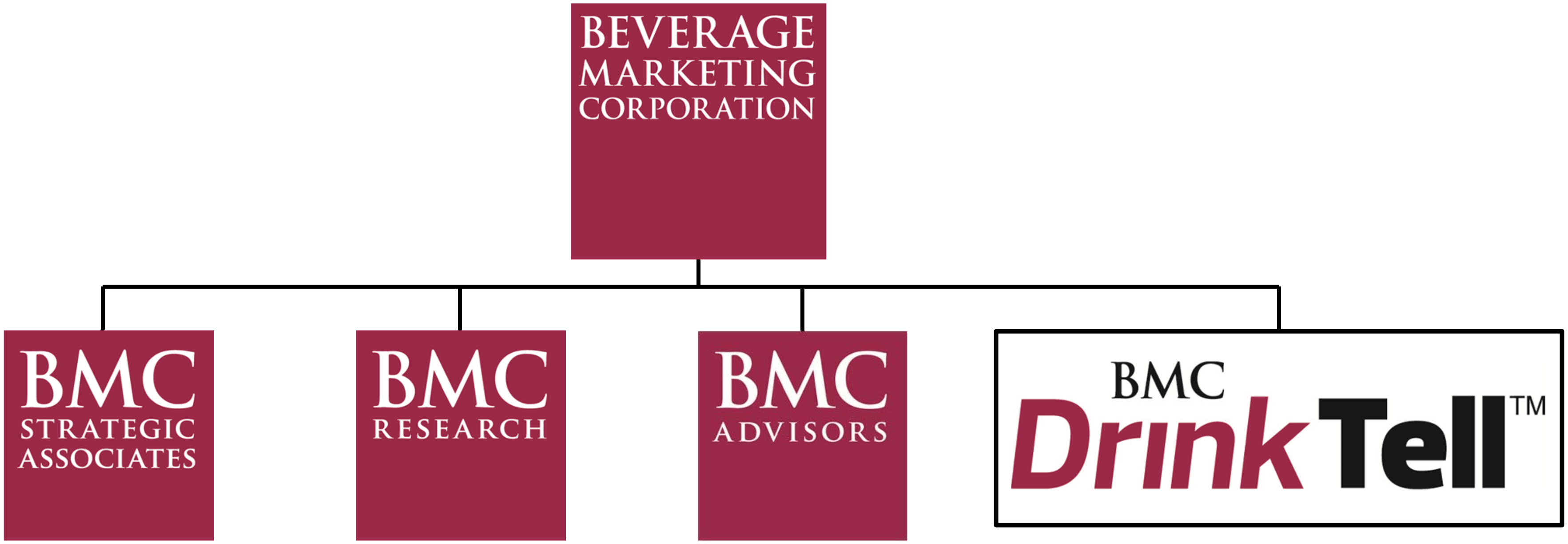
IBDEA 2016

The Shifting Beverage Landscape

March 19, 2016

BEVERAGE 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

Agenda

I. Market Overview

II. Key Trends

III. Category Updates

IV. Projections

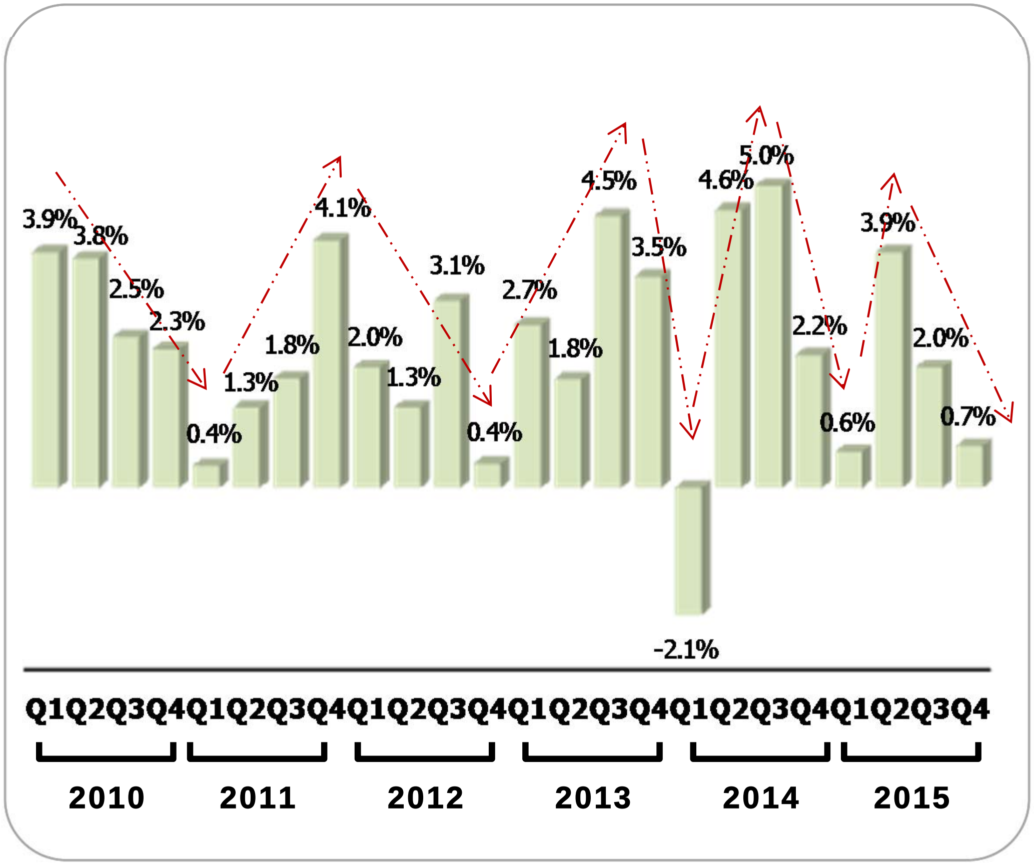
State of the Industry – The Good and the Bad

Beverage Headlines

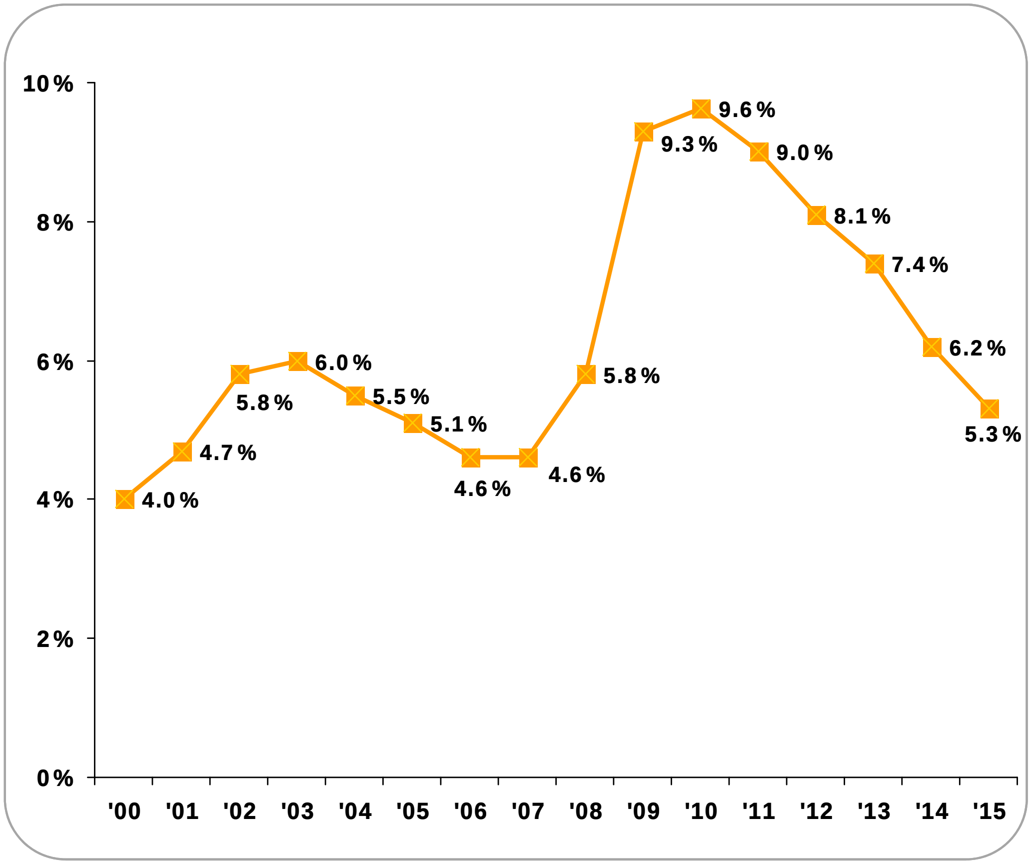
- Liquid refreshment beverage market grows for second consecutive year in 2015 after flat performance in 2013
- Carbonated soft drinks experience another modest sales decline in 2015
- Bottled water continues its solid growth trend led by single-serve water segment
- Niche categories continue to outperform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

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

Beverage stock performance was solid in 2015 – consistent with the performance of the overall stock market – but market has been rocky first quarter of 2016

Stock Price Performance 2010 – 2015

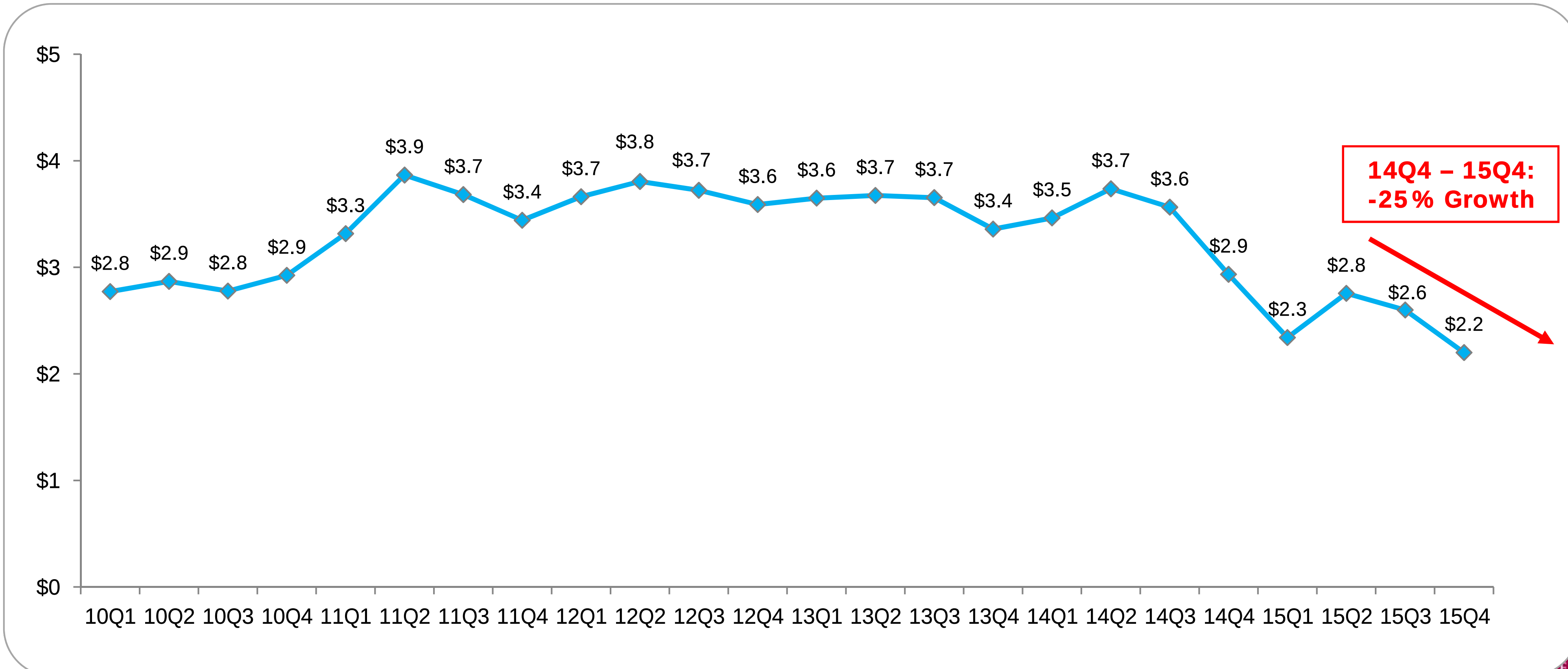
	2010	2011	2012	2013	2014	2015
KO	+15.4%	+7.1%	+2.8%	+13.5%	+6.3%	+6.3%
PEP	+7.5%	-2.2%	+2.5%	+21.2%	+14.0%	+8.9%
DPS	+24.2%	+5.5%	+11.9%	+10.3%	+34.7%	+30.2%
CCE	+18.1%	+1.1%	+23.1%	+39.1%	+21.3%	+1.2%
COT	+36.7%	-29.7%	+28.3%	+0.4%	-13.9%	+57.0%
Soft Drinks	+14.6%	+3.8%	+8.6%	+9.8%	+11.6%	+6.6%
Beverages	+15.0%	+4.2%	+10.1%	+13.1%	+14.1%	+9.1%
Consumer Goods	N/A	+10.0%	+10.5%	+12.8%	+10.4	+3.9%

Source: Beverage Marketing Corporation; Google Finance

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

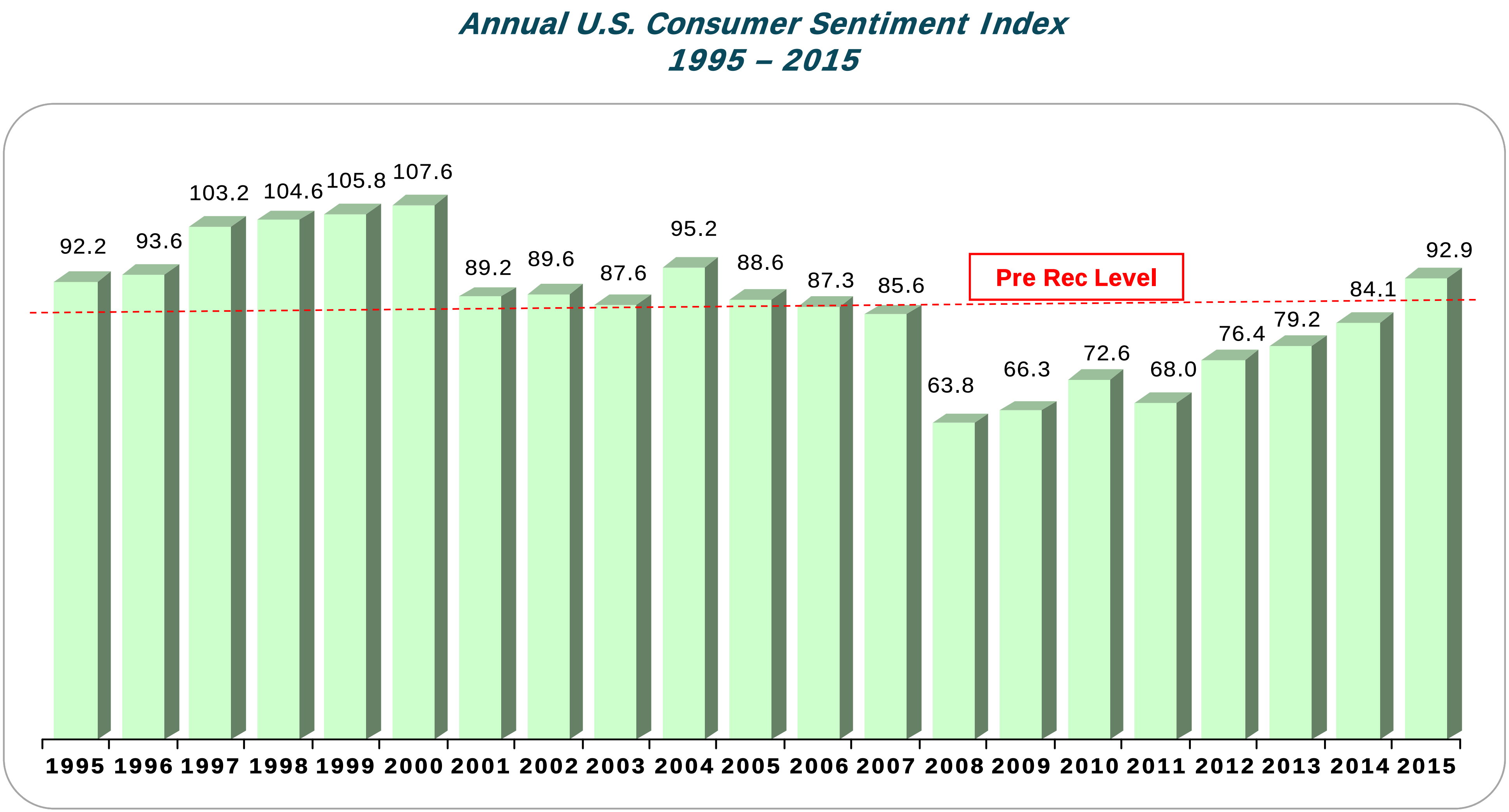
- Lower gas and oil prices are a net positive for the beverage industry
- However, "thriftiness" under changing economic times is now the new norm

Gasoline Prices 2010 – 2015



Source: U.S. Energy Information Administration

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

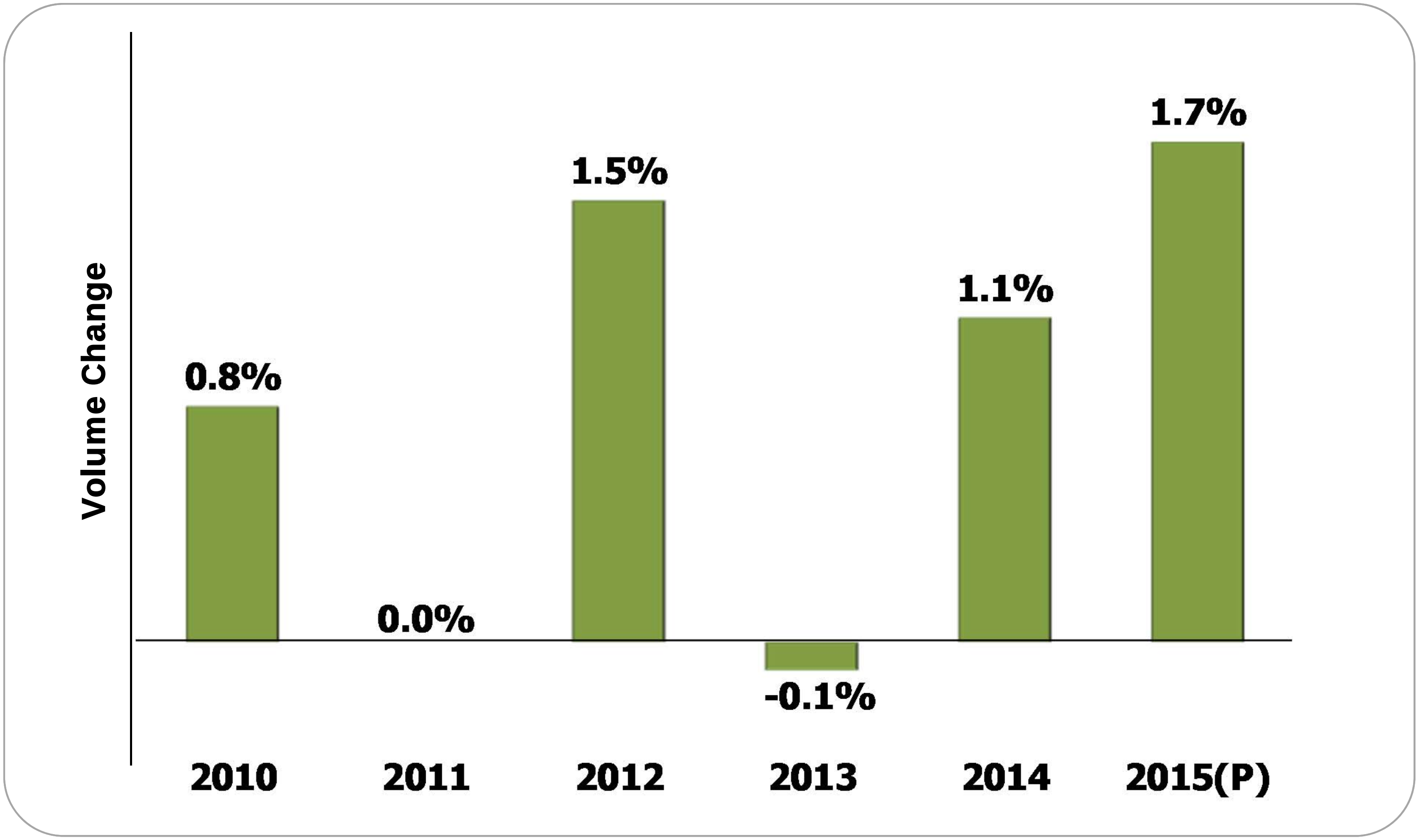


Source: Thompson Reuters/University of Michigan

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

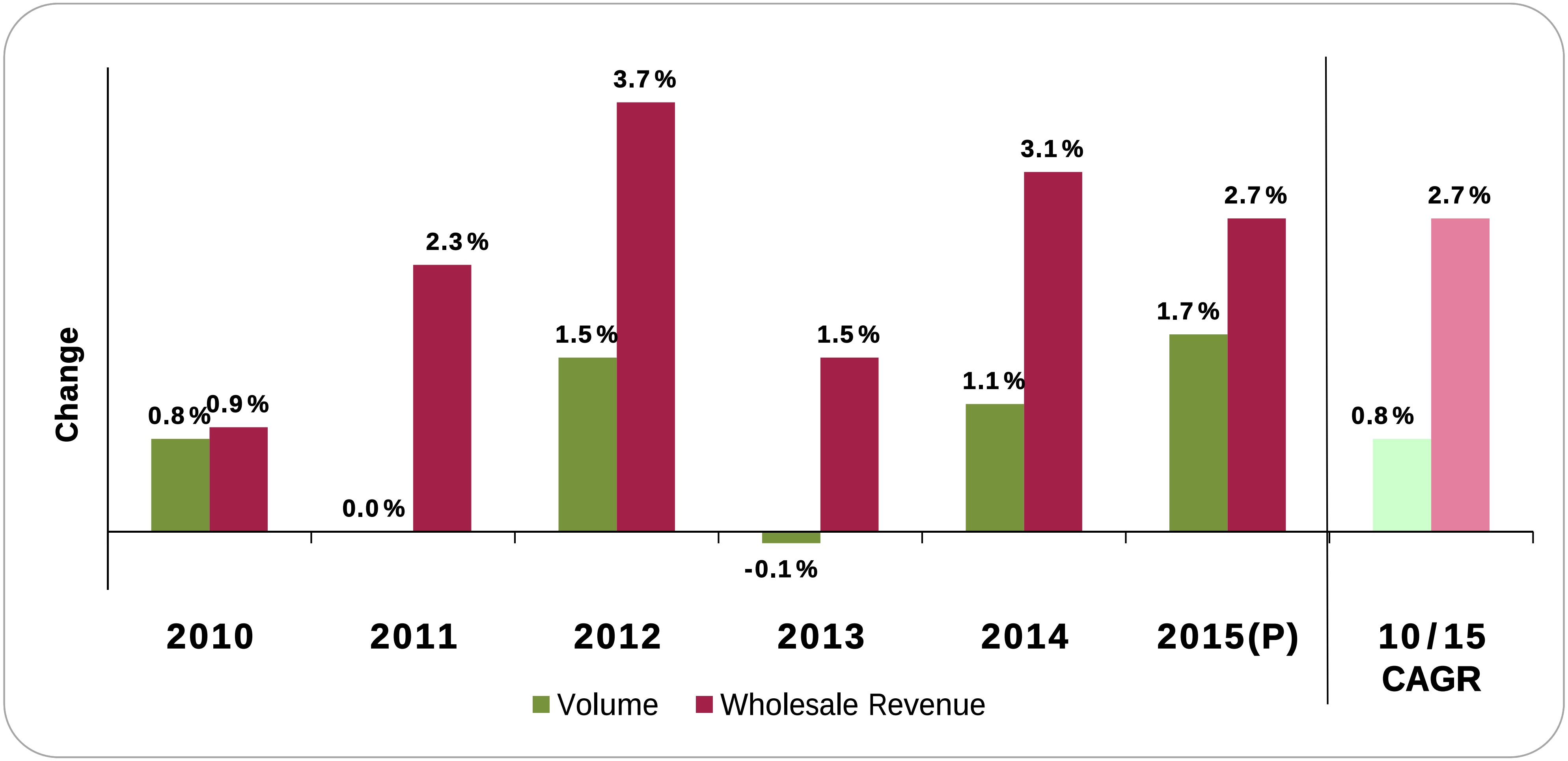
U.S. Total Beverage Market
2010 – 2015P



P: Preliminary
Source: Beverage Marketing Corp.

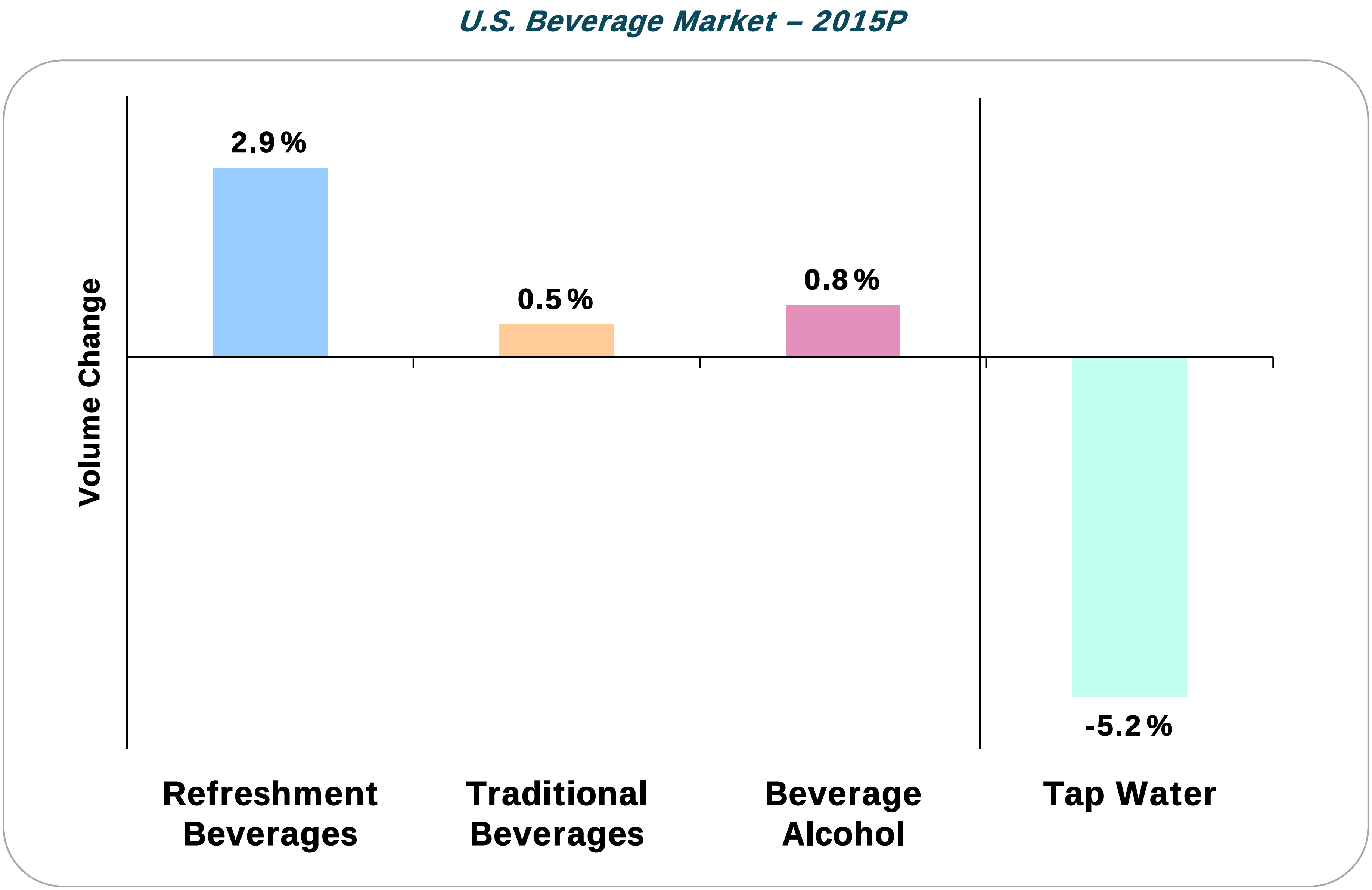
Post-recession annual beverage revenues have been consistently positive, but the differential versus volume growth is narrowing

U.S. Total Beverage Market
Volume and Wholesale Revenue
(Millions of Gallons and Wholesale Dollars)
2010 – 2015P



P: Preliminary
Source: Beverage Marketing Corp.

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

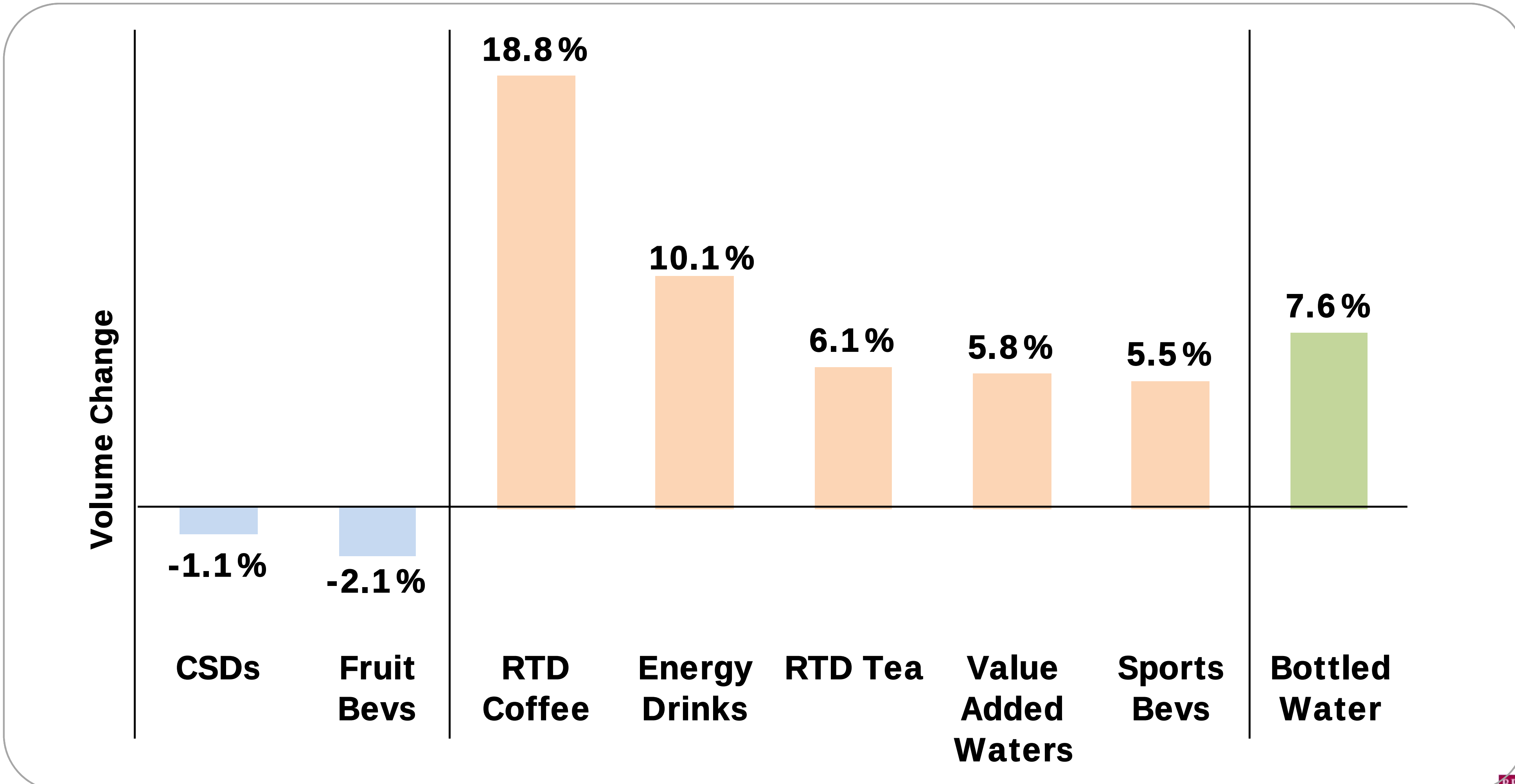


P: Preliminary
Source: Beverage Marketing Corp.

In general, traditional mass market categories have struggled while niche categories have experienced growth

- Bottled water is the primary exception of a mainstream category that has thrived

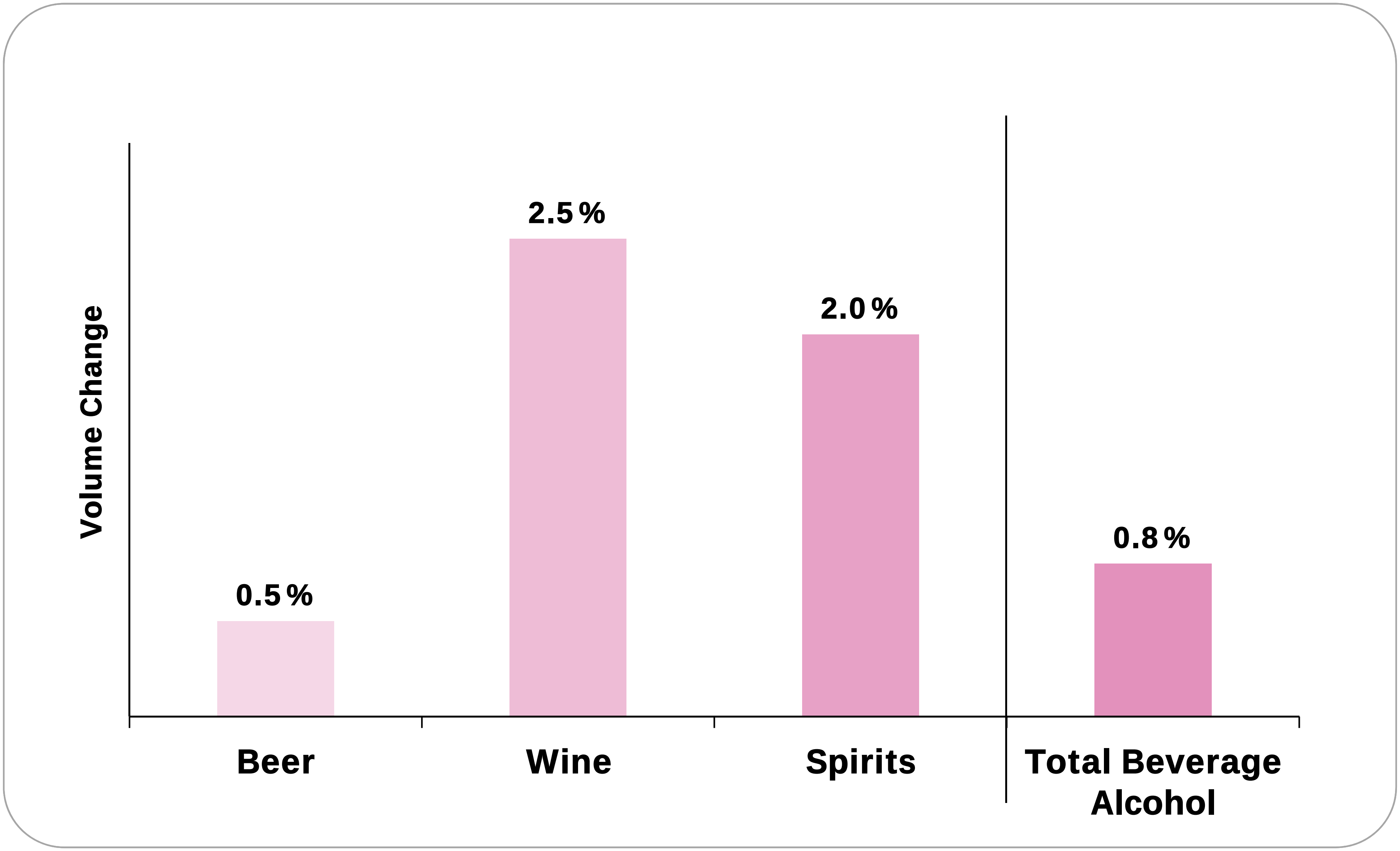
The U.S. Liquid Refreshment Beverage Market
2015P



P: Preliminary
Source: Beverage Marketing Corp.

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

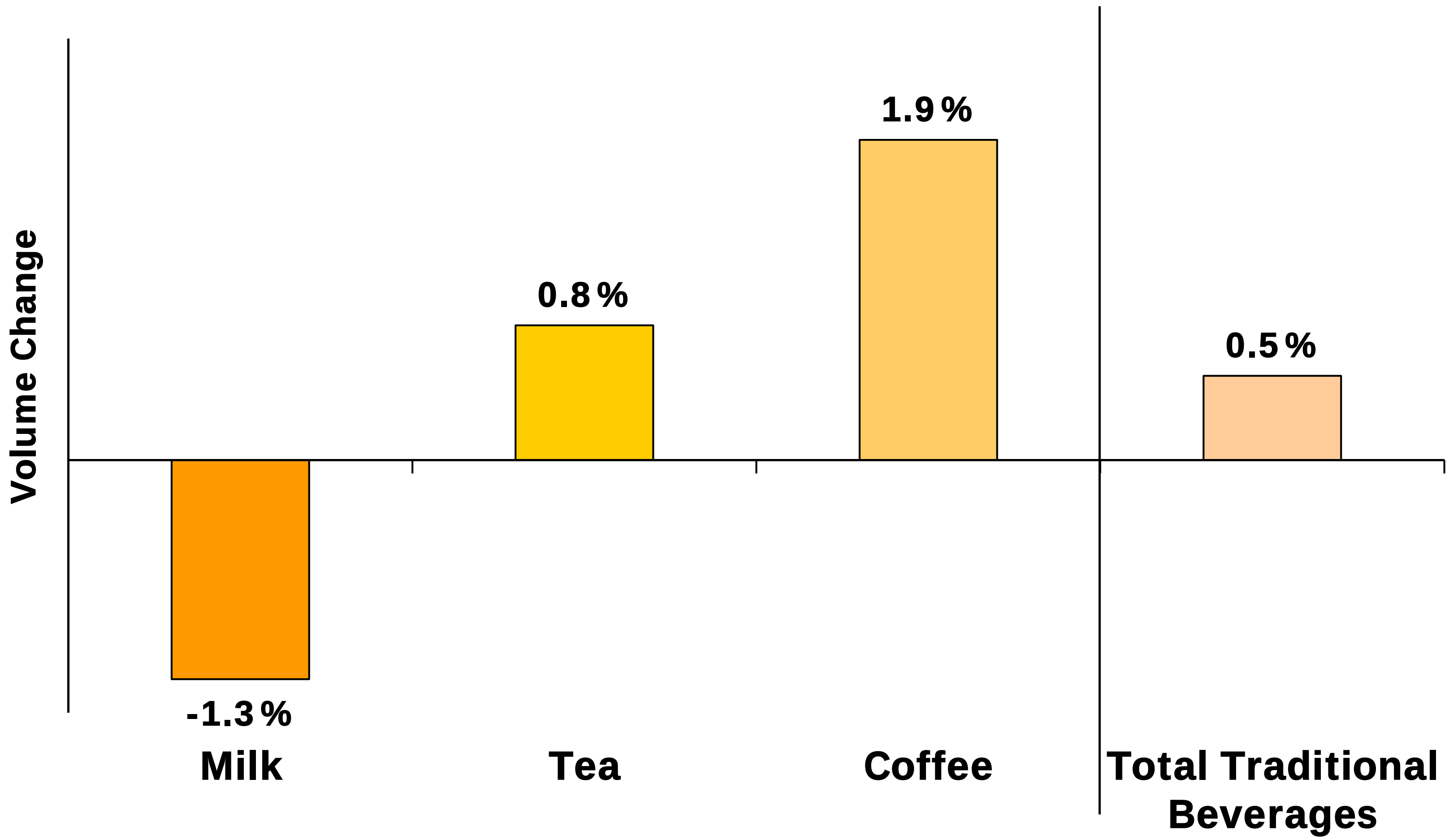
The U.S. Beverage Alcohol – 2015P



P: Preliminary
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 – 2015P

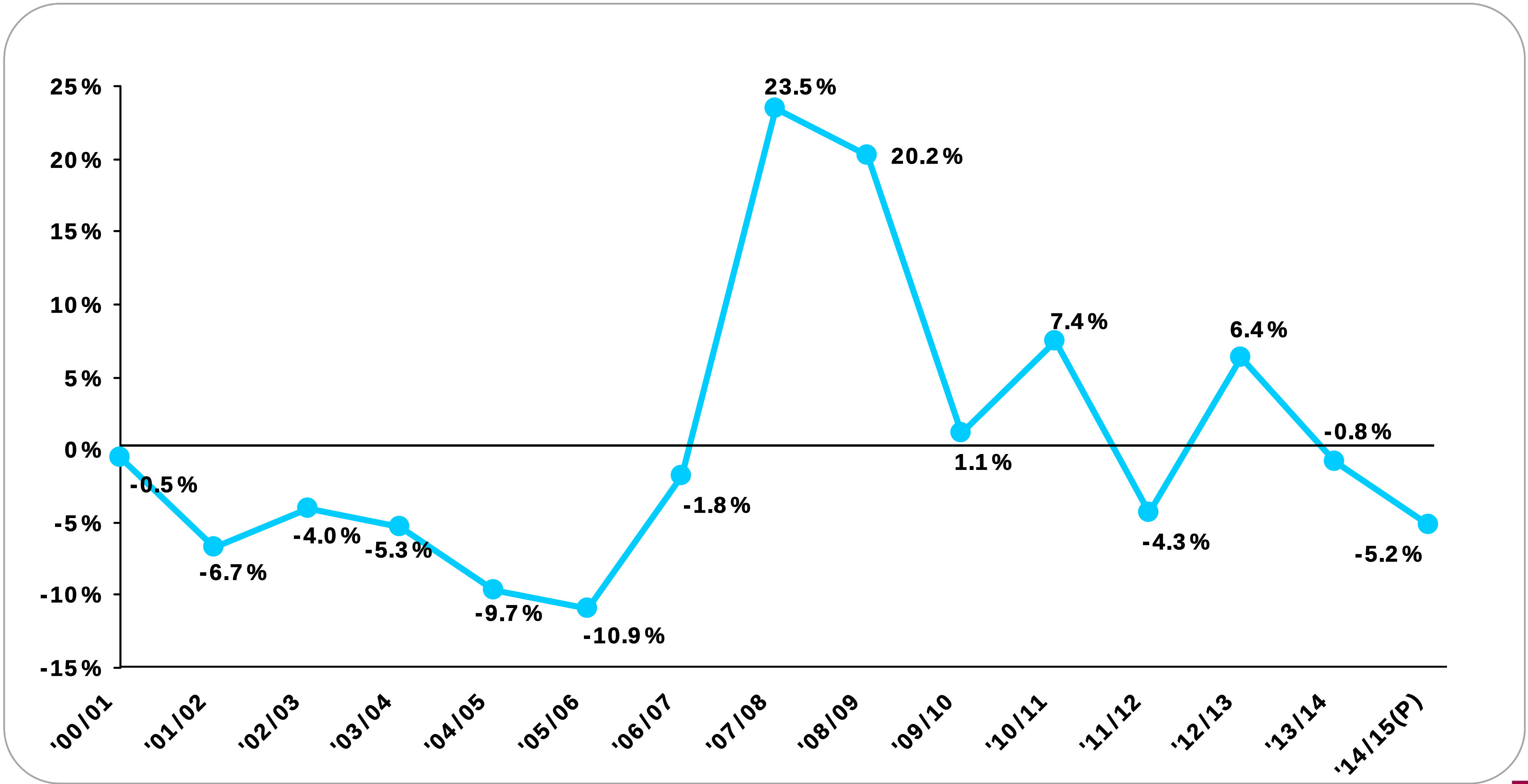


P: Preliminary
Source: Beverage Marketing Corp.

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

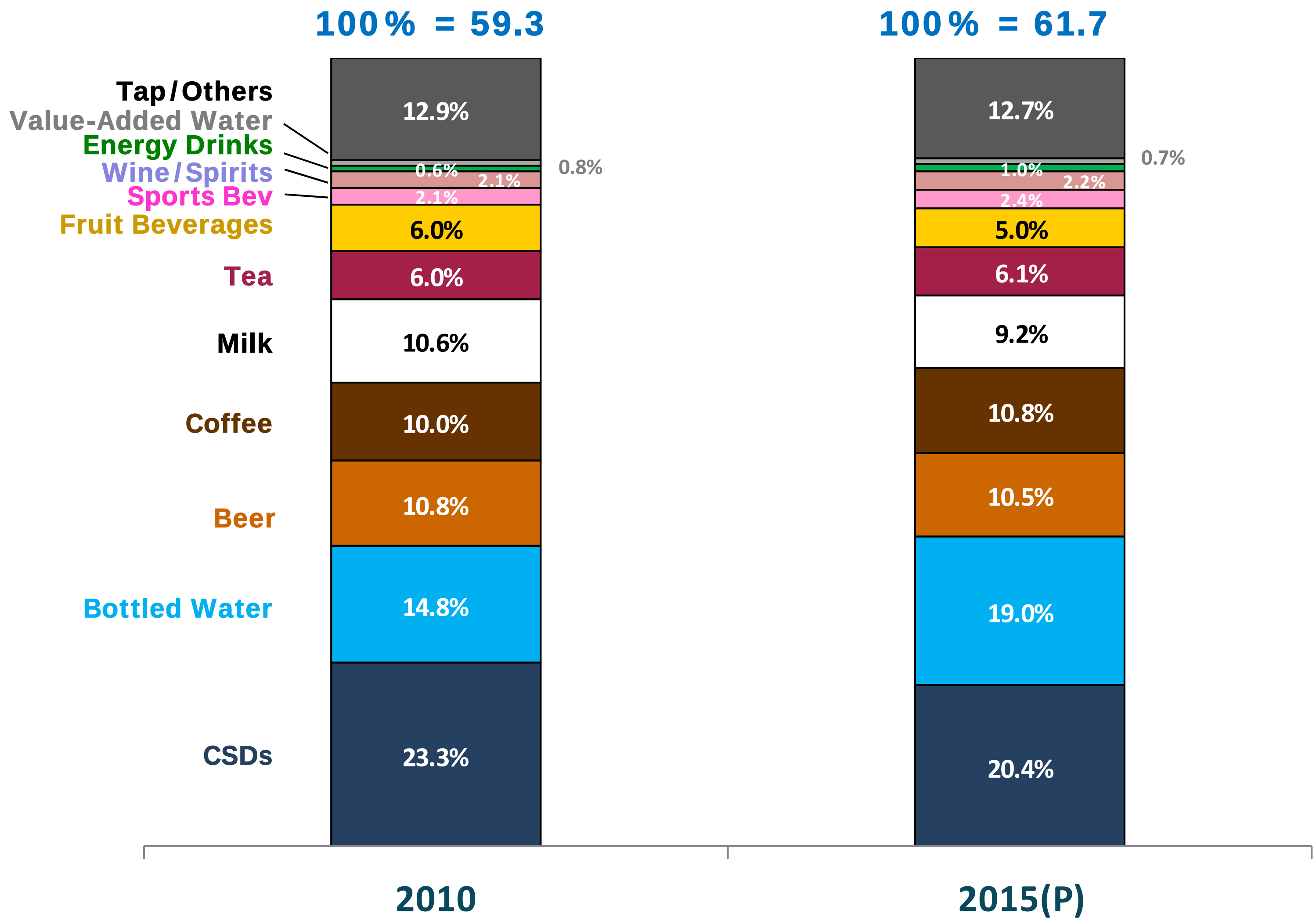
Estimated Tap Water Volume Growth
2000 – 2015P



P: Preliminary
Source: Beverage Marketing Corp.

Over the last five years, bottled water has increased its share of stomach by more than 4 share points, capturing the undisputed #2 position

Volume Share of Stomach by U.S. Beverage Segment – Billions of Gallons 2010 – 2015P



P: Preliminary
Source: Beverage Marketing Corporation

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

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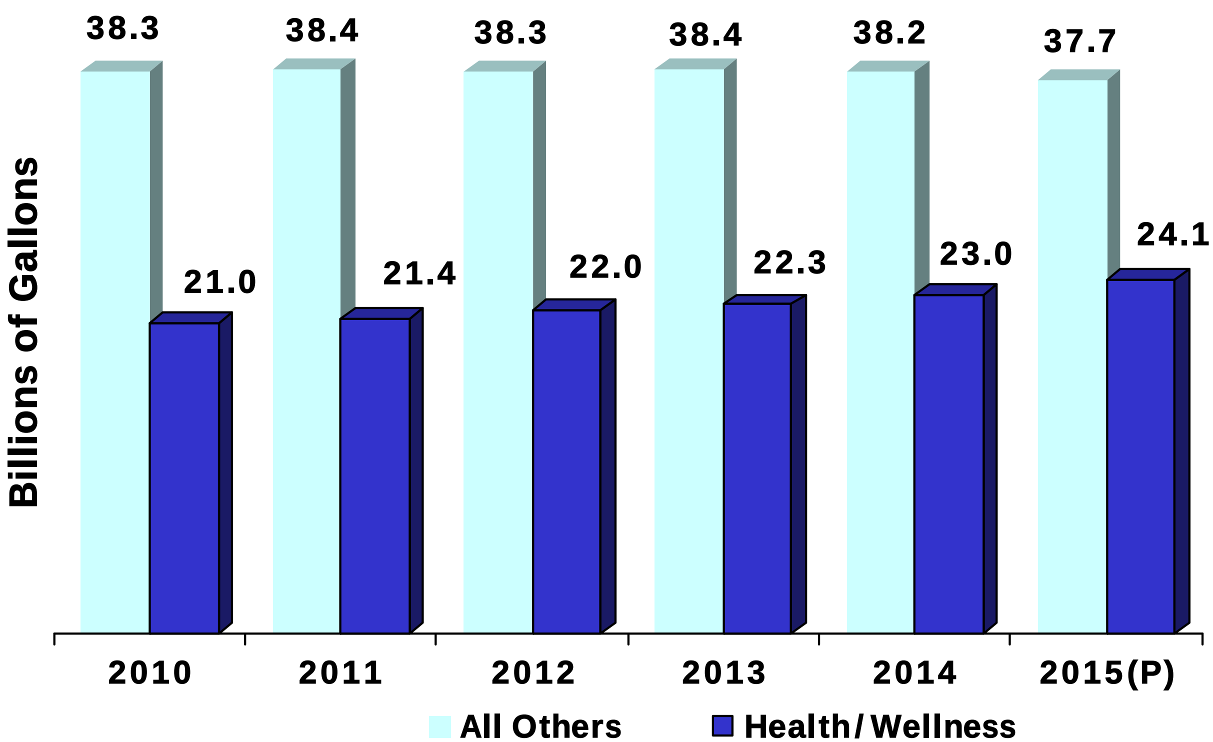
Traditional Key Consumer Drivers Are Evolving

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

Beverages with health and wellness attributes are growing at a rate faster than those categories without such attributes

U.S. Health/Wellness Beverage Market vs. All Others 2010 – 2015P



Health/Wellness Market Growth 2011 – 2015P

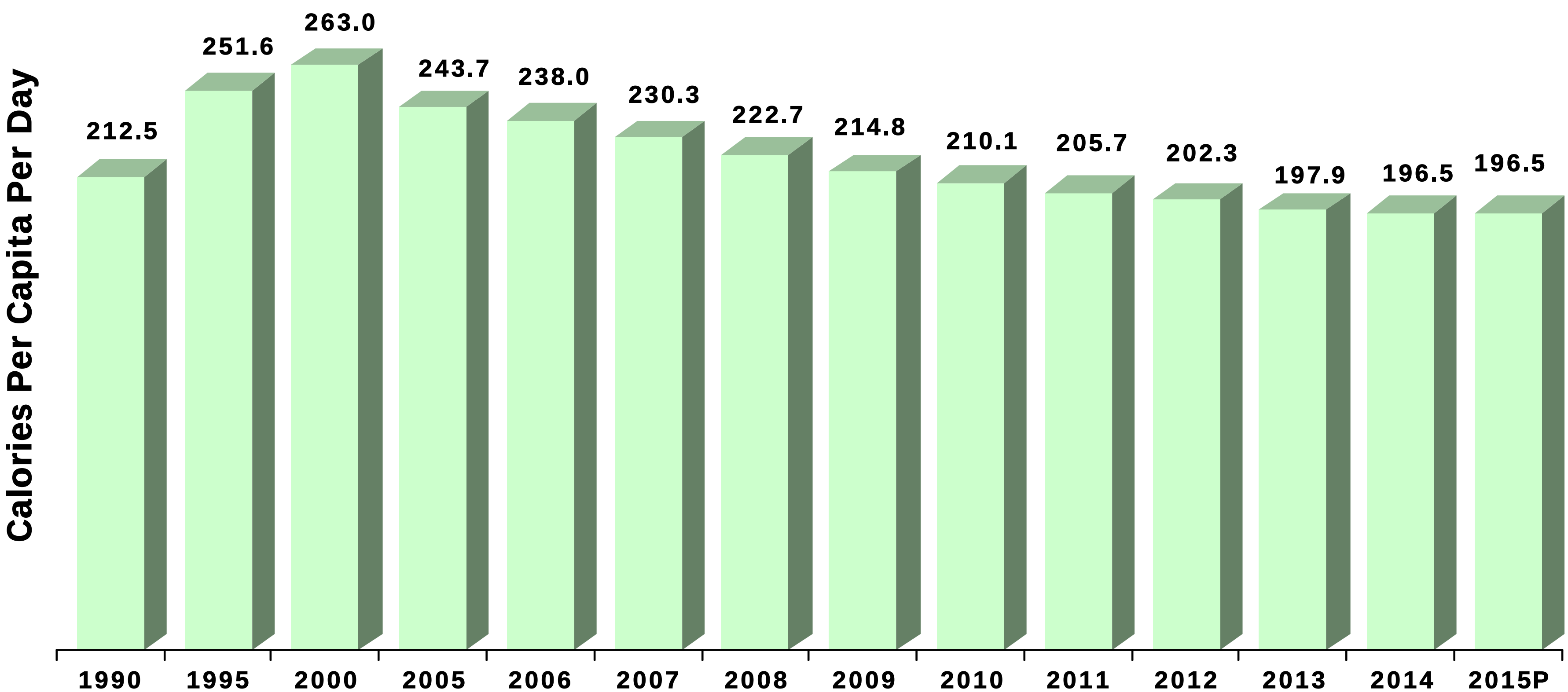
Year	Wellness	All Others
10/11	1.8%	0.4%
11/12	2.8%	-0.4%
12/13	1.5%	0.3%
13/14	3.0%	-0.4%
14/15P	4.5%	-1.4%
10/15P CAGR	2.7%	-0.3%

P: Preliminary
Source: Beverage Marketing Corporation

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 – 2015P



P: Preliminary
Source: Beverage Marketing Corporation

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	INVESTMENTS

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)*

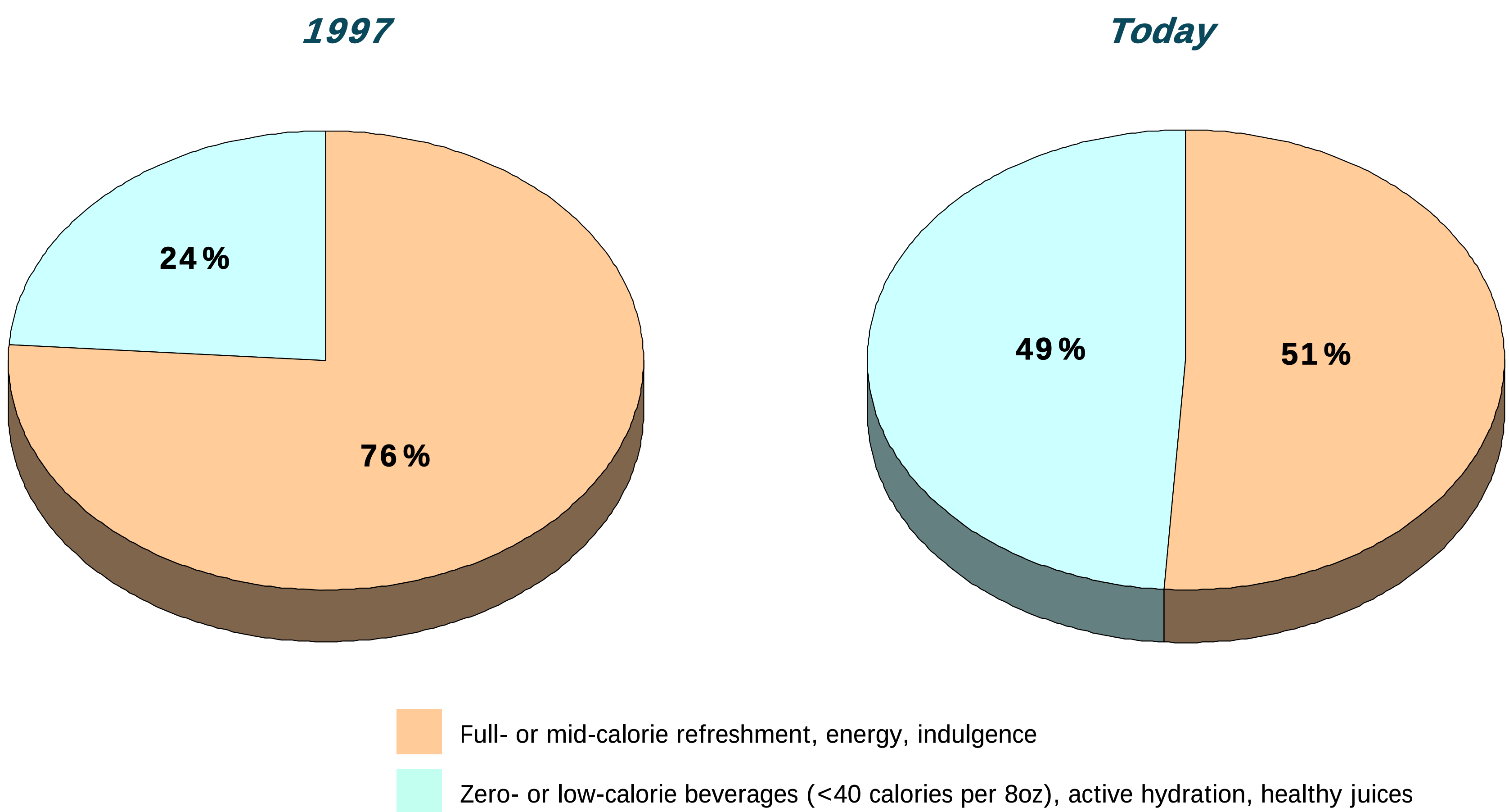
fairlife

Keurig Green Mountain

Source: Beverage Marketing Corporation; Coca-Cola Company

Additionally, PepsiCo is expanding its healthier beverage options; today about half of its refreshment beverage volume comes from healthier products

PepsiCo U.S. Beverage Volume Mix



Source: Beverage Marketing Corporation; PepsiCo

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

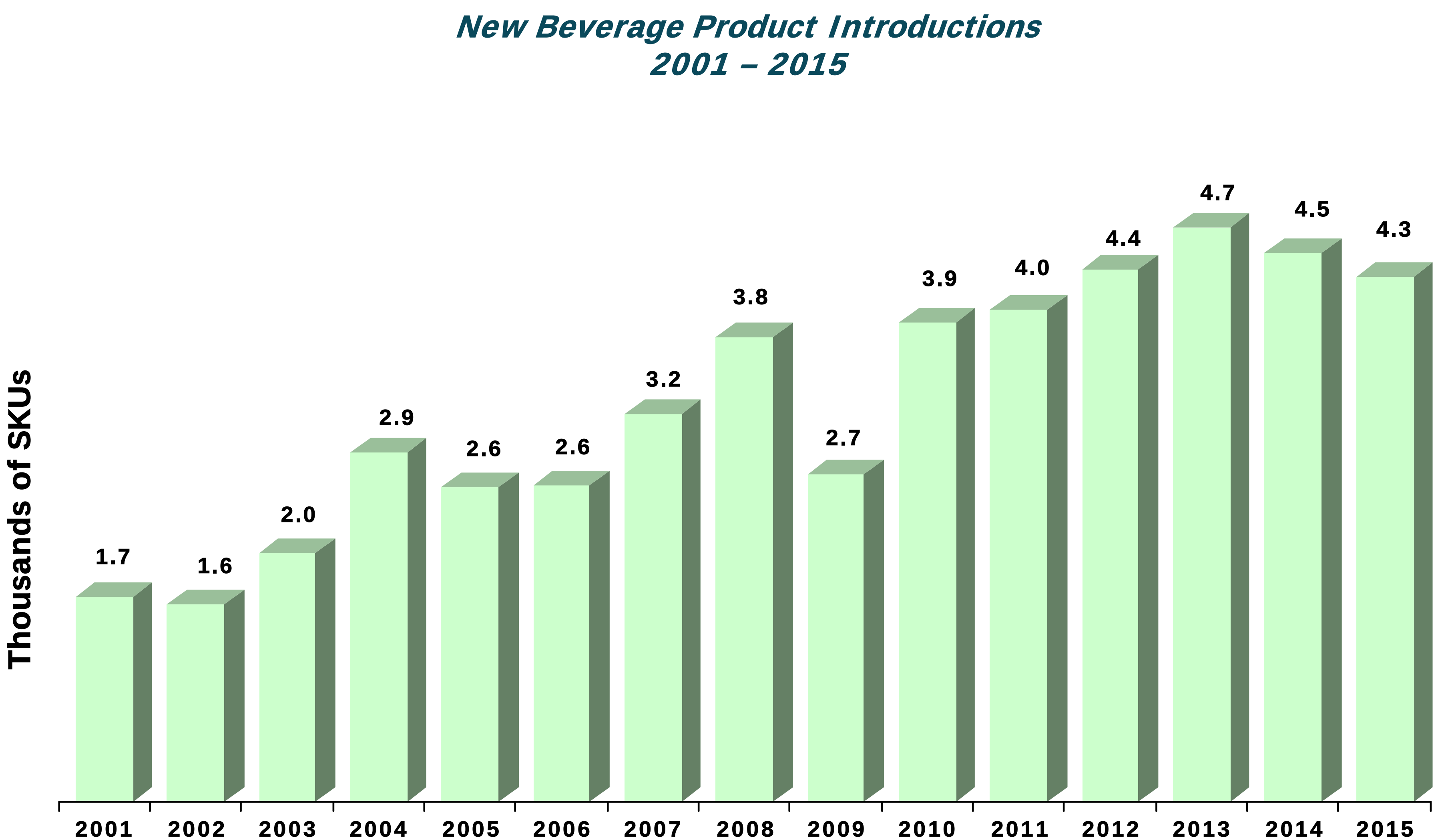
2000s

- 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



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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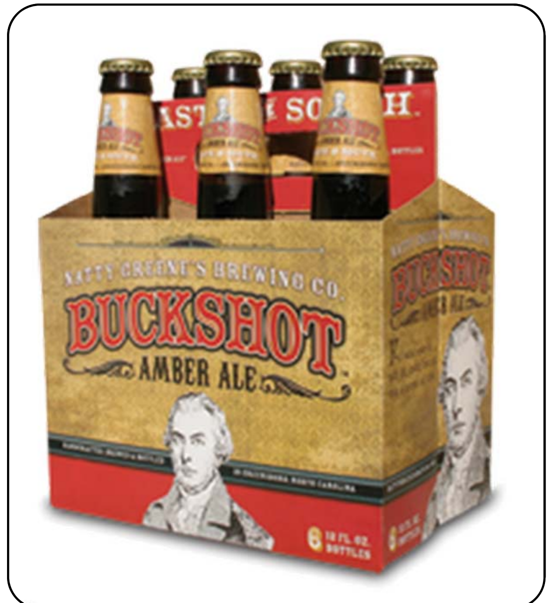
Craft beer continues to be the fastest growing segment in the beer category as new breweries now total 4,000 nationally; craft beer now accounts for about 11% of category volume



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State of Big Brands

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

Big brands in Decline in 2014

Top 10 Soft Drinks

Pepsi-Cola

Diet Coke

Mtn. Dew

Diet Pepsi

Coke Zero

Top 10 Fruit Beverages

Tropicana Pure Premium

Sunny D

Top 10 Beer Brands

Bud Light

Coors Light

Budweiser

Miller Lite

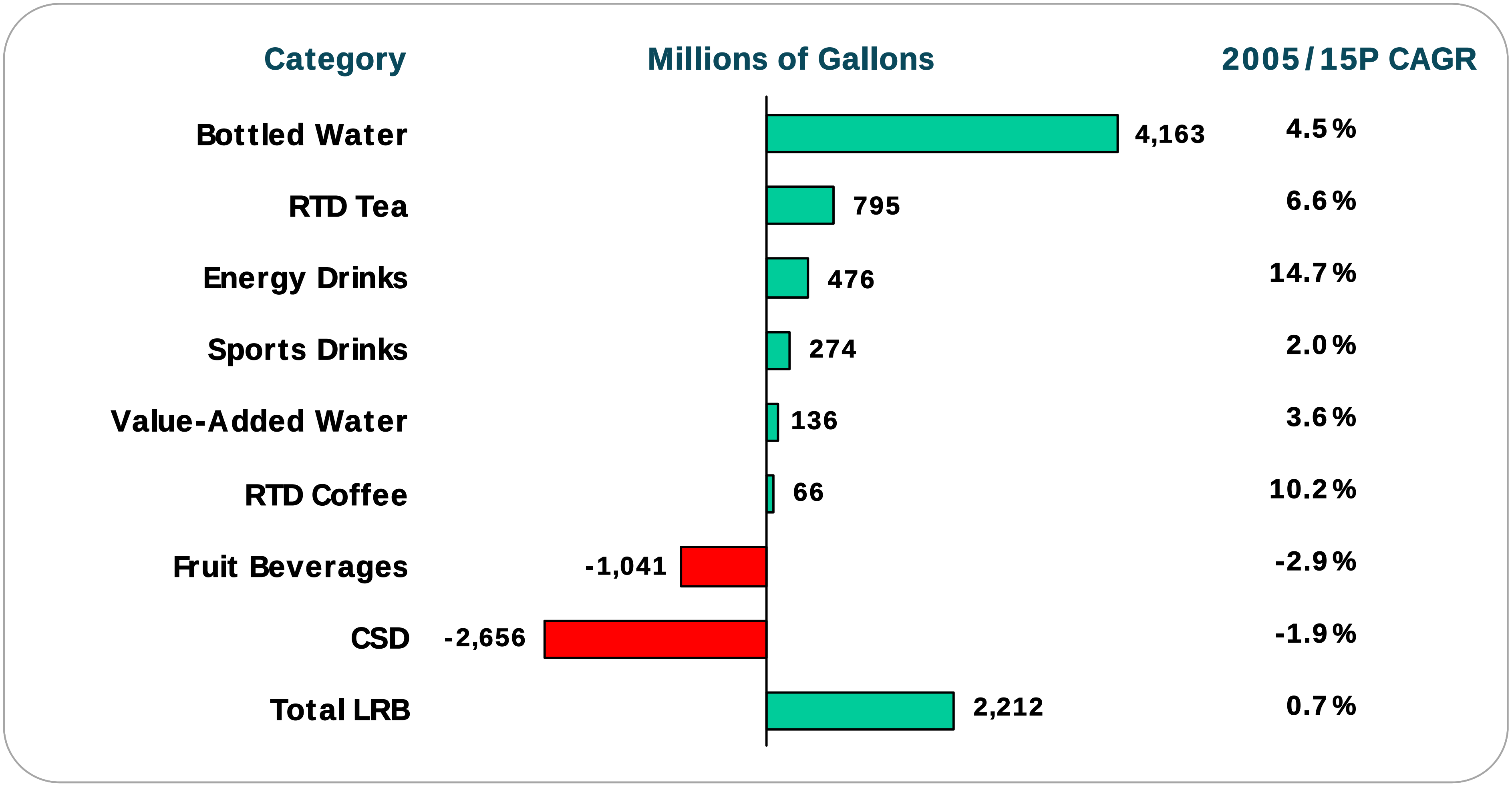
Natural Light

Busch Light

Busch

Bottled water has gained the most volume over the last 10 years while carbonated soft drinks have lost the most

Decade Comparison
2004 – 2014
Which Categories Gained, Which Lost Volume?

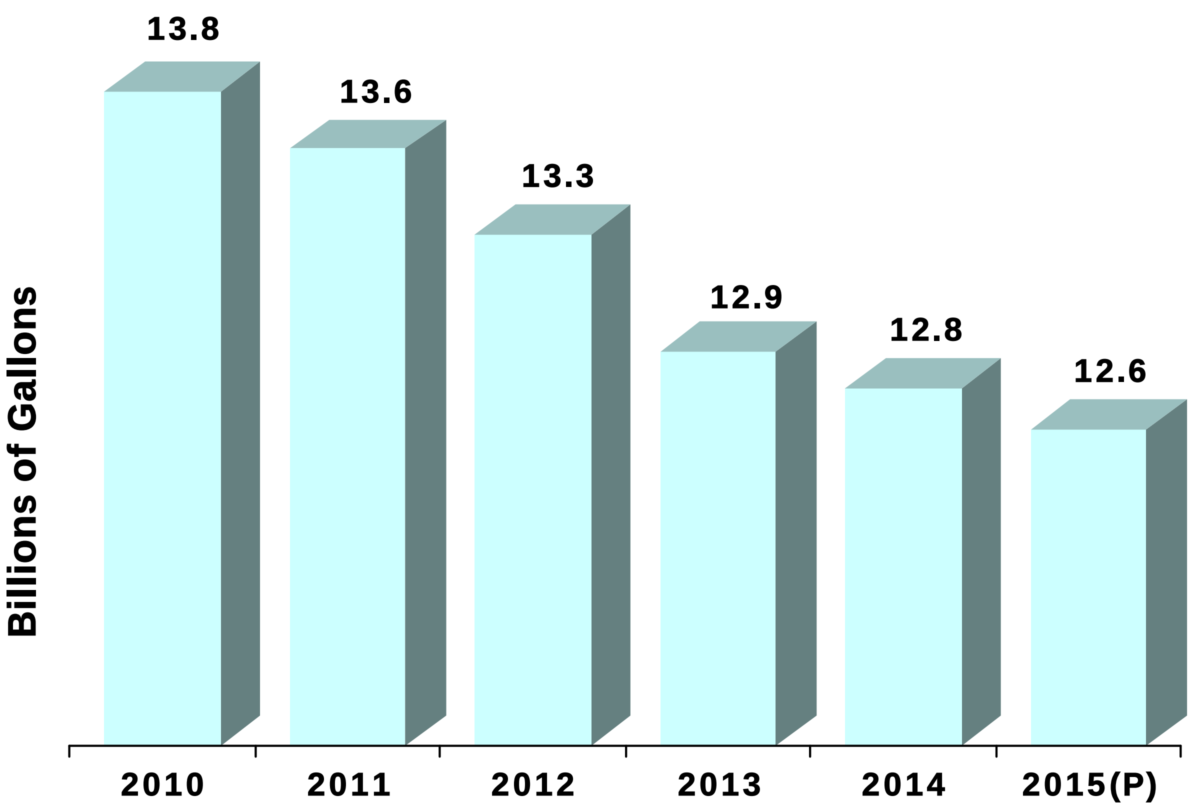


P: Preliminary
Source: Beverage Marketing Corp.

Carbonated soft drink volume declined for the 11th consecutive year in 2015 but remains the most popular beverage in the United States

- Despite the decline, category performance actually improved in 2014 from preceding years and worsened only slightly in 2015

U.S. Carbonated Soft Drink Market
2010 – 2015P



CSD Market Growth
2011 – 2015P

Year	Change
10/11	-1.8%
11/12	-1.8%
12/13	-3.2%
13/14	-1.0%
14/15P	-1.1%

10/15P
5-Yr CAGR -1.8 %

P: Preliminary
Source: Beverage Marketing Corporation

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

Stevia Sweetened CSDs

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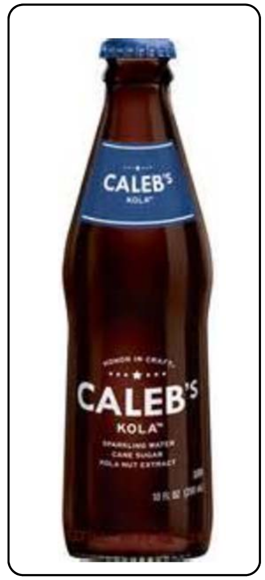
One potential source of growth is craft sodas, which are beginning to emerge as a viable option for today's consumers with new brands and companies entering the market, but the segment is unlikely to reach the same level as craft beer

Craft Soda



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

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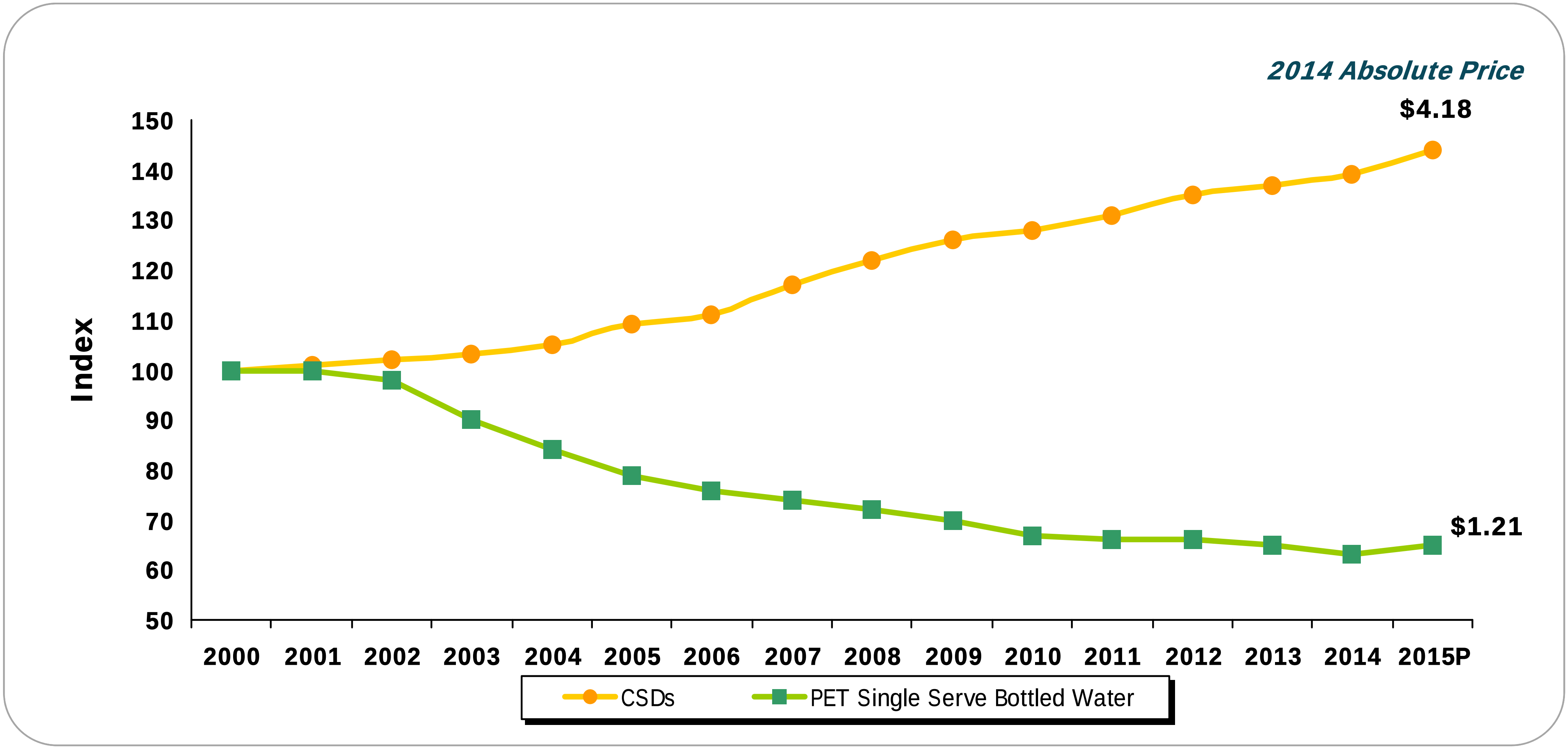
Consumer health and variety demands negatively impact CSD consumption. CSD category performance is further impacted by other external factors that contribute to consumption declines

- 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

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

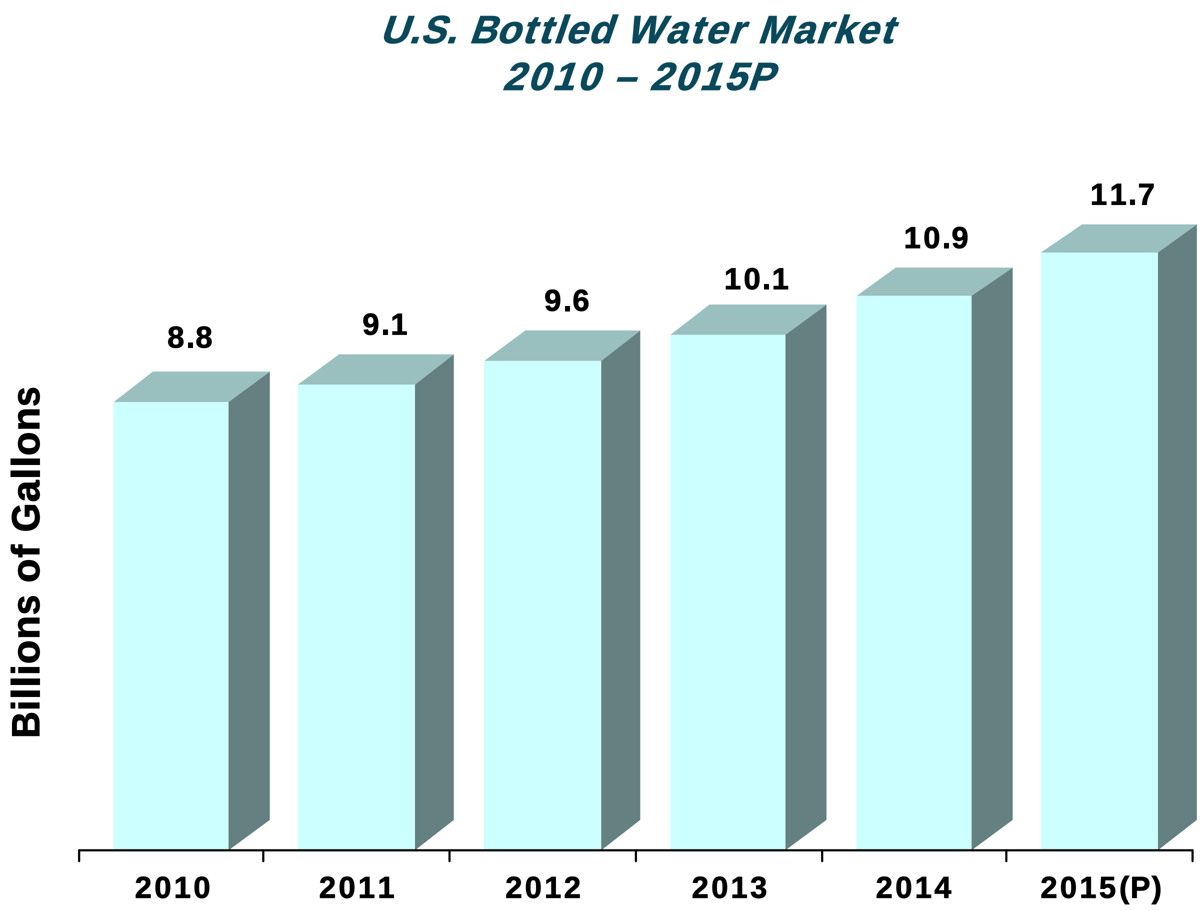
Wholesaler Dollars Per Gallon Indexed to 2000



Source: Beverage Marketing Corp.

Bottled water has experienced healthy growth each year since the recession

- The category is aided by its positioning as the ultimate health beverage
- The category now approaches nearly 12 billion gallons



Bottled Water Market Growth 2011 – 2015P

Year	Change
10/11	4.0%
11/12	6.2%
12/13	4.7%
13/14	7.3%
14/15P	7.6%

10/15P CAGR 6.0%

P: Preliminary
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	Essence Water	Cap-Activated Water	Plant Water
			
Essentia	**Hint**	**Activate**	**Trader Joe's**

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Not all enhanced water beverages are hits with consumers: This asparagus water sold at Whole Foods met with backlash and ridicule days after it was introduced with a price tag of $5.99 per bottle

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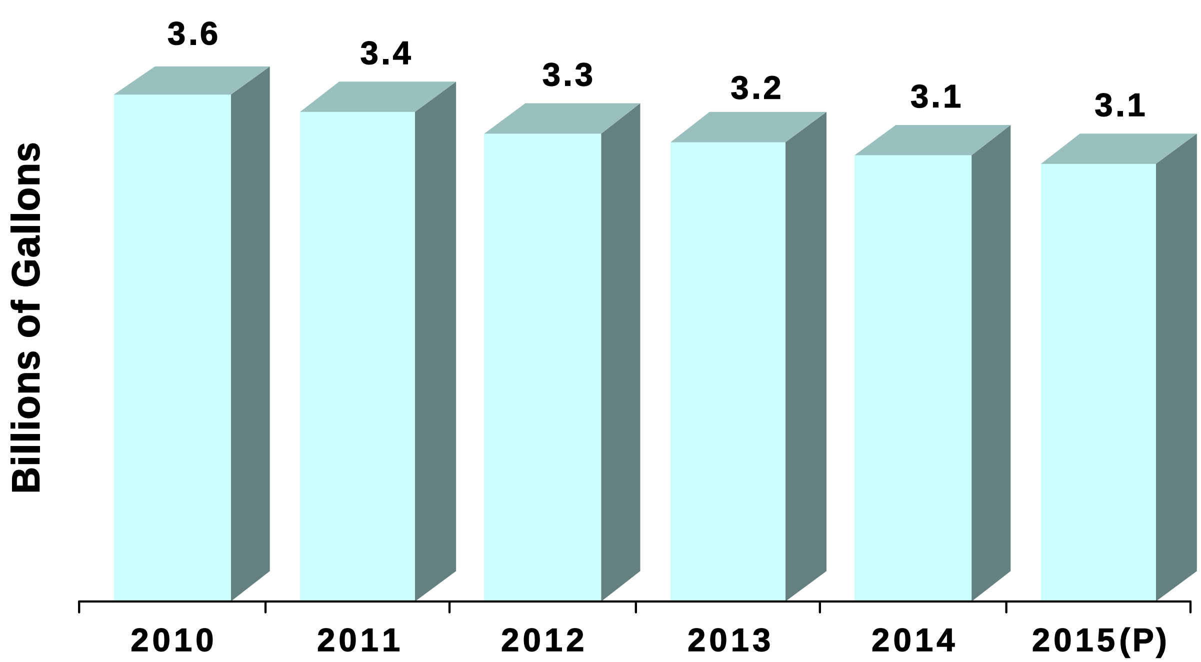
Like most other mass-market refreshment beverage categories, fruit beverage consumption has been on the decline over the last decade

- Category performance has been negatively impacted by high relative prices, high caloric and sugar content, and limited innovation

U.S. Fruit Beverage Market
2010 – 2015P



Fruit Beverage Market Growth
2011 – 2015P

Year	Change
10/11	-3.4%
11/12	-4.1%
12/13	-1.9%
13/14	-2.8%
14/15P	-2.1%

10/15P CAGR -2.9%

P: Preliminary
Source: Beverage Marketing Corporation

One source of growth in fruit beverages has been the superpremium category

- Products like Naked (PepsiCo), Odwalla (Coca-Cola) and Bolthouse (Campbell Soup) are leading the growth in the segment

Naked

Bolthouse Farms

Odwalla

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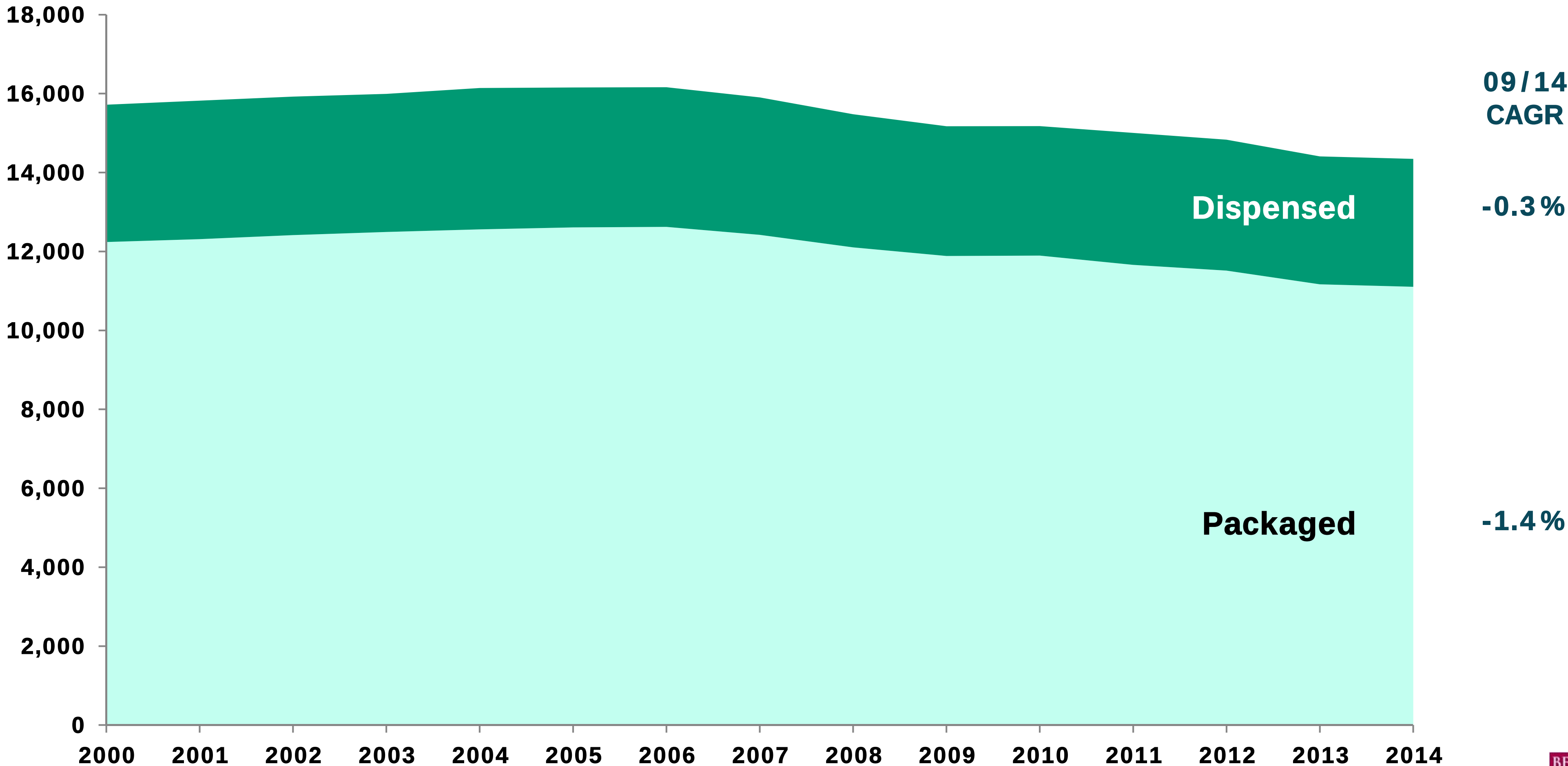
Fountain/dispensed product volume has experienced soft performance over the last five years, driven by overall declines in the carbonated soft drink category

- Beverage Marketing only tracks fountain volume in RTD tea and CSD categories

CSD and RTD Tea Volume by Dispensed vs. Packaged
Millions of Gallons
2000 – 2014



A number of products introduced by beverage companies are exclusively fountain and only available via dispensers

SoBe Lean Cranberry Grapefruit

IZZE TwiZt

Brisk Unsweetened No Lemon

Lipton

Mtn Dew Baja Blast and Sangrita Blast

Stubborn Soda

Patio

PATIO

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New dispensing systems from Coke and Pepsi are offering consumers more variety particulary in QSR locations

Variety and Customization

Coke Freestyle

Pepsi Spire

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Renewed focus has been placed on home dispensing through the aggressiveness of SodaStream and Coke's participation in the launch of the Keurig Kold system

- PepsiCo is now making its Pepsi and Sierra Mist brands available in capsules for SodaStream
- But the jury is still out on how successful home dispensing can be

Keurig Kold

SodaStream

Bonne O

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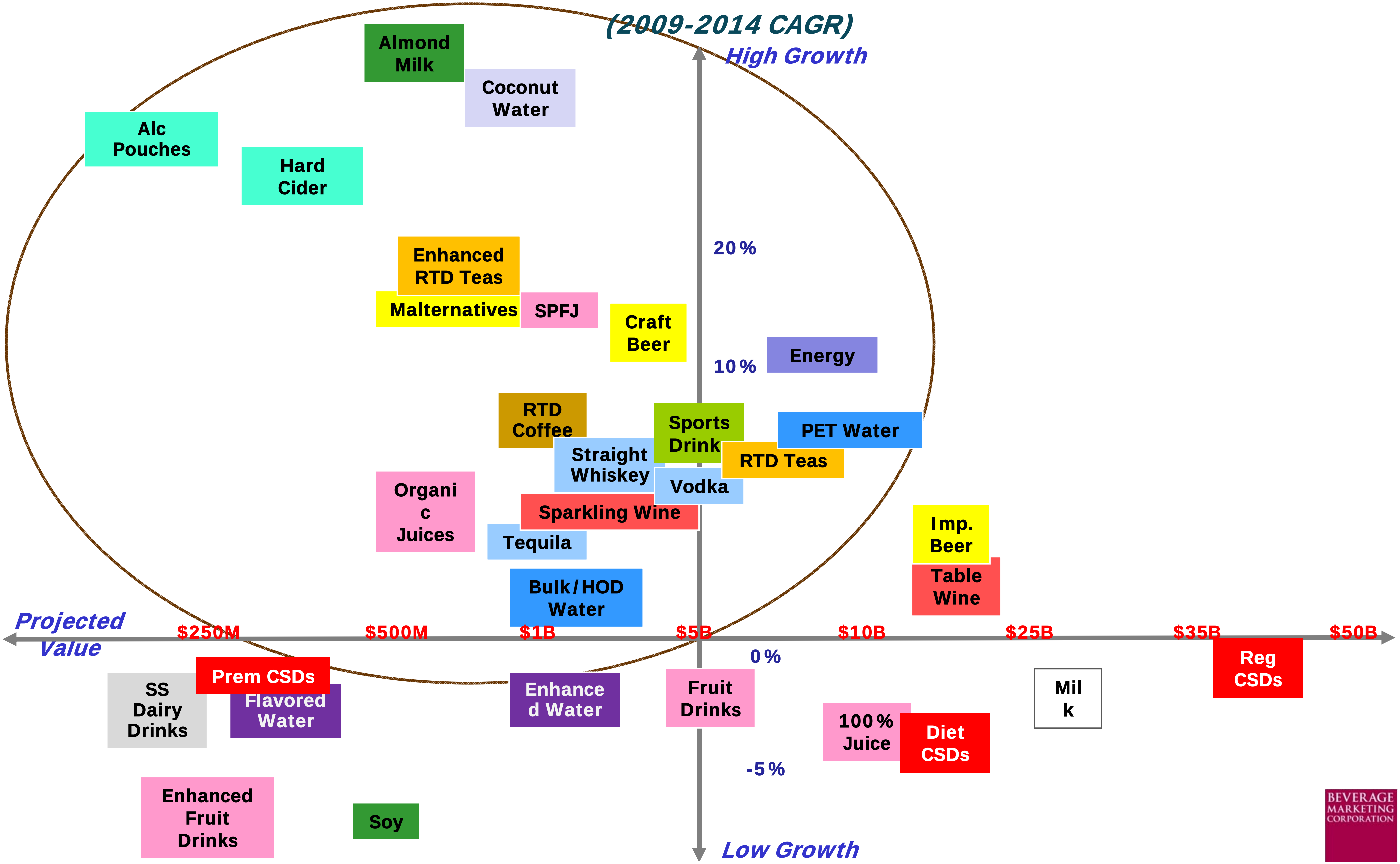
In the future, the marketplace will be characterized by numerous high-value, low relative volume opportunities



Among refreshment beverages, the strongest growth is projected for bottled water, energy drinks and RTD teas and coffees

- CSDs, milk and fruit beverages will need to innovate and provide healthier options to rekindle growth

2016 Liquid Refreshment Beverage Projections

LRB Category	2016(P)
RTD Coffee	+12.0% to +13.0%
Energy Drinks	+7.0% to +8.0%
Bottled Water	+5.5% to +6.5%
RTD Tea	+5.0% to +6.0%
Value Added Water	+4.0% to +5.0%
Sports Drinks	+3.0% to +4.0%
Carbonated Soft Drinks	-0.7% to -1.2%
Fruit Beverages	-1.0% to -2.0%
TOTAL LRBs	**+1.9% to +2.3%**

P: Projected
Source: Beverage Marketing Corporation

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Thank You

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- Strategic Associates
- Research
- Advisors

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