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Evolution of the US Coffee Market

Matt Swenson | Nestle Coffee Partners, USA

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Nestlé Coffee Partners

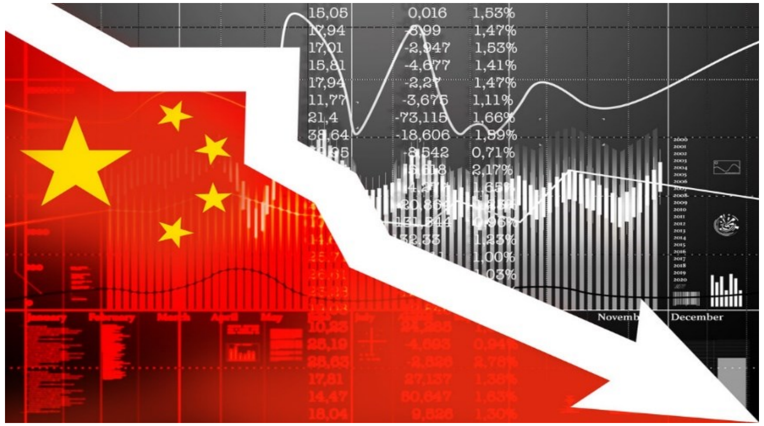
Our Brands | Seattle, WA USA

NESCAFÉ · STARBUCKS · Seattle's Best Coffee · BLUE BOTTLE COFFEE

Matt Swenson

Current Director of Coffee | Nestle Coffee Partners
Current Member of Board of Trustees & Q grader | Coffee Quality Institute
Former Chief Product Officer | Chameleon Cold-Brew

Global Factors at Play



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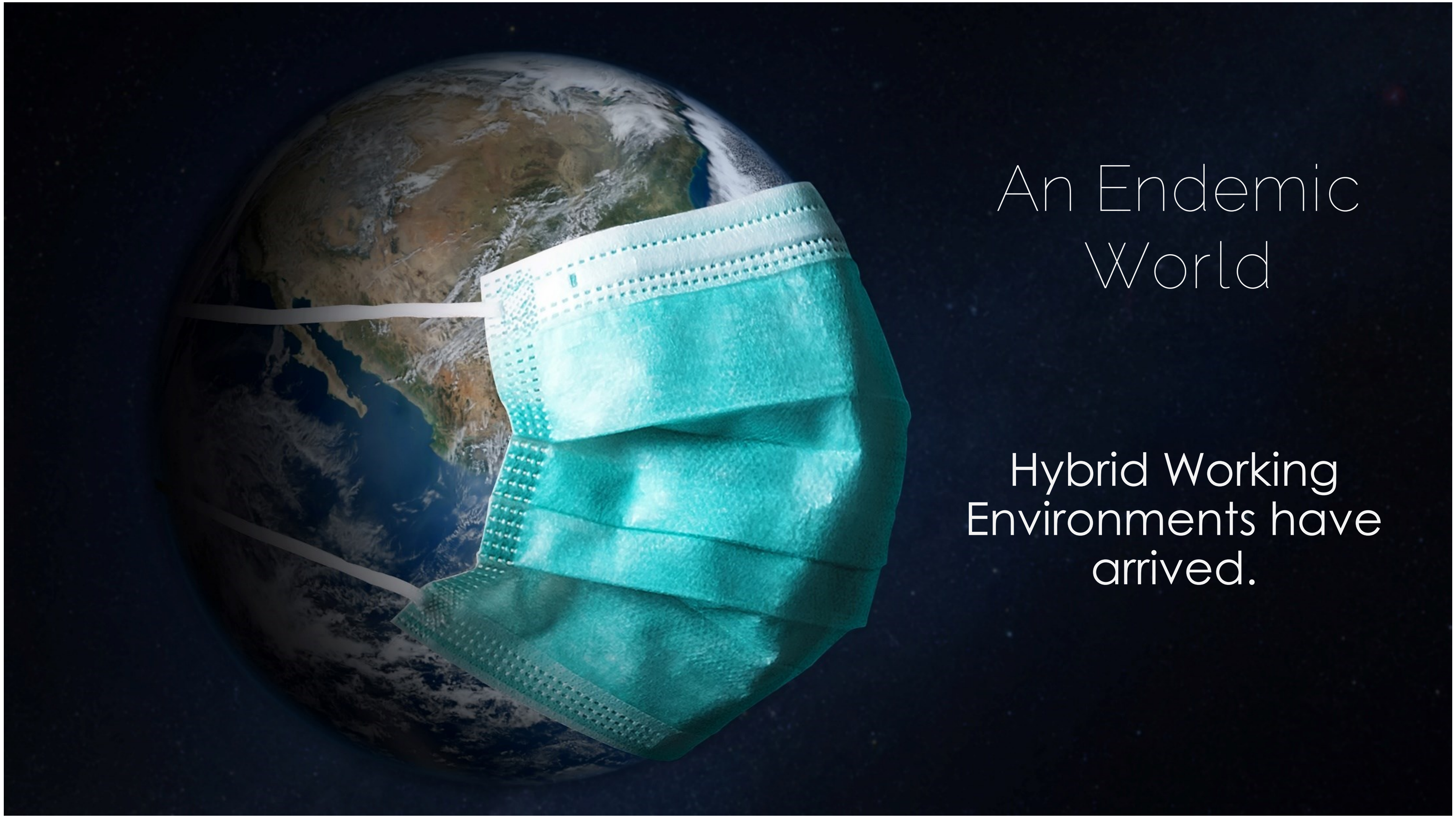
Covid-19 Pandemic “Over”



2023 Gartner Forecasts 39% of Global Knowledge Workers Will Work Hybrid by the End of 2023

State of the Economy

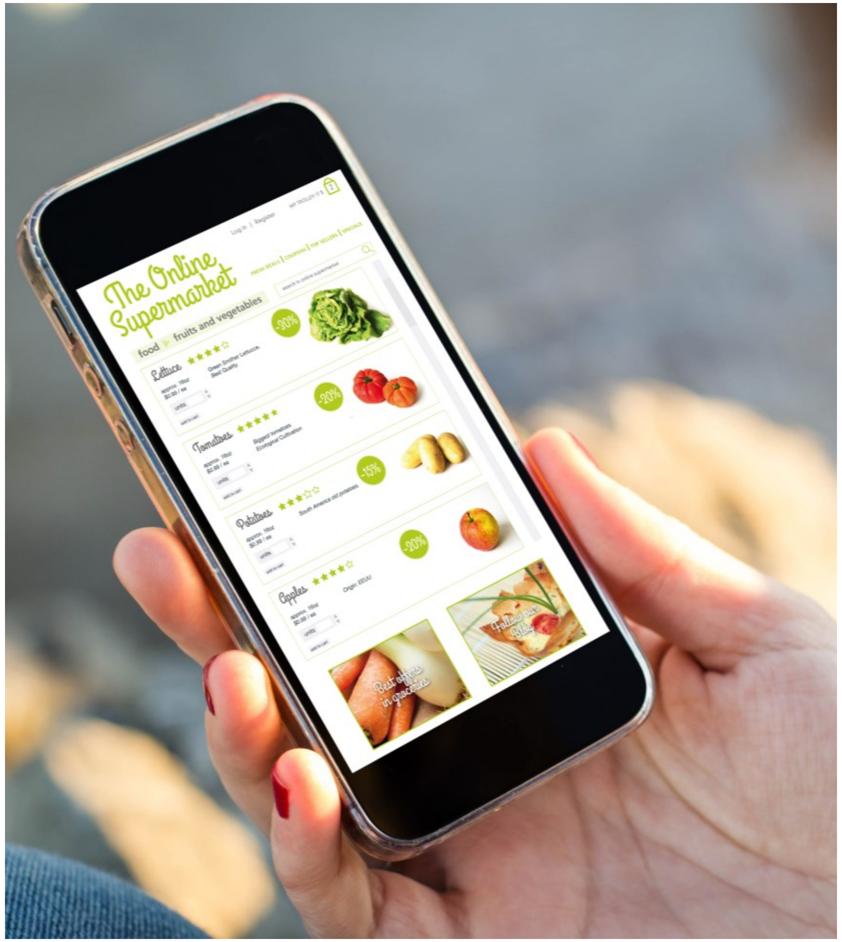
Inflation & Uncertainty

- As of June 2023, Inflation cools to 3% (4.8% excluding food & energy).
- Lowest level since March 2021
- Consumer sentiment is bouncing back

State of the world

Digital Acceleration Continues

E-commerce is expected to be 20.5% of Grocery sales by 2026



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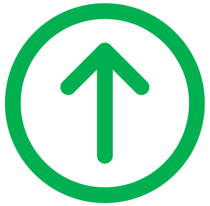
State of the US coffee Market

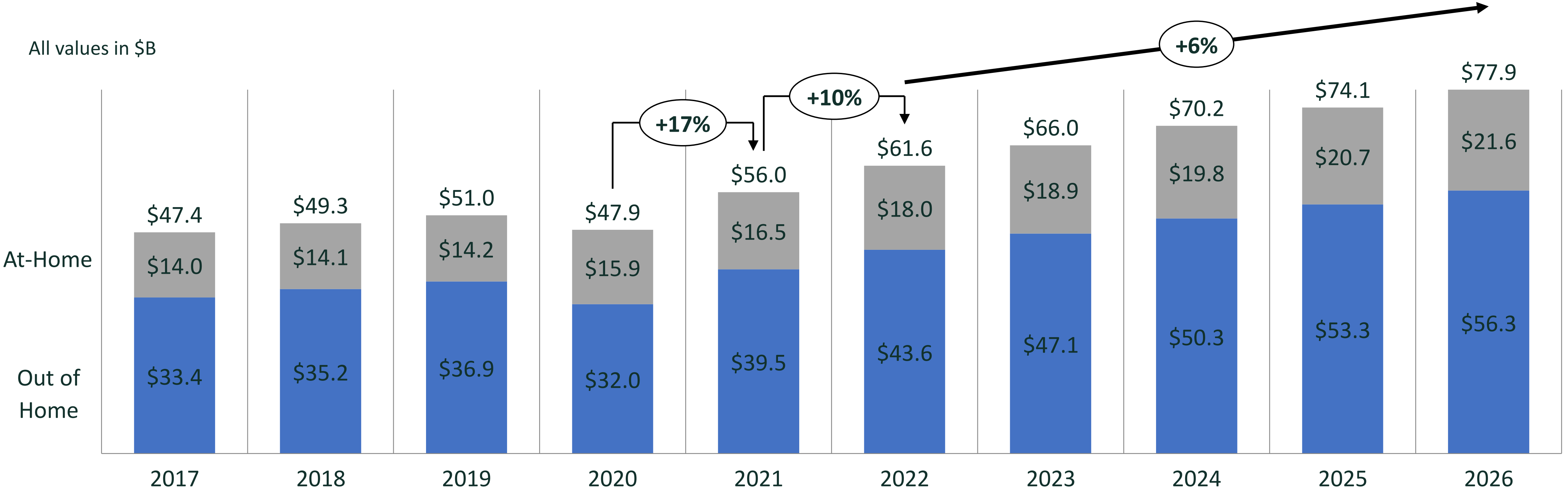
Out of Home Coffee
(Cafes, Office, etc.)

At-Home Coffee
(WB, Ground, Capsules, etc.)



Against Pre-Pandemic Levels

State of the us coffee market



Source: Euromonitor Forecasts as of Jan '23; Coffee Shops used as a proxy for Coffee Foodservice

Short Term
vs
Long Term

Short Term ››› Value

Lower Household Income: Absolute price per unit

Higher Household Income: Price/cup

Consumer Value

Absolute Price Point (Lower HH Income)		
Cost	$5.00	$6.50
Bag Size	8oz	12oz
$/serving	$0.31	$0.27

Price per serving (Higher HH Income)		
Cost	$10.00	$17.50
Bag Size	12oz	24oz
$/serving	$0.42	$0.36

*conceptual price points for discussion purposes only. Does not indicate actual products on market

Short-term: Economic Impact

- **K-Shaped Economy**: 41-year high inflation only exacerbates bifurcation
- Demand for value brands increases & consumers cite **trade down to save money**
- **34%** of shoppers switched brands in the last two months; citing **saving money** as the #1 reason
- **36%** of café goers will make more coffee drinks at home to combat price increases in 2023

Source: 1. IRI Panel L26 WE 1/1/23, Mintel: 2022 Coffee and RTD Coffee Report

IRI POS L13W 8.28.2022 // IPSOS Aug Inflation Pulse Study // IRI Panel L13WE 8.28.2022

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Despite short-term inflationary response, premiumization will drive long-term coffee growth

Coffee > Other Grocery

Coffee is the category across total store shoppers are least willing to trade down, only behind pet & baby food.

Premium Growth

Four year growth expected in categories like Nespresso platform (50% YOY) and Cold brew (20% YOY).

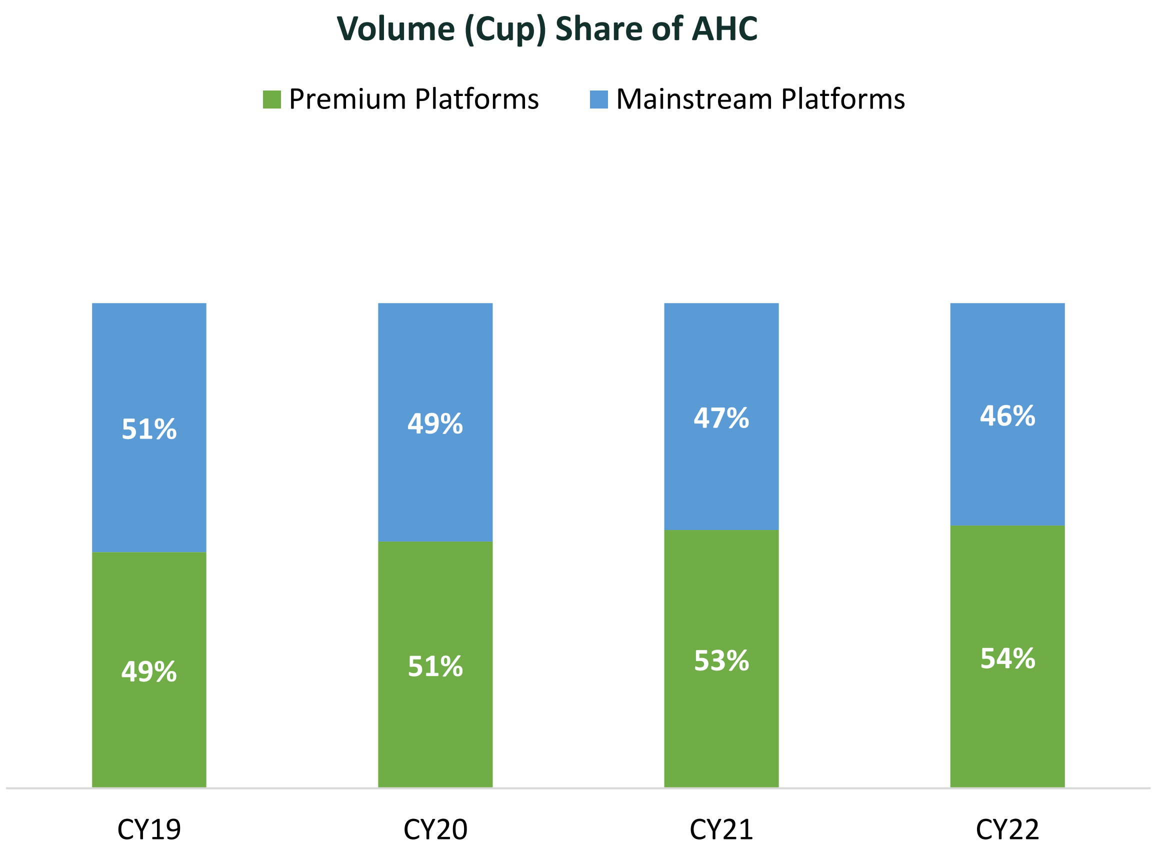
Accessible Indulgence

61% say crafting coffee at home allows them to save money without giving up on an enjoyable experience

IRI POS L13W 8.28.2022 // IPSOS Aug Inflation Pulse Study // IRI Panel L13WE 8.28.2022

Strong demand continues for premium coffee

While price is currently playing a strong role in driving sales growth, mix-shift matters



Economic volatility has consumers seeking value; while convenience and cold continue to drive new format growth across CPG and Food Service

Value & Variety

- ***Trading down*** to lower-price brands mainly PL
- Proliferation of niche brands – often DTC or online only

Convenience

- ***Prioritizing convenience*** (pods, concentrates, self-serve in away from home)
- Consumer mobility has returned

Cold & Alternative

- Seeking ***Cold and Alternative*** formats
- Cold brew is one of the ***fastest growing segments*** in coffee, especially in the younger generations

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Consumer Engagement

US coffee consumers continue to be highly engaged with the category

Coffee At-Home

Nearly 2/3 of coffee drinkers enjoy making their coffee at home (+8pts)[1]

Recreating Café Beverages at Home1

1/3 shoppers are interested in recipes and DIY Coffee Beverages

Energy Management[2]

49% of shoppers want something between no caffeine & full caffeine

Seasons & Flavors[3]

Nearly ¼ are drinking more flavored coffee vs. pre-pandemic

Experimentation

45% say that drinking coffee at-home allows them to experiment making different coffee beverages[1]

Source: 1. NCA Report 2022; 2. Language of Coffee Report 2021 TCG; 3. Acosta Flavors Research 2021.

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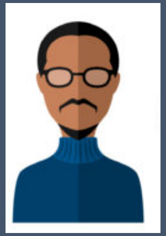
Consumers have invested seriously in their AHC appliances

Average # of brewer devices by age



Gen X + Boomers

1.4

Gen Z + Millennials

2.5

- 30% of shoppers have bought a new coffee machine for their HH since the start of the pandemic

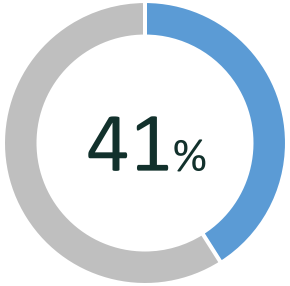
Source: US Census; NCA 2021; KIT 2021 Jan-April Post-COVID Insights NPD Brewer Data 2018-2021; NPD brewer data includes .com and B&M store sales from retailers but does not include DTC sales.

Coffee Craft & Competence

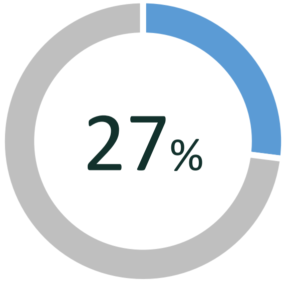
62%

of category shoppers feel their coffee knowledge is limited

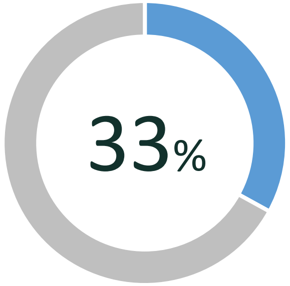
Step-change in hybrid work, global proliferation of cafes, rising social and DIY inspiration drive demand for higher touch brews and crafted cups at home



tried a new format of coffee drink during the pandemic



tried to replicate their favorite coffee shop at home



Coffee House style pods (mocha, lattes, cappuccinos) +33% brews/HH

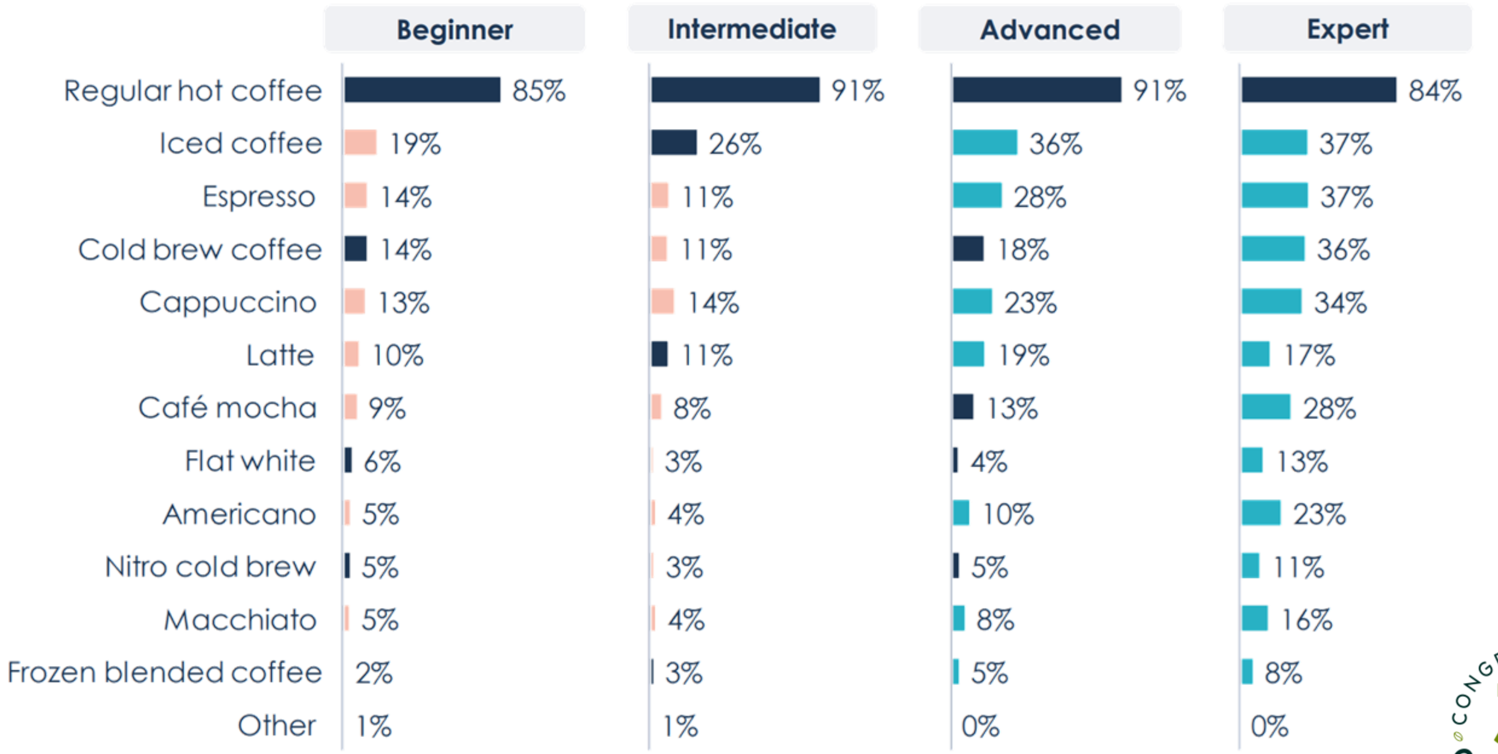
Source: TCG Language of Coffee Research, 2021

Source: NCA January 2021 Coffee Report; Keurig Insights Tracker; The Cambridge Group Custom NCP Research

Higher coffee expertise correlates with specialty coffee drinks at home

As coffee engagement grows, so does the desire for café-inspired coffee at home

Type of coffee regularly made at home, by expertise level (% selected)



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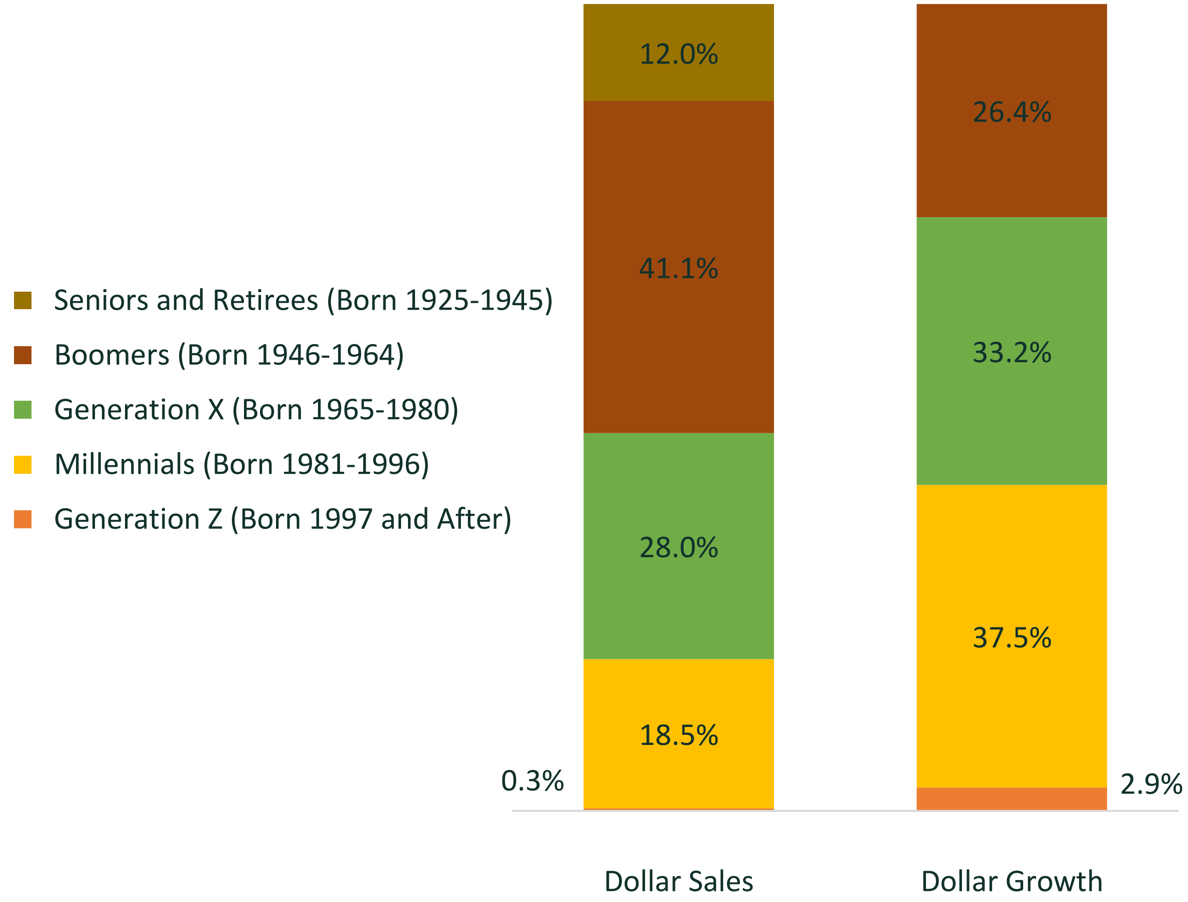
Younger generations are driving AHC growth & trends

Their higher level of coffee engagement and competence are elevating expectations for innovation

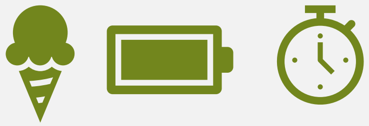


Source: IRI Total US All Outlets L52 WE 7.11.21; NPD Coffee Aging Analysis

PREMIUM

Millennials over index for SPRG 18-34 engaged in more specialty brewers and have the highest penetration in cold brew appliances & pour overs

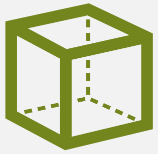
NEED STATES



Motivations behind in-home coffee occasions are shifting toward:

Indulgence, Energize, Speedy & Easy

COLD



45% of coffee OOH is cold for Millen.
69% of coffee OOH is cold for Gen Z

VALUES

Mental Wellness
Sustainability / Ethics

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Sustainability

Sustainability

97%

Of companies that are pursuing ‘profitable growth’ agree that ‘becoming more environmentally sustainable is a priority’

2023 – Deloitte “US consumer products industry outlook

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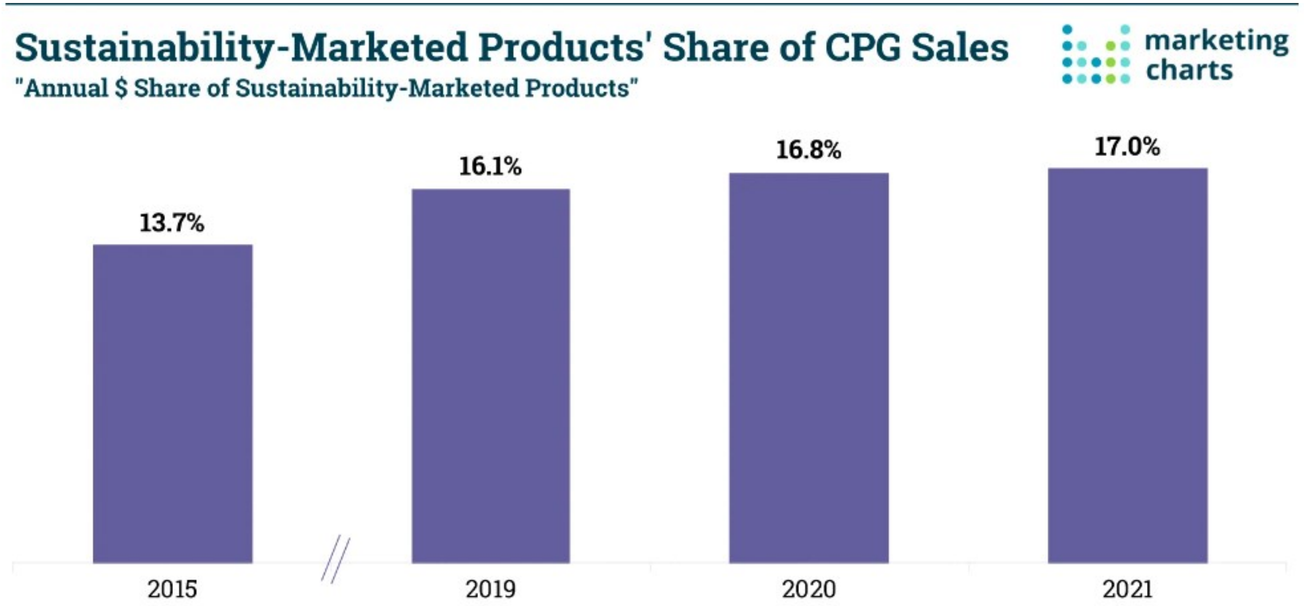
Sustainability



- Sustainability-Marketed products account for 17% of dollar share of CPG Sales, while accounting for nearly 1/3 of CPG Market Growth
- Sustainably-Marketed Products grew 2.7X faster in their categories than conventionally marketed

Source: 'Sustainability & the consumer': IRI, NYU Stern September 2022

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Sustainability

48%

Nearly half (48%) of all new coffee product launches in 2020 boasted at least one ethical or environmental claim, up from 25% nearly a decade ago in 2012

2023 – Deloitte "US consumer products industry outlook

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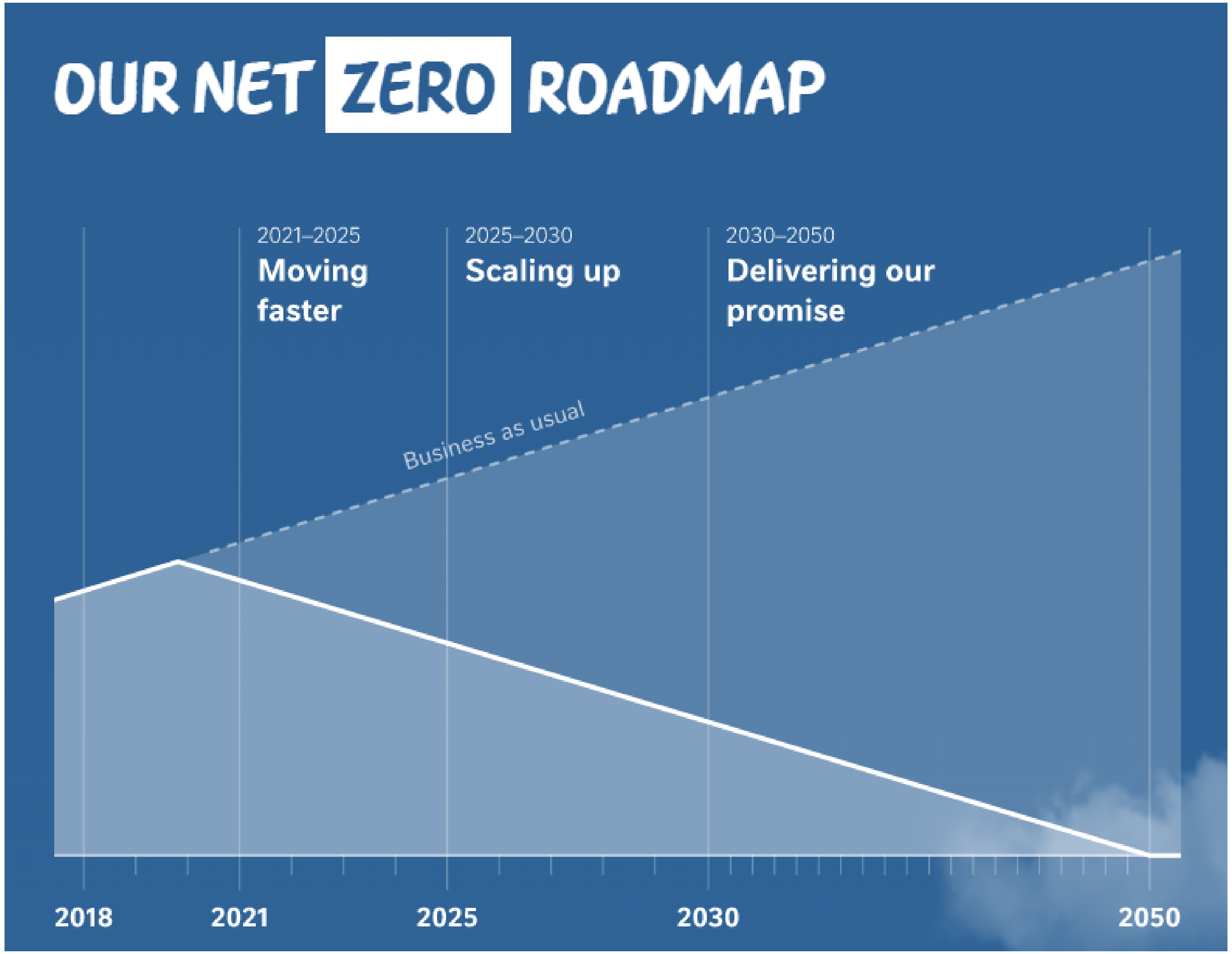
Nestlé

Nestlé Commitments



To Achieve Net Zero emissions by 2050

Nescafe Plan 2030

NESCAFÉ PROGRESS HIGHLIGHTS 2022

CULTIVATING POSITIVE CHANGE

87%
of Nescafe's was Responsibly sourced in 2022

125,000
Farmer Training on Regenerative Agriculture in 2022

1.4 Million
Trees planted in and around coffee farms in 2022

3,885
Individual Farm Assessments

23.2 Million
New coffee plantlets distributed to farmers in 2022

2025

- 100% Responsibly Sourced Coffee
- Source 20% of our coffee through regenerative agriculture methods

2030

- Source 50% of our coffee through regenerative agriculture methods
- 50% greenhouse gas emissions reduction

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NESCAFÉ PLAN 2030

Renewing the world of coffee to help uplift lives and livelihoods with every cup

2030 Vision

An **integrated** strategy to use **regenerative agriculture** to help address **climate change, aiming to**:

Reduce greenhouse gas emissions

+

Increase farmers' income

+

Create better social conditions

Our goals:

By 2025

- 100% responsibly sourced coffee
- Source 20% of our coffee through regenerative agricultural methods

By 2030

- Source 50% of our coffee through regenerative agricultural methods
- 50% greenhouse gas emissions reduction

Agroforestry

Help farmers to improve soil health, water management and biodiversity by combining coffee with shade or border trees

Land restoration

Support farmers to plant native trees to capture CO_2 in and around coffee farms, improving biodiversity and water management

Green borders (riparian buffers)

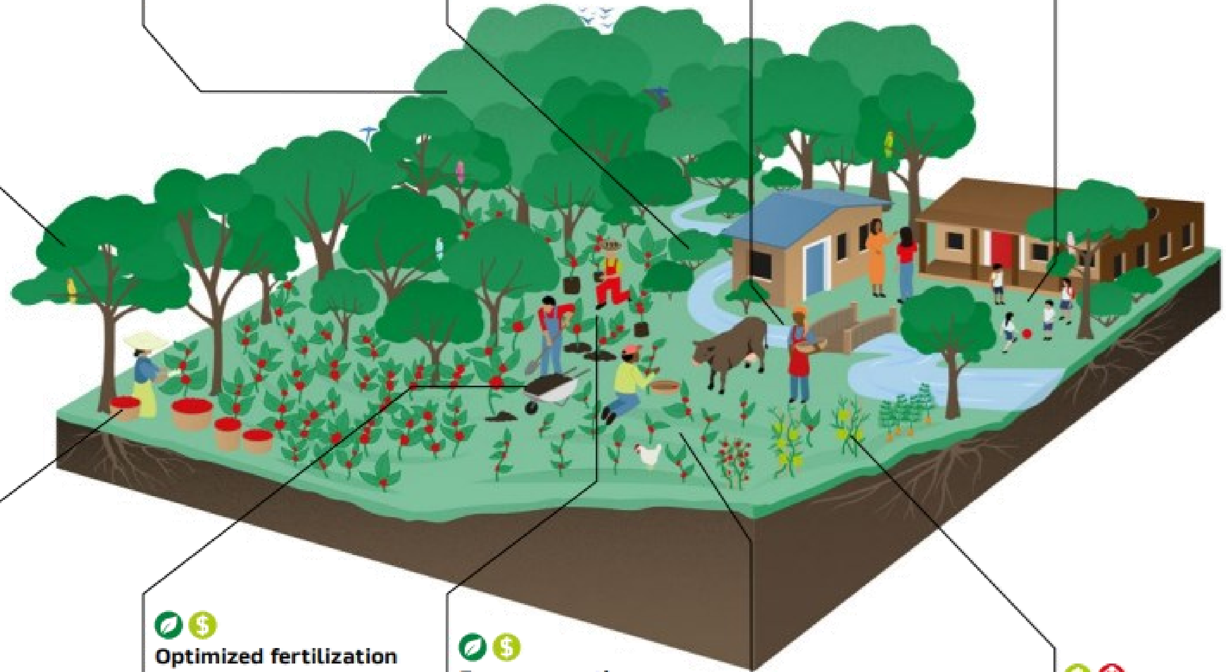
Help farmers improve water sources and biodiversity by restoring vegetation along the water margins

Financial support

Supporting coffee farmers in accelerating their transition to regenerative agriculture

Human rights and child protection

Reinforcing monitoring and corrective actions across our value chains



Women and Youth empowerment

Enhancing business and financial skills through training, including record keeping and farm management

Optimized fertilization (including organic fertilizers)

Support farmers to improve productivity and quality, reduce CO_2 and improve soil health by tailoring the fertilizer to the soil needs

Farm renovation

Support farmers to improve yield and quality, and to reduce CO_2, while aiming to improve income through pruning and/or the introduction of new improved coffee varieties

Cover crops

Help farmers to improve soil health and biodiversity, whilst reducing agrochemical usage

Income diversification (including intercropping)

Promoting different crops within the coffee farm to enhance income diversification, soil health and biodiversity

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Future Outlook

Near term economic volatility is pushing consumer to seek VALUE.

Younger generations and emerging formats are driving the future growth of the coffee category.

Premium Coffee segments will continue to drive category value over the long term.

Sustainability Matters.

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