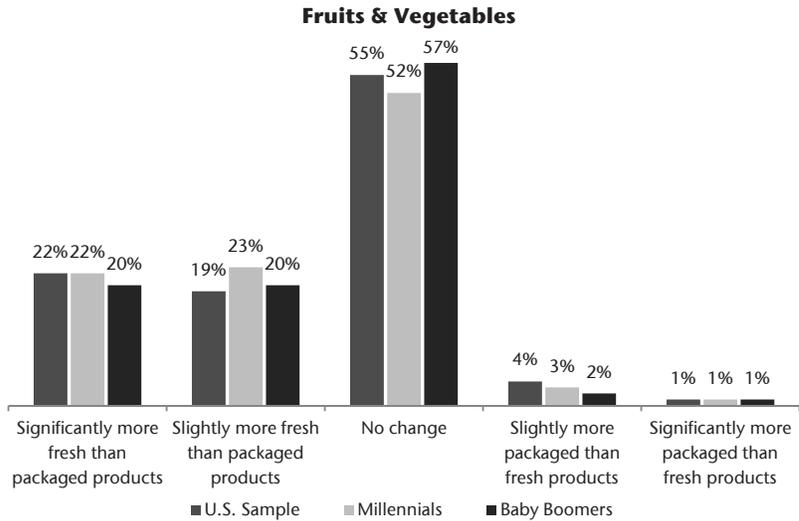
**Chart 68: How do you expect your purchasing behavior may change over the next 24 months in the following food categories?**



N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

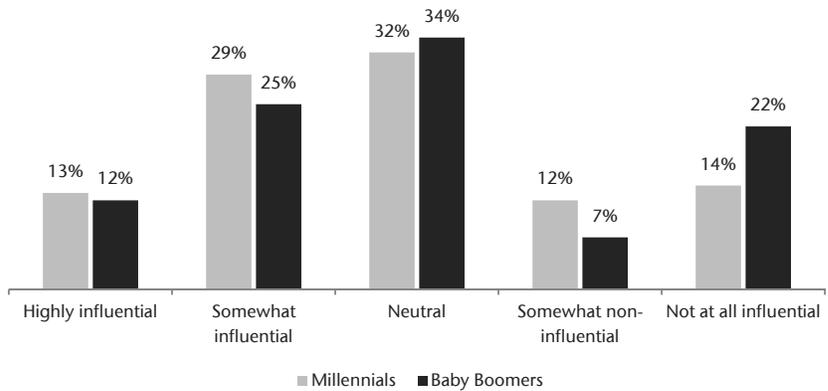
**Chart 69: Over the next 24 months, do you anticipate using more fresh or packaged products in each of the following categories than you do today?**



N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
 Source: Jefferies-AlixPartners customer research

**Interestingly, while consumers have indicated they are not increasing their prepared food purchases, quality does matter when selecting a retailer.** In-store prepared foods appear to have select appeal, with approximately 1/8<sup>th</sup> of customers finding in store prepared foods highly influential to where they shop and another 25-29% finding it somewhat influential.

**Chart 70: How much do the quality and/or value of prepared meals made in-store cause you to choose one store over another?**

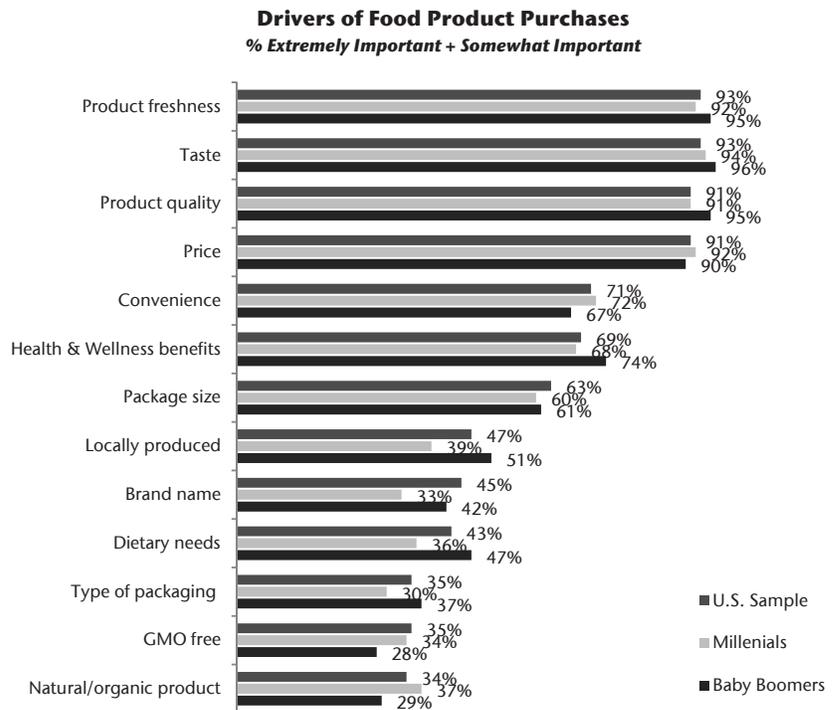


N=500 Millennials, 500 Baby Boomers  
 Source: Jefferies-AlixPartners customer research

## Value Is King ... But This Is Not Always About Price

**While consumers are unquestionably very price sensitive in this difficult economic environment, especially for everyday essentials, they also express a willingness to pay more if a product/retailer has the right attributes that appeal to them.** Indeed, consumers still buy food on taste, and for some segments on freshness and quality, over price. Moreover, there is a clear willingness to pay more for products with desired attributes or willingness to go to a retailer that offers unique merchandise (especially for younger households). Even with purchases of private label products where price is the primary reason for making the purchase, we were surprised to see how many other characteristics such as quality and taste were also important factors in choosing the item. For everyday items or for desired brands, however, consumers appear more willing to seek out these products at discount locations, exhibiting little loyalty to where these items are purchased.

**Chart 71: How important are each of the following factors to you when buying food products for your household?**



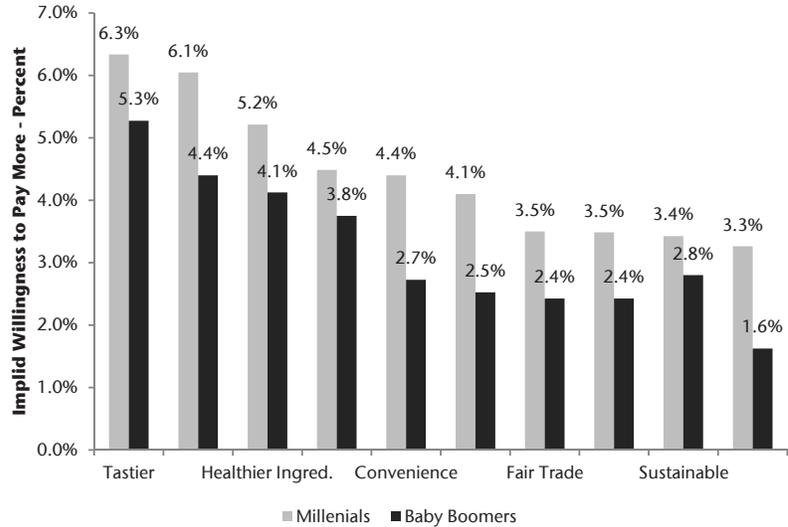
N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

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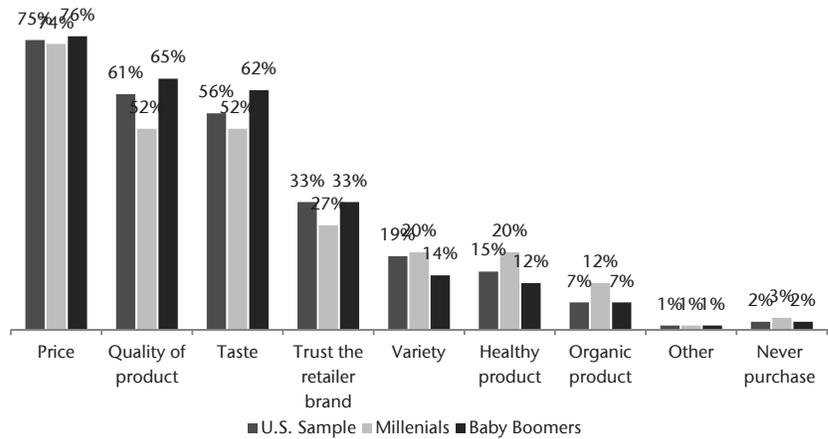
**Chart 72: In buying food products for your household, are you willing to pay more for each of the following?**



N=500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

**Chart 73: What are the three primary reasons you purchase private label/store brand/retailer exclusive brand products?**



N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

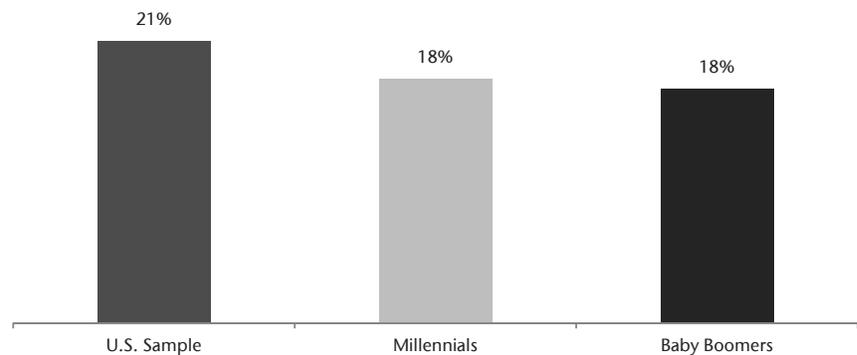
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**Whether due to the tough economy or better perceived value, the discount required for purchasing private label has decreased.** In our survey, consumers required approximately a 21% discount. In other analysis, this discount has typically run higher, often in the mid-20's, suggesting consumers need less of a discount to make the switch from branded product. While it is hard to discern if this stems from the very poor economy or from better perceived value due to attributes such as taste, quality and natural/organic, there are certainly strong suggestions in the survey that consumers are putting greater emphasis on these characteristics. For retailers with strong private label programs this trend is a positive, as consumers seem more willing to use store brands that meet their needs, in our opinion.

**Chart 74: What percentage savings does it take to make you purchase a private label/store brand/retailer exclusive brand instead of a similar national brand item?**



N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers  
Source: Jefferies-AlixPartners customer research

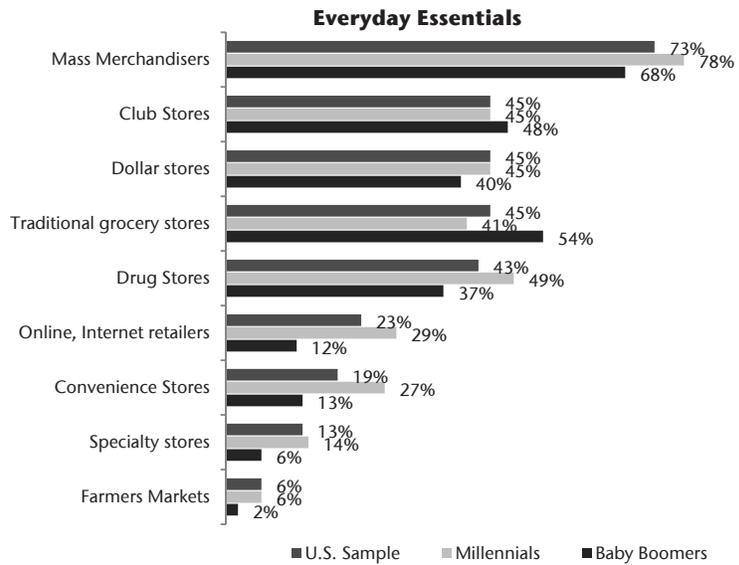
**For everyday items and desired brand, consumers are clearly seeking venues that offer better price.** Consumers in our survey indicated that they are buying everyday items outside the traditional grocery store, frequenting mass merchants and club stores, which based on our research, generally shows offer lower prices on these items. All indications are that these trends could accelerate given Millennials are even more likely to bypass traditional food retailers for common consumer packaged goods. Even more concerning is that Millennials' comfort with the mass channel is spilling into everyday perishables, the main reason consumers frequent the grocery store.

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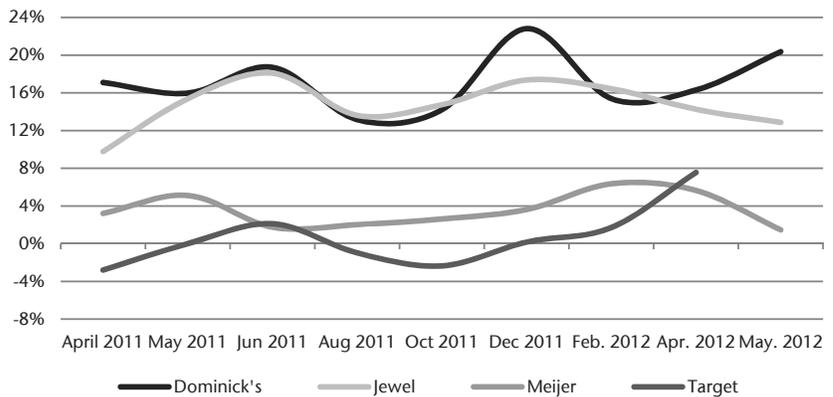
**Chart 75: Where do you most frequently buy each of the following product types?**



N=1000 general U.S. population, 500 Millennials, 500 Baby Boomers

Source: Jefferies-AlixPartners customer research

**Chart 76: Jefferies Pricing Surveys: Chicago Comparable Basket Premium to Wal-Mart**

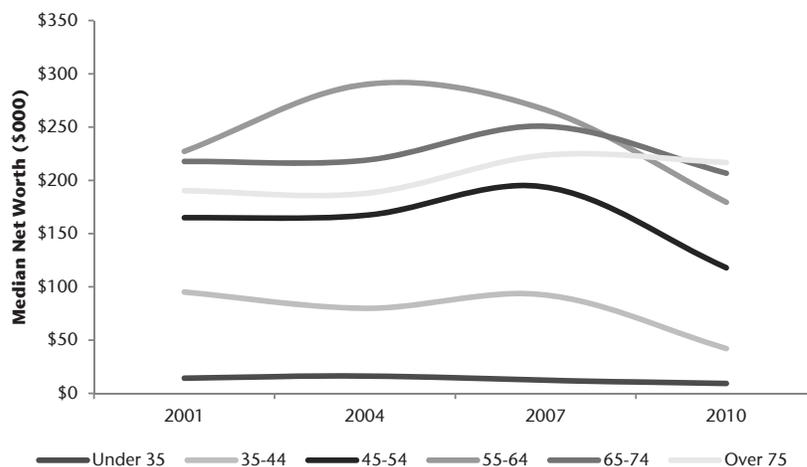


Source: Jefferies

## Appendix B: Economic Turmoil Has Taken its Toll

**Looking at the data by age group, we find younger groups have had a tougher time building net worth in the past decade.** For example, those individuals between the ages of 35-44 saw the largest decline in net worth. For older age groups, all saw declines in net worth except those over 75.

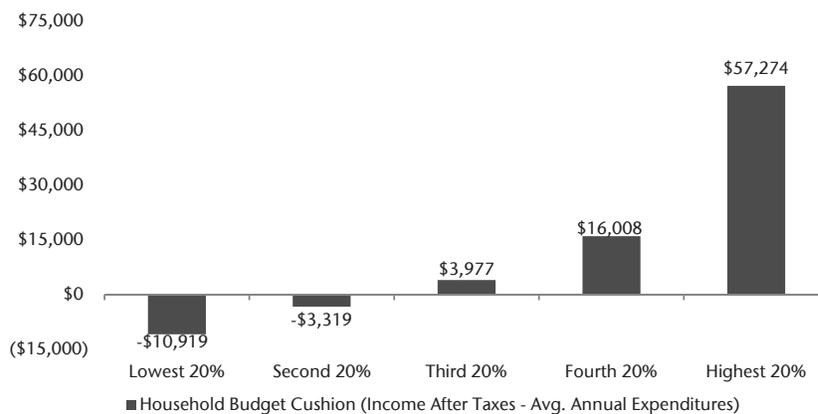
**Chart 77: Net Worth by Age Group**



Source: Bureau of Labor Statistics

**Perhaps the most troubling aspect is the fact that over 40% of consumer units (households) are spending more than their income.** The bottom two income quintiles in the U.S. have a negative budget cushion. Combine the lower net worth on most households with the negative savings per year for nearly half the households and you have a sizable portion of the population under increasing financial stress.

**Chart 78: Household Budget Cushion by Income Quintile**



Source: Federal Reserve Board

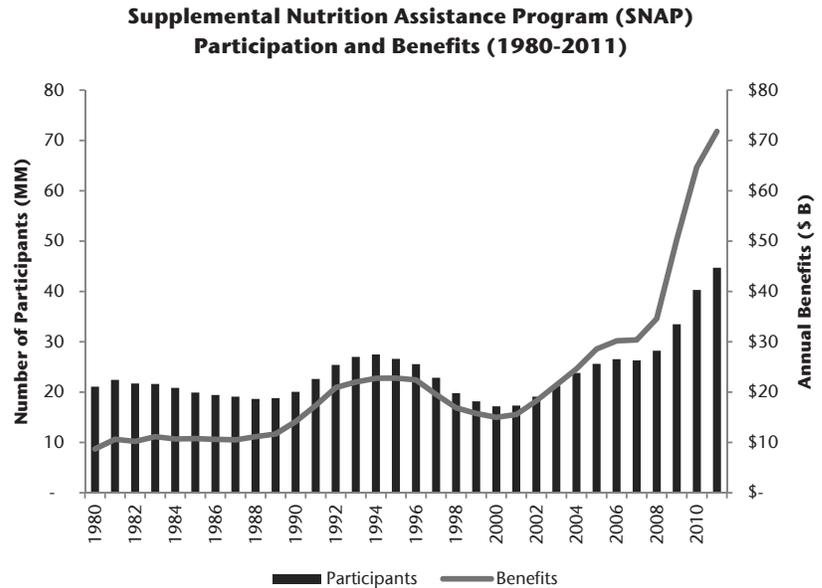
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**Part of the gap is being filled by the Government.** Government expenditures in the food-at-home industry have increased, particularly since 2000. SNAP as a percent of food-at-home has increased from 4.5% to 14.7% from 2000-2011. As the U.S. approaches the upcoming election, will policy makers choose to spend more or less on this program?

**Chart 79: SNAP Participants and Benefits**



Source: SNAP/USDA

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### About the Study

The findings are supplemented with a survey conducted May 15-22 of 2,000 adult grocery shoppers over the age of 18. One thousand of these shoppers were across all age ranges, and an additional 500 Millennials aged 18-31 and 500 Baby Boomers aged 48-66 were also surveyed.

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The “Trouble in Aisle 5” survey (the “Survey”) was conducted on behalf of AlixPartners, LLP (“AlixPartners”) and Jefferies & Company, Inc. (“Jefferies”). This report was prepared by AlixPartners and Jefferies related to the results of the Survey (this “Report”) and may be used for general information and distribution on a strictly non-reliance basis only. No one in possession of this Report may rely on any portion of this Report. The recipients of this Report accept that they will make their own investigation, analysis and decision relating to any possible transactions and/or matter related to such and will not use or rely upon this Report to form the basis of any such decisions. Accordingly, no liability or responsibility whatsoever is accepted by AlixPartners or its employees, partners or affiliates or Jefferies or its employees, partners or affiliates for any loss whatsoever arising from any use of, or in connection with, this Report.

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I, David Garfield, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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### Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

### Valuation Methodology

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#### Conviction List Methodology

1. The aim of the conviction list is to publicise the best individual stocks ideas from the Jefferies Global Research.
2. Only stocks with a Buy rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.

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5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

## Risk which may impede the achievement of our Price Target

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## Distribution of Ratings

| Rating       | Count | Percent | IB Serv./Past 12 Mos. |         |
|--------------|-------|---------|-----------------------|---------|
|              |       |         | Count                 | Percent |
| BUY          | 813   | 52.45%  | 121                   | 14.88%  |
| HOLD         | 640   | 41.29%  | 70                    | 10.94%  |
| UNDERPERFORM | 97    | 6.26%   | 1                     | 1.03%   |

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