BevTech 2016

The Shifting Beverage Landscape

May 3, 2016

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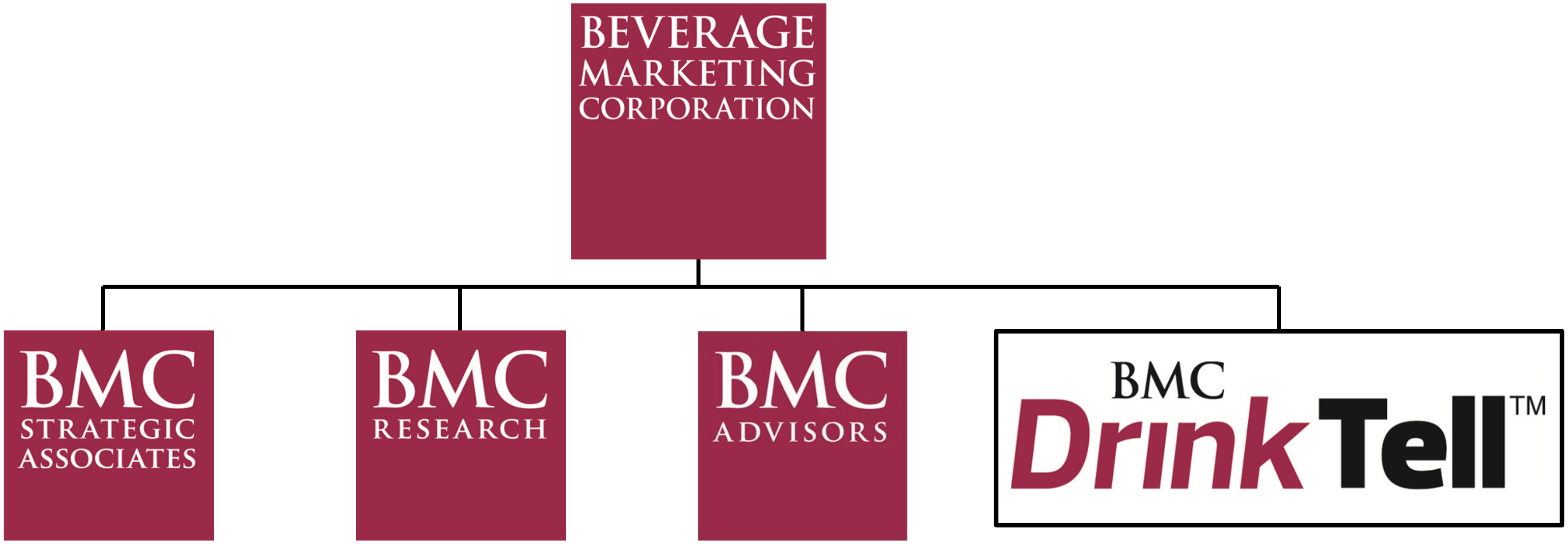
MARKETING
CORPORATION

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



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

State of the Industry – The Good and the Bad

Beverage Headlines

- Liquid refreshment beverage market grows for second consecutive year in 2015 after flat performance in 2013
- Carbonated soft drinks experience another modest sales decline in 2015
- Bottled water continues its solid growth trend led by single-serve water segment
- Niche categories continue to outperform traditional mass-market categories
- Wine and spirits lead alcohol growth in 2015, and beer experiences essentially flat performance

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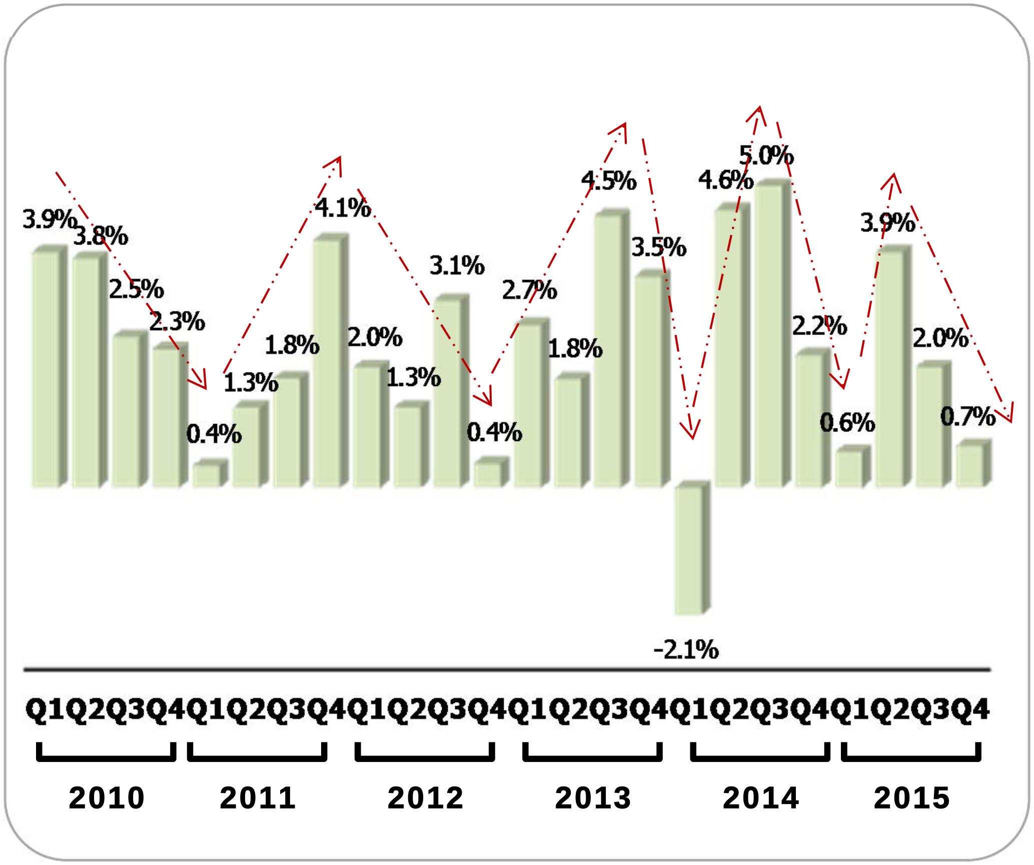
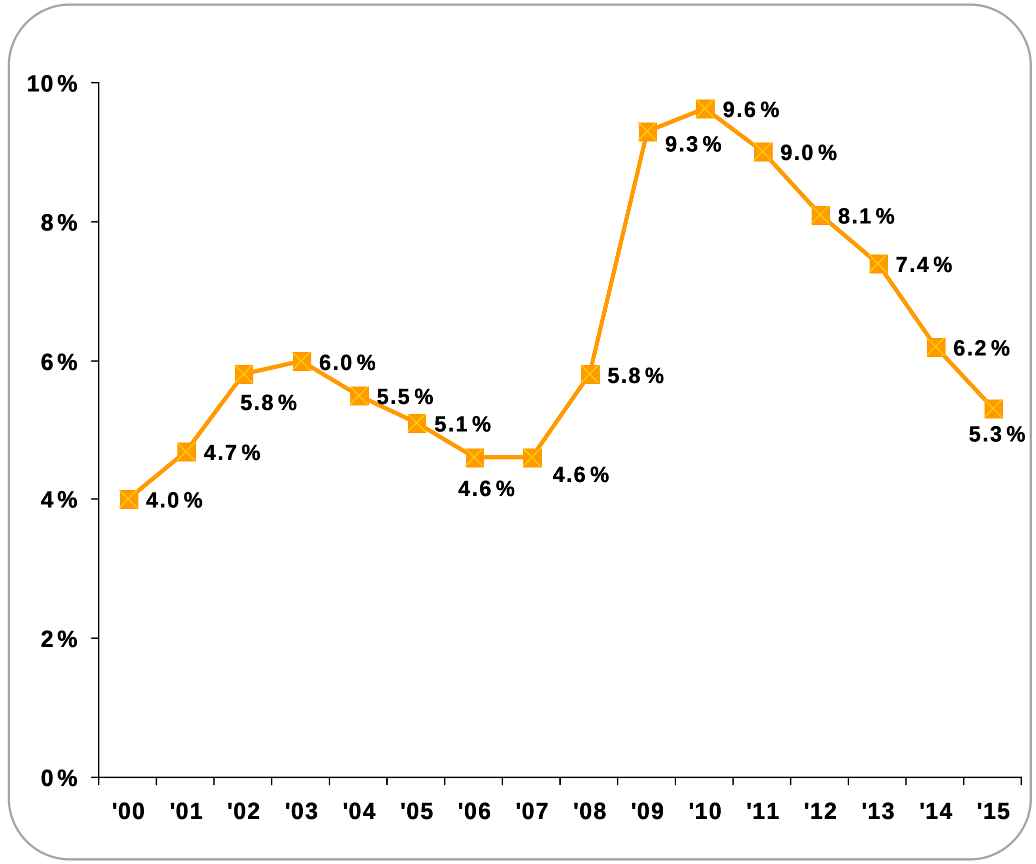
The economy continues to move in a positive direction with improved GDP growth and lower unemployment, but improvement has been slow due to severity of the recession

Quarterly GDP Change 2010 – 2015



Unemployment Rate 2000 – 2015

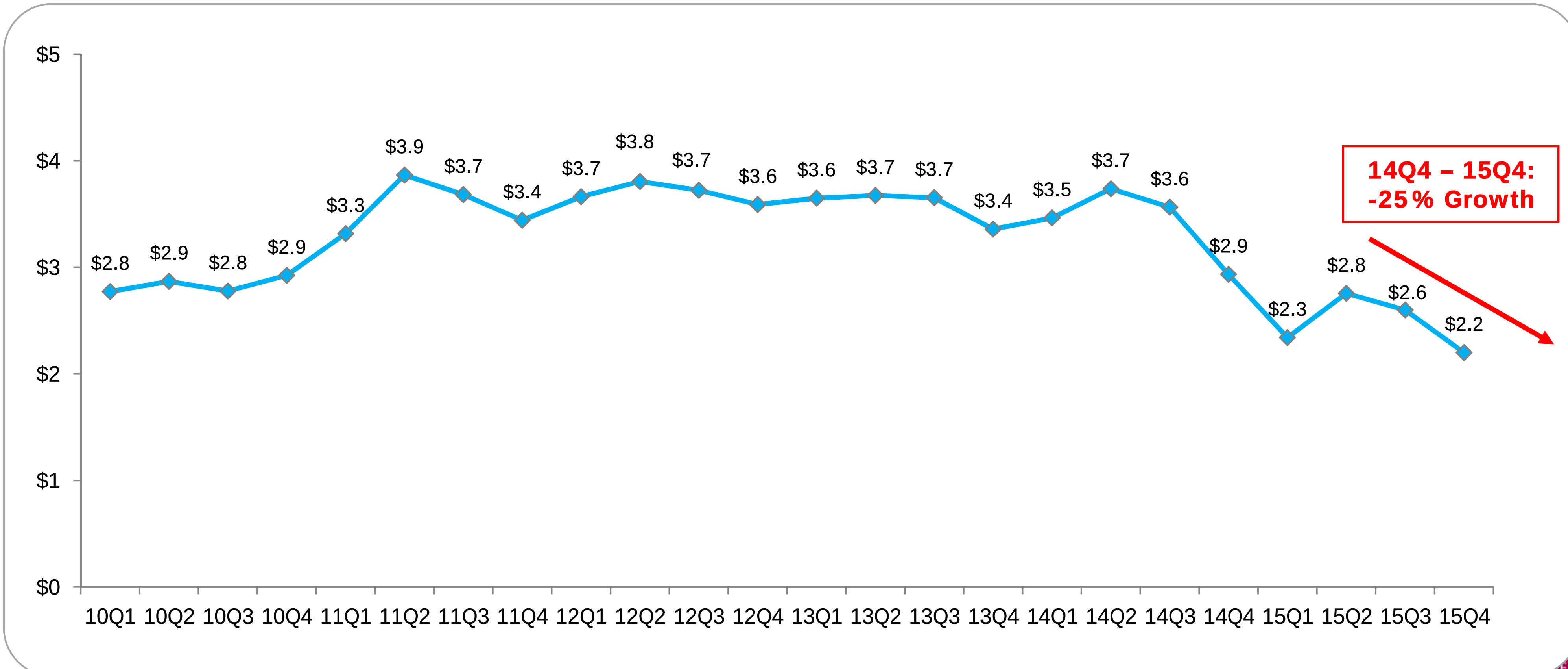


Source: Beverage Marketing Corporation; Bureau of Economic Analysis, Department of Commerce, Department of Labor

Gasoline prices are almost a dollar a gallon lower than last year but to date have only had a modest impact on beverage consumption

- Lower gas and oil prices are a net positive for the beverage industry
- However, "thriftiness" under changing economic times is now the new norm

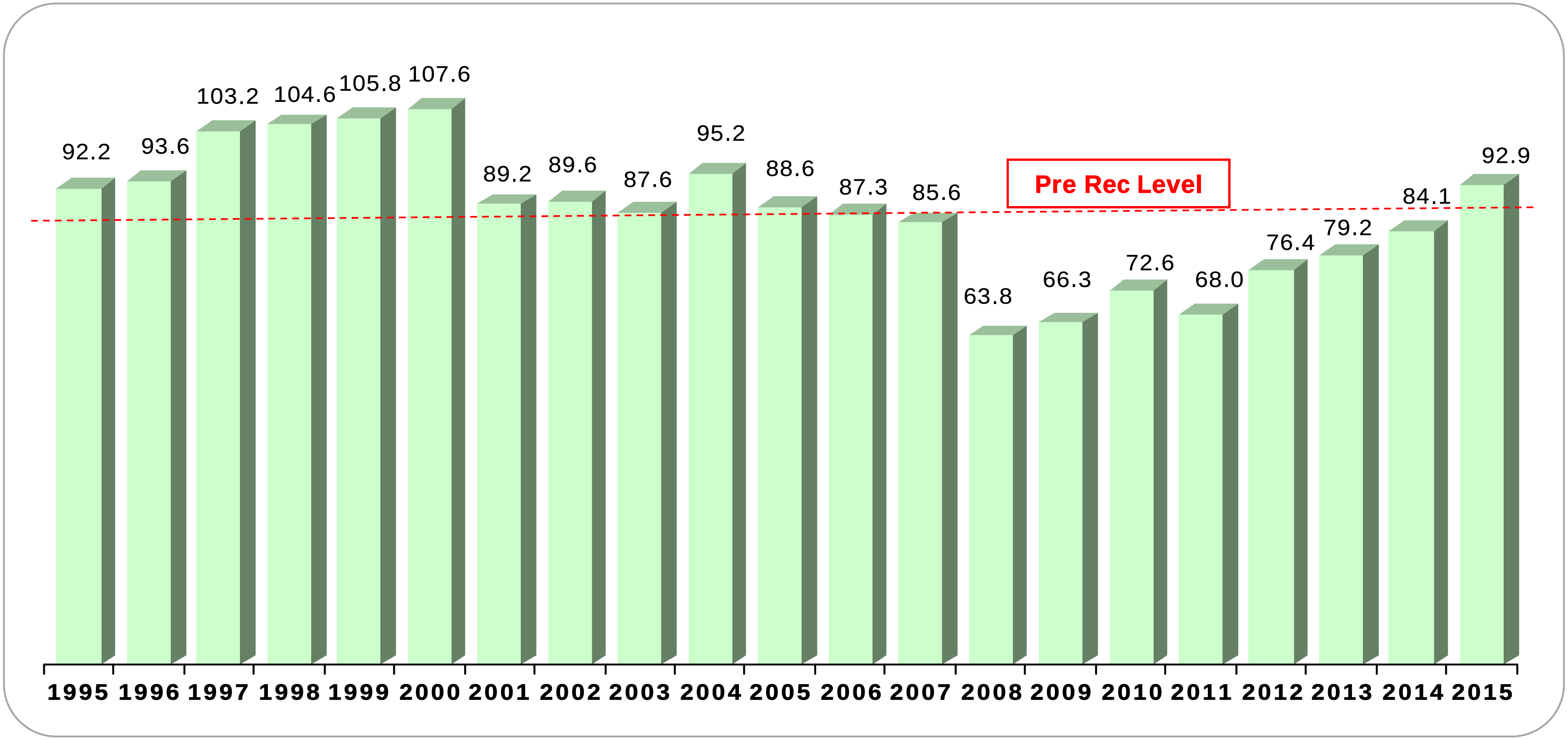
Gasoline Prices 2010 – 2015



Source: U.S. Energy Information Administration

Consumer sentiment surpassed pre-recession levels in 2015 for the first time

Annual U.S. Consumer Sentiment Index
1995 – 2015

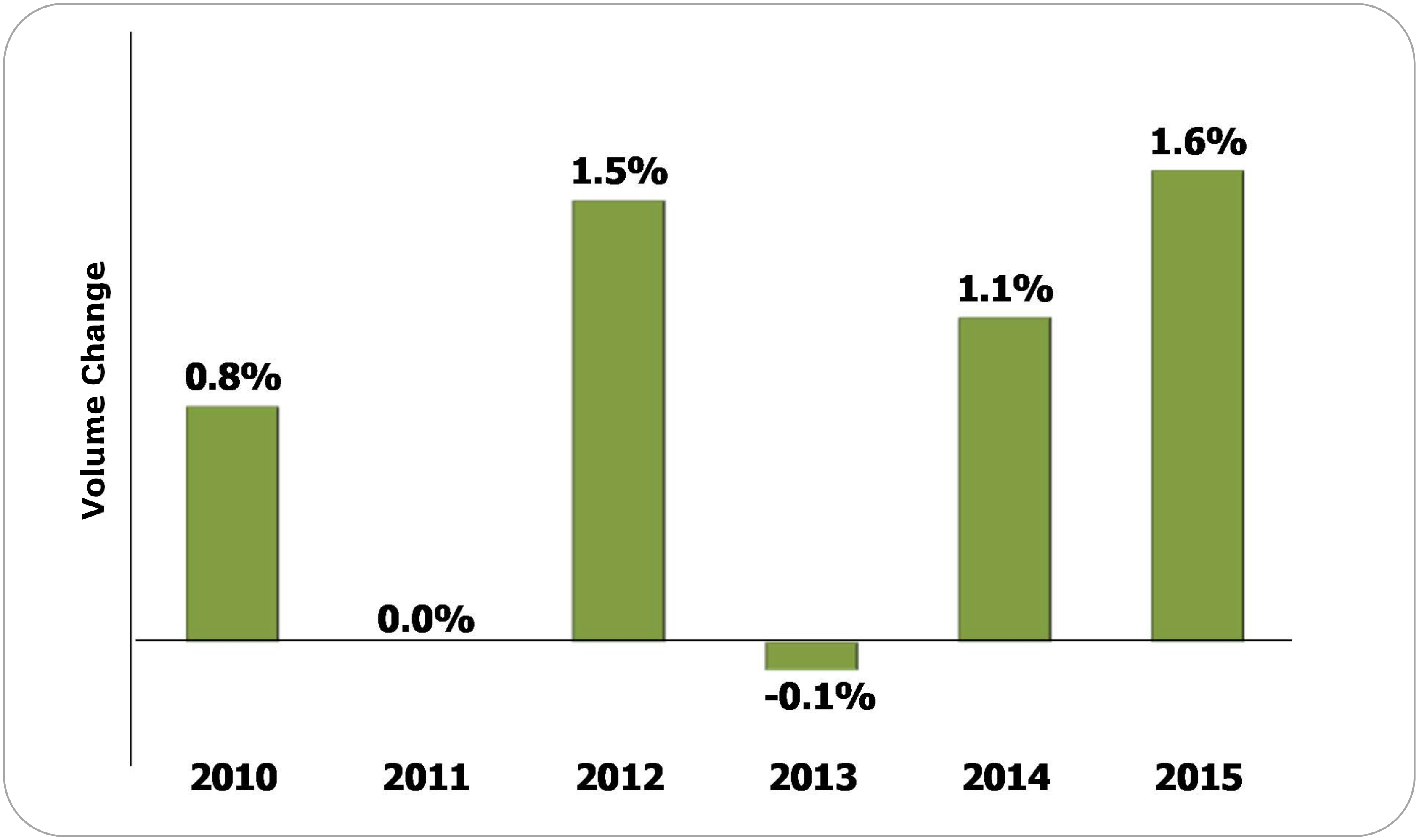


Source: Thompson Reuters/University of Michigan

The U.S. beverage market has experienced overall mixed performance since declines during the recession, but has now achieved back-to-back years of growth

- Growth accelerated in 2015 over 2014

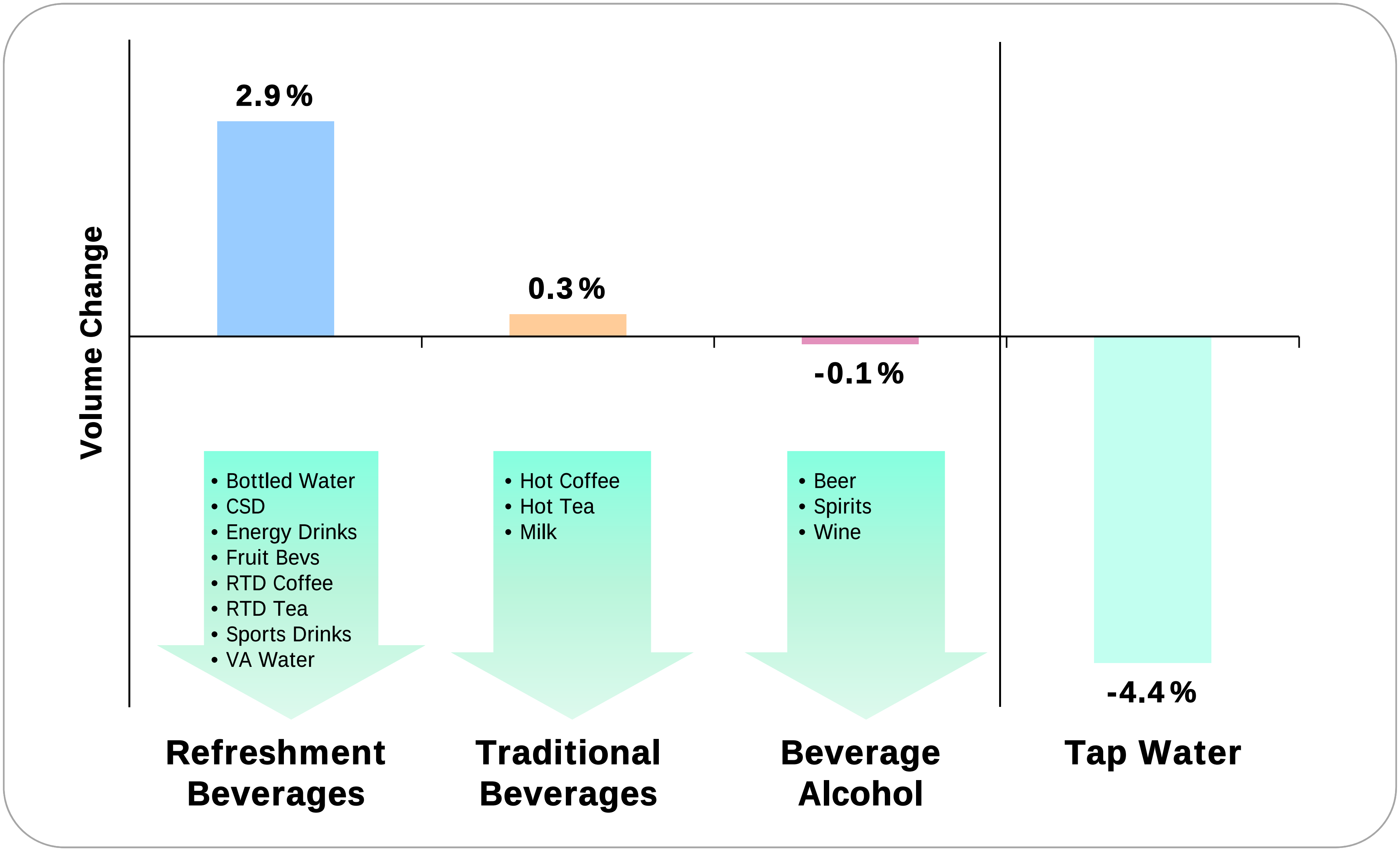
U.S. Total Beverage Market
2010 – 2015



Source: Beverage Marketing Corp.

In 2015, refreshment beverages led by bottled water and some niche categories are growing fastest

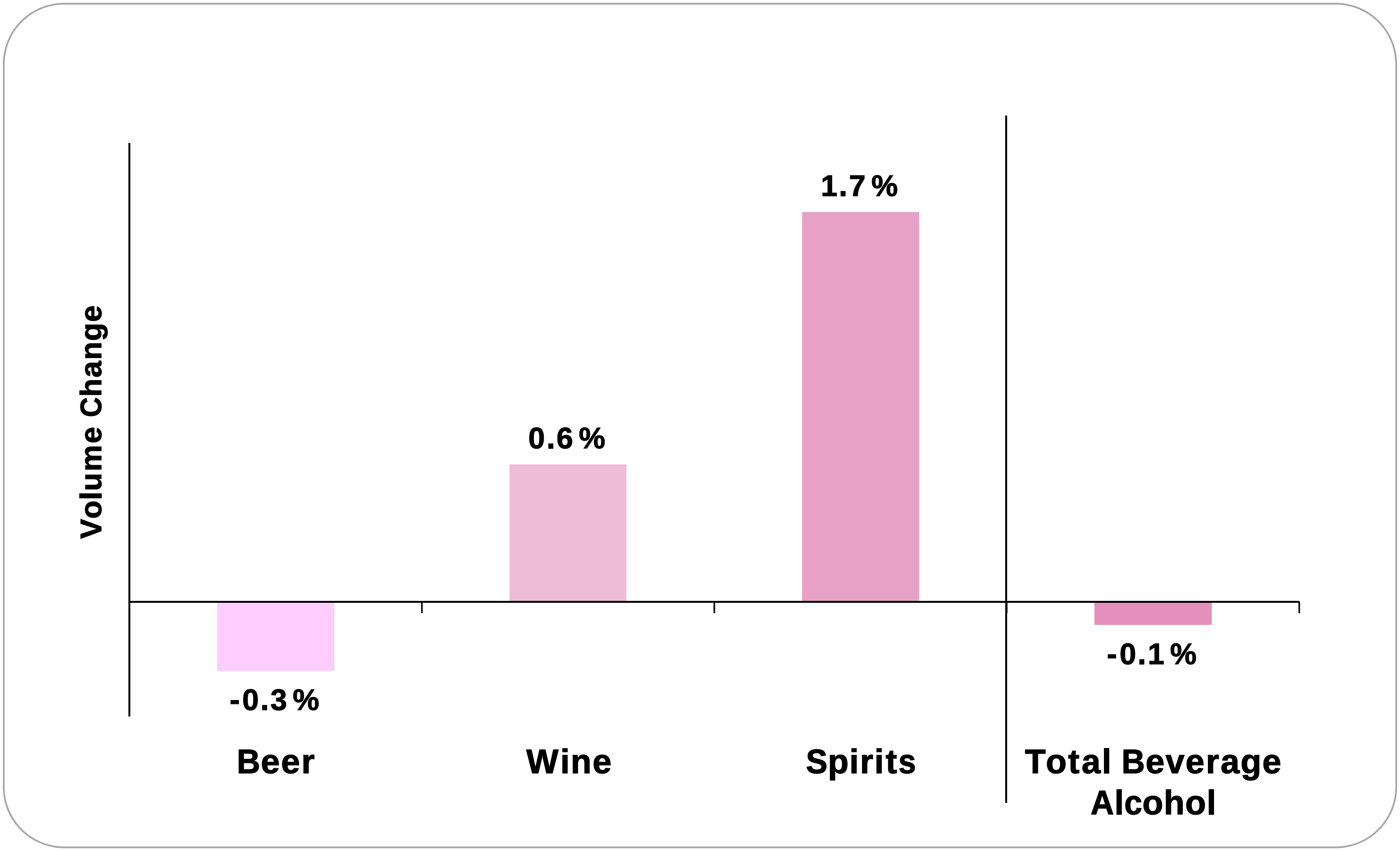
U.S. Beverage Market – 2015



Source: Beverage Marketing Corp.

Wines and spirits have been driving beverage alcohol growth with beer experiencing a modest decline

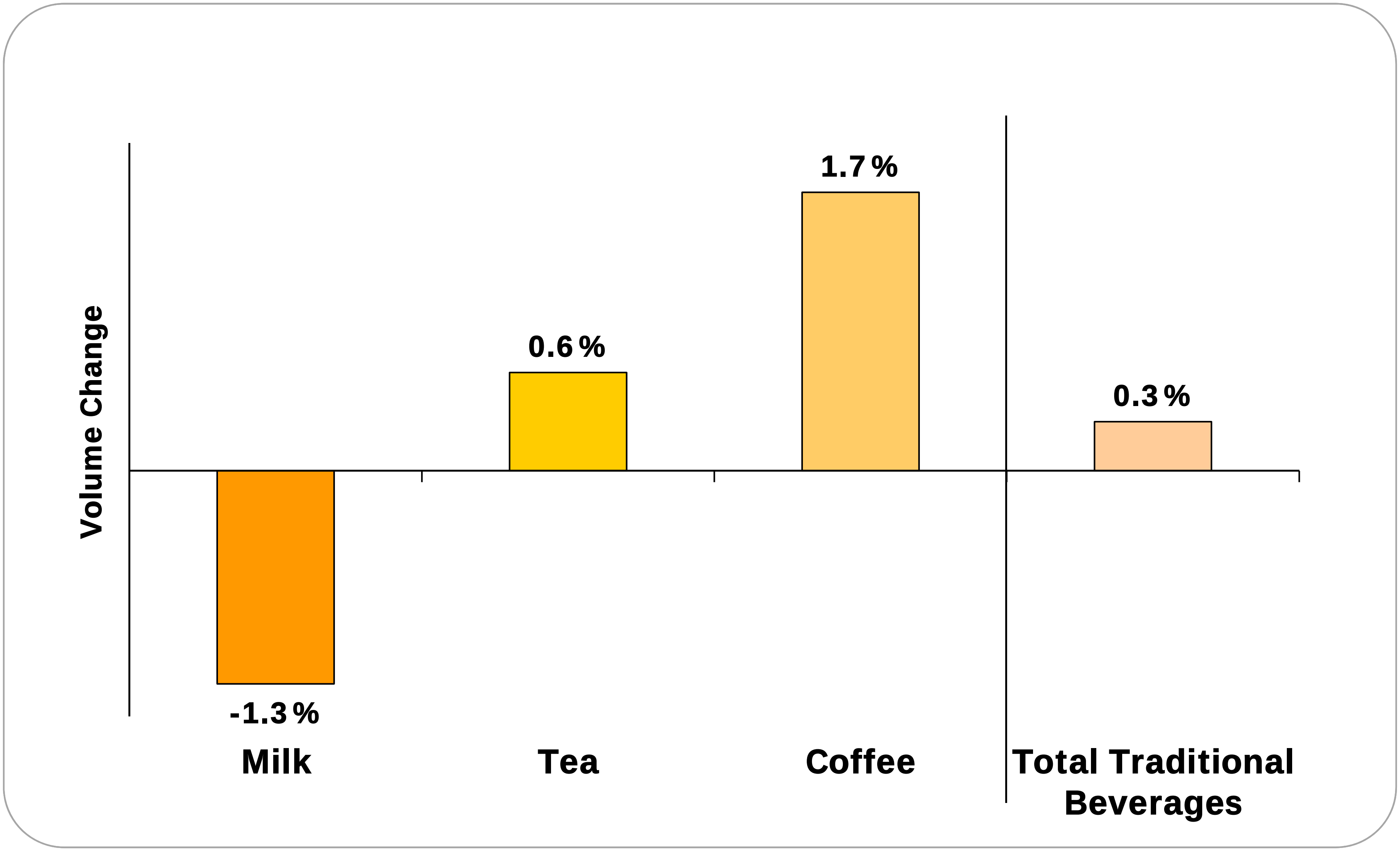
The U.S. Beverage Alcohol – 2015



Source: Beverage Marketing Corp.

Coffee continues to show healthy growth among traditional beverages thanks to success of single-cup brewers and popularity of coffee cafes like Starbucks and others

The U.S. Traditional Beverage Market – 2015

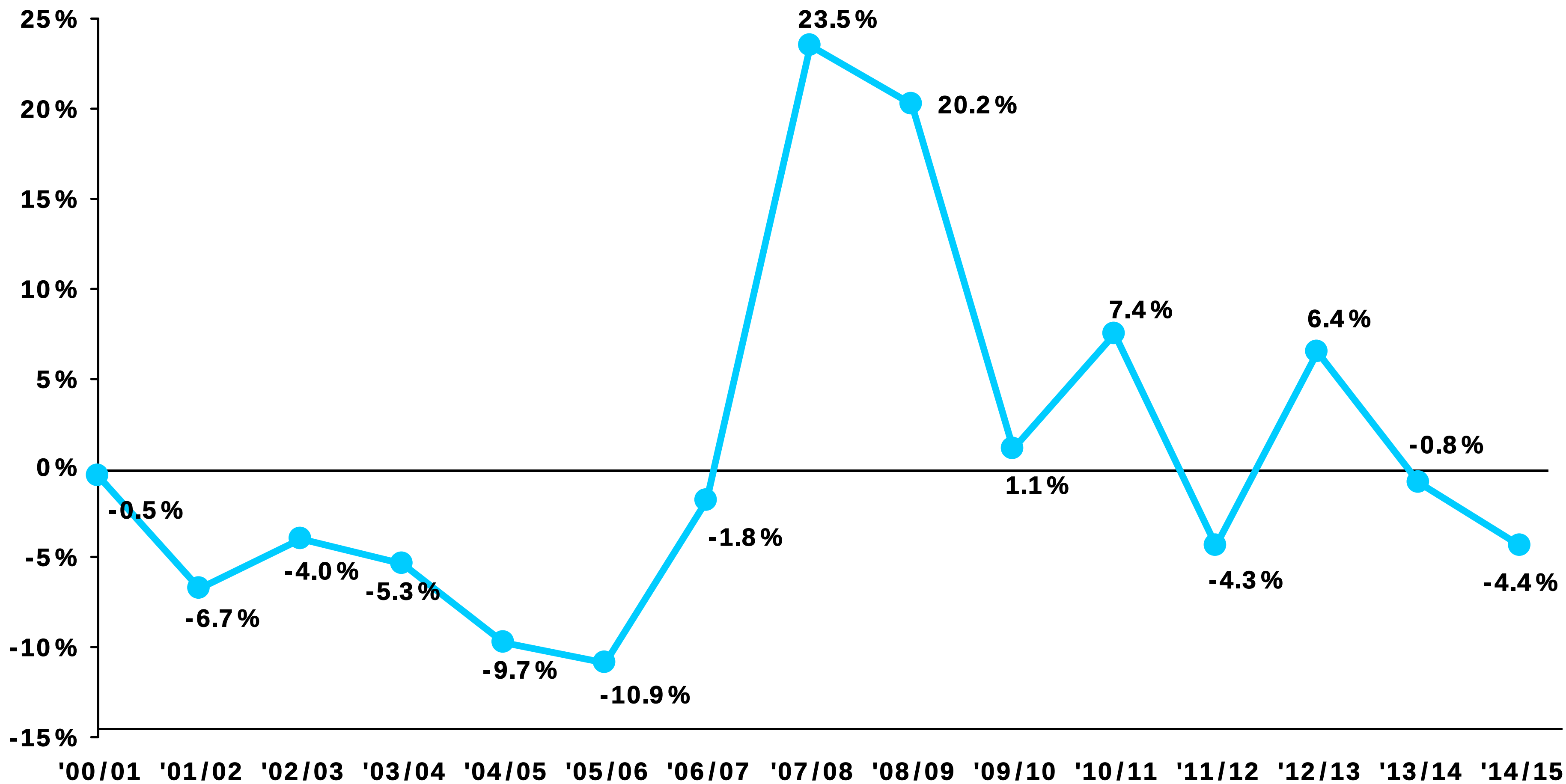


Source: Beverage Marketing Corp.

One reflection of a healthy beverage industry is the decline of tap water, and tap water consumption has been trending down in recent years

- After many years of declines, tap water consumption increased during the recession

Estimated Tap Water Volume Growth
2000 – 2015



Source: Beverage Marketing Corp.

More non-alcoholic beverage categories grew in 2014 than declined, and niche categories generally outperformed large traditional categories

2015 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*

More categories experienced improved performance in 2015 even when they declined

2015 Beverage Report Card

IMPROVED

- Bottled Water
- Energy Drinks
- Fruit Beverages
- Milk
- RTD Coffee
- RTD Tea
- Sports Drinks
- Value-Added Water

WORSENED

- CSDs

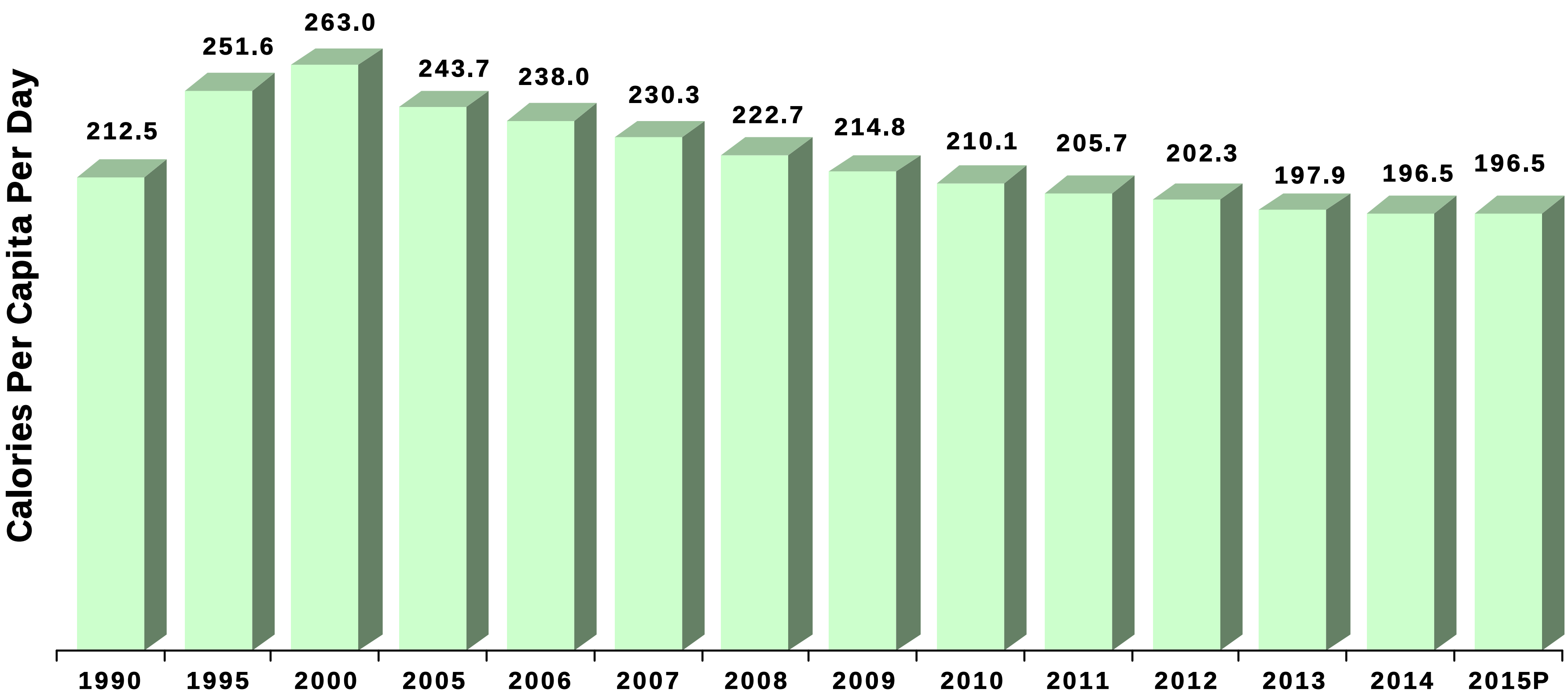
Traditional Key Consumer Drivers Are Evolving

- Health and wellness ⇨ Balanced nutrition
- Variety ⇨ Flavors, seasonals, hybrids
- Convenience ⇨ With product information

Despite negative publicity on CSDs and other full-calorie refreshment beverages, caloric intake from refreshment beverages has been steadily declining over the last decade

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

U.S. Refreshment Beverage Calories Per Day 1990 – 2015



Source: Beverage Marketing Corp.

The beverage industry has committed to a reduction of 20% of calories from beverages by 2025 through the Balanced Calories Initiative

AMERICAN BEVERAGE ASSOCIATION

ALLIANCE FOR A HEALTHIER GENERATION

A New Goal to reduce **20%** of beverage calories consumed per person by **2025**

Source: Beverage Marketing Corporation; American Beverage Association

Beverage companies are moving to healthier product portfolios. Coca-Cola, for example, has expanded participation in high-growth areas through investments. Many of the categories feature healthy product attributes

CATEGORIES & CAPABILITIES

- Premium juice (cold pressed)
- Plant-based beverages
- Value-added dairy
- Energy drinks
- At-home dispensing

INVESTMENTS

MONSTER ENERGY

suja

China Culiangwang Beverage Holdings *(Pending)*

fairlife

KEURIG GREEN MOUNTAIN

Source: Beverage Marketing Corporation; Coca-Cola Company

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

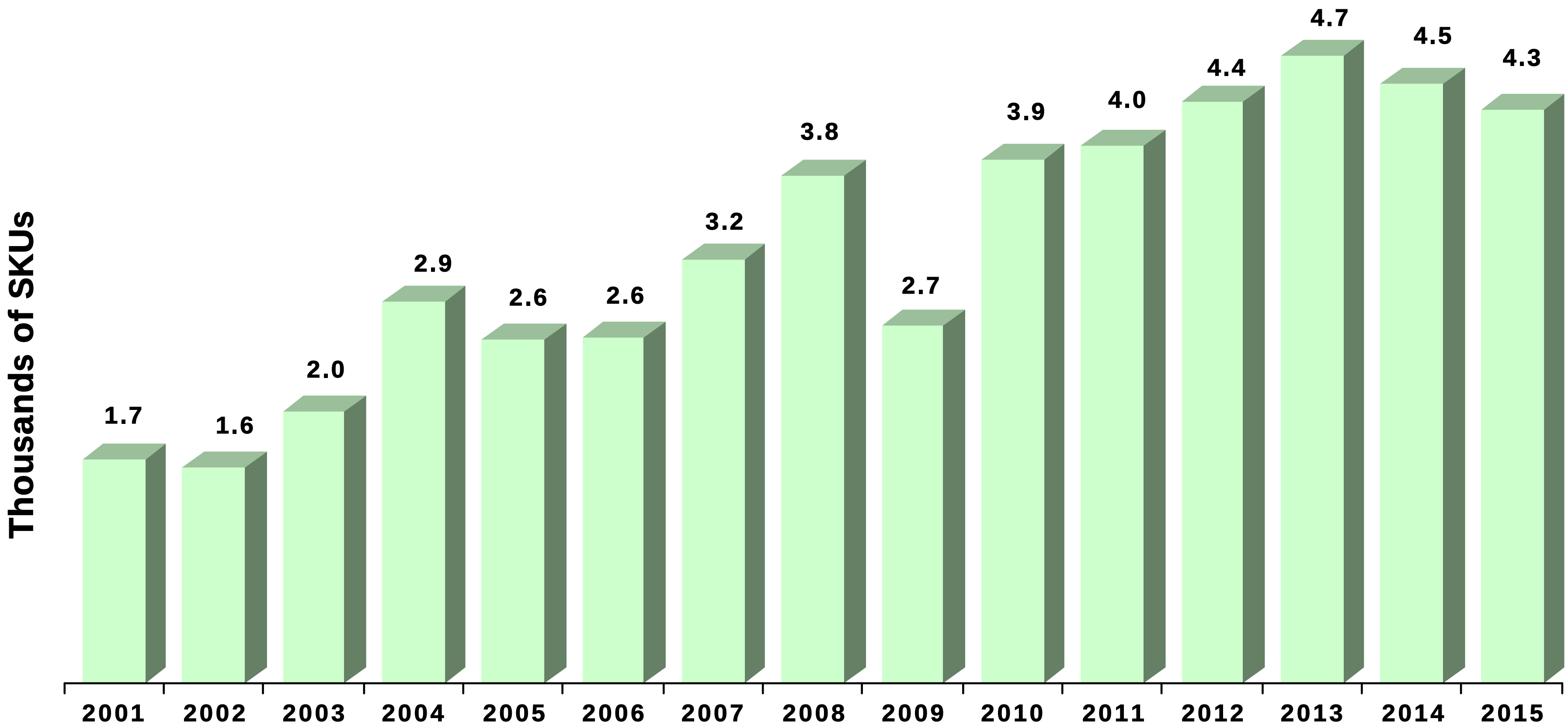
- Milk & Juice
- CSDs
- Coffee & Alcohol
- RTD Teas
- Juice Drinks
- Isotonics
- PET Waters
- Flavored CSD's
- Fresh-packed Juice
- Smoothies
- Coffee Drinks
- Nutrient-enhanced
- Energy

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

New product introductions have mostly been on the rise after declining in 2009 due to the recession in the beverage industry

New Beverage Product Introductions 2001 – 2015



Source: Beverage Marketing Corp.; Mintel

State of Emerging Small Brands

- Craft & artisanal products trending upward
- Consumers seek new experiences
- More startups enter industry

Most emerging categories have health and wellness attributes and/or promise specific functional benefits

Select Offerings and Categories of Today's Emerging Beverages

Functional

Chia

Cold Brew

Plant-based Water

Probiotic

Shots

Coconut Water

Kombucha

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State of Big Brands

- Most large iconic brands down
- Operating big brands a challenge
- Declines accelerated in past year

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Big brands in decline in 2015

Top 10 Soft Drinks

Coca-Cola

Pepsi-Cola

Diet Coke

Mtn. Dew

Diet Pepsi

Diet Mtn. Dew

Top 10 Fruit Beverages

Tropicana Pure Premium

Capri Sun

Sunny D

Top 10 Beer Brands

Bud Light

Coors Light

Budweiser

Miller Lite

Natural Light

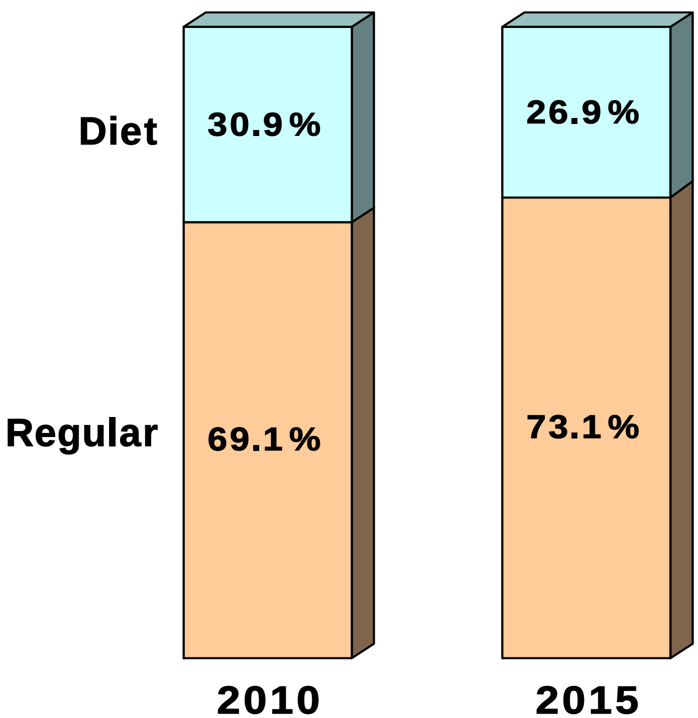
Busch Light

Busch

Diet soft drinks have hit a ceiling and are declining at a faster rate than regular soft drinks though performance improved modestly in 2015

- Some diet consumers have shifted to bottled water and other categories
- Regular CSD volume was essentially flat in 2015 after modest growth in 2014

U.S. Carbonated Soft Drink Market
Share by Type
2010 – 2015



Carbonated Soft Drink Market
Growth by Type
2011 – 2015

Year	Regular	Diet
10/11	-1.5%	-2.5%
11/12	-1.1%	-3.4%
12/13	-1.9%	-6.3%
13/14	0.8%	-5.4%
14/15	-0.1%	-5.2%
10/15 CAGR	**-0.8%**	**-4.6%**

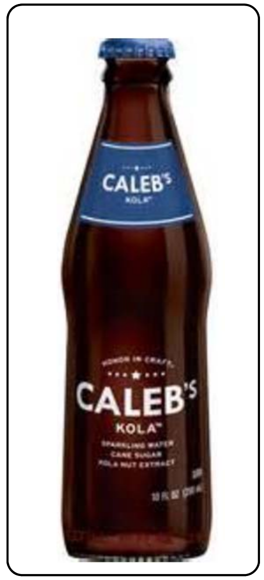
Source: Beverage Marketing Corp.

As the search for a good-tasting, natural sweetener continues, some brands have begun to use stevia but taste issues remain

Stevia Sweetened CSDs

One potential source of growth is craft sodas, which are beginning to emerge as a viable option for today's consumers with new brands and companies entering the market, but the segment is unlikely to reach the same level as craft beer

Craft Soda



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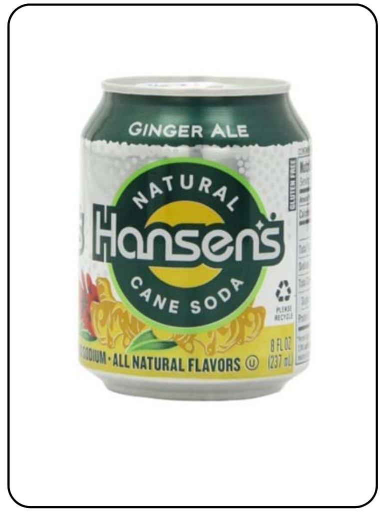
Smaller packaging sizes have been a source of innovation and also help contribute to reduced caloric intake



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

- Key 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

While stable, PET water pricing continues to be historically aggressive and is likely to remain so at least through 2015

- 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
- Stable to declining resin costs
- Continued bottle light-weighting
- Low fuel costs

Similar to craft soda, from a small base, enhanced waters of all types are now proliferating and gaining traction in all parts of the country

- These premium value, craft type waters are adding additional benefits to consumers' water experience

PH Balanced Water

Essentia

Essence Water

Hint

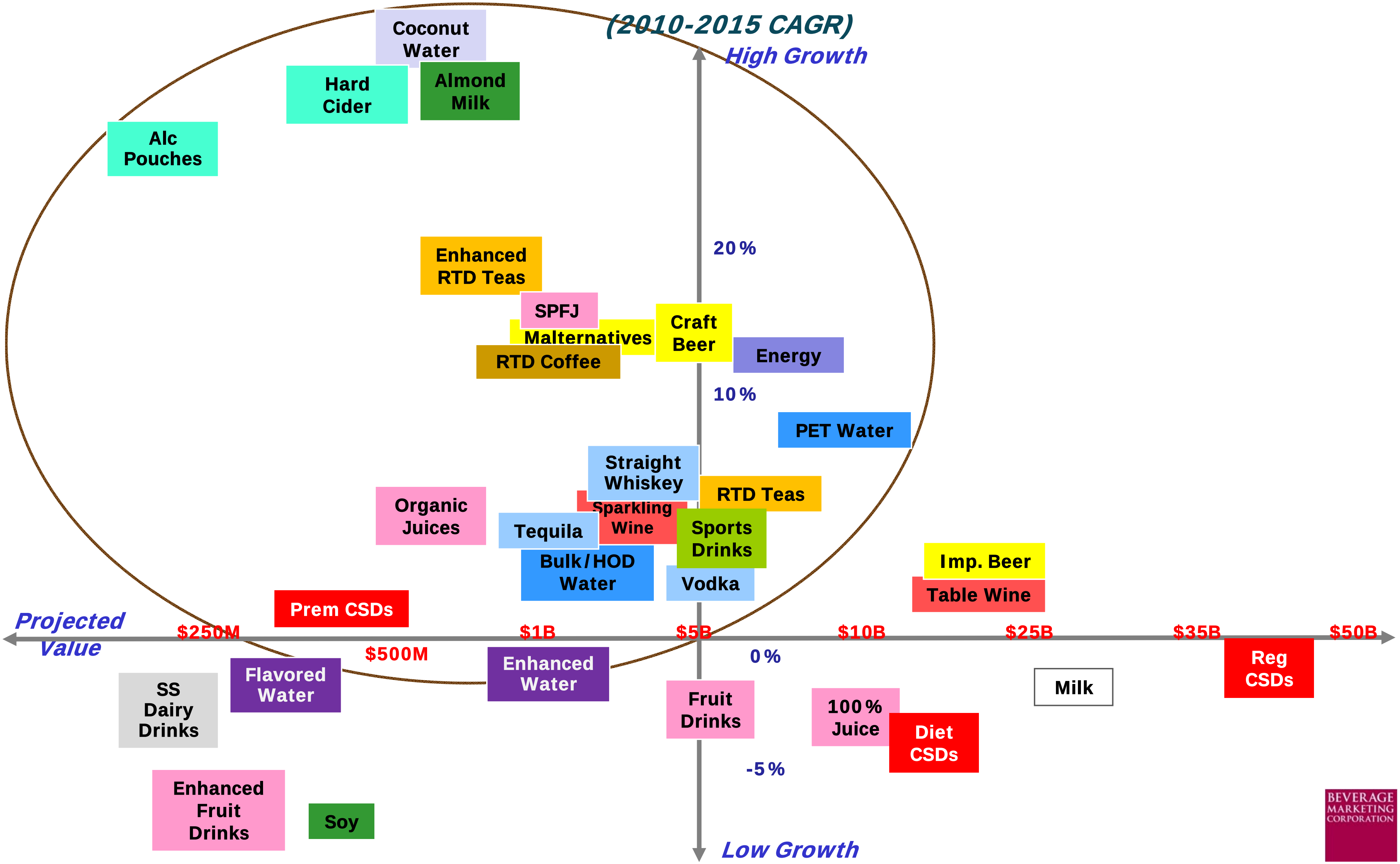
Cap-Activated Water

Activate

Plant Water

Trader Joe's

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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