June 12, 2020

Foodservice Insights recognizes the turmoil happening in the world around us, and we hope it leads us to a turning point.

As an organization whose primary mission is focused on empathizing with people, our hearts go out to those affected by racial injustice. The cultural shifts taking place leave us all struggling to cope with our own feelings and those of our individual communities.

As the current environment continues to evolve, we will strive to deliver relevant insights that relate to the impact on our consumer and their engagement with the foodservice industry.
The protests have compounded COVID concerns

According to Datassential, while the recent protests and rioting have been cause for concern, they didn’t completely take our focus off COVID. Instead it left some people, even more worried about the potential for spread in large crowds. For more than half of Americans, coverage of the protests has been a wake-up call.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>It seems like most protesters were breaking social distance rules</td>
<td>79%</td>
</tr>
<tr>
<td>Large protest gatherings will lead to a surge in COVID cases</td>
<td>76%</td>
</tr>
<tr>
<td>I’m more concerned about protests / riots than COVID</td>
<td>59%</td>
</tr>
<tr>
<td><strong>News coverage of protests is a reminder to focus on things beyond COVID</strong></td>
<td>58%</td>
</tr>
<tr>
<td>Other news and events have distracted us from what’s more important - COVID</td>
<td>46%</td>
</tr>
<tr>
<td>COVID has distracted us all from news and events that are more important</td>
<td>46%</td>
</tr>
<tr>
<td>My need to get involved in what’s going on is worth a little added risk of COVID exposure</td>
<td>33%</td>
</tr>
<tr>
<td>Seeing non-COVID news coverage makes me feel ok to go back to doing &quot;normal&quot; things</td>
<td>30%</td>
</tr>
<tr>
<td>It seems like most protestors were following safe COVID practices</td>
<td>29%</td>
</tr>
</tbody>
</table>

Regarding the COVID-19 pandemic and how you’re feeling about it now, please respond to the following statements.
We continue to look at the impact COVID-19 across 4 stages:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Estimated Timeframe</th>
<th>Feeling</th>
<th>Doing</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Preparation &amp; Prevention</td>
<td>Feb-Mar</td>
<td>ANXIOUS, FEARFUL, NEED FOR COMFORT, REASSURANCE &amp; SENSE OF CONTROL</td>
<td>Stockpiling Pantry Items, Cancelling Plans, Increase in Large Format, Club &amp; Ecom, fewer trips to C&amp;G, Foodservice, Increase in TV consumption (News)</td>
</tr>
<tr>
<td>1</td>
<td>Confinement &amp; Cocooning</td>
<td>Mar-Jun (est)</td>
<td>CONTINUED NEED FOR COMFORT, RELAXATION, AND BOREDOM RELIEF</td>
<td>Shift to Working/Learning from Home, Growth of Ecom &amp; Delivery, most On-Premise closed, Shifts to Streaming &amp; Gaming, Decrease in podcasts</td>
</tr>
<tr>
<td>2</td>
<td>Restricted Recovery</td>
<td>Jun-Dec (est)</td>
<td>TENTATIVE, CAUTIOUS OPTIMISM, CONFUSION ABOUT RULES</td>
<td>Partial Return, Testing Out Situations, Adapting to new Protocols, Continued Use of Ecom, Likely a short spike in Foodservice, incl. Entertainment &amp; Travel, Financial State Impacts Streaming Services</td>
</tr>
<tr>
<td>3</td>
<td>New Normal</td>
<td>2021+</td>
<td>RELIEVED, DESIRE TO MAKE UP FOR LOST TIME BUT REMAIN WARY</td>
<td>Adapting to Permanent Changes (i.e. post-9/11), Ecom &amp; Delivery become Permanent Behaviors, Likely a Return to Usual Media, with more streaming</td>
</tr>
</tbody>
</table>

Most states are currently in this stage.
Industry Update

All but one state has lifted restrictions for on-premise dining, but dine-in is coming with a multitude of caveats.

Despite fast moving re-openings around the country, consumers aren’t ready to let their guard down yet…

which best describes your current response to the risk of COVID-19. Compared to when the pandemic began, I am being…

- **45%** JUST AS CAREFUL
  - More likely among Boomers (52%)

- **42%** MORE CAREFUL
  - More likely among HH’s with kids (49%)

- **9%** SLIGHTLY LESS CAREFUL

- **5%** MUCH LESS CAREFUL

Source: Datassential — Reopening Tracker as of 6-11-2020, Datassential — Covid-19 Fatigue
Cases In The US Are Trending Downward, But New Hotbeds Are Emerging In The Southern And Western United States

➢ More than 1/3 of US states are seeing spikes in cases 
➢ Confirmed cases in Arizona & Oregon are up 210% and 176% respectively vs. 2 weeks ago 
➢ Texas reported 3 straight days of record COVID-19 hospitalizations

BRIGHTSPOTS
➢ The number of confirmed cases are decreasing in almost half of the country 
➢ Multiple pharmaceutical companies are in clinical trials for a vaccine, a few in late phase.

HOTSPOTS

Source: NPR – COVID-19 Map
PepsiCo Foodservice Insights

GLOBAL COVID-19 UPDATE
With restrictions easing across the globe, most markets are rolling out guidelines for transitioning from Horizon 1 into Horizon 2.

Most markets are now implementing transition strategies.
Markets in Asia are much further along in their road to restricted recovery with Latin-American markets lagging behind Europe and North America

Source: Sector Ships
Most markets plan to reopen FS outlets from June onwards, followed by tourist attractions, theatres & hotels

### Market transition strategies

<table>
<thead>
<tr>
<th>Market</th>
<th>Transition strategy</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
</tr>
</thead>
<tbody>
<tr>
<td>US states</td>
<td>individually have gradually opened up at different rates depending on number of cases</td>
<td>May 19: All states reopen partially</td>
<td>June 1: Several states reopened businesses at full capacity</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>▲ May 26: NYSE opens trading floor</td>
<td>▲ June 8: NYC implements Phase 1 of easing restrictions</td>
<td></td>
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<td></td>
<td>▲ May 26: California governor allows hair salons and barber shops to reopen</td>
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<tr>
<td>UK</td>
<td>is ready to move into 'Stage 2' of the Lockdown transition strategy</td>
<td>May 13: Restriction on outdoor activities lifted and workers return to work</td>
<td>Mid June: Earliest proposed lift on AFH</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>▲ May 20: Allows furniture stores to restart trade</td>
<td>▲ June 1: Outdoor markets and car showrooms will be able to reopen</td>
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<td></td>
<td></td>
<td>▲ July: Tourist attractions, holiday parks, hotels and campsites to reopen</td>
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<tr>
<td>Germany</td>
<td>has begun opening up, with control of lifting in the hands of Germany’s 16 federal states</td>
<td>May 11: Educational institutions to reopen; Shops (not AFH) to open</td>
<td>June 1: Beaches and parks reopen</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>▲ May 12: Opens borders to European agricultural workers</td>
<td>▲ June 15: Boarders to reopen with European Nations</td>
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<td></td>
<td>▲ May 19: Highest administrative court ordered government to lift ban on religious</td>
<td>▲ July: Earliest lift on cafés and event venue restrictions</td>
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<td></td>
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<tr>
<td></td>
<td>meetings</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Turkey</td>
<td>succeeds in COVID-19 fight and is currently easing more restrictions</td>
<td>May 11: Shopping malls and barbershops reopened</td>
<td>15 June: Plans to open borders</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>▲ May 12: Travel restrictions relaxed for nine provinces</td>
<td>▲ June 29: Social distancing rules are extended until this date</td>
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<td></td>
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<tr>
<td></td>
<td>▲ May 17: Automotive industry resumes production</td>
<td>▲ August 31: Larger events to be allowed</td>
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<td></td>
<td>▲ May 20: International flights set to reopen</td>
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<tr>
<td>Moscow</td>
<td>toughness in place as lockdown being eased in rest of country from 12 May</td>
<td>May 12: Earliest lift of restrictions proposed by the President</td>
<td>▲ End May: continue curfews on weekends in 31 provinces</td>
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<tr>
<td></td>
<td>▲ May 13: Eases business restrictions</td>
<td>▲ June: Lockdown measures relaxed if recent spike in the cases recedes</td>
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<tr>
<td></td>
<td>▲ May 31: Lockdown in Moscow extended, with the cases rise</td>
<td>▲ July 24: ‘State of health emergency’ will be lifted</td>
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<tr>
<td>India</td>
<td>not ready to move into transition strategy – will wait until end of month</td>
<td>May 25: Hundreds of students and migrants boarded flights home when domestic services resumed</td>
<td>June 1: 200 non-AC passenger trains to start</td>
<td></td>
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<tr>
<td></td>
<td>▲ End of May: Interstate movement of vehicles to resume with consent of states</td>
<td>▲ June 3: Certain foreign nationals (i.e, HCPs, engineers) allowed to enter</td>
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<td></td>
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<td>▲ June 8: Shopping malls, hotels, hospitality sector, places of worship reopen; curfew at 9pm to 5am</td>
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<td></td>
<td></td>
<td>▲ Early July: Extended lockdown in containment zones; phased reopening in non-containment zones</td>
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</tr>
<tr>
<td>China</td>
<td>easing restrictions to allow international travelers</td>
<td>May 1: Beijing eased travel restrictions</td>
<td>▲ Early June: Essential travel allowed between China and Singapore</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>▲ May 19: Lockdown reimposed in province of northeast China near Russia</td>
<td>▲ June 8: Authorities in China eased international travel restrictions</td>
<td></td>
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</tbody>
</table>

Source: Global Data, Politico, National News Sites
TO ANTICIPATE NEW BEHAVIORS IN RESTRICTED RECOVERY, WE LOOK AT PROGRESS FROM MARKETS ACROSS THE GLOBE

TRAVEL

WORK

PLAY

DINE
Let’s take a look at Travel
Markets are opening up to foreign travel as Covid-19 cases decrease — countries most dependent on tourism returning first.

- **June 1: Vietnam**
  - To resume international travel.

- **May 21: UAE**
  - Emirates resumes some international flights.

- **June 1: Korea**
  - Korean Air to restart some international flights.

- **June 4: Italy**
  - To reopen to EU Tourism w/o quarantine.

- **June 5: India**
  - India Air resumes flights to US, UK, Europe.

- **June 15: Turkey**
  - Resume flights with 40 countries.

- **June 15: France**
  - Air France aims to restore flights to 110 destinations.

- **June 15: Russia**
  - Target to open flights to 15 countries.

- **June 26: Spain**
  - Target to open to International Visitors.

- **June 30: Germany**
  - Lufthansa to restore flights to 130 destinations.

- **July 1: Greece**
  - To open International flights.

- **July 1: UK**
  - British Airways aims to resume flights.

- **May 12: China**
  - Some foreign business travel open.

- **June 1: US**
  - Delta to resume flying major international routes from US.

Source: Skift
Travel is recovering in China with domestic and leisure travel returning first

**Travel Bubbles Created**
- Travel bubbles created: fast-track health / quarantine checks - cross borders with minimum hassle to promote tourism and business travel¹
- In China, domestic travel is returning first (with 92% willing²); travelers are still cautious of air travel, preferring to stay close to home (as car rental reservations rose +10% vs. last year)³

**Young Travelers Less Deterred**
- Young, nonfamily segment resuming travel first (60% vs. 43% last year on first holiday in China following pandemic²): companies engage them through social media to introduce deals
  - Livestream campaign by Ctrip founder attracted 1.15 million viewers to promote discounted tourism products; generated $3.84MM within 1 hour⁴

**Strict Safety Protocols**
- Airports are implementing safety precautions – i.e., in HK, after landing takes 8 hours to wait for test results prior to entering city⁵
- Chinese airlines offer new products, i.e., one-off lounge passes, extra fees to keep adjacent seats free for the more safety-conscious³

Source: Asia Times¹; Ctrip²; McKinsey³; China Travel News⁴; personal account on Twitter⁵; BBC⁶
IMPLICATIONS

- Ease back into operations by redeploying resources to support domestic and regional travel –
  - Lodging incentives like waiving parking fees can encourage road trips
  - Highlight more “off the beaten path” experiences to help people avoid crowds

- Align messaging and offerings with new customer mix: Millennials and Gen Z are leading baby boomers – and have their own expectations, needs and engagement journeys

- To appease those more anxious about hygiene and safety, consider a tiered approach where customers can upgrade to more sterile experience
Let’s take a look at Workplace & Education
Return to workplaces depends on the markets containment of the virus and employers ability to implement safety measures

Spectrum of where markets fall in returning to workplace¹

- **Cautious**
  - Some (i.e., UK) are being cautious, as cases have not slowed down as much as other markets

- **Test & Learn / Wait & See**
  - In some markets with cases dwindling (i.e., Europe), governments have allowed some return to work with restrictions
  - In other markets (i.e., Brazil) where cases are slowly on the rise, companies reacting to situation as it unfolds

- **Almost back to normal**
  - With cases dwindling and strong guidelines in place, markets like S. Korea and Taiwan have almost returned to pre-Covid levels of workplace traffic
  - May require quarantine for global visitors – if not part of travel bubble

- **Return to school intertwined with getting back to workplace** – implications in childcare needs if homeschooling necessary
  - Many are waiting to see how effective measures are in other markets
  - Some European markets have reopened with fewer students in physical attendance, staggered shifts, or outdoor classrooms
  - Schools in Asia mostly back in session with safeguards, as well as some European markets, which allows parents to return back to work

Source: Google Community Mobility Reports as of 5/29¹; Global Data Executive Briefing
Emerging systems and protocols to prevent virus spread at workplaces and schools in Asia include:

**Spotlight on Asia**

### School Safety Checks
1. disinfect shoes
2. sanitize hands
3. sanitize backpack
4. temperature check

### Avoidance of Air-Con
- Based on a study tracing Covid-19 spread through AC in a restaurant, in China many companies have decided not to use centralized AC.
  - As summer is fast approaching, many are considering fans instead, though still requiring employees to wear masks.

### Tickets To Ride Elevators
- In South Korea, Salesforce employees register their temperature in an app before coming to work.
  - Prior to commuting, they “check in” on their app, which provides “a ticket” to ride the elevator during a specific window of time to avoid crowding.
- Companies have confirmed providing PPE, plexiglass barriers between desks, employees zoned to different parts.

*Source: Google Mobility Scores; self-reported video on Twitter; CDC; Bloomberg; Quartz*
IMPLICATIONS

- Routine tasks (i.e., commuting) will be re-examined as ad-hoc and preplanned meetings become a way to prevent virus transmission
  - Analogies from other channels may aid adaptation: reservation systems, booking online, staggered shifts

- Resizing footprint in various areas of the office will impact mealtimes and social interactions
  - Potential for more snacking throughout day to avoid groups taking meals at same time

- Employers will be rethinking lunch, workplace cafeterias
  - Consider unattended retail / Micro Marts to meet safety needs
Let’s take a look at leisure and recreation

TRAVEL

WORK

PLAY

DINE
People’s propensity to return to recreational activities shows correlation to their markets’ economic conditions

In markets where GDP contracted the most, people are less eager to return to Recreation venues—i.e., Cinema

GDP Growth (%) & likelihood of returning to cinema

More likely to return to cinema

- More likely to return to cinema
- Less likely to return to cinema

Key

Looking forward to going back to cinema (%) ¹

2020 Real GDP Growth (% Mean Estimate) Rate Projections ²

Source: Kantar C-19 Barometer Wave 4¹; GlobalData²;

PLAY
For Recreation, simulated experiences and scaled down crowds can be used to entice people until masses are ready to return.

In South Korea, Hyundai sponsored a multi-day drive-in concert – over 900 cars came to listen / participate; although sales were half than a typical concert, still a way to keep consumers engaged.

In Taiwan, 1,000 baseball fans will be let back into stadiums (previously, sports were underway w/o spectators).
- Plan to sell tickets based on ‘real name’ to easily trace infections leading back to matches.

Livestream from destinations (i.e., VR, 3D panorama) has helped with presale packages in China.

Alibaba has added ‘online field trip’ feature to its commercial livestreaming platform.
- While livestream tours are free, some sites have made money through souvenir sales.

Disney World in China reopened: tickets sold out within 3 minutes of soft opening on May 8 online, even with new social-distancing rules.

In Japan, amusement parks re-open with new guidelines – no screaming on rides, conversations with customer service kept as short as possible; all meant to reassure safety for customers and employees.

Source: The Guardian; Jing Travel; Sixth Tone; Quartz; CNN.
**IMPLICATIONS**

- As summer approaches, outdoor venues likely to be sought out first

- Venues not ready to open can:
  - Repurpose idle capacities to meet more immediate needs i.e. ghost kitchens in closed school/stadium/workplace cafeterias
  - Provide virtual or simulated experiences as a gateway to entice/book future visitation

- Entertainment venues will need to demonstrate value to compete with shrinking share of wallet for leisure activities
  - Group packages, waiving booking fees, ticket bundles including meals / snacks, etc.
Let’s take a look at dining
With dining rooms shutdown, delivery and take-away became essential service modes at QSRs — especially for “family meals.”

Projected QSR Revenue By Service Mode for 2020 (pre-COVID)

<table>
<thead>
<tr>
<th>Country</th>
<th>Mostly Dine-In</th>
<th>Mostly Off-Premise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>21% Dine-In</td>
<td>79% Off-Premise</td>
</tr>
<tr>
<td>Germany</td>
<td>28% Dine-In</td>
<td>72% Off-Premise</td>
</tr>
<tr>
<td>South Korea</td>
<td>31% Dine-In</td>
<td>69% Off-Premise</td>
</tr>
<tr>
<td>India</td>
<td>35% Dine-In</td>
<td>65% Off-Premise</td>
</tr>
<tr>
<td>China</td>
<td>38% Dine-In</td>
<td>62% Off-Premise</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>39% Dine-In</td>
<td>61% Off-Premise</td>
</tr>
<tr>
<td>UK</td>
<td>40% Dine-In</td>
<td>60% Off-Premise</td>
</tr>
<tr>
<td>United States</td>
<td>27% Dine-In</td>
<td>73% Off-Premise</td>
</tr>
</tbody>
</table>

Average Household Size:
- Brazil: 3.0 persons
- Germany: 2.0 persons
- South Korea: 2.5 persons
- India: 4.8 persons
- China: 3.0 persons
- Saudi Arabia: 5.6 persons
- UK: 2.3 persons
- United States: 2.6 persons

### CHINA: Change In Spending Preference (during and post-COVID)

**During COVID-19 vs before COVID-19**
- Dine-in restaurant: -41%
- Takeout: -29%
- Food delivery: -20%

**After COVID-19 vs during COVID-19**
- Dine-in restaurant: 25%
- Takeout: 28%
- Food delivery: 32%

**CHINA: Post-crisis spending on dine-in is expected to be remain lower than pre-crisis levels while demand for takeout is expected to return to pre-crisis levels fairly quickly. After the pandemic, Chinese consumers say they will spend more on food delivery than before.**

Source: Kantar; GlobalData; UN Demographic and Social Statistics; McKinsey COVID Survey Apr 2020 n=600
Pandemic Induced Innovations From Asia Include:

**Escapist Experiences**

Even as lockdowns ease, international travel remains limited. Operators are rolling out offerings designed to help consumers experience parts of the world they can’t visit.

- In Malaysia, McDonald’s launched a series “Discover the World” LTOs featuring foreign flavors.

**Wishful Wellbeing / Healthy-ish**

The onset of COVID-19 drove consumers to seek both better-for-you, as well as indulgent comfort foods. Plant-based proteins carry at “healthful” halo and solve for supply-chain issues created by slaughterhouses closing around the globe.

- In China, YUM brands KFC, Pizza Hut AND Taco Bell all added plant-based proteins to their menus.

**Non-Domestic Delivery**

Group takeout orders (office catering) has become a new business for many restaurant chains in China, especially during the COVID-19 outbreak. Even before COVID 53% of delivery orders in China were made from workplaces and school campuses.

- Feng Shi is recently launched app that allows companies to directly order group meals for employees.

Source: DaXue Consulting -
IMPLICATIONS

▪ Lingering concerns about eating in crowded places means consumers will likely continue to prefer eating off premise, at least for a time.
  ▪ Scaling up “group bundles” may be an entry point for B2B catering
  ▪ Reformat restaurants—shrinking seating areas, adding drive-through/take-away entrances.

▪ Consumers are much more concerned about what ingredients are in restaurant food, where it comes from, how it’s prepared, and by whom
  ▪ Increase flexibility, transparency and adaptability of supply chains in order to manage disruption
  ▪ Create new offerings or promotions that give consumers access to experiences not available with current restrictions
The impact of lockdowns was nearly universal, but as markets enter restricted recovery — cultural and contextual nuances become more apparent.

- Germany hosts the world’s first drive-in rave
- A Swedish hotel turns its rooms into pop-up restaurants
- The American firm behind these customized masks has amassed a long waiting list
- A hotel in the Maldives rolls out ‘Beach Bubble’ perfect for social distancing
- Sodexo France repurposes closed school kitchens to start a meal delivery service
- Dubai based designer unveils Qworkntine pods concept for in-office social distancing
We are in a time of unprecedented change and disruption as a result of the COVID-19 pandemic. While there are more questions than answers right now, we are committed to delivering best-in-class insights and perspectives that will provide a more informed approach as we jointly build plans that can succeed on the other side of this challenge.

Due to the dynamic nature of the situation, this document will evolve as new information refines our hypotheses.

Special thanks for this edition go to Omar Sahi and Lydia Gau.