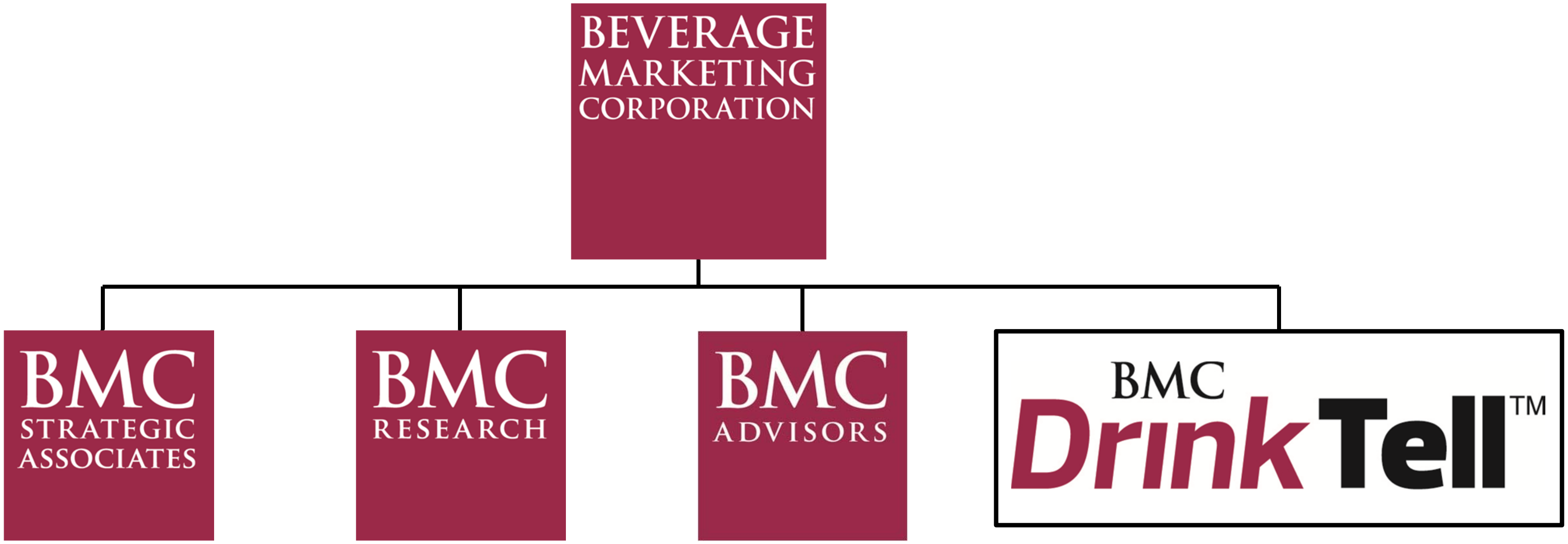
The Packaging Conference

Beverages 2016
The Shifting Beverage Landscape: What's In Store?

February 8, 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

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Introducing…
THE BEVERAGE PACKAGING DATA MODULE

The latest addition to Beverage Marketing Corporation's

DrinkTell™ Database with Market Forecasts!

Visit our exhibit for a closer look!

The Beverage Packaging Module is brought to you by:

BEVERAGE MARKETING CORPORATION AND SBAcci Strategic Business Analysis

DrinkTell™

Agenda

I. Market Overview

II. Key Trends

III. Category Updates

IV. Projections

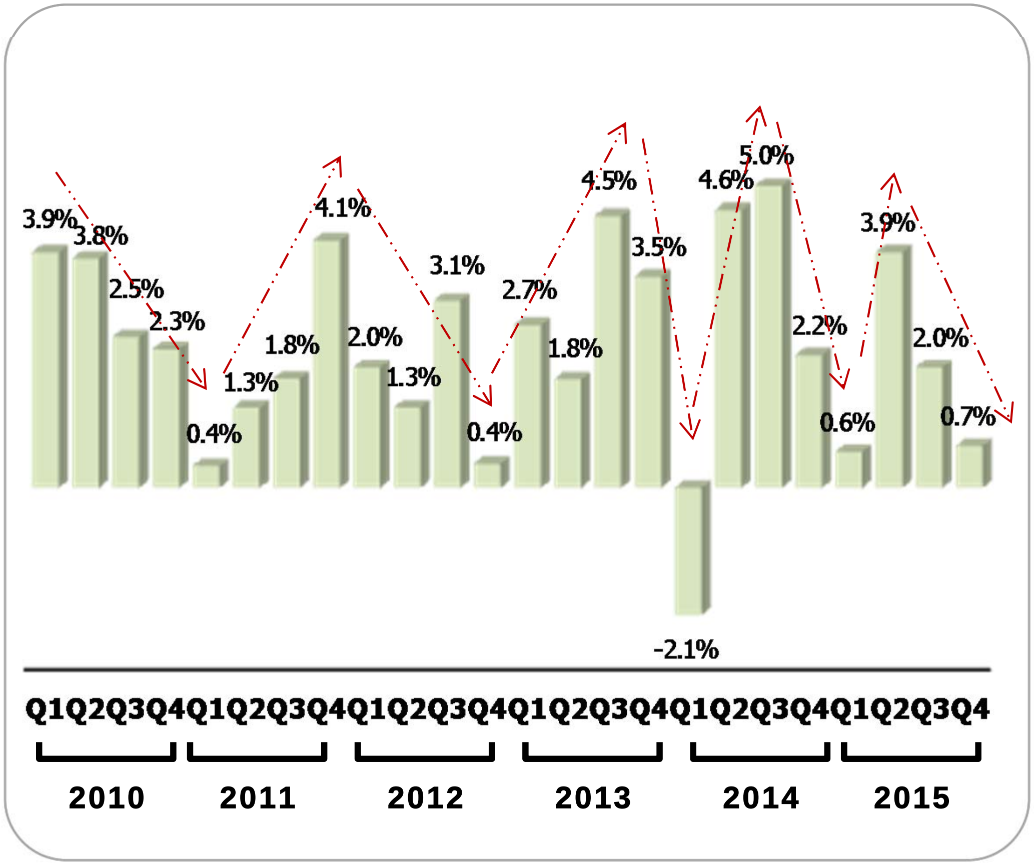
State of the Industry – The Good and the Bad

Beverage Headlines

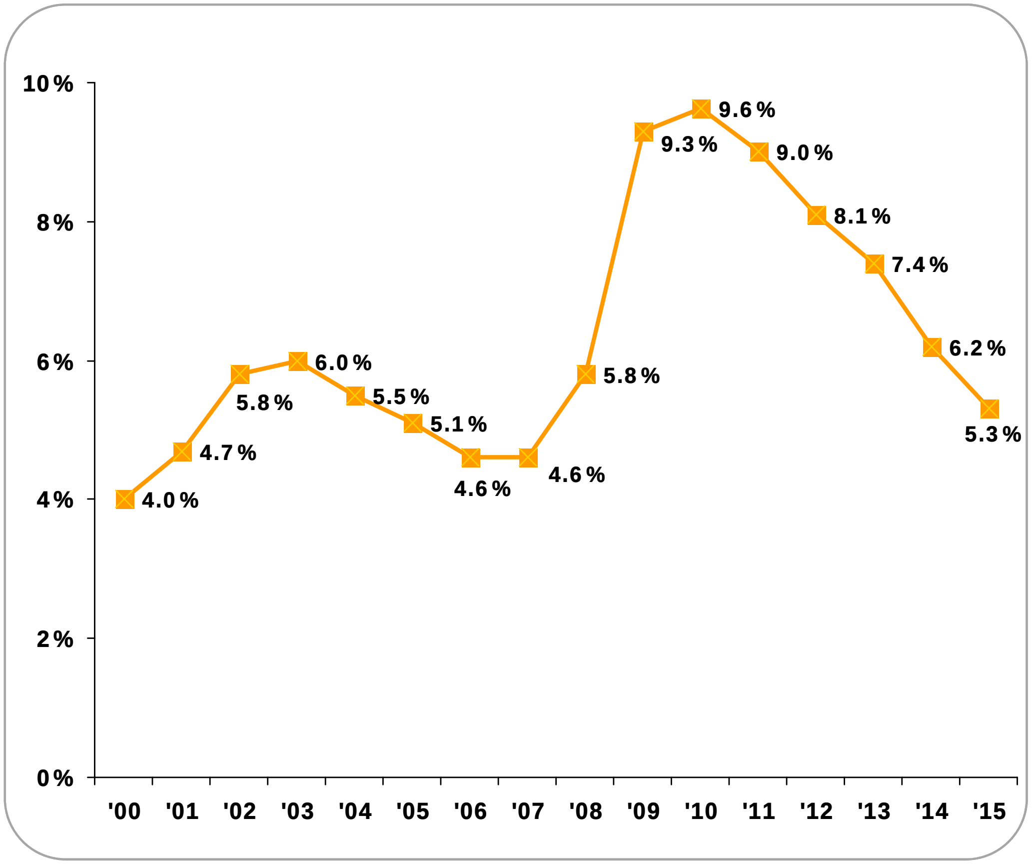
- Liquid refreshment beverage market grows for second consecutive year in 2015 after flat performance in 2013
- Carbonated soft drinks experience another modest sales decline in 2015
- Bottled water continues its solid growth trend led by single-serve water segment
- Niche categories continue to outperform 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

Quarterly GDP Change 2010 – 2015



Unemployment Rate 2000 – 2015



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

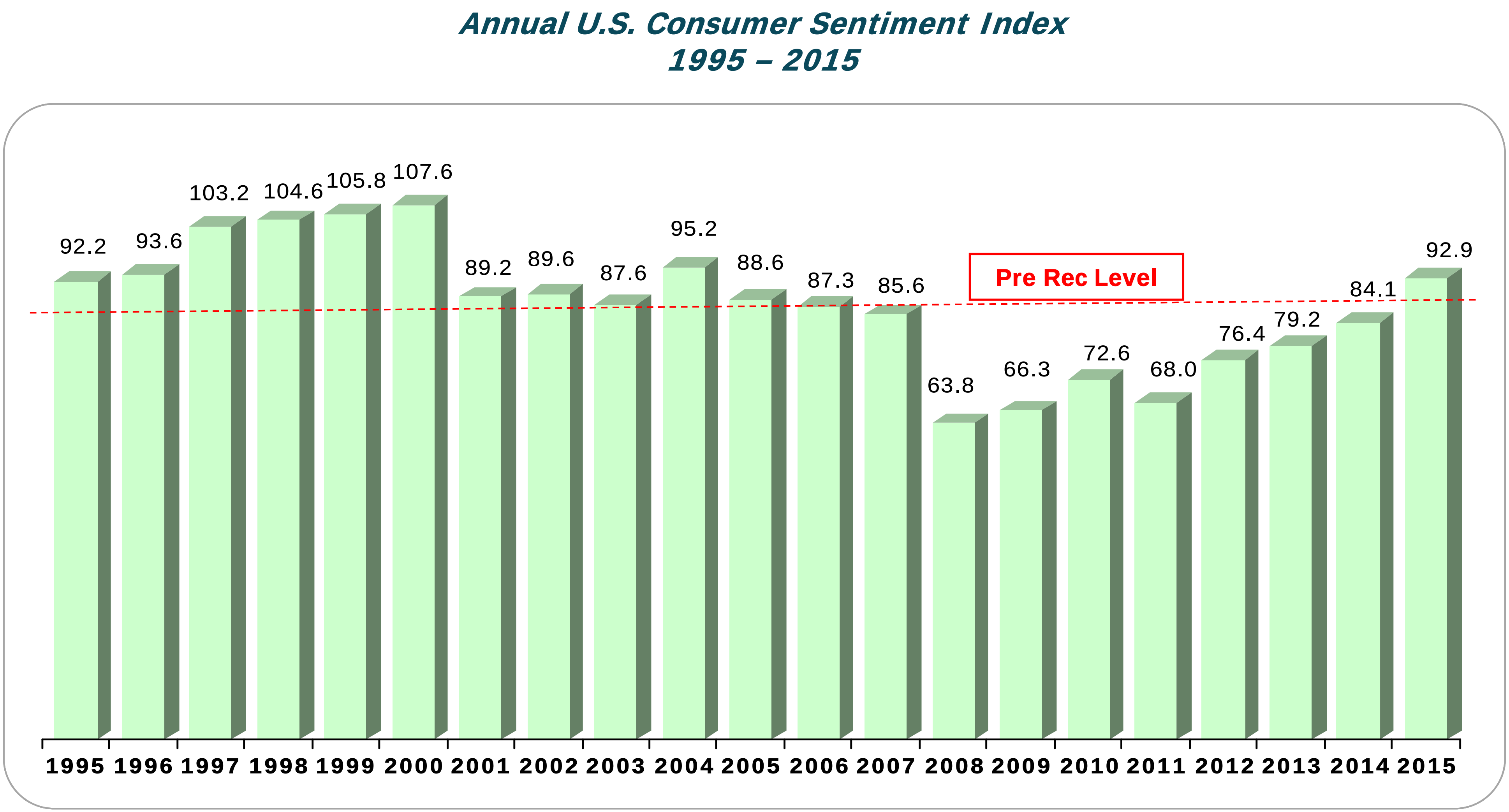
Beverage stock performance was solid in 2015 – consistent with the performance of the overall stock market – but market has been rocky first month of 2016

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

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

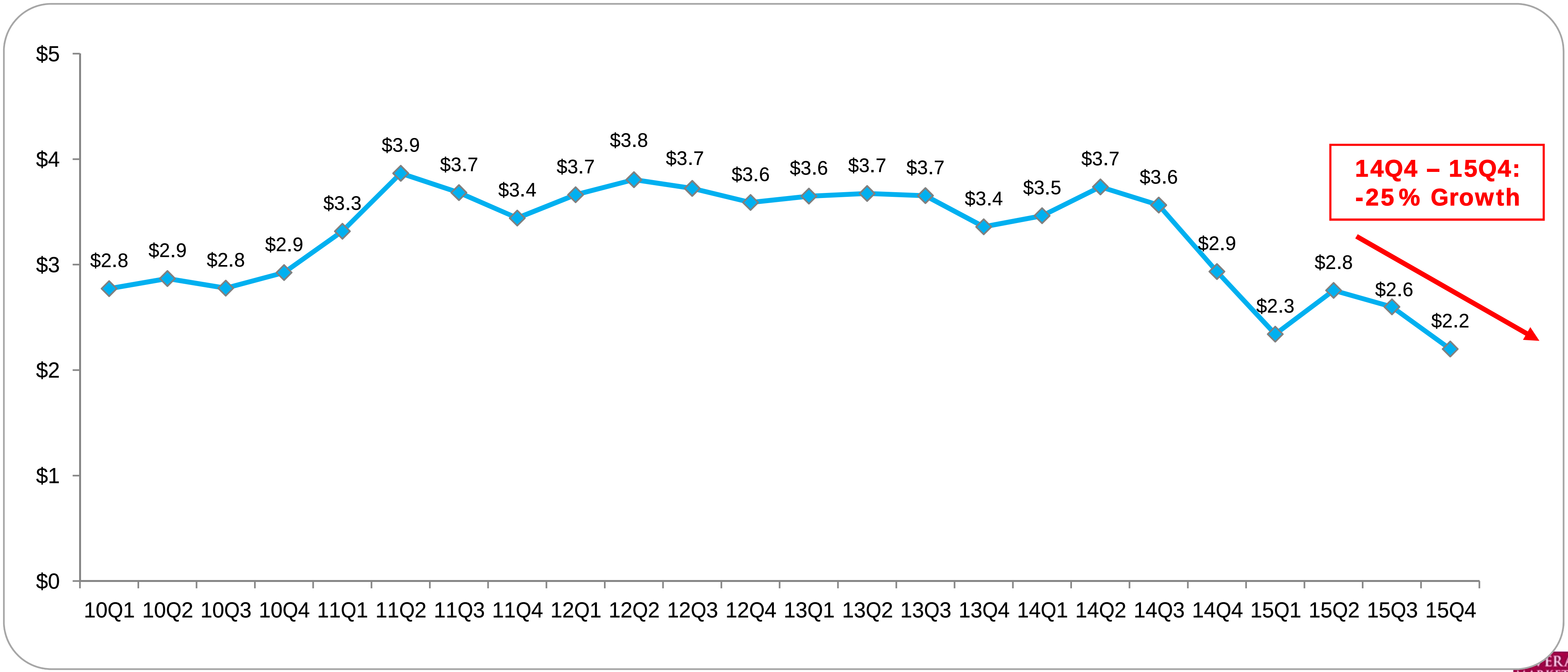


Source: Thompson Reuters/University of Michigan

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

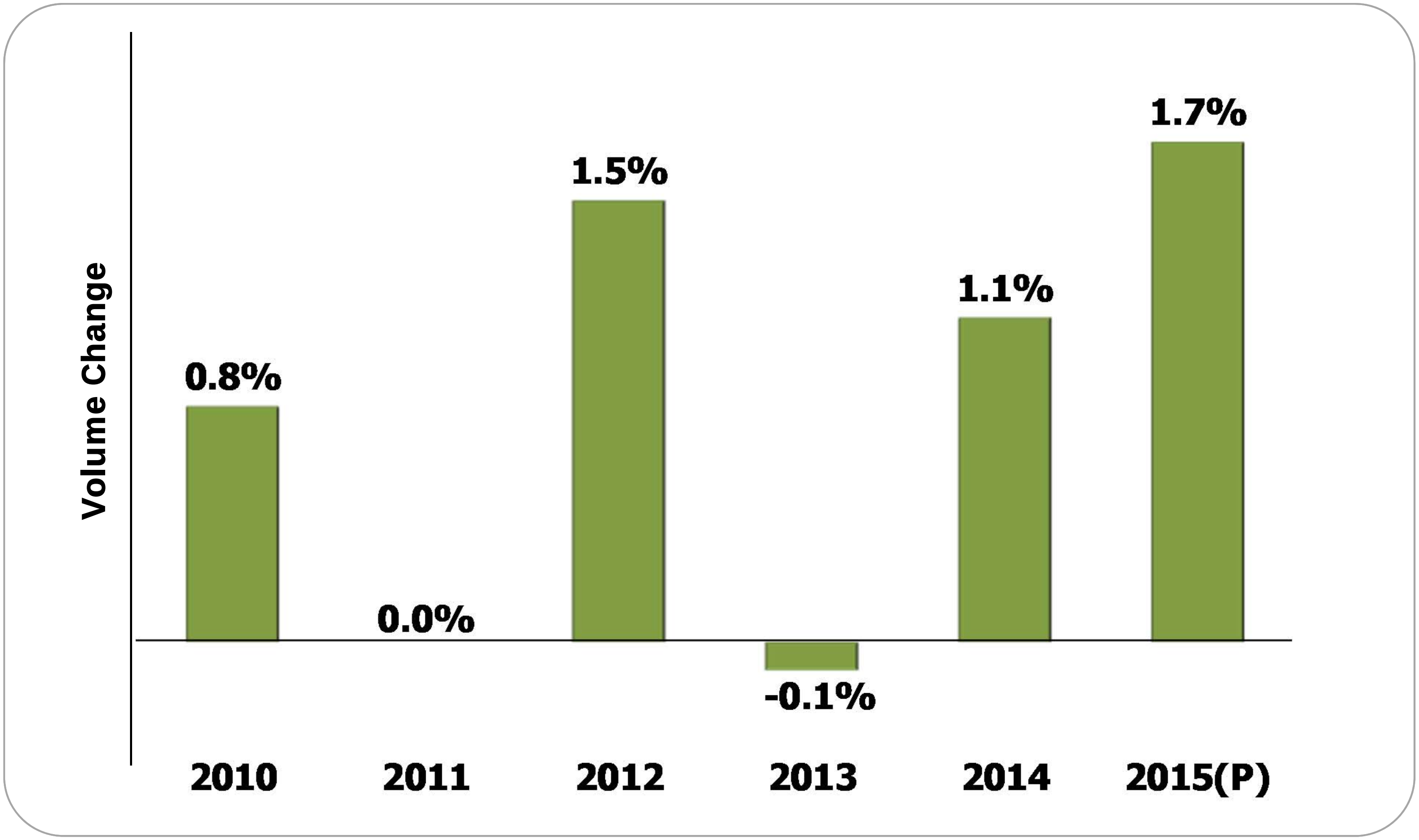


Source: U.S. Energy Information Administration

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.

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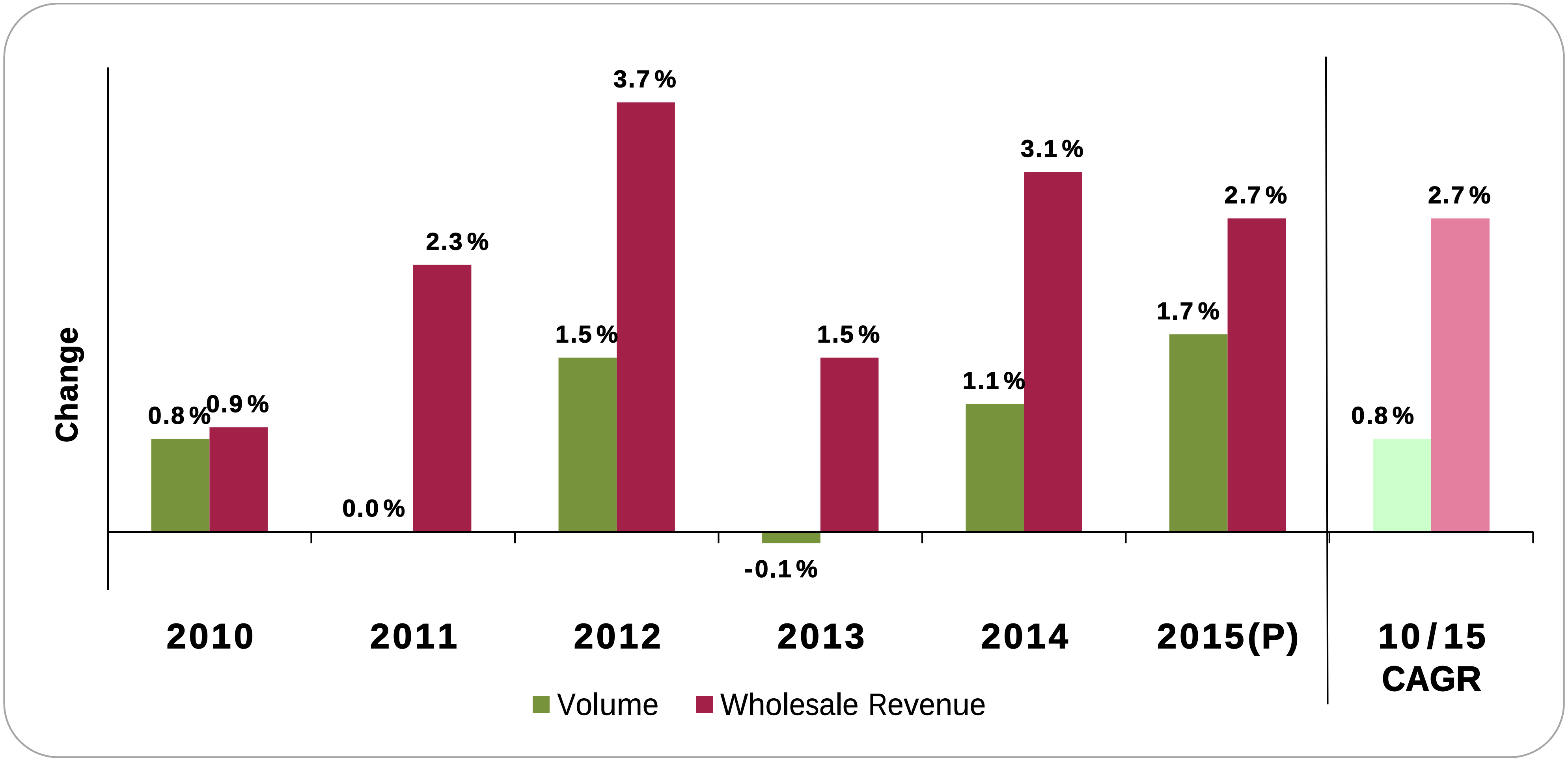
Post-recession annual beverage revenues have been consistently positive, but the differential versus volume growth is narrowing

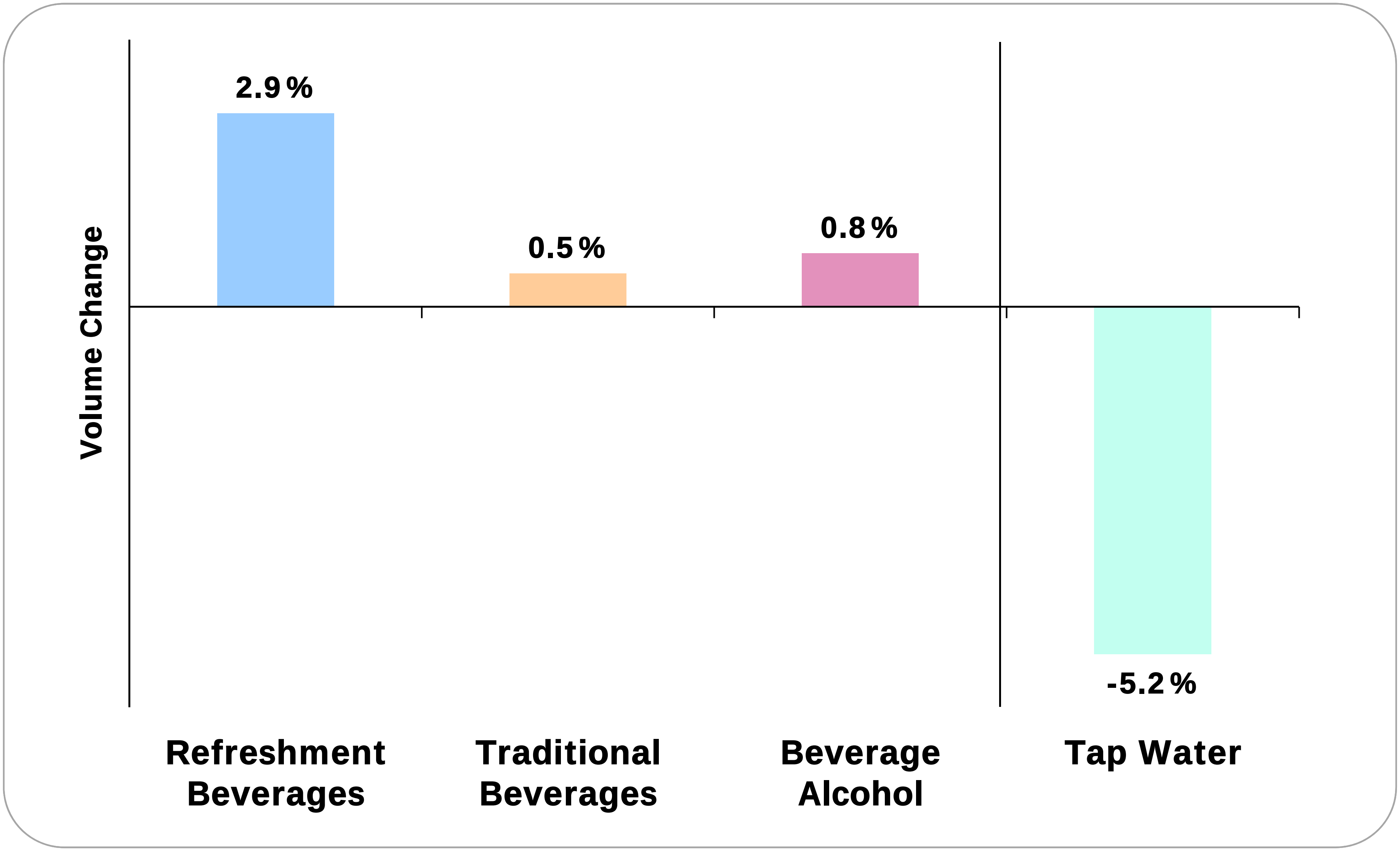
U.S. Total Beverage Market
Volume and Wholesale Revenue
(Millions of Gallons and Wholesale Dollars)
2010 – 2015P



P: Preliminary
Source: Beverage Marketing Corp.

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

U.S. Beverage Market – 2015P

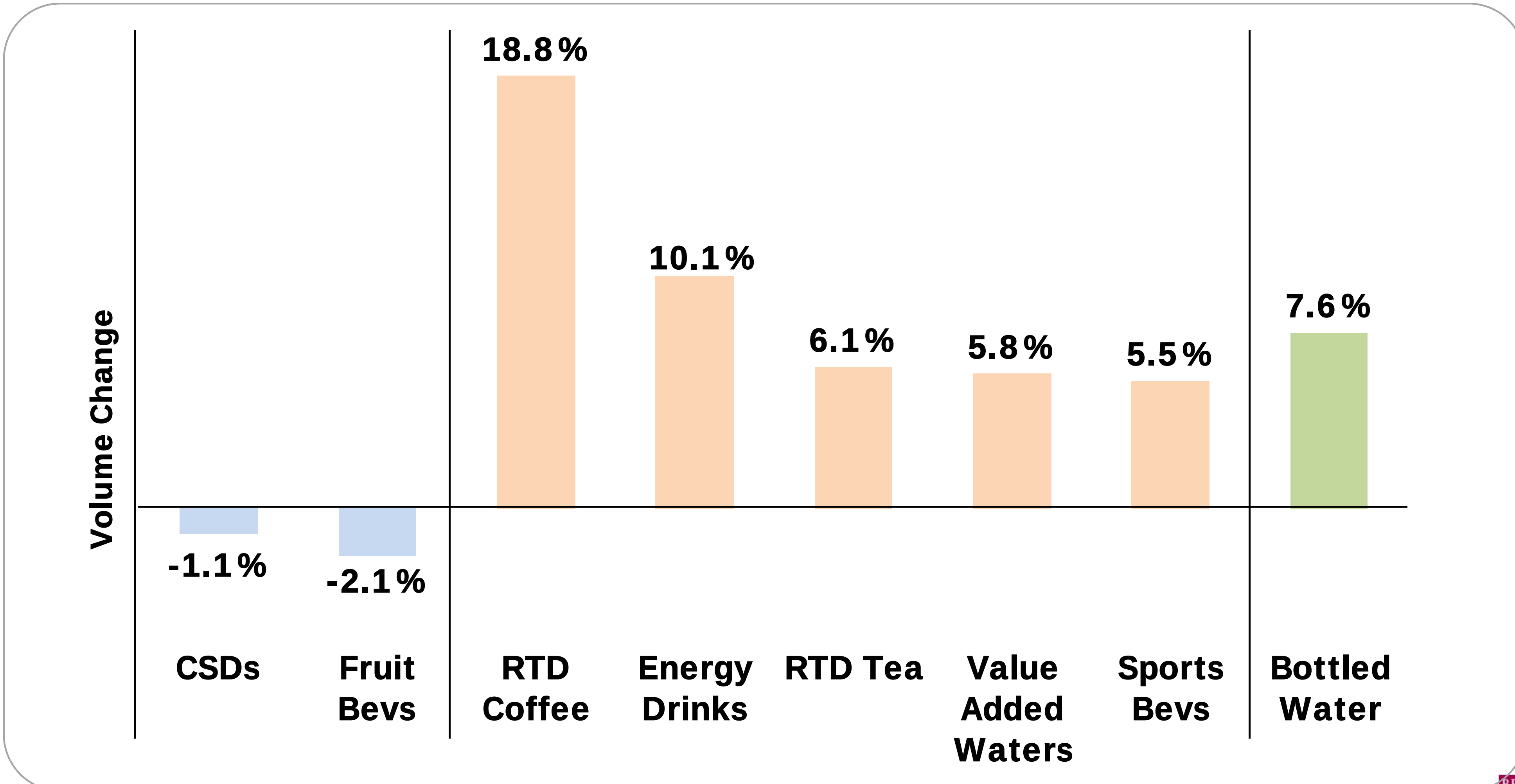


P: Preliminary
Source: Beverage Marketing Corp.

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

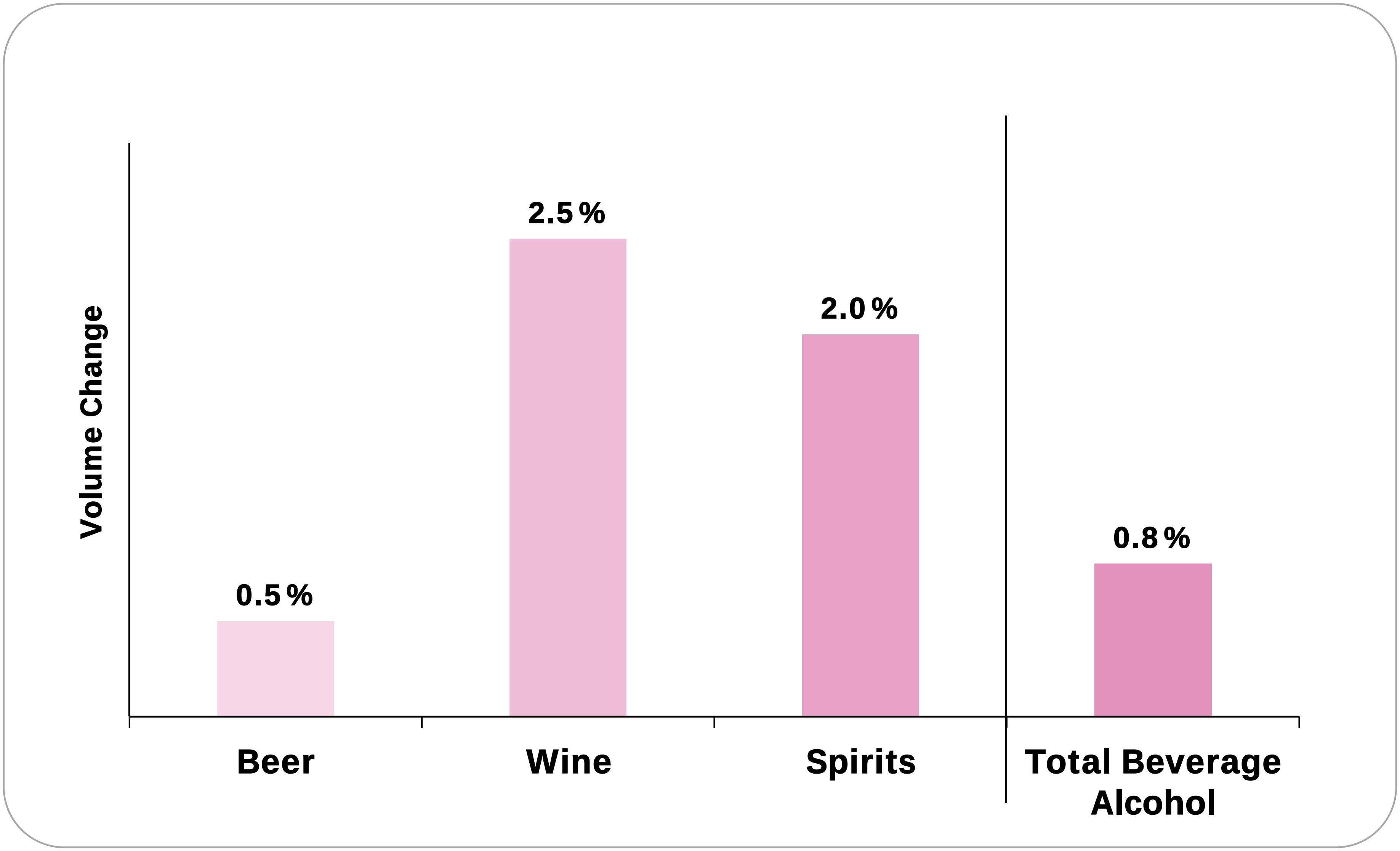
The U.S. Liquid Refreshment Beverage Market
2015P



P: Preliminary
Source: Beverage Marketing Corp.

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

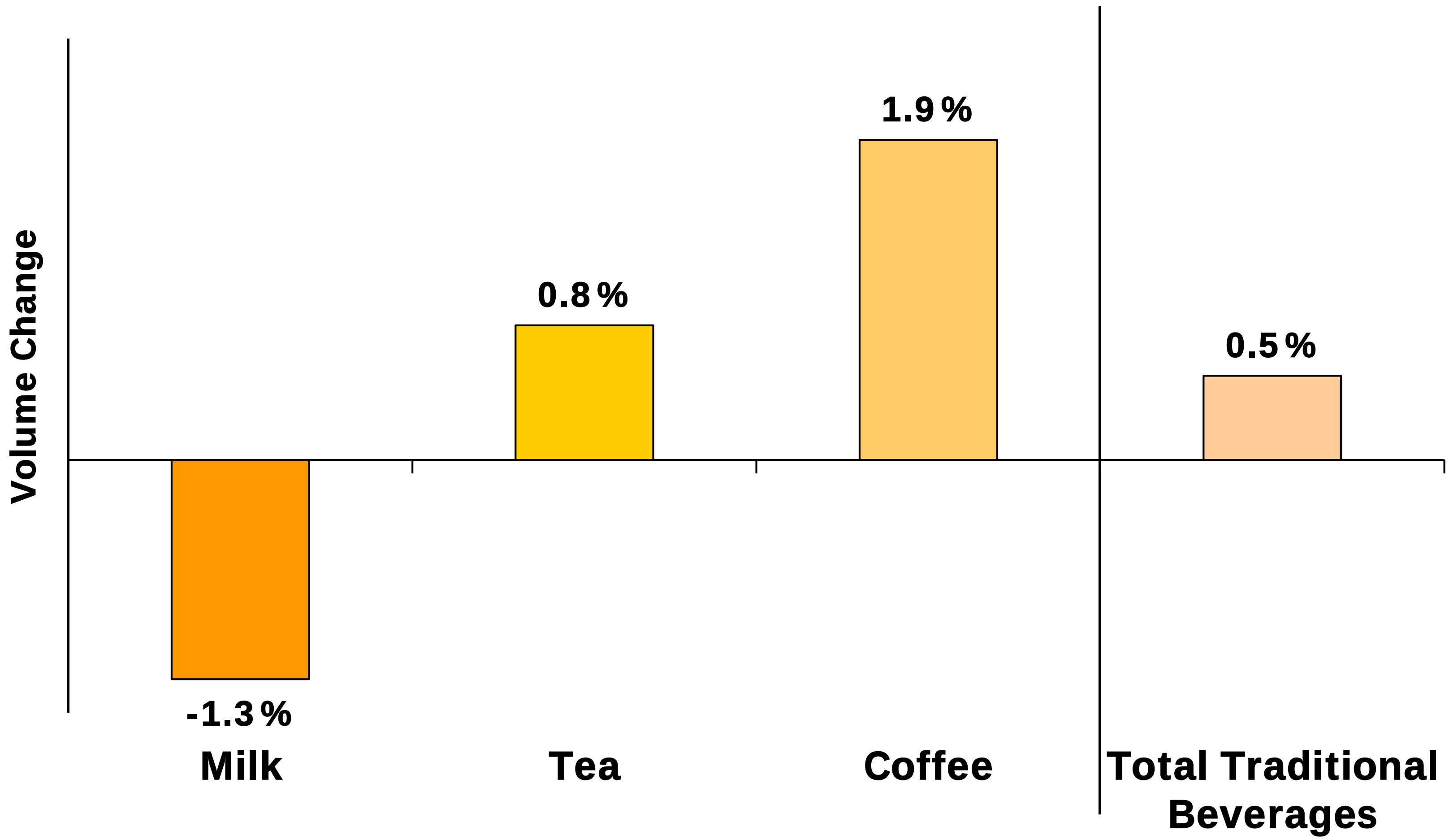
The U.S. Beverage Alcohol – 2015P



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.

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

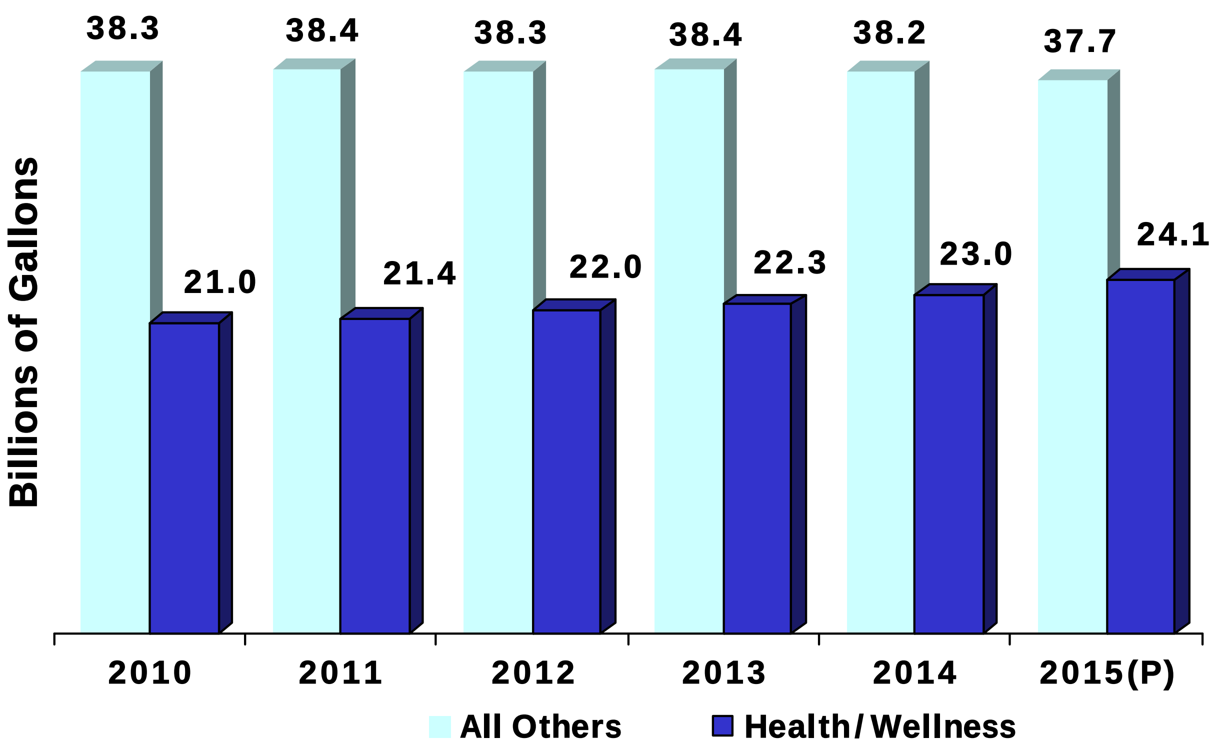
- CSDs

Traditional Key Consumer Drivers Are Evolving

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

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

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

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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

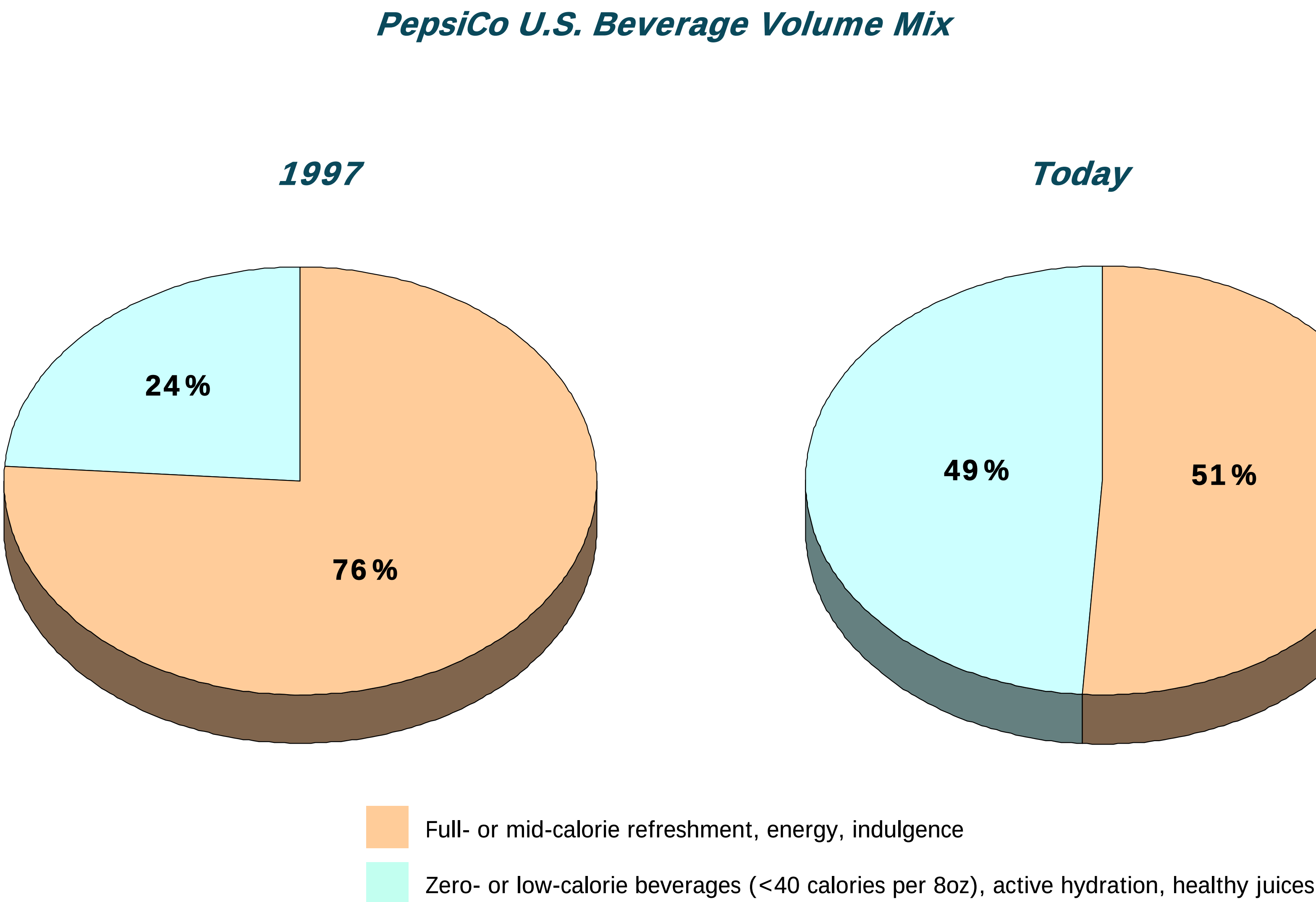
China Culiangwang Beverage Holdings *(Pending)*

fairlife

Keurig Green Mountain

Source: Beverage Marketing Corporation; Coca-Cola Company

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



Source: Beverage Marketing Corporation; PepsiCo

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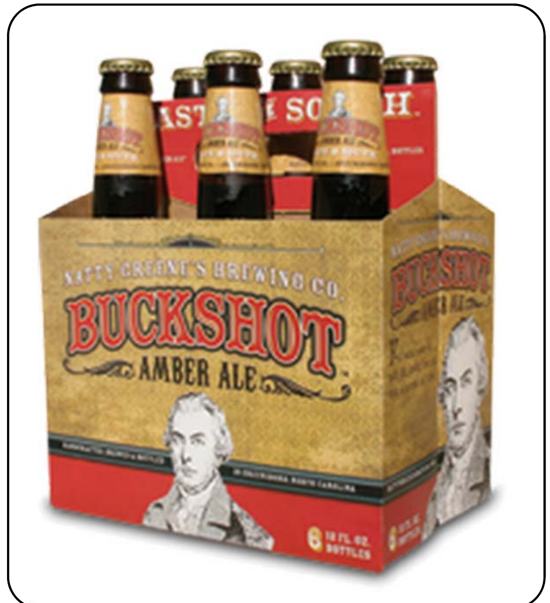
Craft beer continues to be the fastest growing segment in the beer category as new breweries now total 4,000 nationally; craft beer now accounts for about 11% of category volume



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Many big brands declined in 2014

Top 10 Soft Drinks

- Pepsi-Cola
- Diet Coke
- Mountain Dew
- Diet Pepsi
- Coke Zero

Top 10 Beer Brands

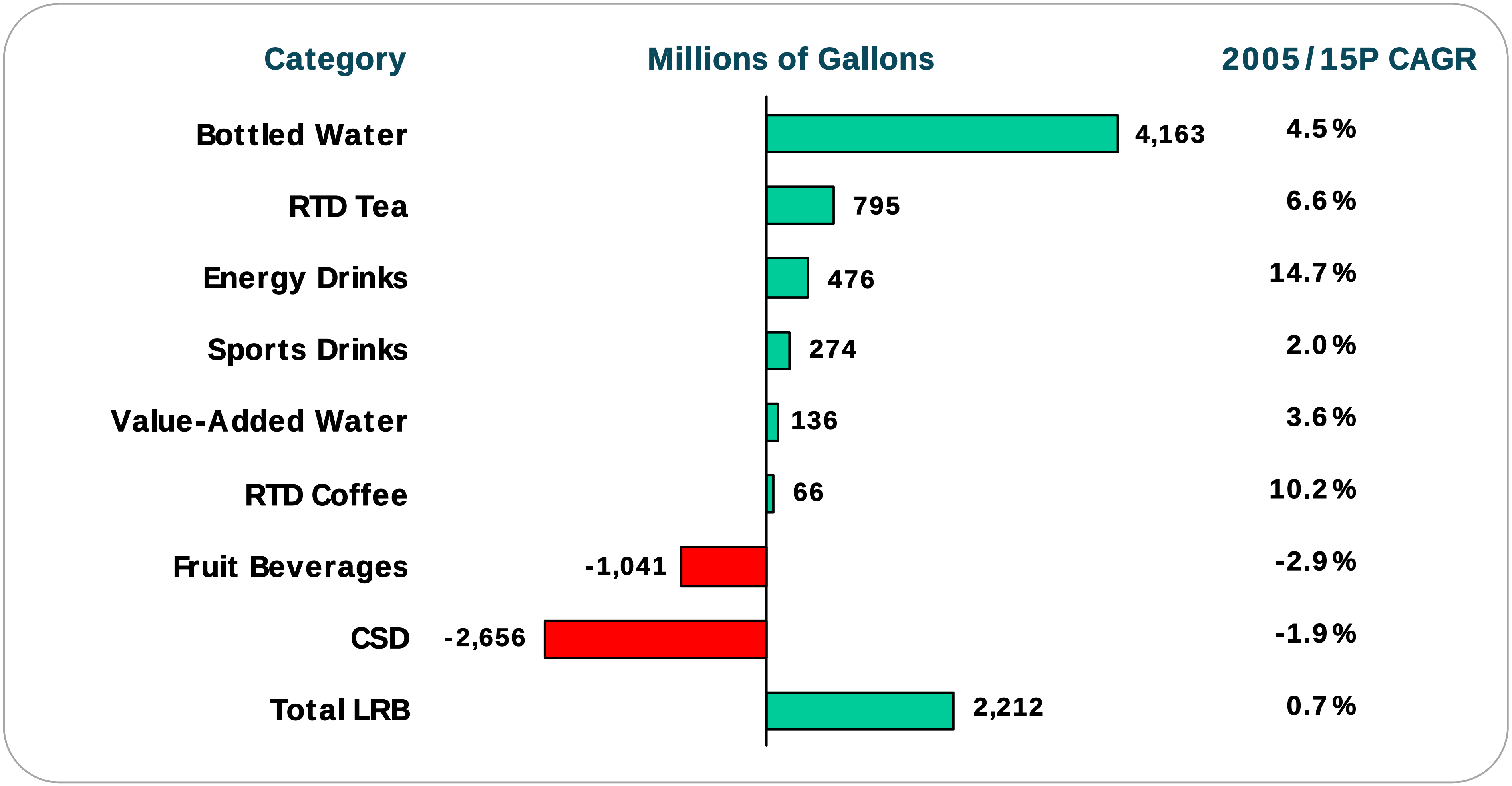
- Bud Light
- Coors Light
- Budweiser
- Miller Lite
- Corona Extra
- Natural Light
- Busch Light
- Busch

Top 10 Spirits Brands

- Bacardi
- Captain Morgan
- Absolut

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?

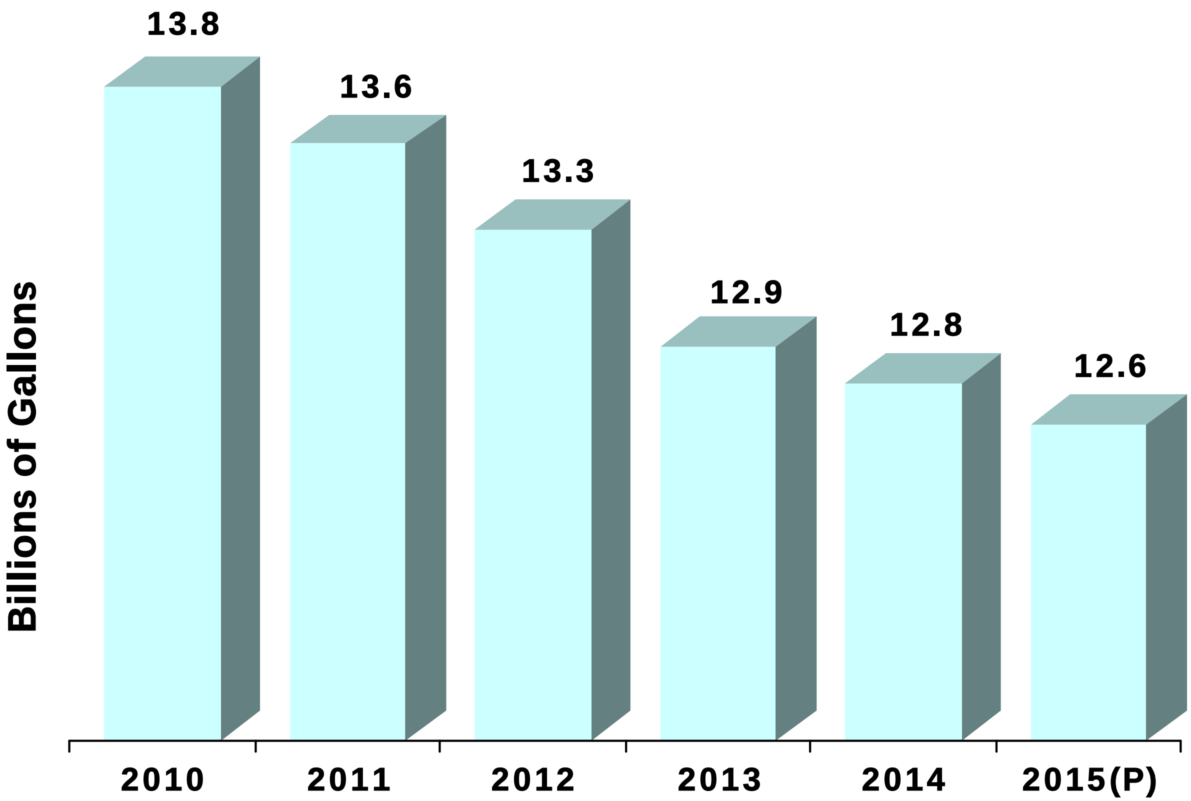


P: Preliminary
Source: Beverage Marketing Corp.

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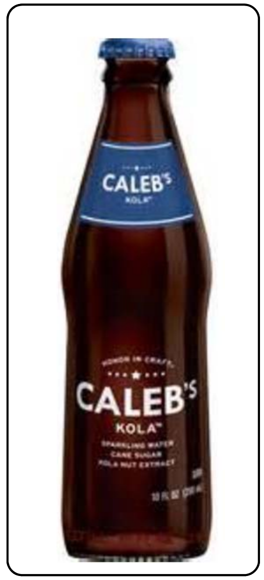
One potential source of growth is craft sodas, which are beginning to emerge as a viable option for today's consumers with new brands and companies entering the market, but the segment is unlikely to reach the same level as craft beer

Craft Soda



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SodaStream has first-mover advantage in the home beverage dispenser market, while rivals such as Bonne O are close to coming into the market

- PepsiCo is now making its Pepsi and Sierra Mist brands available in capsules for SodaStream

Keurig Kold

SodaStream

Bonne O

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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

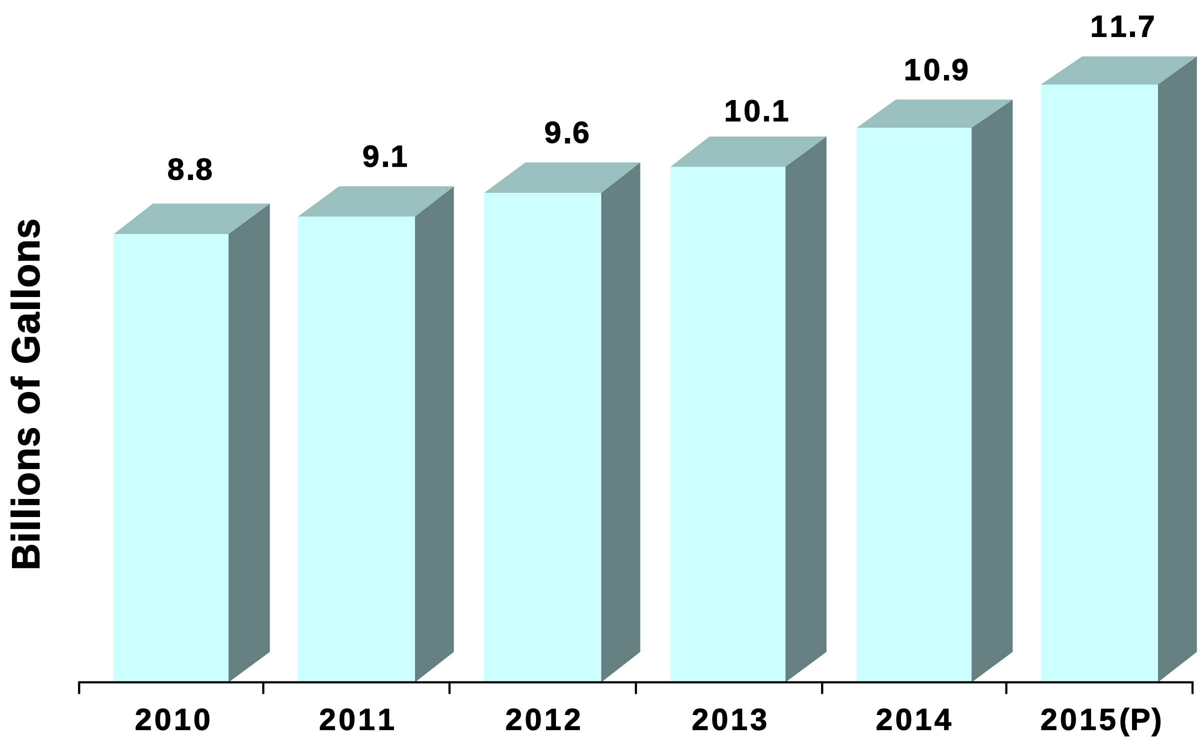
- Reasons for reducing CSD consumption:
  - Health
  - Variety
  - Economy
- Legislation and messaging from government and regulatory agencies
- Tax threats aimed at reducing consumption
- Negative commentary from medical studies and other organizations
- Steady drumbeat of negative press

Source: Beverage Marketing Corporation

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

U.S. Bottled Water Market
2010 – 2015P



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

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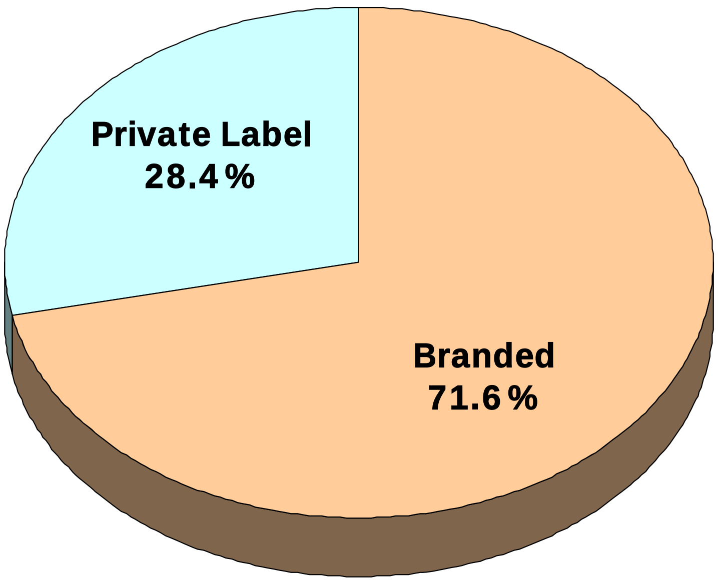
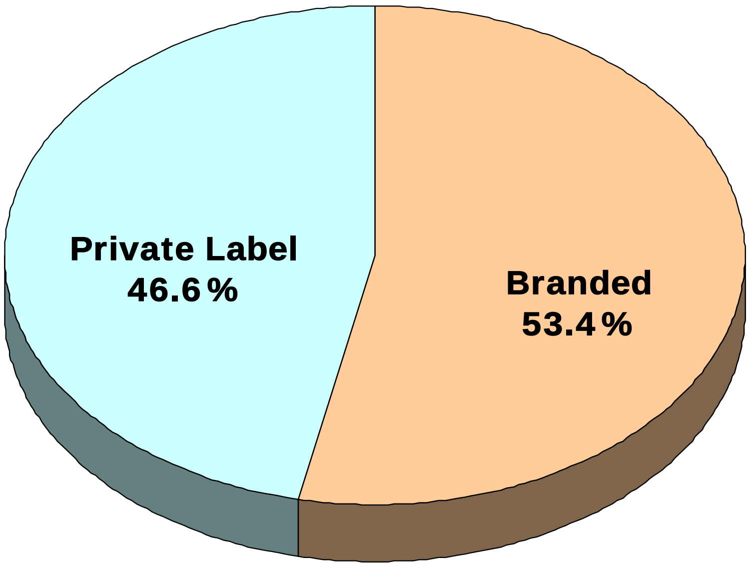
While branded water outsells private label in the retail PET segment, private label has made significant inroads over the last five years

U.S. Retail PET Water Market
Branded vs. Private Label

2010



2015P



P: Preliminary
Source: Beverage Marketing Corporation

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

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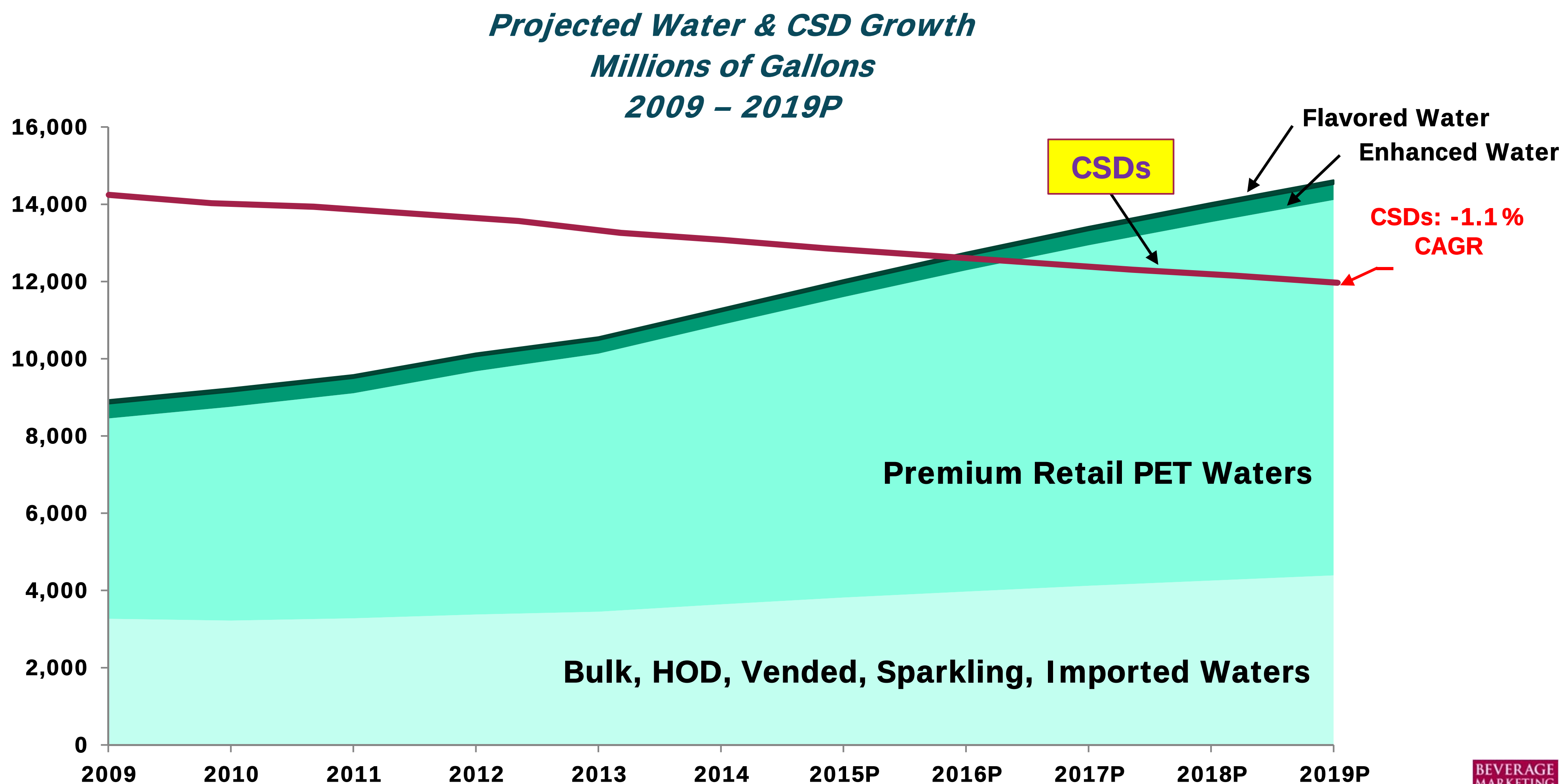
The timeline for bottled water to become the #1 beverage category continues to contract, with late 2016 or early 2017 becoming a target date

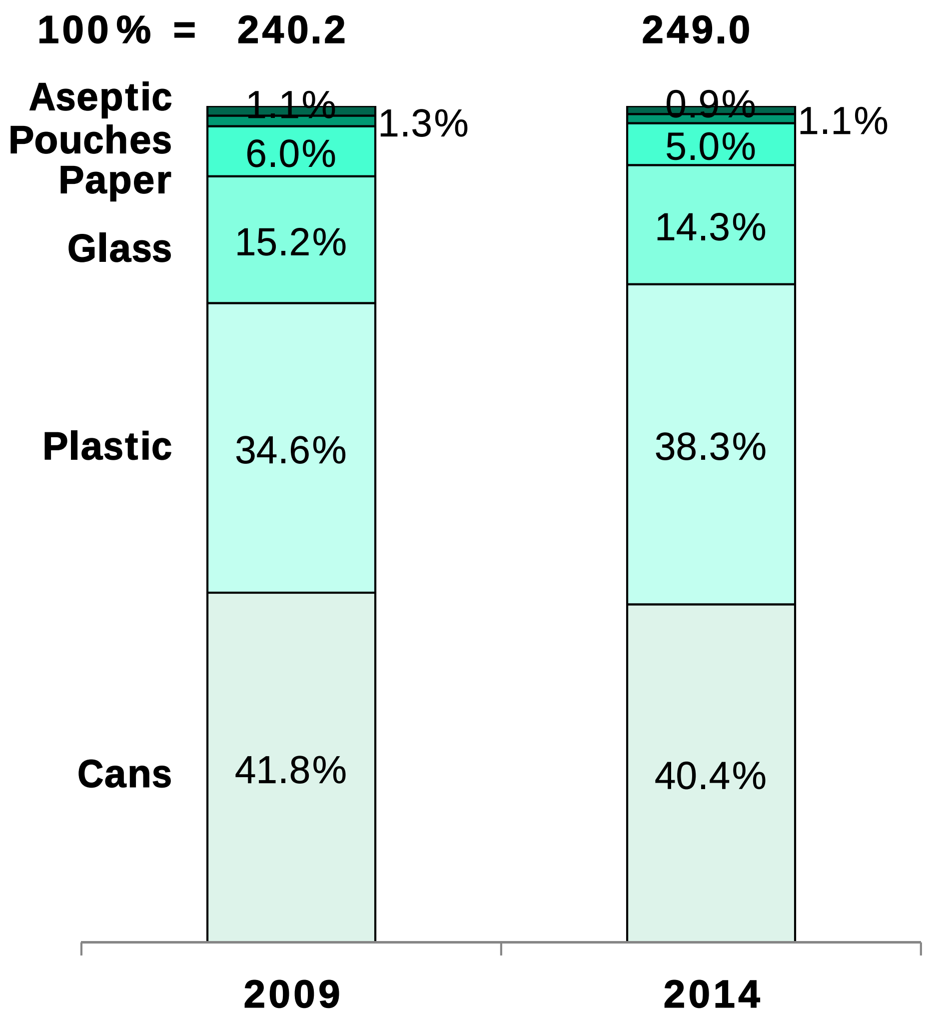
- With today's updated projections, bottled water (including flavored and enhanced water) could capture the top spot by 2016
- The timeline for plain water to capture the top spot could happen by 2016 year-end



Cans, plastic and glass comprise more than 90% of the beverage packaging universe

- Over the last five years, plastic has seen the most growth due mostly to the success of the bottled water category

Beverage Packaging Share by Package Type*
Billions of Packaging Units



Beverage Package Types Growth 2009 – 2014

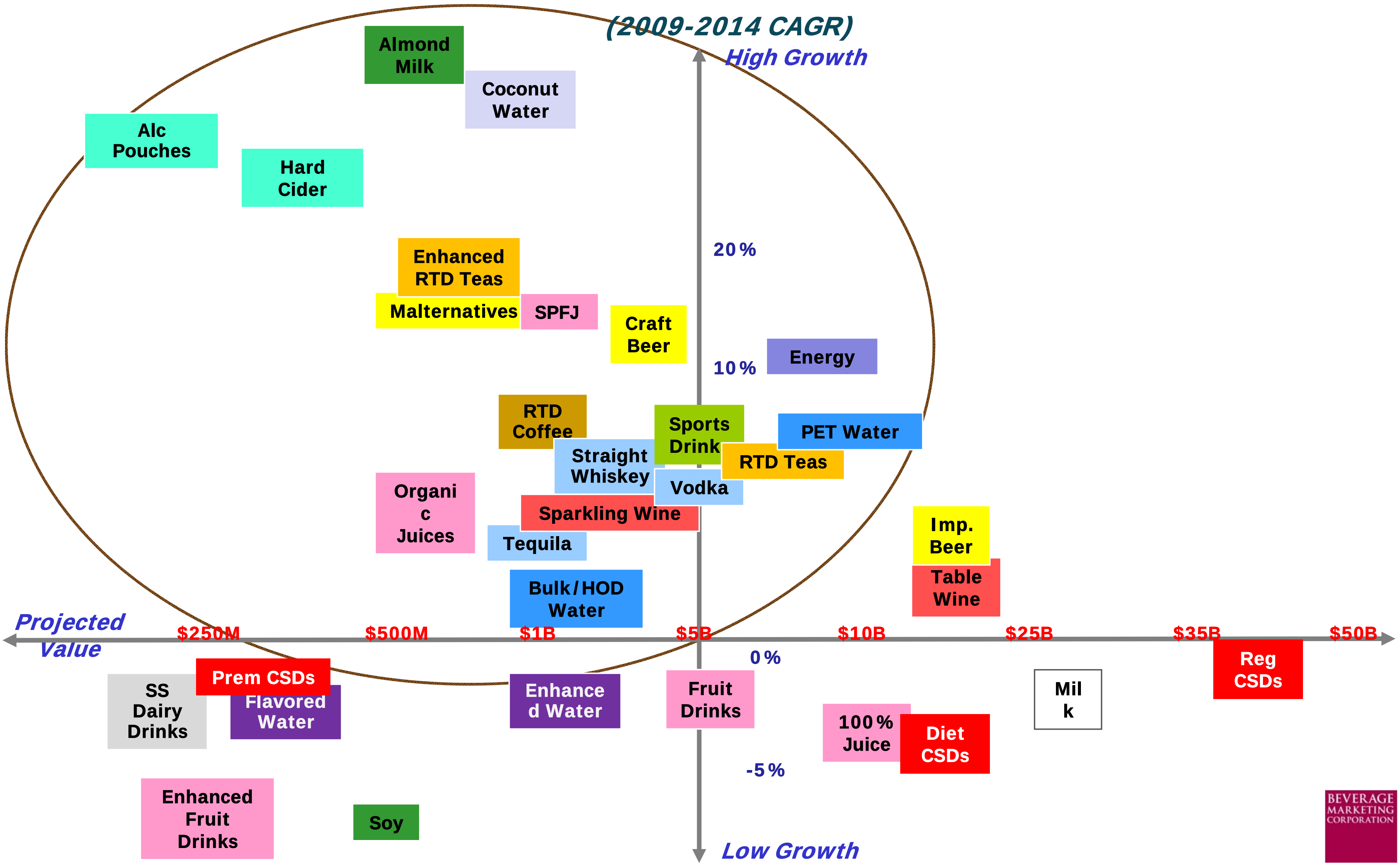
Type	2009-2014 CAGR(%)
Aseptic	-2.8%
Pouches	-2.5%
Paper	-2.8%
Glass	-0.5%
Plastic	3.9%
Cans	-1.1%
TOTAL	**0.7%**

** Includes Milk, does not include Beer kegs*
Source: Beverage Marketing Corporation

Packaging innovation has gained in importance as the marketplace has gotten more crowded as a means to distinguish both categories and brands

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

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

Thank You

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

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