Eighth Annual North American Tea Conference: ThirsTea in the Desert

The Shifting U. S. Beverage Landscape and the Role of Tea

For more on RTD Tea trends, see our RTD Tea report –
https://www.beveragemarketing.com/shop/rtd-tea-in-the-us.aspx

September 14, 2017

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Beverage Marketing Corporation utilizes an integrated model for providing information, analysis and advice to beverage industry clients

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Unique Beverage Industry Expertise for Providing "Added-Value" to Selected Clients

Cutting Edge Insights: New Age Emergence, Multiple Beverage Competition, Specialty Beer Opportunity, Bottled Water Dominance, Hyper-Category Competition, Micro-Marketing Age

All data in this presentation is supplied by:

DrinkTell™

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Agenda

I. Overall Beverage Landscape

II. Category Updates: Tea and its Competitors

III. Projections

State of the Industry – The Good and the Bad

Beverage Headlines

- Liquid refreshment beverage market grew for third consecutive year in 2016 after flat performance in 2013; growth has continued into the first half of 2017
- Carbonated soft drinks experienced another modest sales decline in 2016 and in the first half of 2017
- Bottled water surpassed CSDs as largest beverage category in 2016, led by continued solid growth of single-serve water segment
- Niche categories continue to outperform traditional mass-market categories with exception of bottled water
- Wine and spirits led alcohol growth in 2016, and beer experienced essentially flat performance

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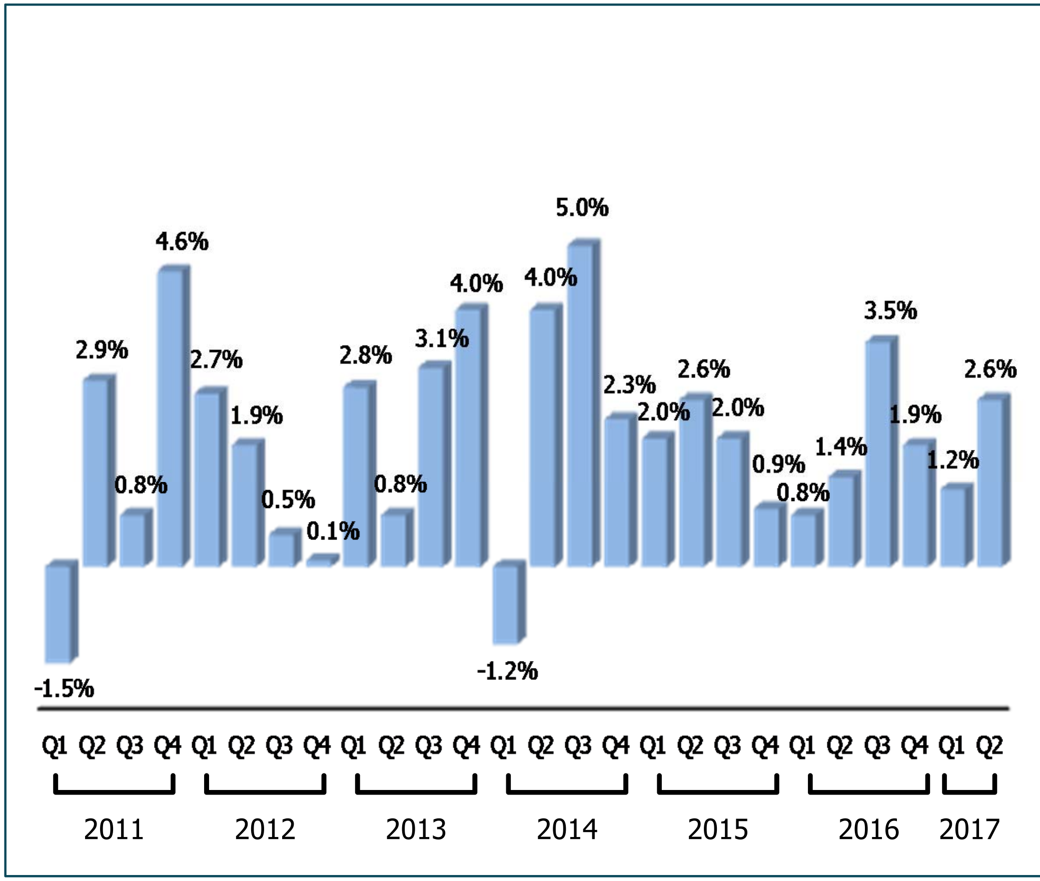
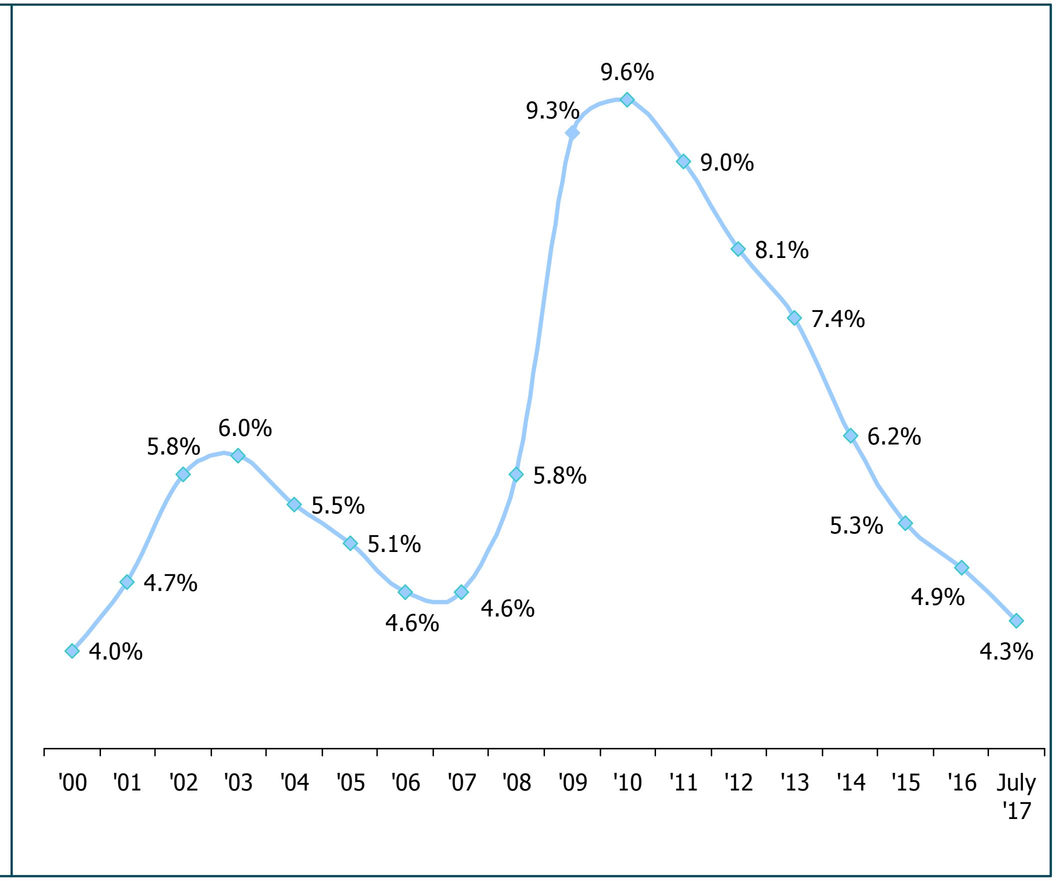
The economy continues to move in a positive direction with improved GDP growth and lower unemployment, a key to successful beverage market performance

Quarterly GDP Change 2011 – Q2 2017



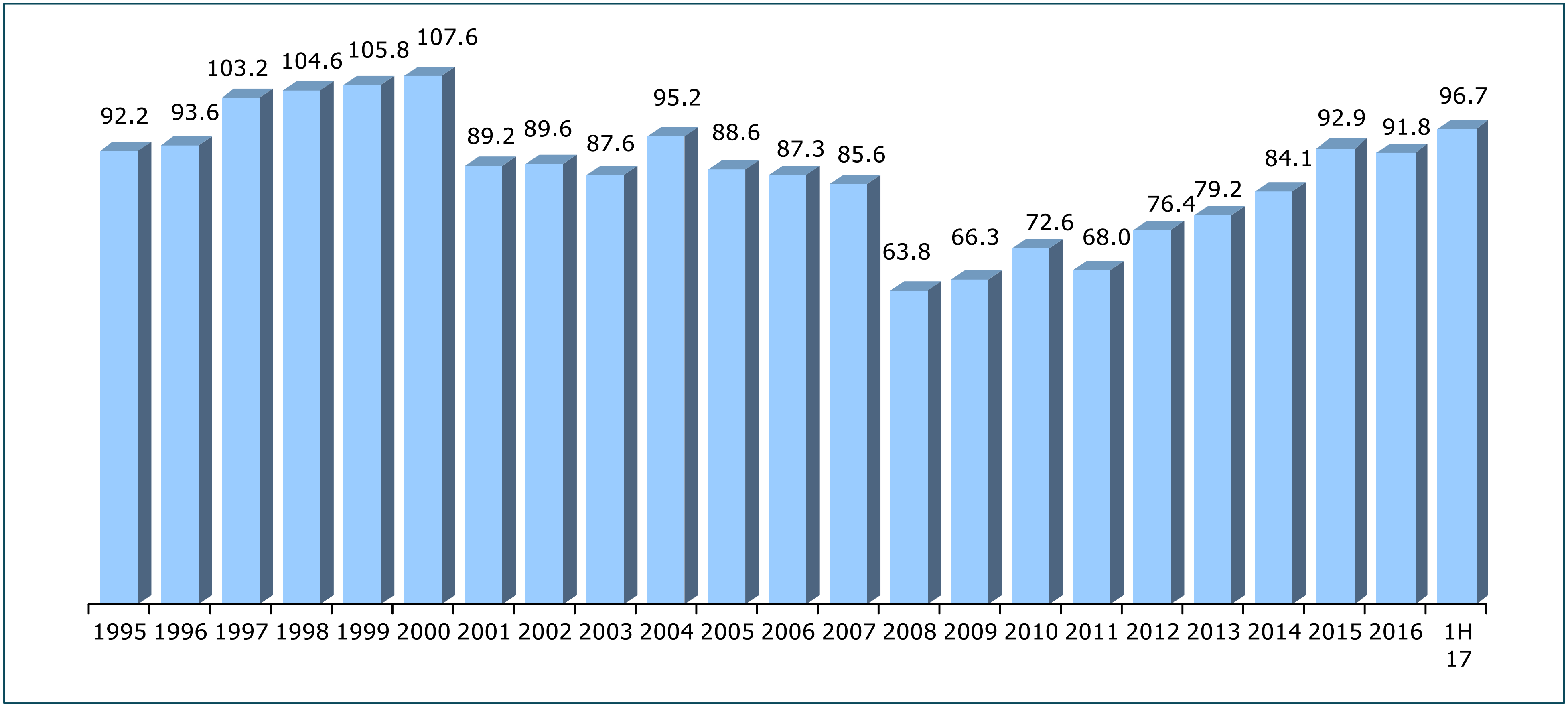
Unemployment Rate 2000 – July 2017



Source: Beverage Marketing Corporation; Bureau of Economic Analysis, Department of Commerce, Department of Labor

Consumer sentiment surpassed pre-recession levels in 2015 for the first time, but dipped slightly in 2016

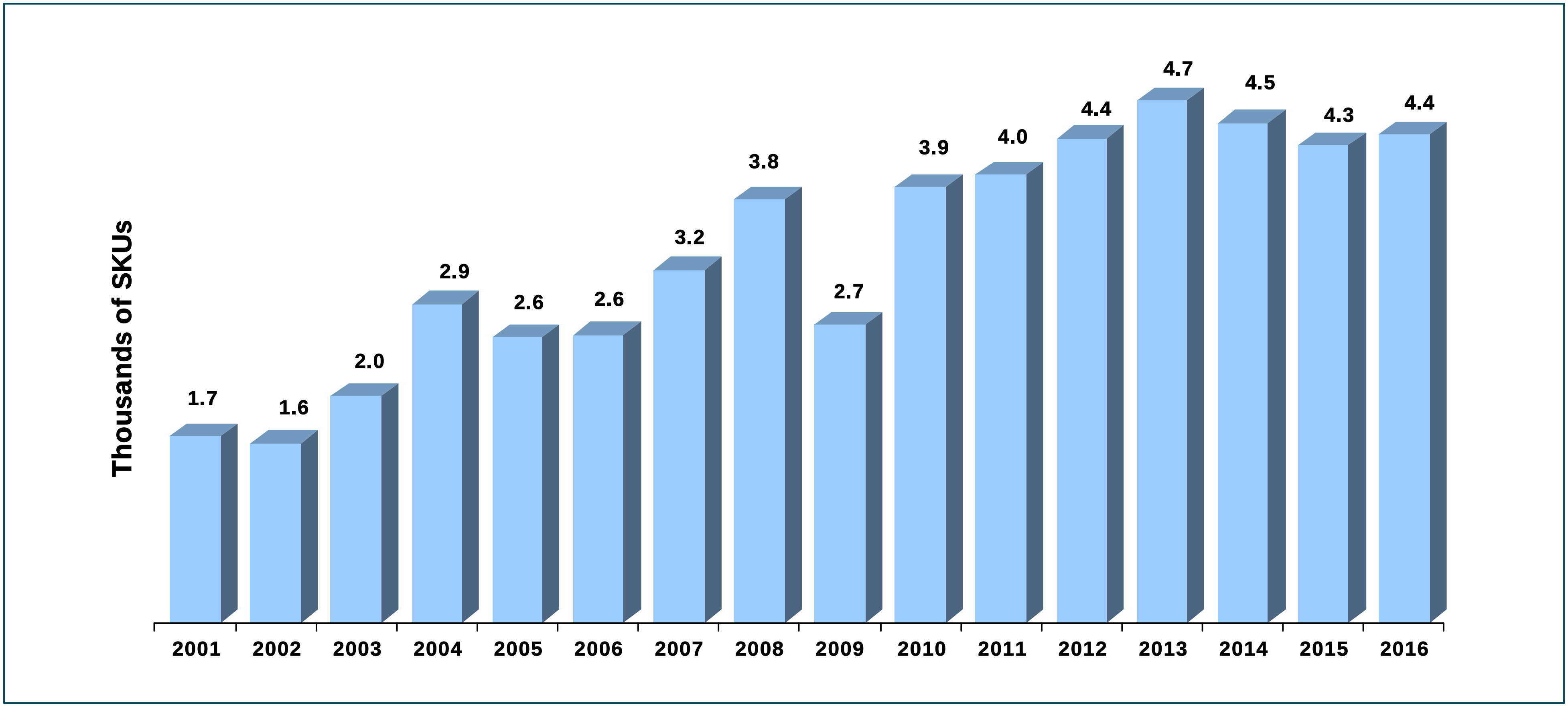
Annual U.S. Consumer Sentiment Index
1995 – 1H 2017



Source: Thompson Reuters/University of Michigan

New product introductions have risen since 2001 due to the emergence of new categories and heightened consumer demand for variety

New Beverage Product Introductions 2001 – 2016

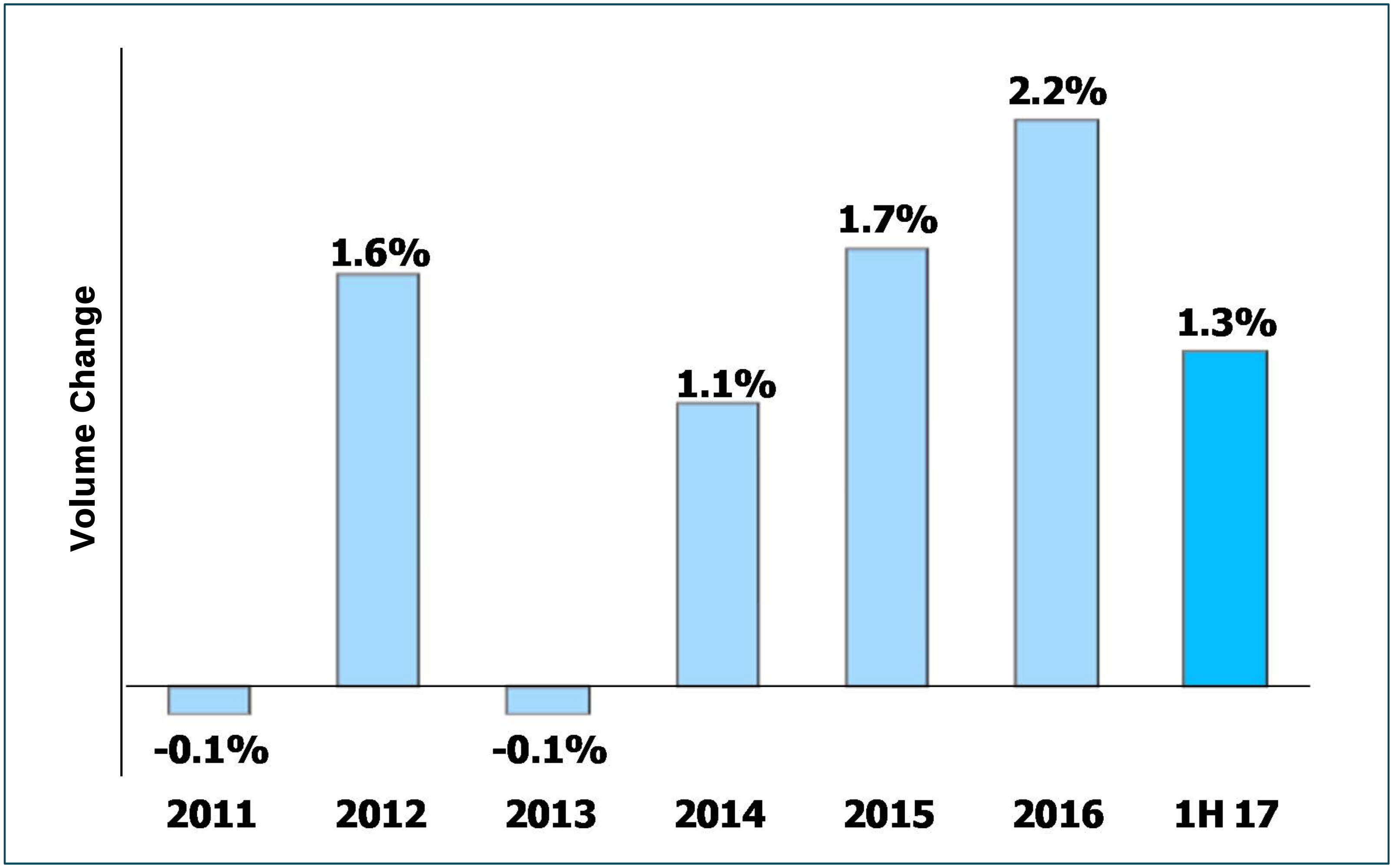


Source: Beverage Marketing Corp.; Mintel

The U.S. beverage market has experienced modestly accelerating growth since declines occurred during the recession, but the first half of 2017 was softer

- The market has now experienced three consecutive years of modest growth

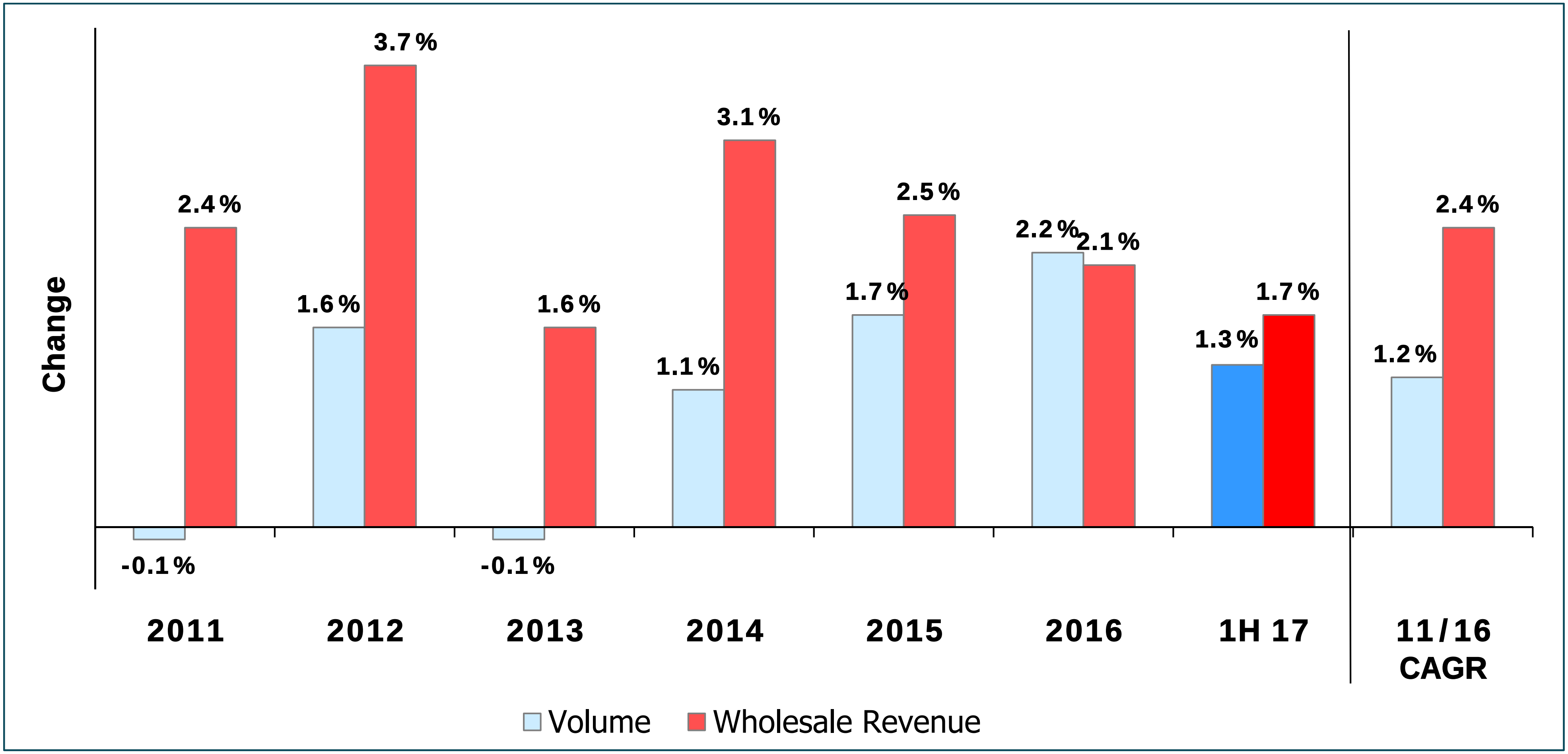
U.S. Total Beverage Market
2011 – 1H 2017



Source: Beverage Marketing Corp.

Post-recession beverage revenue growth has consistently outpaced volume performance due primarily to price increases, trend toward premiumization, and packaging mix shifts

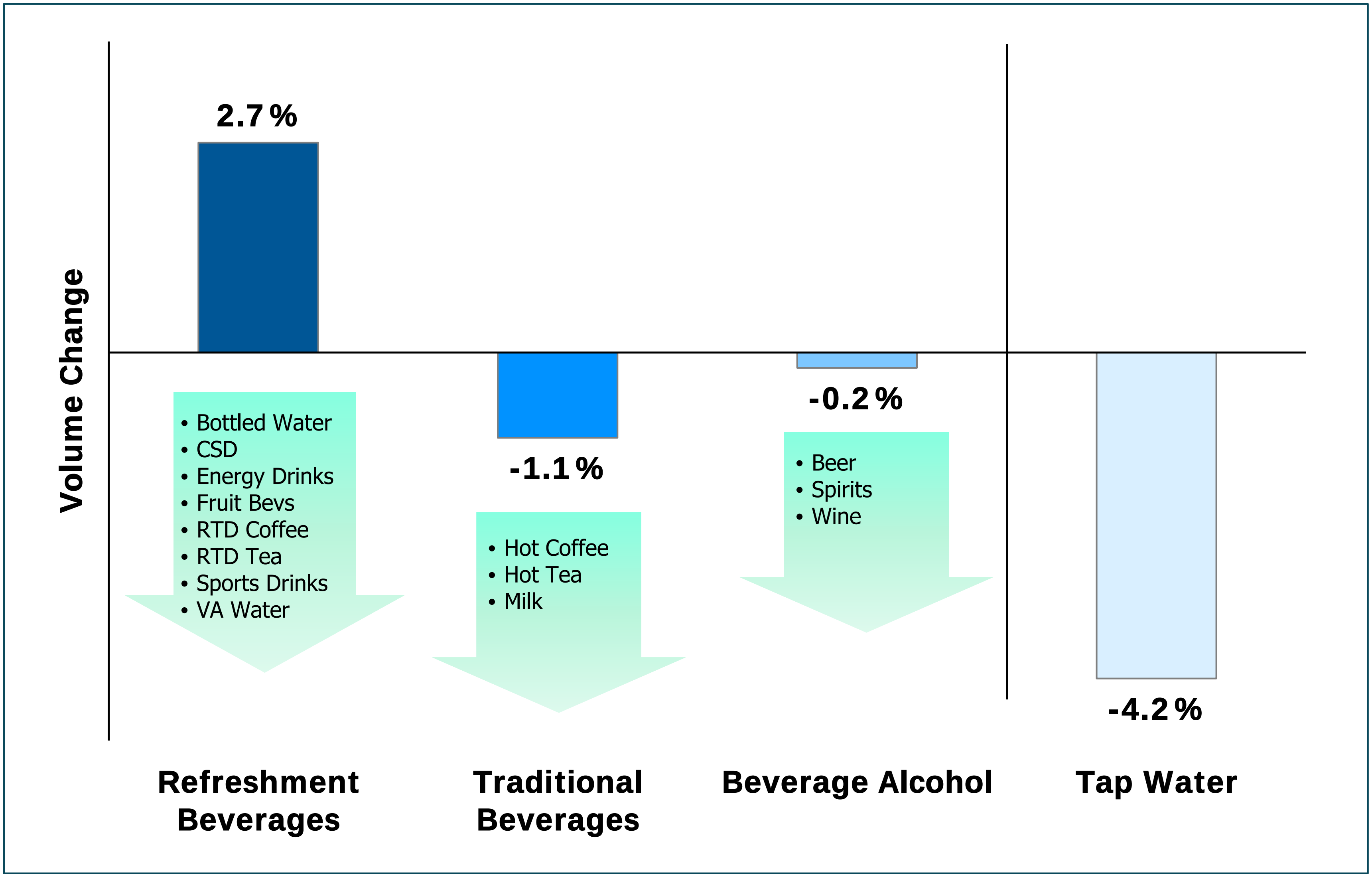
U.S. Total Beverage Market
Volume and Wholesale Revenue
(Millions of Gallons and Wholesale Dollars)
2011 – 1H 2017



Source: Beverage Marketing Corp.

Refreshment beverages have been the star performer in the U.S. beverage market in the first half of 2017

U.S. Beverage Market – 1H 2017



Source: Beverage Marketing Corporation

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More non-alcoholic beverage categories grew in 2016 than declined, and niche categories generally outperformed large traditional categories

2016 Category Winners and Losers

WINNERS*

- Bottled Water
- RTD Coffee
- **RTD Tea**
- Sports Drinks
- Energy Drinks
- Valued-Added Water

LOSERS**

- CSDs
- Milk
- Fruit Beverages

** Volume increases*
*** Volume declines*

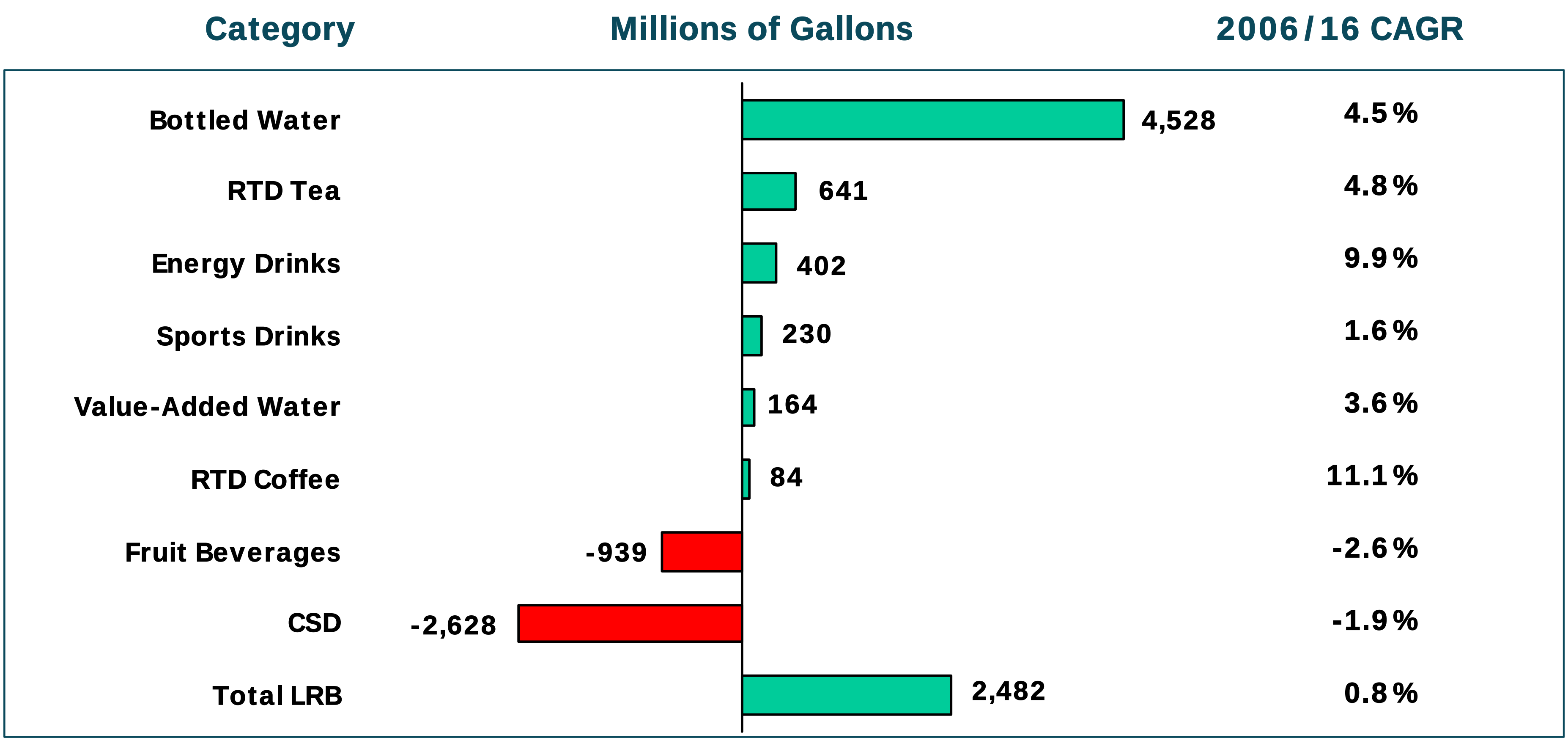
Fewer categories experienced improved performance in 2016 compared to 2015

2016 Beverage Report Card

IMPROVED	WORSENED
• CSD	• RTD Coffee
• Bottled Water	• **RTD Tea**
• Milk	• Fruit Beverages
• Value-Added Water	• Sports Drinks
	• Energy Drinks

Bottled water has gained the most volume over the last 10 years while carbonated soft drinks have lost the most, and fruit beverages have also lost significant volume

Decade Comparison
2006 – 2016
Which Categories Gained, Which Lost Volume?



Source: Beverage Marketing Corp.

Since the 1970s, beverage consumers have grown in sophistication, with increasingly complex motivations for consuming beverages

Evolution of Beverage Need-States
1970s to Present

Key Motivations for Beverage Choices

1970s
- Refreshment
- Basic Function

1980s
- Pick me up
- Social & Fun
- Active & Portability
- Sweet Indulgence
- Healthy Alternative

1990s
- Pick me up
- Social & Fun
- Active & Portability
- Sweet Indulgence
- Healthy Alternative
- Fortified Fuel
- Flavorful Health
- Portable Hydration
- Purifying

2000s
- Pick me up
- Social & Fun
- Active & Portability
- Sweet Indulgence
- Healthy Alternative
- Fortified Fuel
- Flavorful Health
- Portable Hydration
- Purifying
- Mood enhancement
- Natural
- Guilt-negation

Today
- Pick me up
- Social & Fun
- Active & Portability
- Sweet Indulgence
- Healthy Alternative
- Fortified Fuel
- Flavorful Health
- Portable Hydration
- Purifying
- Mood enhancement
- Natural
- Guilt-negation
- Herbal
- Relaxation

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Expanding consumer motivations for beverage choices has resulted in a steadily broadening array of beverage categories

Evolution of Growth of Beverage Categories
1970s to Present

1970s

- Milk & Juice
- CSDs
- Coffee & Alcohol

1980s

- Milk & Juice
- CSDs
- Coffee & Alcohol
- RTD Teas
- Juice Drinks
- Isotonics
- PET Waters
- Flavored CSD's

1990s

- Milk & Juice
- CSDs
- Coffee & Alcohol
- RTD Teas
- Juice Drinks
- Isotonics
- PET Waters
- Flavored CSD's
- Fresh-packed Juice
- Smoothies
- Coffee Drinks

2000s

- Milk & Juice
- CSDs
- Coffee & Alcohol
- RTD Teas
- Juice Drinks
- Isotonics
- PET Waters
- Flavored CSD's
- Fresh-packed Juice
- Smoothies
- Coffee Drinks
- Nutrient-enhanced
- Energy

Today

- Milk & Juice
- CSDs
- Coffee & Alcohol
- RTD Teas
- Juice Drinks
- Isotonics
- PET Waters
- Flavored CSDs
- Fresh-packaged Juice
- Smoothies
- Coffee Drinks
- Nutrient-enhanced
- Energy
- Functional
- Health & Wellness

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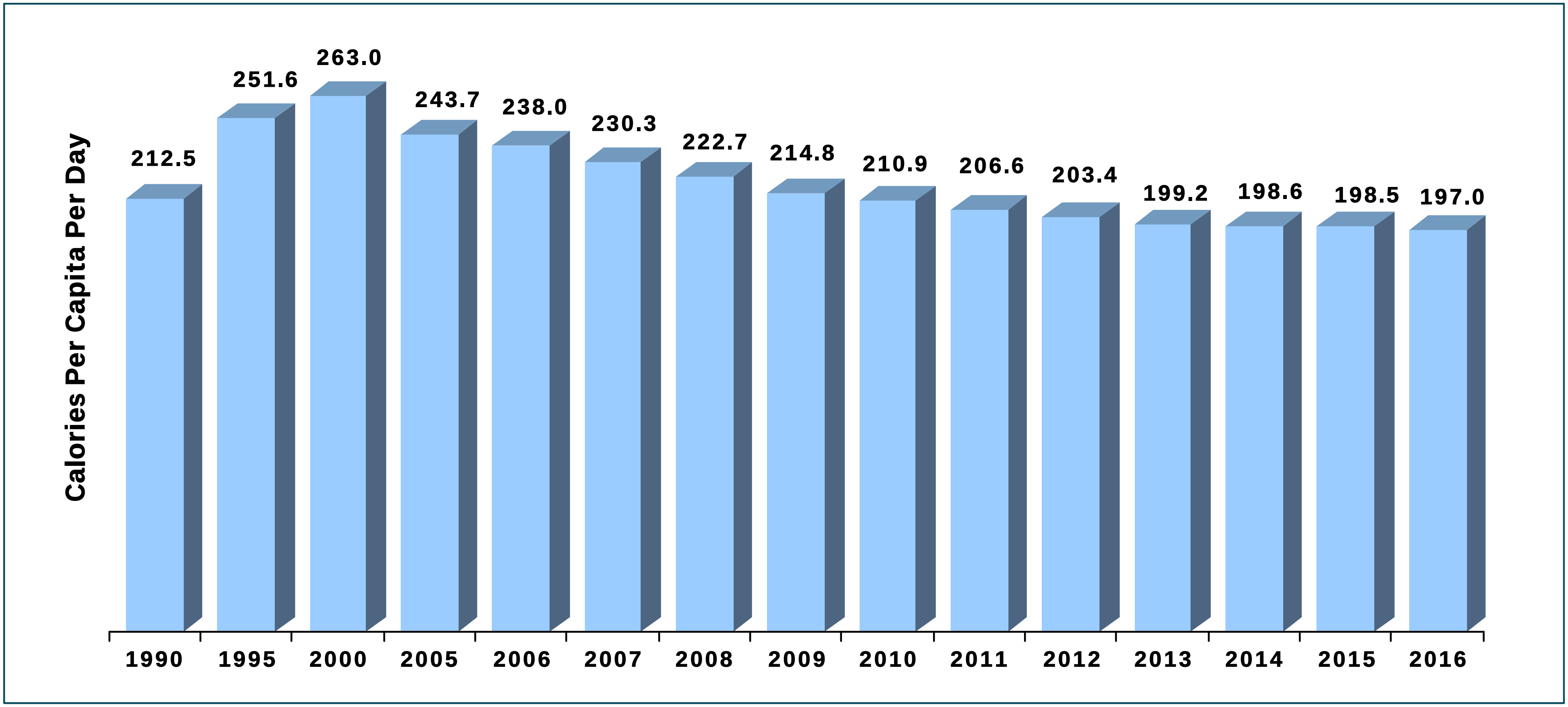
Caloric intake from refreshment beverages has been steadily declining since 2000 despite negative publicity the industry has received

- The growth of bottled water and lower-calorie options have contributed to the caloric decline

U.S. Refreshment Beverage Calories Per Day 1990 – 2016

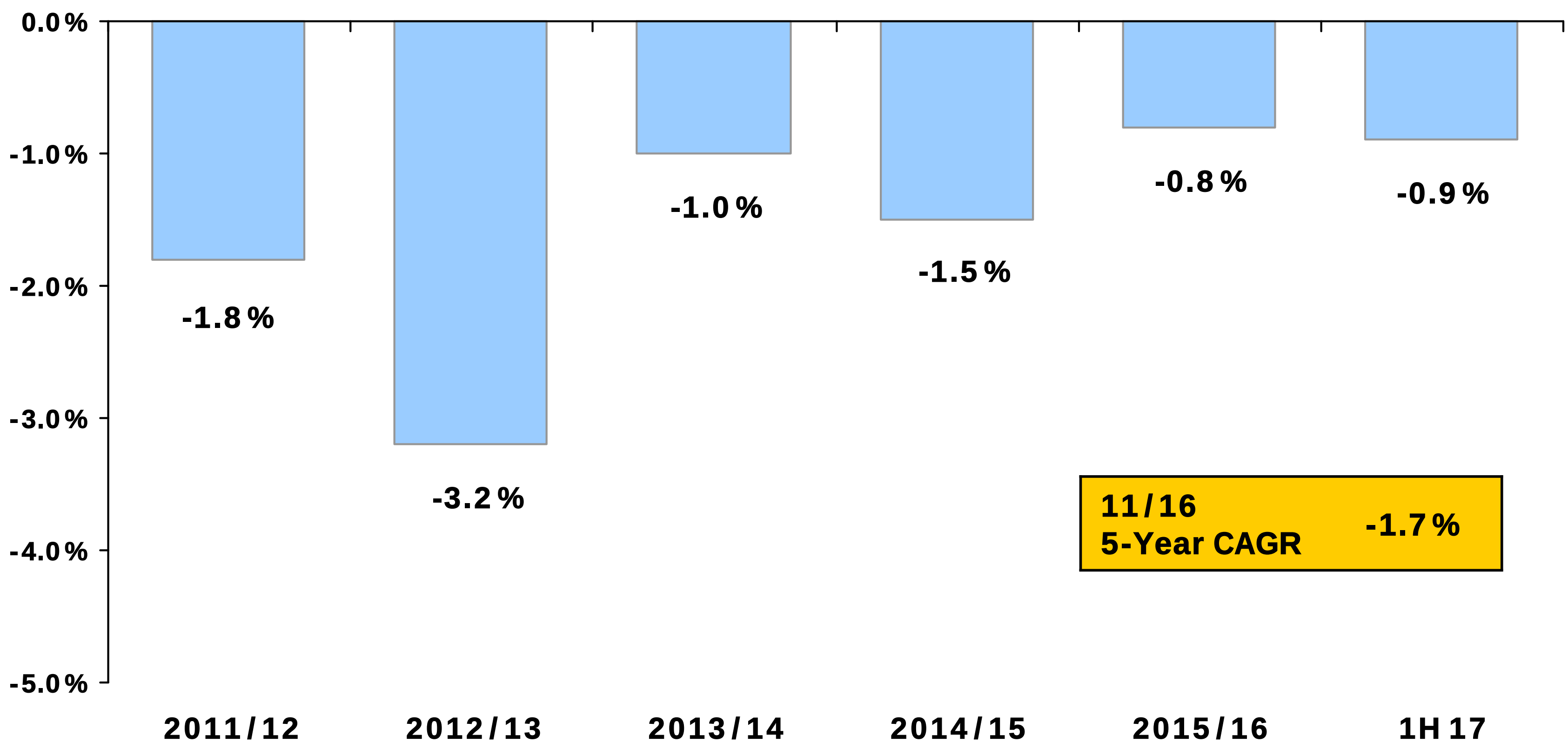


Source: Beverage Marketing Corp.

Carbonated soft drink volume declined for the 12th consecutive year in 2016 and was surpassed by bottled water as the largest beverage category in the U.S.

- Declines have continued through the first half of 2017
- Today's consumers are migrating to healthier options and want more variety

U.S. Carbonated Soft Drink Volume Growth 2012 – 1H 2017



Source: Beverage Marketing Corp.

Search for zero-calorie sweeteners continues; ideal sweetener should be natural, stable, in good supply, cost effective, and taste like sugar

Stevia/Erythritol

Stevia/Erythritol

Stevia/Erythritol/Monk Fruit

Sugar/Stevia

Sugar/Stevia

Stevia

Beyond the search for improved diet sweeteners, companies are looking for other ways to bolster sales including craft sodas, smaller package sizes, and home dispensers

Craft Soda

Smaller Packaging Sizes

Home Dispensers

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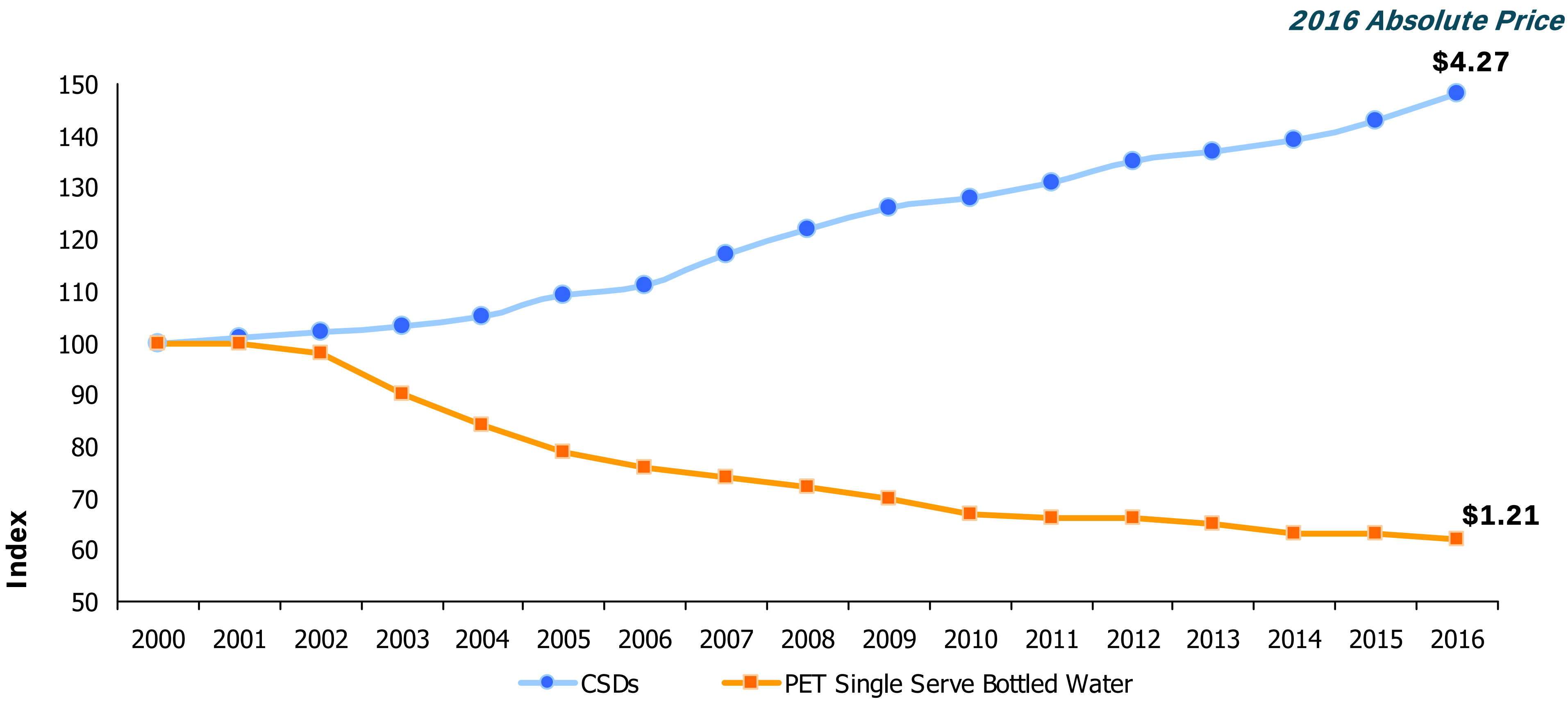
Consumer health and variety demands negatively impact CSD consumption. CSD category performance is further impacted by other external factors that contribute to consumption declines

- Reasons for reducing CSD consumption:
  - Health
  - Variety
- Legislation and messaging from government and regulatory agencies
- Tax threats aimed at reducing consumption
- Negative commentary from medical studies and other organizations
- Steady drumbeat of negative press

Source: Beverage Marketing Corporation

Modest pricing increases in carbonated soft drinks coupled with significant pricing declines in bottled water have contributed to respective category performances

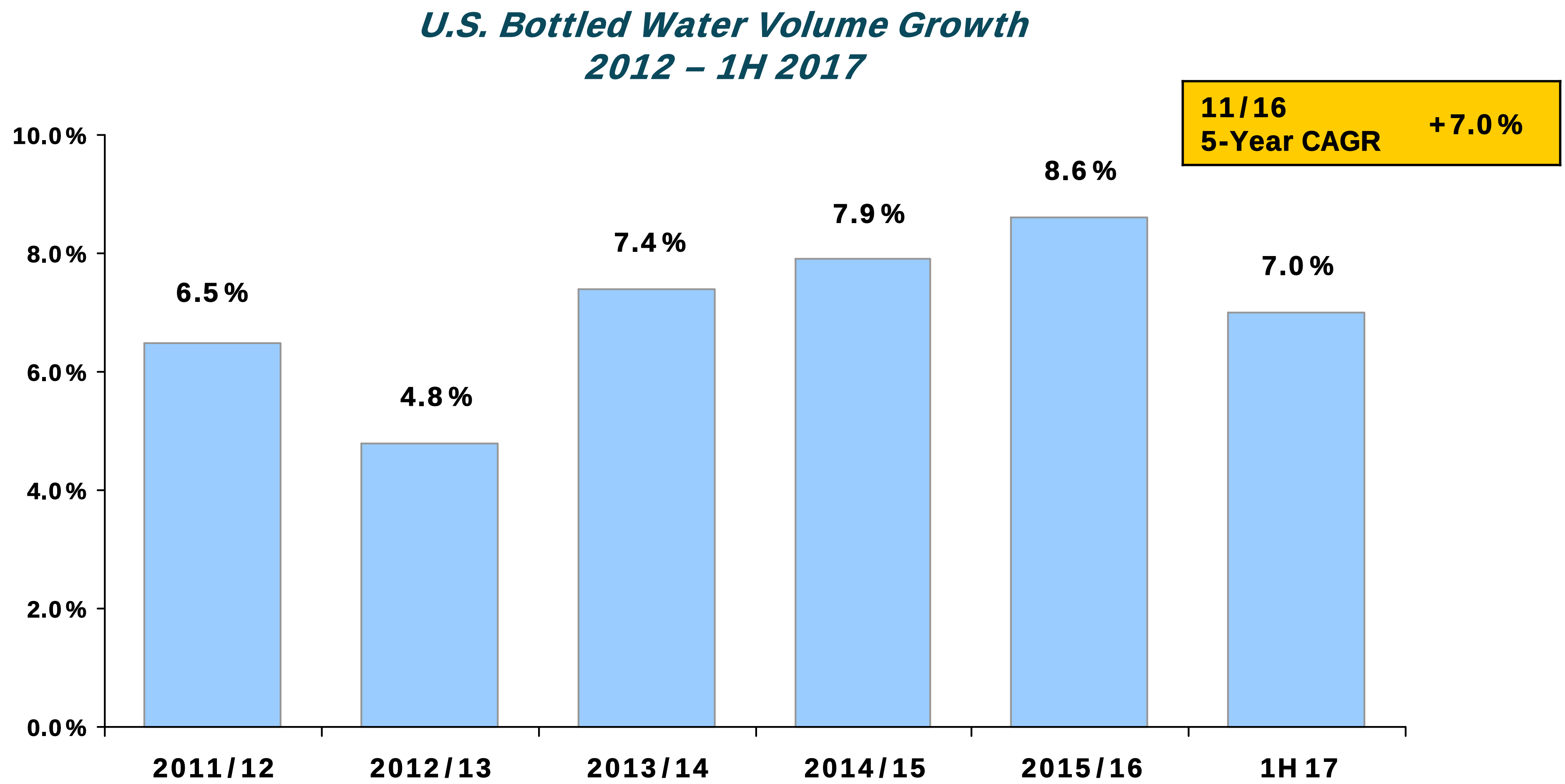
Wholesaler Dollars Per Gallon Indexed to 2000



Source: Beverage Marketing Corp.

Bottled water has experienced healthy growth each year since the recession

- Aided by its positioning as a healthy beverage, it surpassed carbonated soft drinks in 2016 as the most popular beverage in the United States on a volume basis
- Category growth has accelerated each year since 2013 but is likely to moderate somewhat in 2017



Source: Beverage Marketing Corporation

While stable, single-serve water pricing continues to be historically aggressive and is likely to remain so at least through 2017

- Every-day pricing has been as low as $2.49-2.99 for 24-packs at retail

Advances in Supply Chain Costs

- High-speed bottle filling in a range of 15-18 million cases per year per line
- Mostly stable resin costs with the exception of a recent uptick
- Continued bottle light-weighting
- Stable fuel costs but may rise this year

Enhanced waters of all types are now proliferating and gaining traction in all parts of the country

- These premium-priced, craft type waters are adding additional benefits to consumers' water experience, and offer variety beyond plain water

PH Balanced Water

Essentia

Essence Water

Hint

Structured Water

Penta

Plant Water

Trader Joe's

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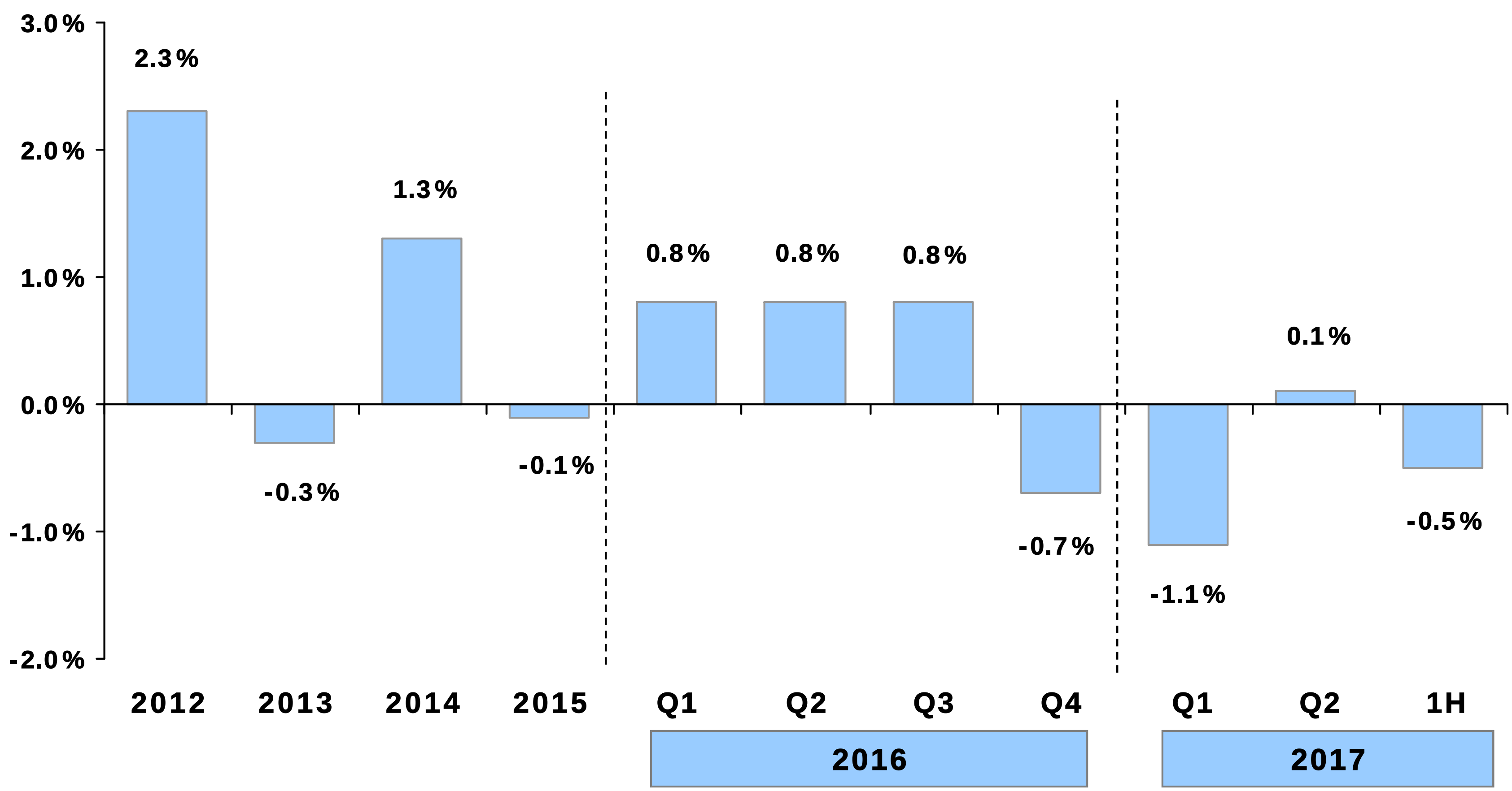
The total U.S. tea market in all forms has seen modest growth in recent years but declined slightly in the first half of 2017

- After a dip in the first quarter of 2017, the category grew slightly in the second quarter
- Since 2012, the U.S. tea market has grown at an average annual rate of just .04%

U.S. Tea Annual and Quarterly Volume Growth 2012 – 1H 2017



Innovation is playing a key role in the category with new tea products and tea-like products frequently emerging

- Matcha, an enhanced green tea, has become trendy in hip neighborhoods
- Yaupon drinks are showing up in upscale stores like Whole Foods
- As the RTD tea category continues to grow, entrepreneurs are likely to continue to seek innovative ways to enter the category without directly competing against the category

Beyond traditional mainstream categories and newer niche categories, a host of emerging categories have entered the market and most boast health and wellness attributes and/or promise specific functional benefits

Select Offerings and Categories of Today's Emerging Beverages

HPP Juice

Cold Brew Coffee

Plant-based Water

Coconut Water

Kombucha

Emerging beverages have provided excitement to the marketplace although not all segments will prove successful in the long run

Select Offerings and Categories of Today's Emerging Beverages

Dairy Alternatives

Protein/Sustenance

Probiotic

Matcha

Chia

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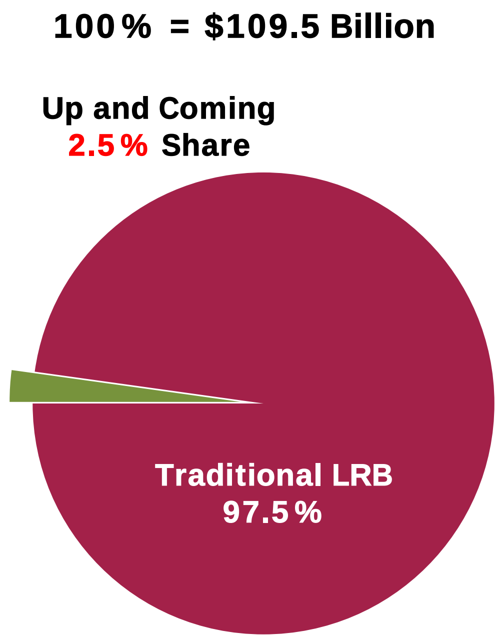
All combined these emerging categories are showing exceptional growth from a relatively small base but hold promise for the future

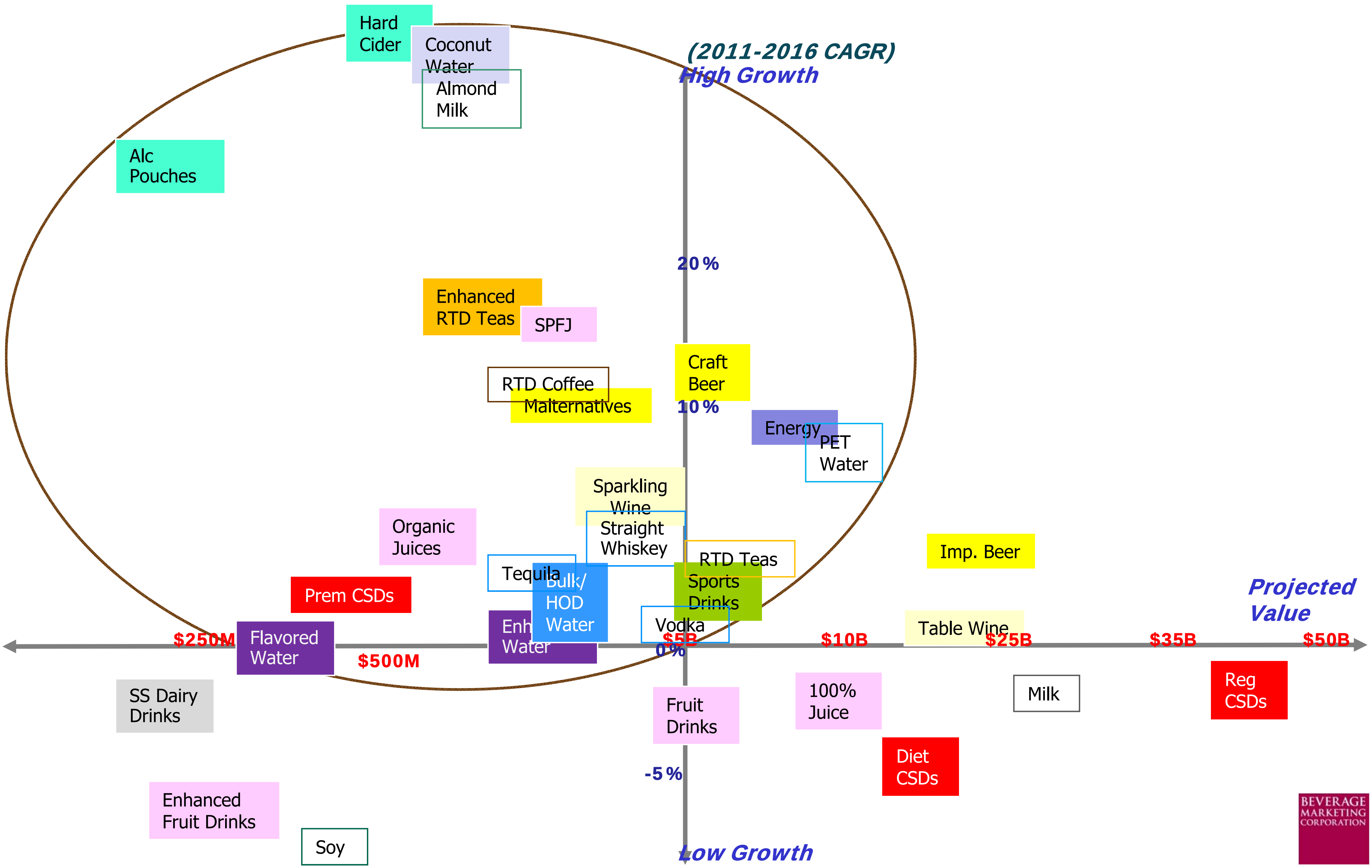
Up and Coming Categories vs. Traditional LRB Categories 2015 - 2016 (Wholesale Dollars and Wholesale Dollar Growth)

Category	2015	2016	15/16
RTD Protein Drinks	$571.9	$611.9	7.0%
Kombucha	379.2	534.5	40.9%
Plant Water	420.0	493.4	17.5%
HPP/Cleanses	415.5	486.2	17.0%
Probiotics	259.9	280.7	8.0%
Cold Brew Coffee	58.8	112.4	91.2%
Functional Bevs	87.0	87.9	1.0%
Premium Mixers	55.0	56.5	2.7%
RTD Mate/Guayusa	21.0	22.7	8.1%
TOTAL	**$2,268.4**	**$2,686.1**	**18.4%**



Source: Beverage Marketing Corp.

In the future, the marketplace will be characterized by numerous high-value, low relative volume opportunities



Thank You

Beverage Marketing Corporation

- **Strategic Associates**
- **Research**
- **Advisors**

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