

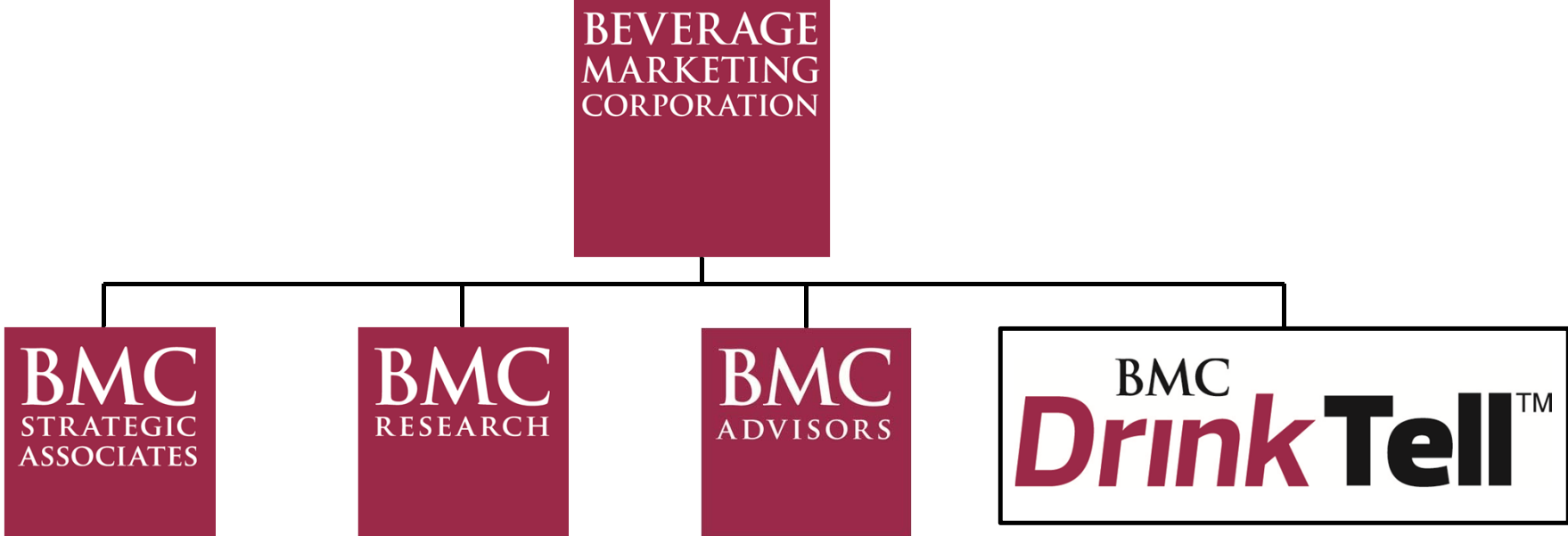
The Packaging Conference

Beverages 2017 *The Shifting Beverage Landscape* *And What It Means for Packaging*

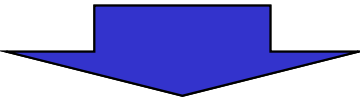
February 6, 2017

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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Agenda

- **Market Overview**
- **Key Trends**
- **Category Updates**
- **Projections**

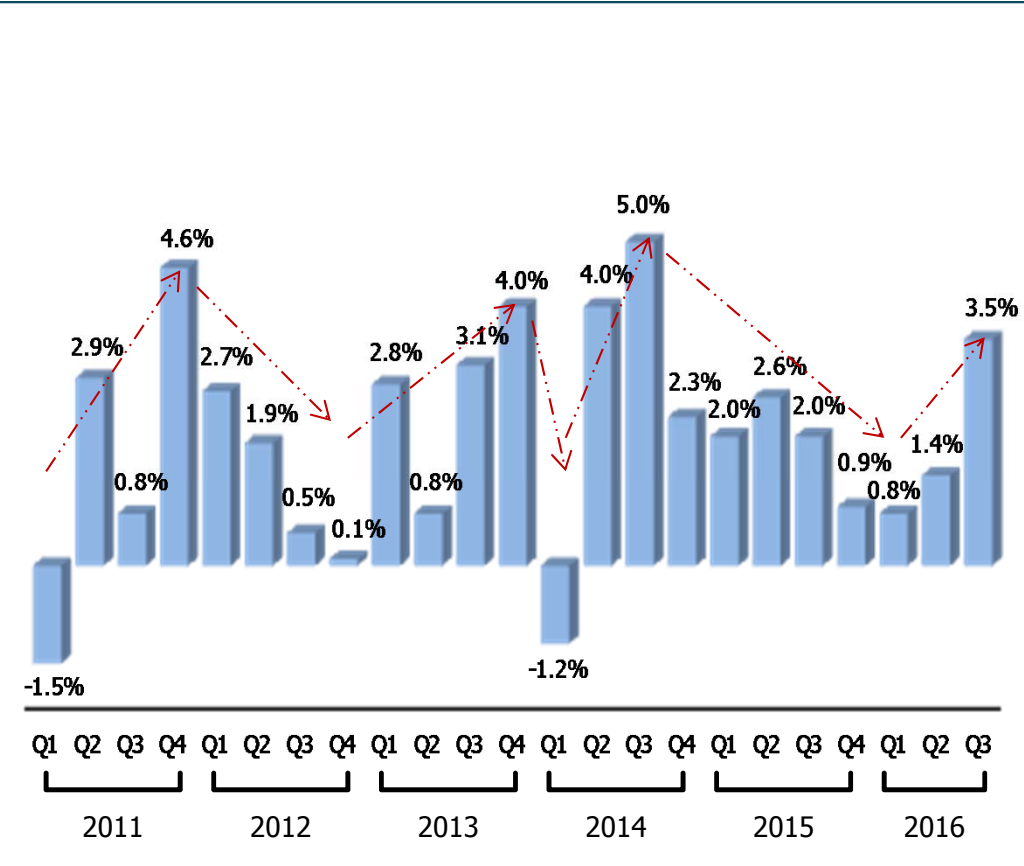
State of the Industry – The Good and the Bad

Beverage Headlines

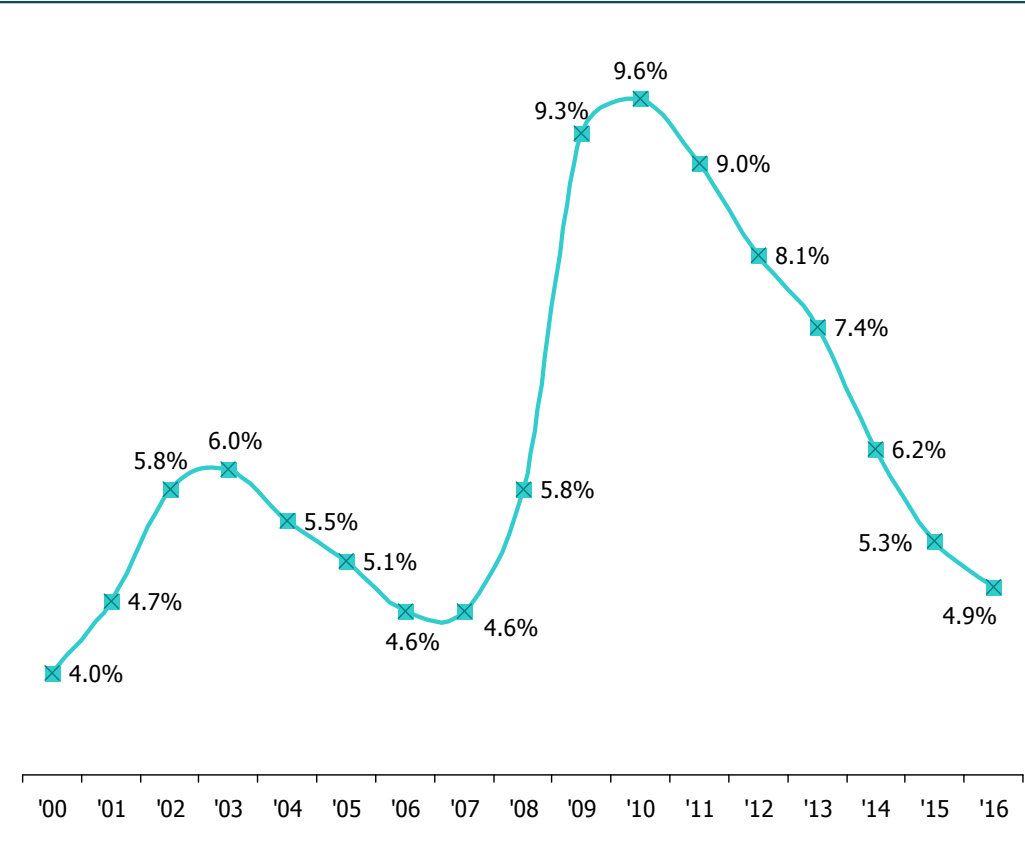
- Liquid refreshment beverage market grows for third consecutive year in 2016 after flat performance in 2013
- Carbonated soft drinks experienced another modest sales decline in 2016
- Bottled water surpassed CSDs as largest beverage category, led by continued solid growth of single-serve water segment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

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 – Q3 2016*



*Unemployment Rate
2000 – 2016*

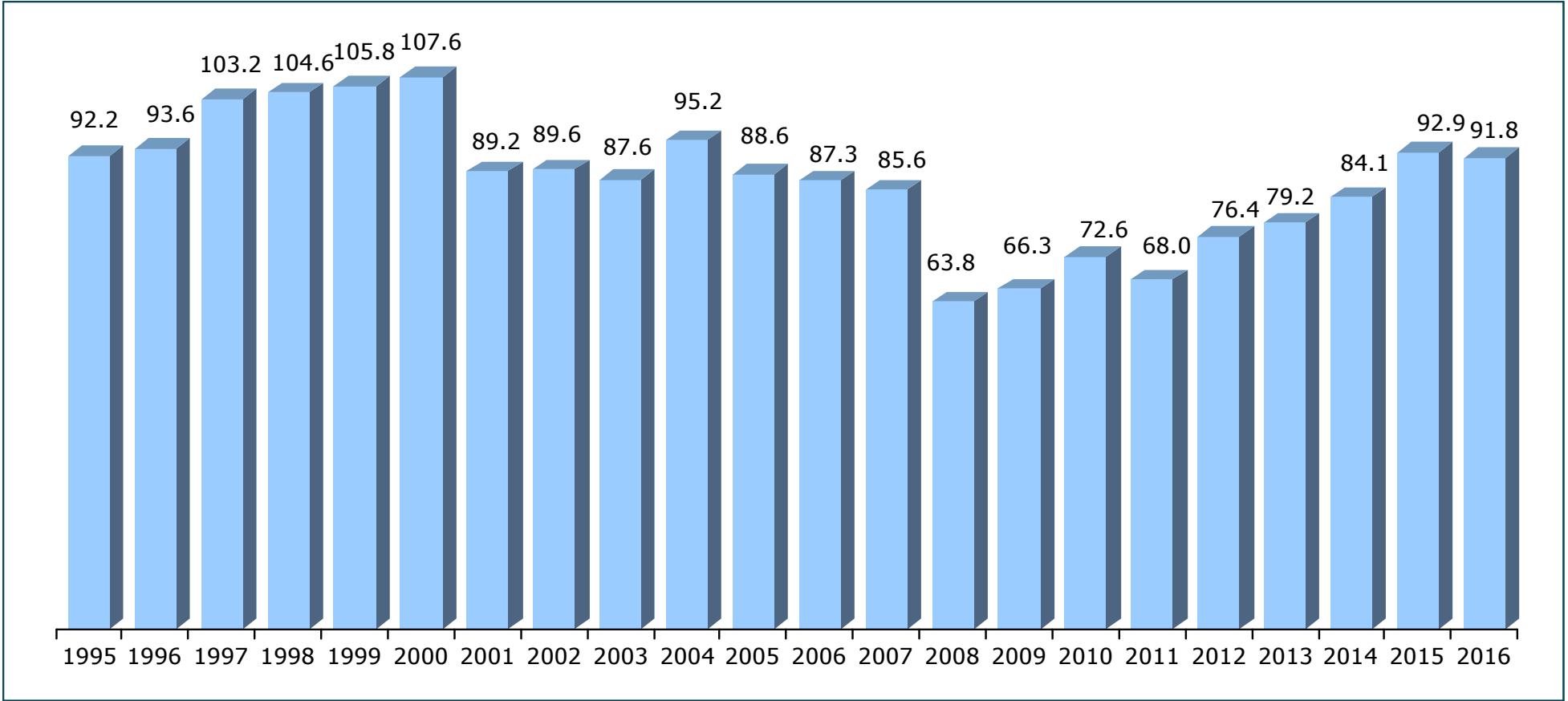


Source: Beverage Marketing Corporation; Bureau of Economic Analysis, Department of Commerce, Department of Labor



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

*Annual U.S. Consumer Sentiment Index
1995 – 2016*



Source: *Thompson Reuters/University of Michigan*



Gasoline prices have risen slightly over the last year but remain relatively low

- 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 – 2016



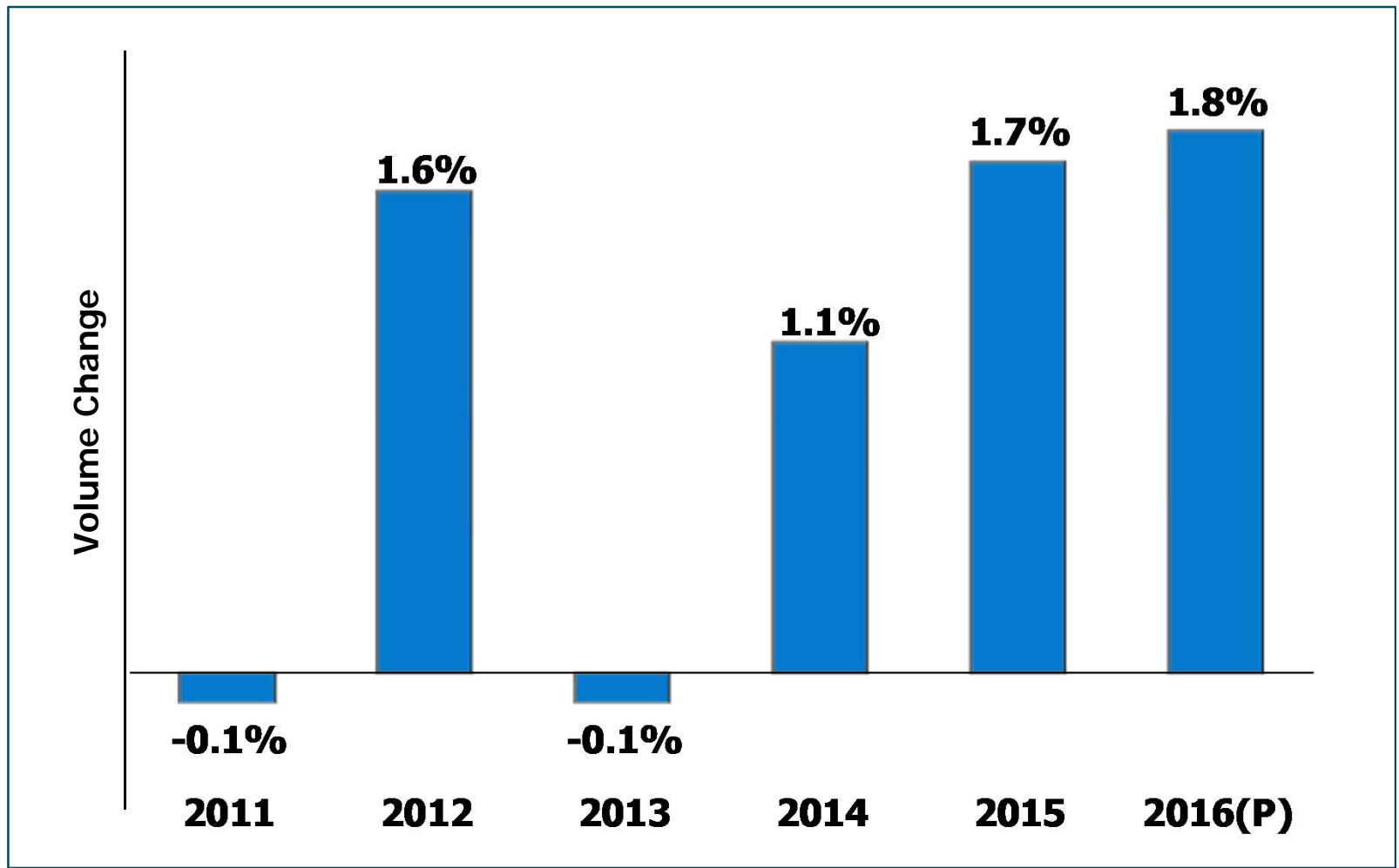
Source: U.S. Energy Information Administration



The U.S. beverage market has experienced modestly accelerating growth since declines occurred during the recession

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

*U.S. Total Beverage Market
2011 – 2016P*

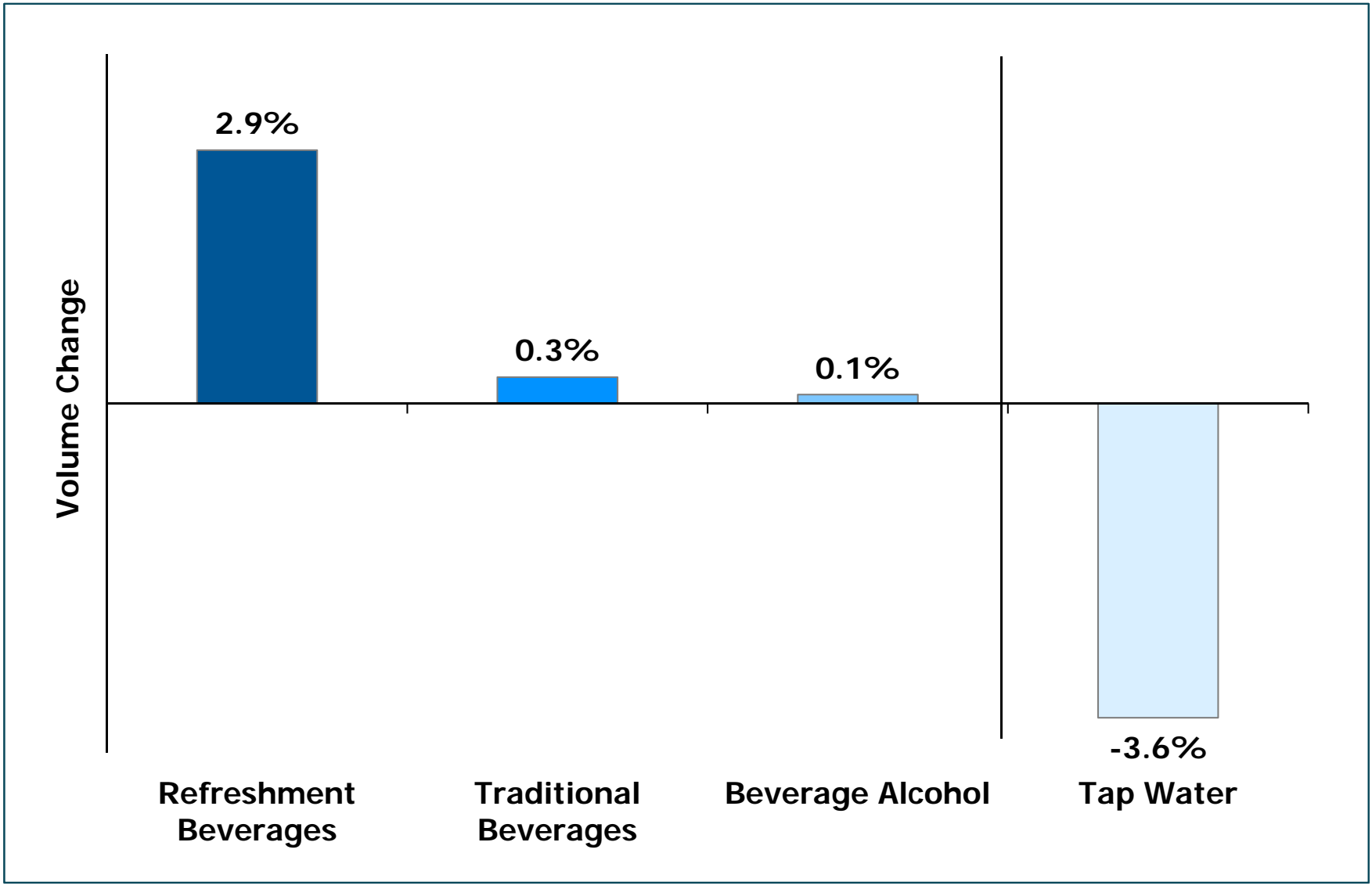


*P: Preliminary
Source: Beverage Marketing Corp.*



In 2016, refreshment beverages performed best while other categories experienced modest growth and tap water declined

U.S. Beverage Market – 2016P



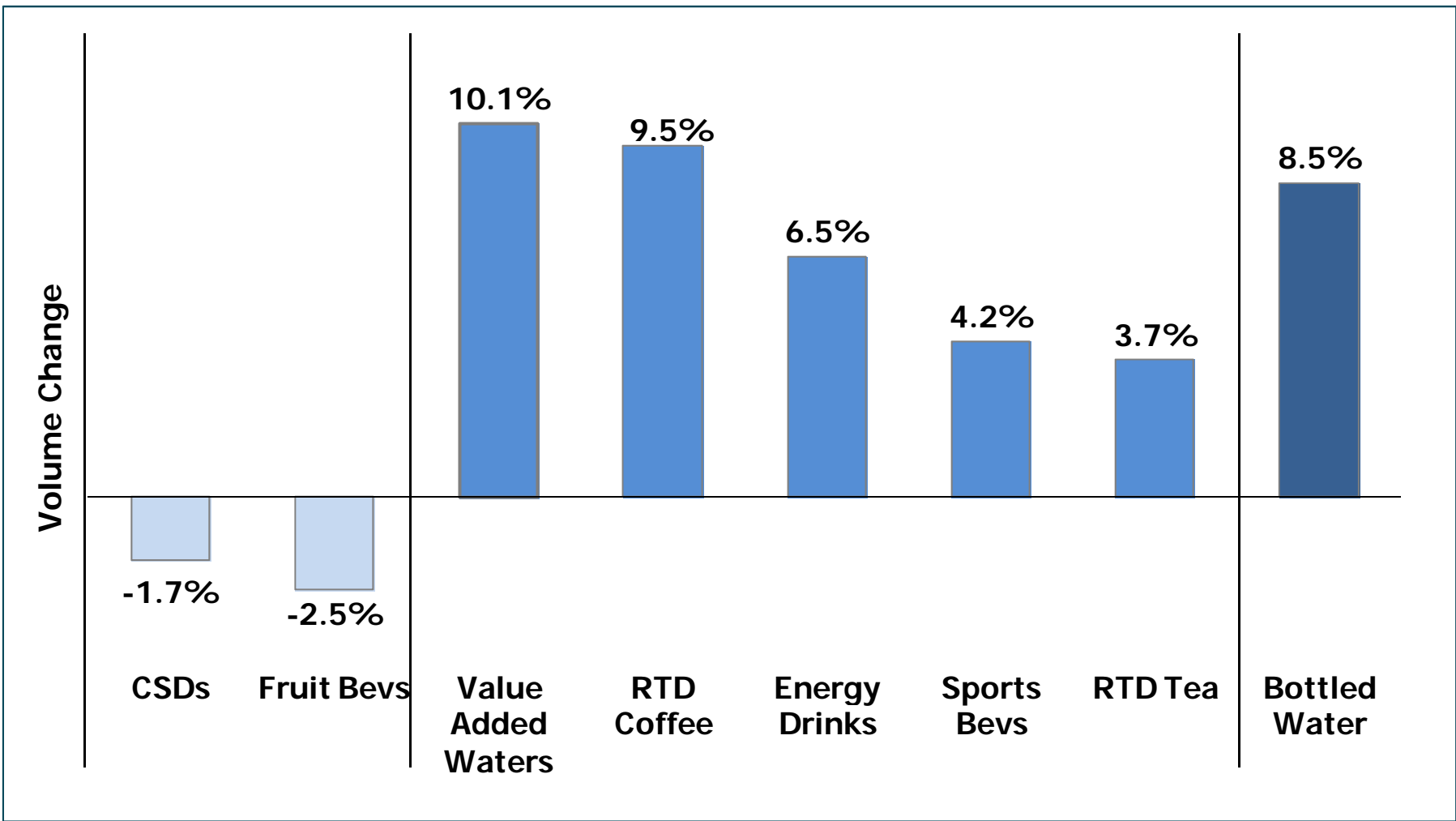
P: Preliminary
Source: Beverage Marketing Corp.



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
2016P*

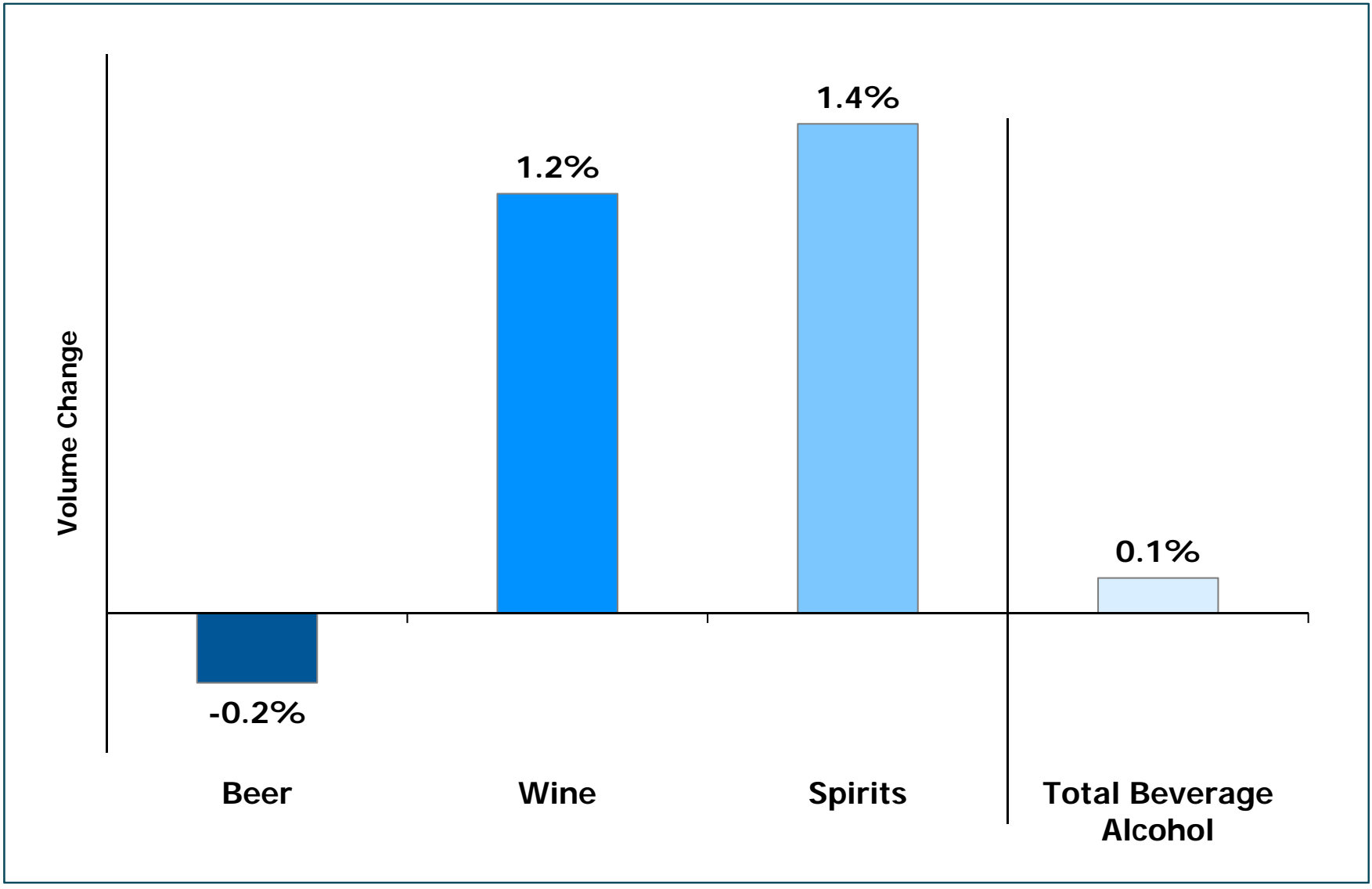


P: Preliminary
Source: Beverage Marketing Corp.



Wines and spirits have been driving beverage alcohol growth with beer experiencing sluggish performance despite growth in craft

The U.S. Beverage Alcohol – 2016P

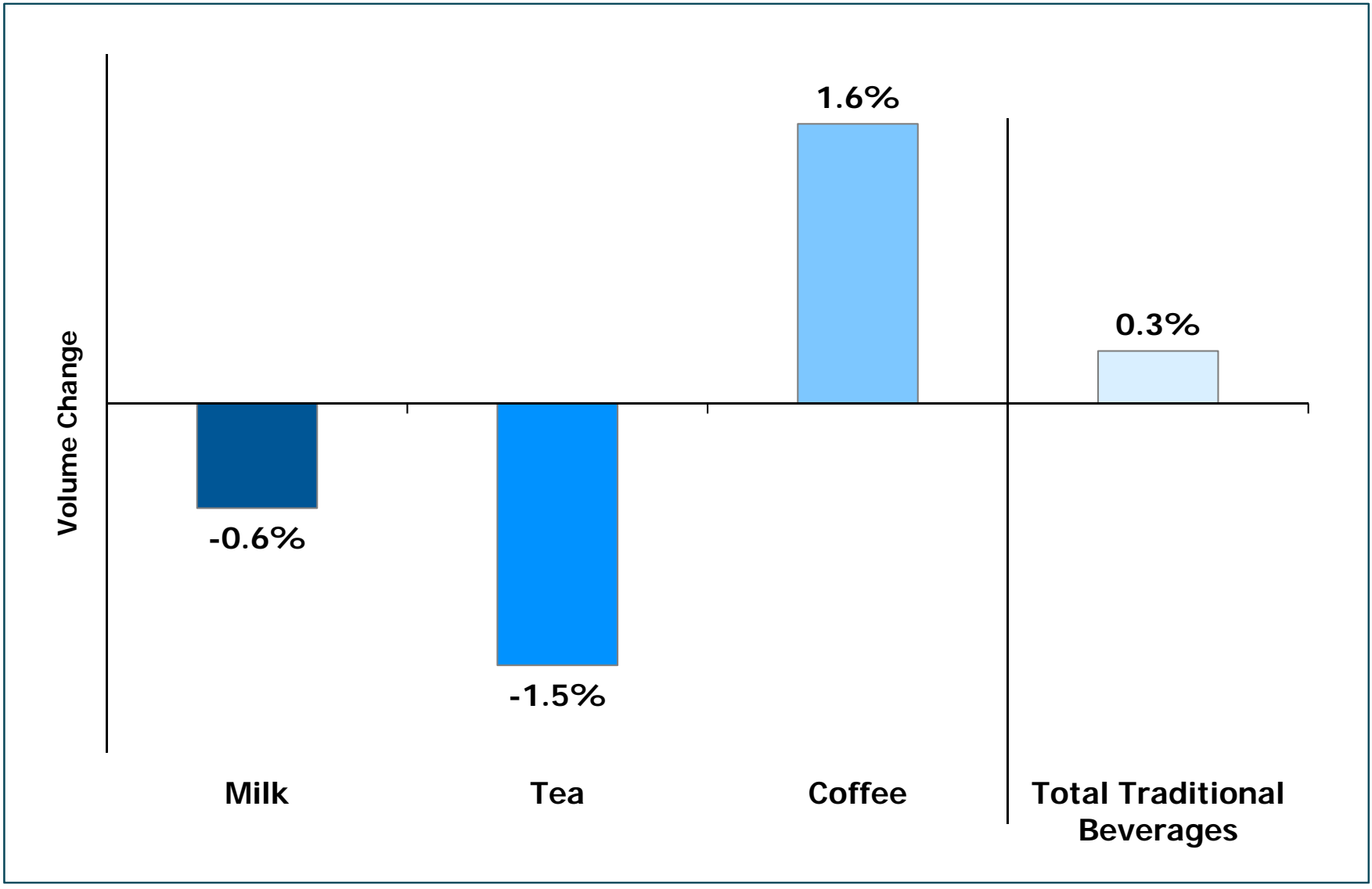


P: Preliminary
Source: Beverage Marketing Corp.



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 – 2016P



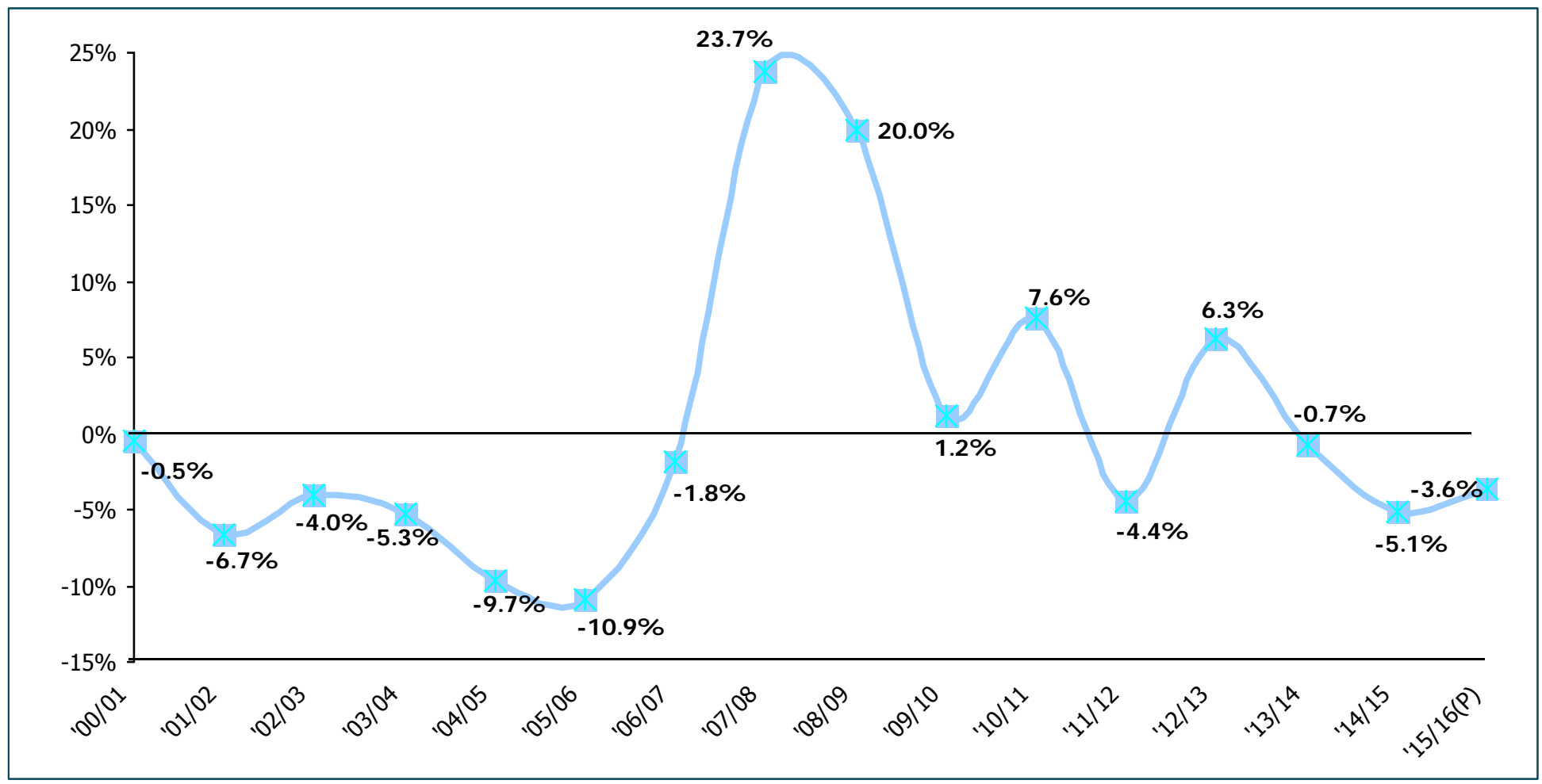
P: Preliminary
Source: Beverage Marketing Corp.



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

- Tap water consumption spiked during the recession but has since declined

*Estimated Tap Water Volume Growth
2000 – 2016P*

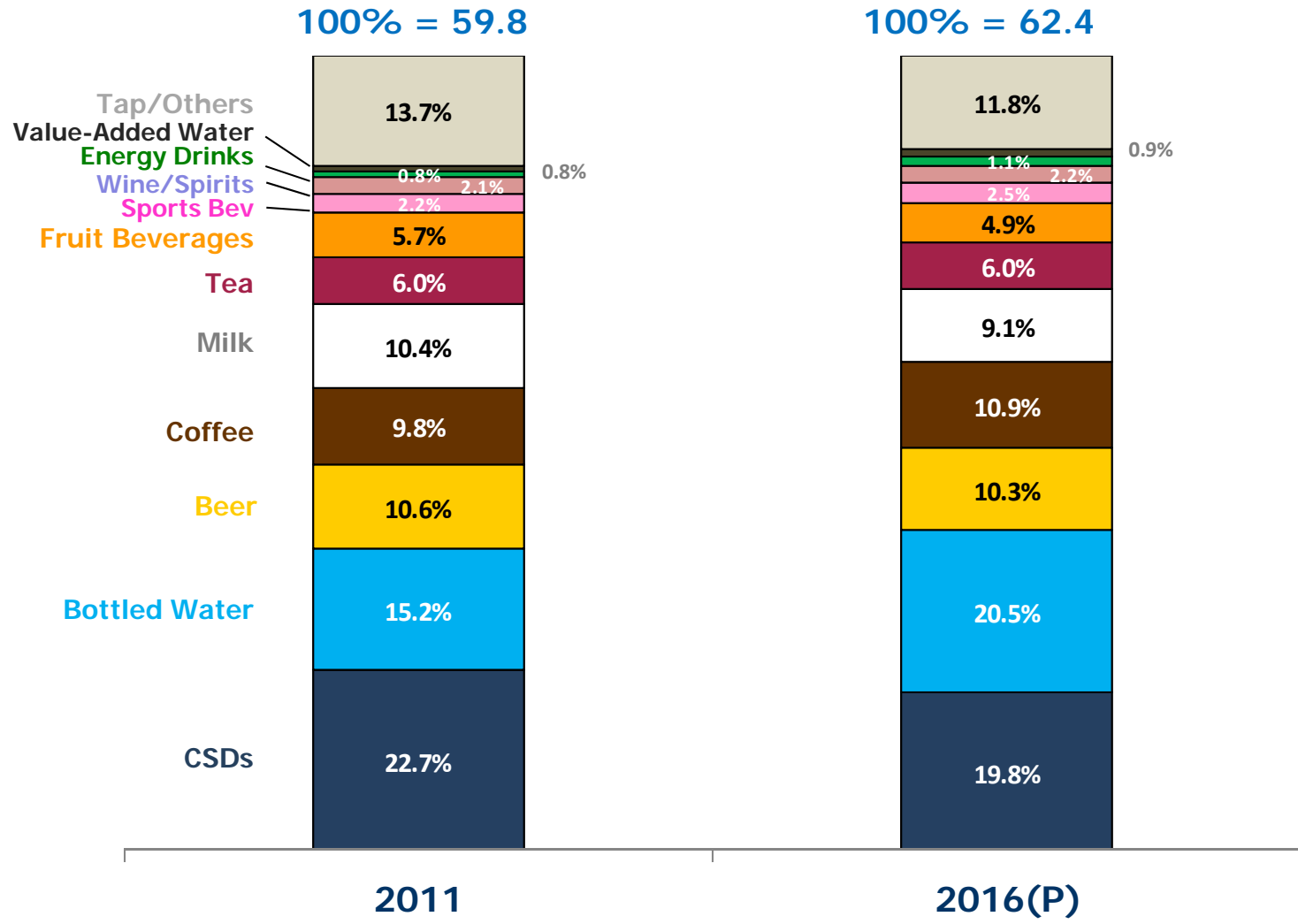


P: Preliminary
Source: Beverage Marketing Corp.



Over the last five years, bottled water has increased its share of stomach by more than 5 share points, capturing the undisputed #1 position

Volume Share of Stomach by U.S. Beverage Segment – Billions of Gallons
2011 – 2016P



P: Preliminary
Source: Beverage Marketing Corporation



Traditional Key Consumer Drivers Are Evolving

- Health and wellness ⇒ Balanced nutrition
- Premiumization ⇒ Both LRBs and alcohol
- Feminization ⇒ Closing the income gap
- Urbanization ⇒ Shift to cities continues
- Retail Consolidation ⇒ Large, more powerful retailers
- Variety ⇒ Flavors, seasonals, hybrids
- Packaging ⇒ Convenient and Proprietary

Health and wellness is a key market driver. Beverage categories with health and wellness attributes are outperforming those without

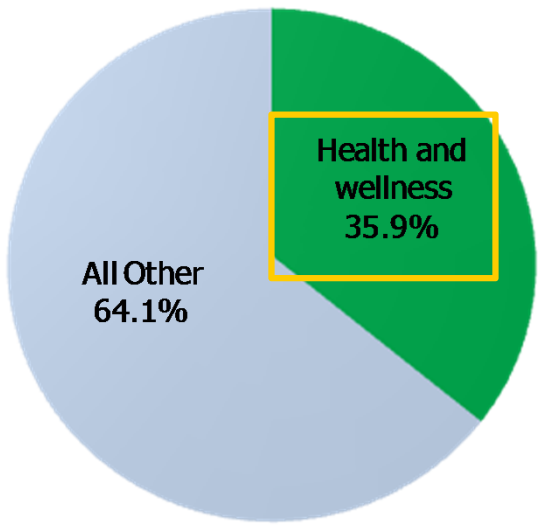
- Additionally, threats of sugar taxes may accelerate this trend toward better-for-you products

Health and Wellness RTD Categories in U.S. Beverage Market Volume Share

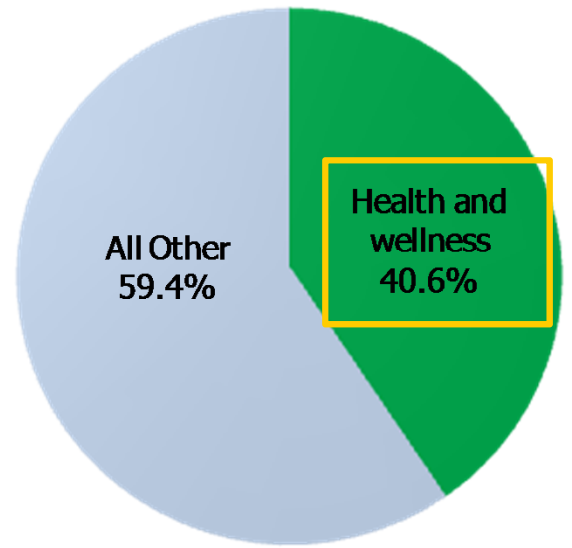
Health and Wellness / Functionality

- Simply healthy
- Balanced nutrition
- Real functionality
- "Real" beverages

FY 2011
100% = 59.8 Billion Gallons



FY 2016(P)
100% = 62.4 Billion Gallons



Segment	5-Yr CAGR
Health & Wellness*	+3.3%
All Other**	-0.7%
Total Market	+0.9%

* Includes bottled water, milk, 100% juice, RTD tea, dairy alternatives, meal replacement drinks, value-added water, coconut water, kombucha, sports drinks, energy drinks and protein drinks

** Includes CSDs, coffee (including RTD), tea (excluding RTD), fruit drinks, beer, wine, spirits and tap water

P: Preliminary

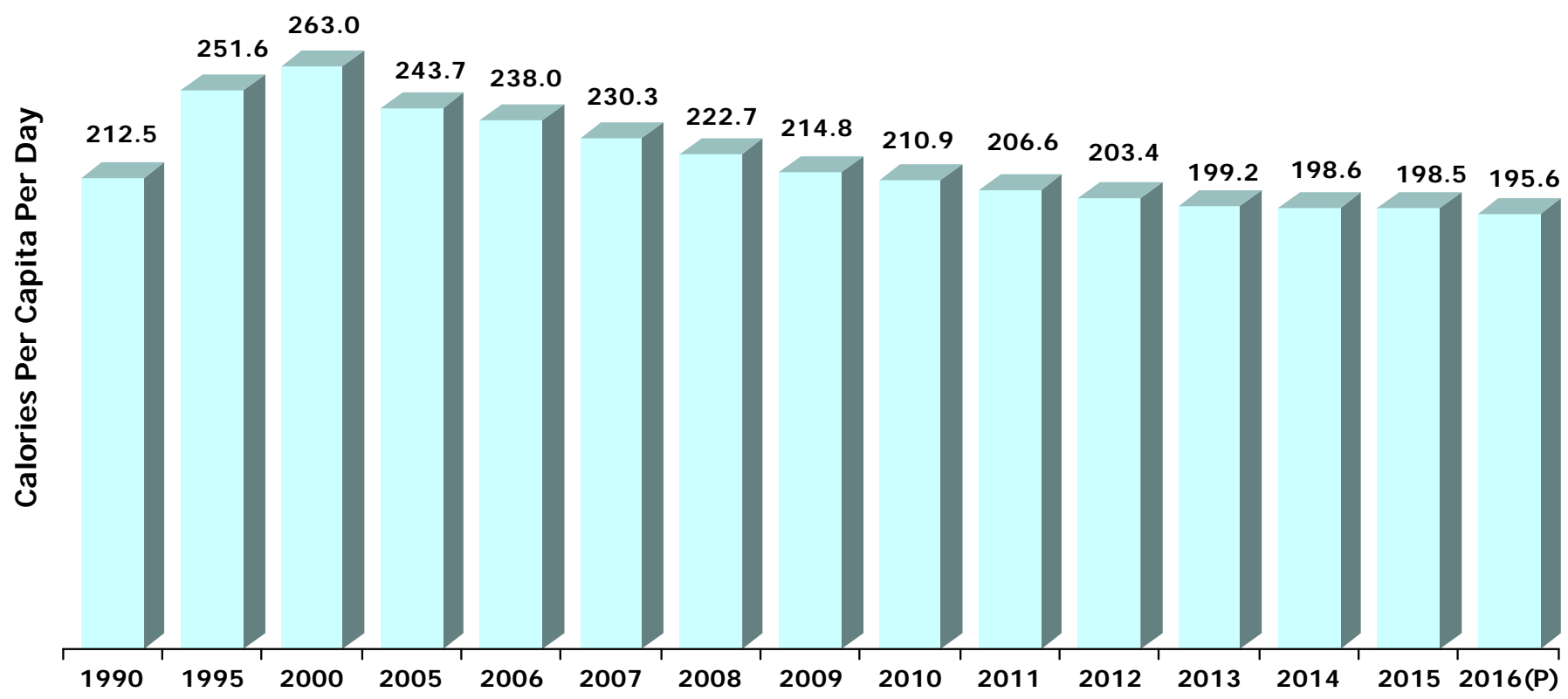
Source: Beverage Marketing Corp.



Caloric intake from refreshment beverages has been steadily declining over the last decade 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 – 2016P*



*P: Preliminary
Source: Beverage Marketing Corporation*



Premiumization: The LRB market is going more premium. Consumers are willing to trade up to more expensive products that they believe offer better overall quality or benefits

Premiumization

- High end beers
- High end spirits
- High end wines
- Superpremium & HPP juices
- Premium CSV waters
- Premium sodas
- Premium RTD teas
- Cold brew RTD coffees
- Functional Milk

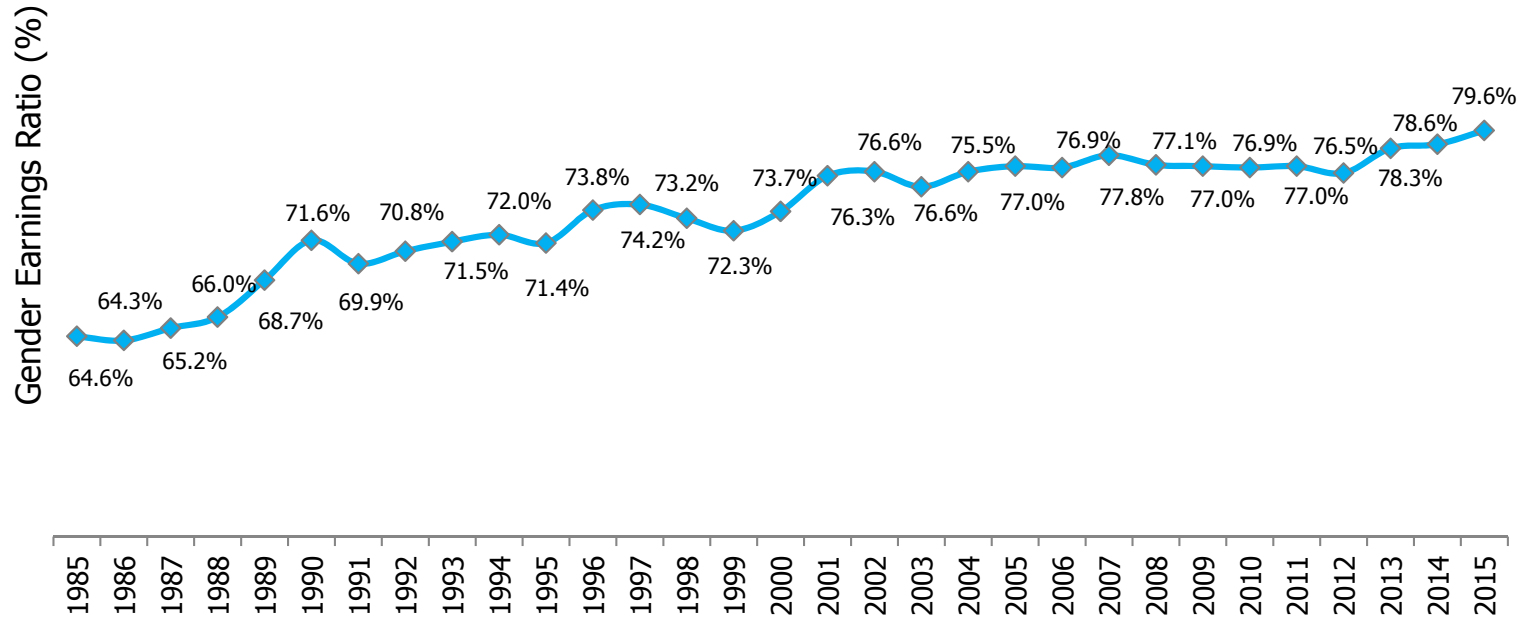


Feminization: Women have begun to close the income cap between men, which gives them more purchasing power

Feminization

- Women have greater purchasing power
- Women make more buying decisions today
- Some products target women specifically

Female-to-Male Earnings * Ratio
1985 – 2015



* Median annual earnings (2015 dollars) full-time, year-round
Source: Beverage Marketing Corporation; United States Census Bureau



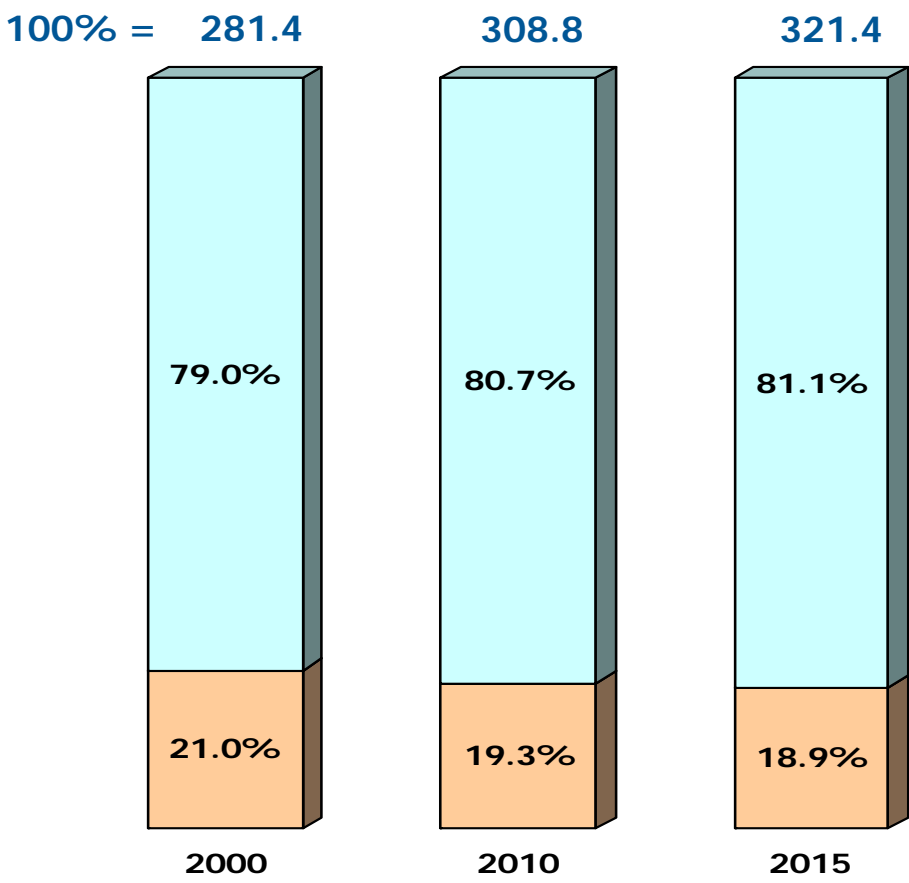
Urbanization: Urban areas continue to grow in population whereas most rural areas are either stagnant or declining. This means great LRB growth opportunities in cities

- Increasingly plants are being built closer to large population areas where the greatest number of retail customers and consumers are

Urbanization

- Urban areas dominate over rural in population size
- Urban areas are growing faster than rural
- Beverage production should be closest to greatest population for efficiency
- Beverage trends often begin in urban areas

U.S. Population in Urban** vs. Rural Areas Share by Area*



Segment	2000/10 CAGR	2010/15 CAGR
Urban	+1.1%	+0.9%
Rural	+0.1%	+0.4%
Total U.S.	+0.9%	+0.8%

* Millions of people

** At least 2,500 people

Source: Beverage Marketing Corporation; United States Census Bureau

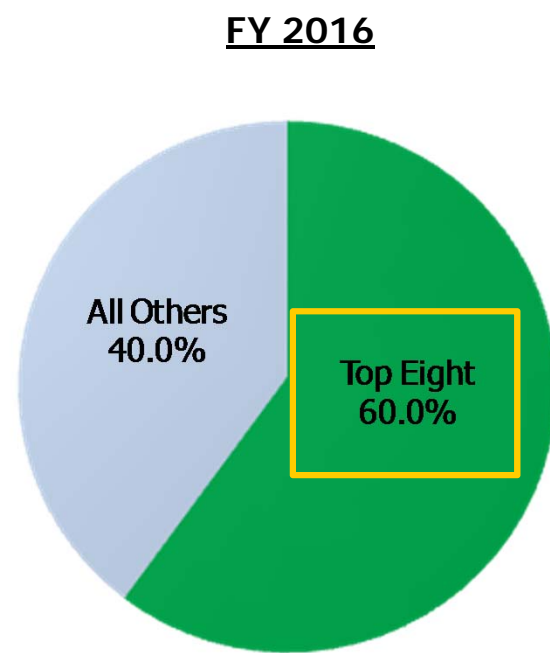
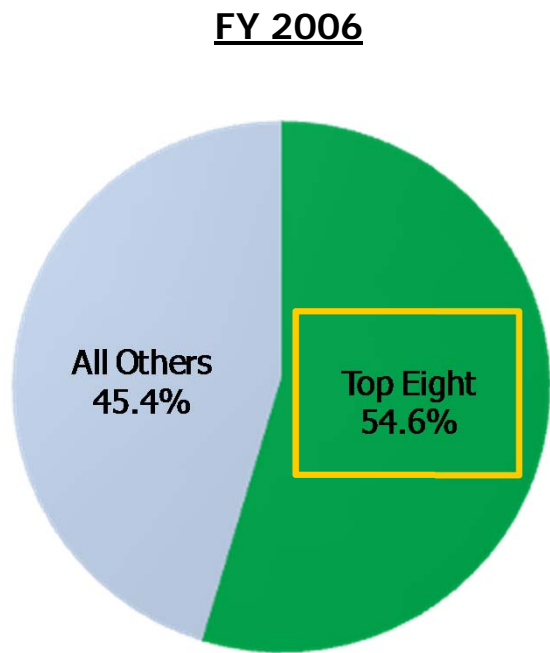


The retail landscape has consolidated across most store formats in the market for beverages and food

*Retail Market for Consumables
Top 8 Consumable Retailers vs. All Others
Share of Retail Sales
2006 – 2016*

Retailer Consolidation

- Growth through acquisition is driving consolidation
- Geographic expansion also driving consolidation
- Channel blurring category expansion impacting market place
- Walmart retains top ranking, while Amazon has vaulted into second position



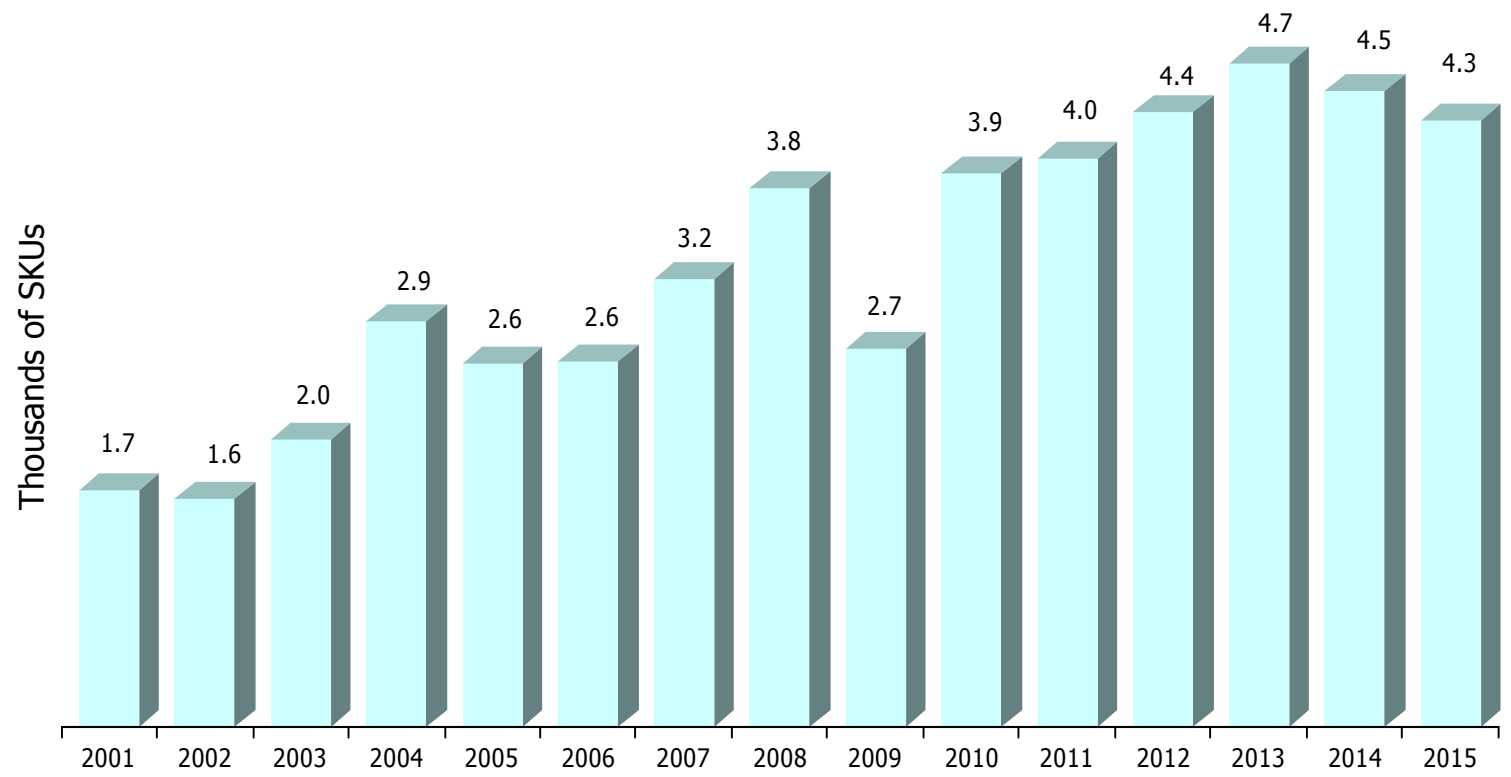
Source: Beverage Marketing Corp.

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

Variety

- New categories
- New products
- New flavors
- New packaging

*New Beverage Product Introductions
2001 – 2015*

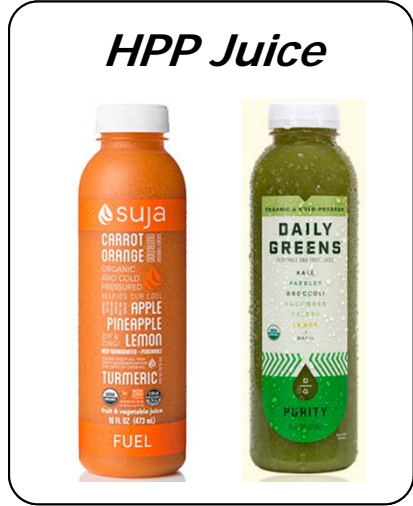


Source: Beverage Marketing Corp.; Mintel



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



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

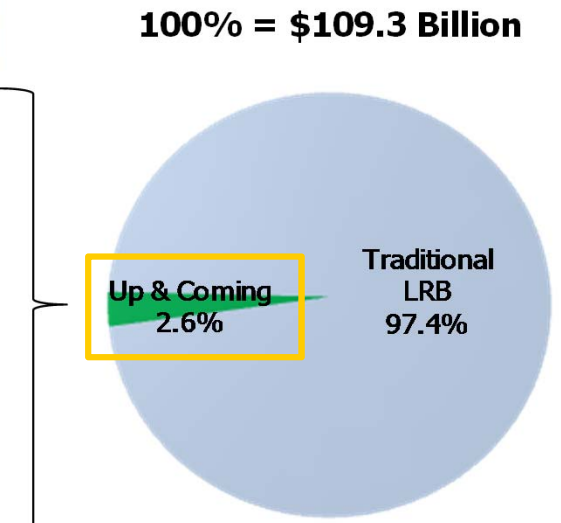
Select Offerings and Categories of Today's Emerging Beverages



Products in emerging categories, whose combined revenue is just over 2% of the total refreshment beverage universe today, may become the successful brands of the future

*Up and Coming Categories vs. Traditional LRB Categories
Wholesale Dollars and Share of Wholesale Dollars
2014 – 2016P*

Category	Millions of Dollars			Change	
	2014	2015	2016(P)	14/15	15/16(P)
Shots	\$628.7	\$638.1	\$650.6	1.5%	2.0%
RTD Protein Drinks	544.7	571.9	611.9	5.0%	7.0%
Kombucha	261.4	379.2	534.5	45.1%	40.9%
HPP/Cleanses	307.8	415.5	486.2	35.0%	17.0%
Probiotics	159.6	177.2	191.3	11.0%	8.0%
Functional Beverages	85.0	83.2	84.0	-2.1%	1.0%
Healthy Energy Drinks	73.2	82.3	87.5	12.5%	6.3%
Premium Mixers	50.9	55.0	56.5	8.0%	2.7%
Premium Kids' Beverages	36.0	38.7	41.2	7.5%	6.5%
Essence Water	32.5	33.3	34.1	2.2%	2.5%
RTD Mate/Guayusa	19.6	21.0	22.7	7.1%	8.1%
TOTAL	\$2,199.3	\$2,495.4	\$2,800.5	13.5%	12.2%



P: Preliminary
Source: Beverage Marketing Corporation



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



Many big brands declined in 2015, a reflection of the challenges of being big today and the emergence of smaller niche categories and brands

Top 10 Soft Drinks	
Coca-Cola Classic	↓
Pepsi Cola	↓
Diet Coke	↓
Mountain Dew	↓
Diet Pepsi	↓
Diet Mountain Dew	↓

Top 10 Beer Brands	
Bud Light	↓
Coors Light	↓
Budweiser	↓
Miller Lite	↓
Natural Light	↓
Busch Light	↓
Busch	↓

Top 10 Spirits Brands	
Bacardi	↓
Crown Royal	↓
Absolut	↓

Proprietary packaging: Growth in niche categories has propelled demand for unique packaging that makes a statement on the retail shelf

Proprietary Packaging

- Growing importance at the moment of purchase
- Extended shelf life
- Benefit of proprietary packaging to give brand identity



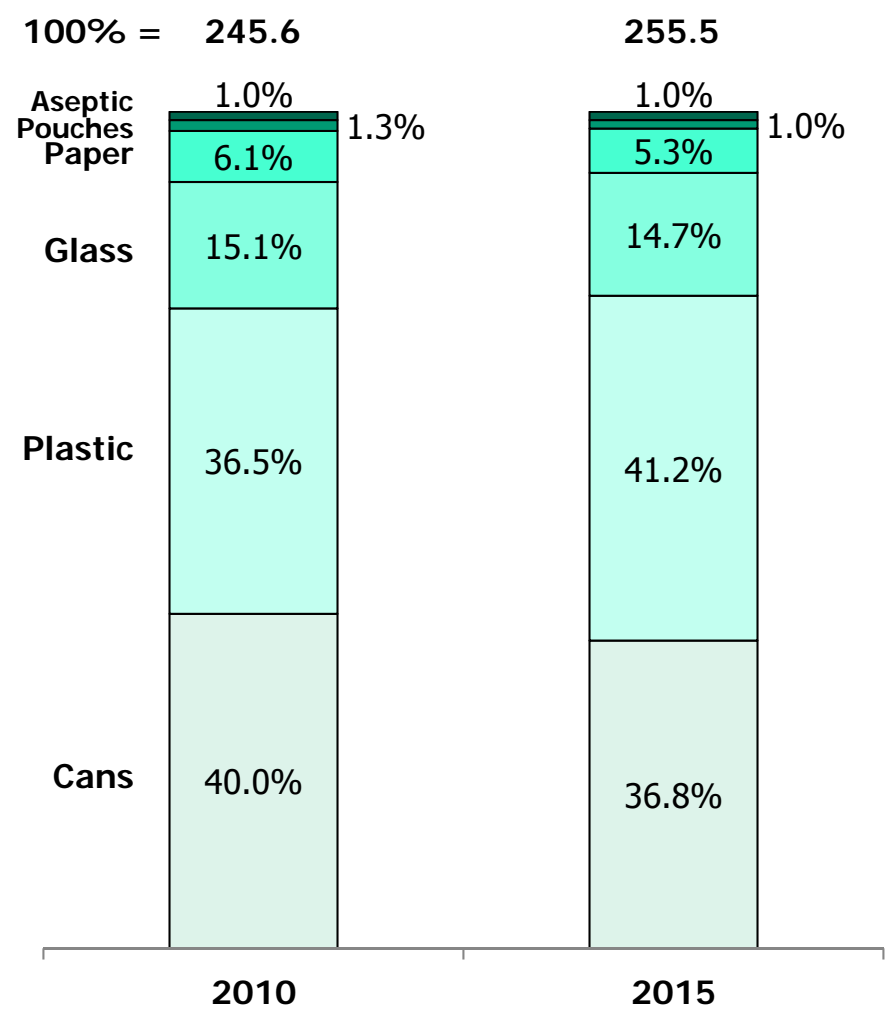
Smaller packaging sizes have been a source of innovation and also help contribute to reduced caloric intake



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
2010 – 2015

Year	10/15 CAGR
Aseptic	-0.3%
Pouches	-3.2%
Paper	-2.5%
Glass	+0.1%
Plastic	+3.8%
Cans	-1.2%
TOTAL	+0.8%

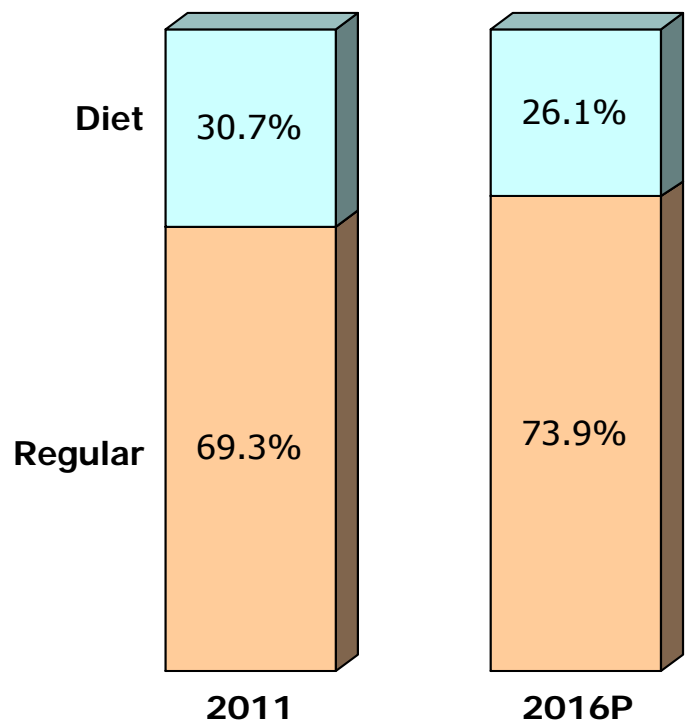
* Includes Milk, does not include Beer kegs
Source: Beverage Marketing Corporation



Diet soft drinks have hit a ceiling and are declining at a faster rate than regular soft drinks though performance has improved in each of the last three years

- Some diet consumers have shifted to bottled water and other categories
- Diet CSDs now account for just over a quarter of category volume

*U.S. Carbonated Soft Drink Market
Share by Type
2011 – 2016P*



*Carbonated Soft Drink Market
Growth by Type
2012 – 2016P*

Year	Regular	Diet
11/12	-1.1%	-3.4%
12/13	-1.9%	-6.3%
13/14	+0.8%	-5.4%
14/15	-0.1%	-5.2%
15/16P	-0.6%	-4.6%
11/16P CAGR	-0.6%	-5.0%

*P: Preliminary
Source: Beverage Marketing Corporation*



Search for zero-calorie sweeteners continue; 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

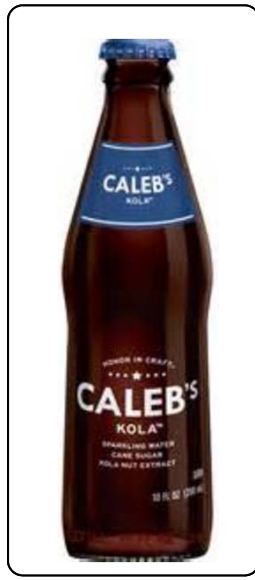


Stevia



Craft sodas have emerged as a viable option for today's consumers with new brands and companies entering the market, but the base is small and performance has been mixed

Craft Soda



Enthusiasm for home dispensing of soft drinks has waned

- Keurig Kold was discontinued and SodaStream was repositioned to a system for sparkling water
- In alcohol, ABI and Keurig have teamed up to develop home dispensers for alcoholic beverages

Keurig Kold



SodaStream



Bonne O



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

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

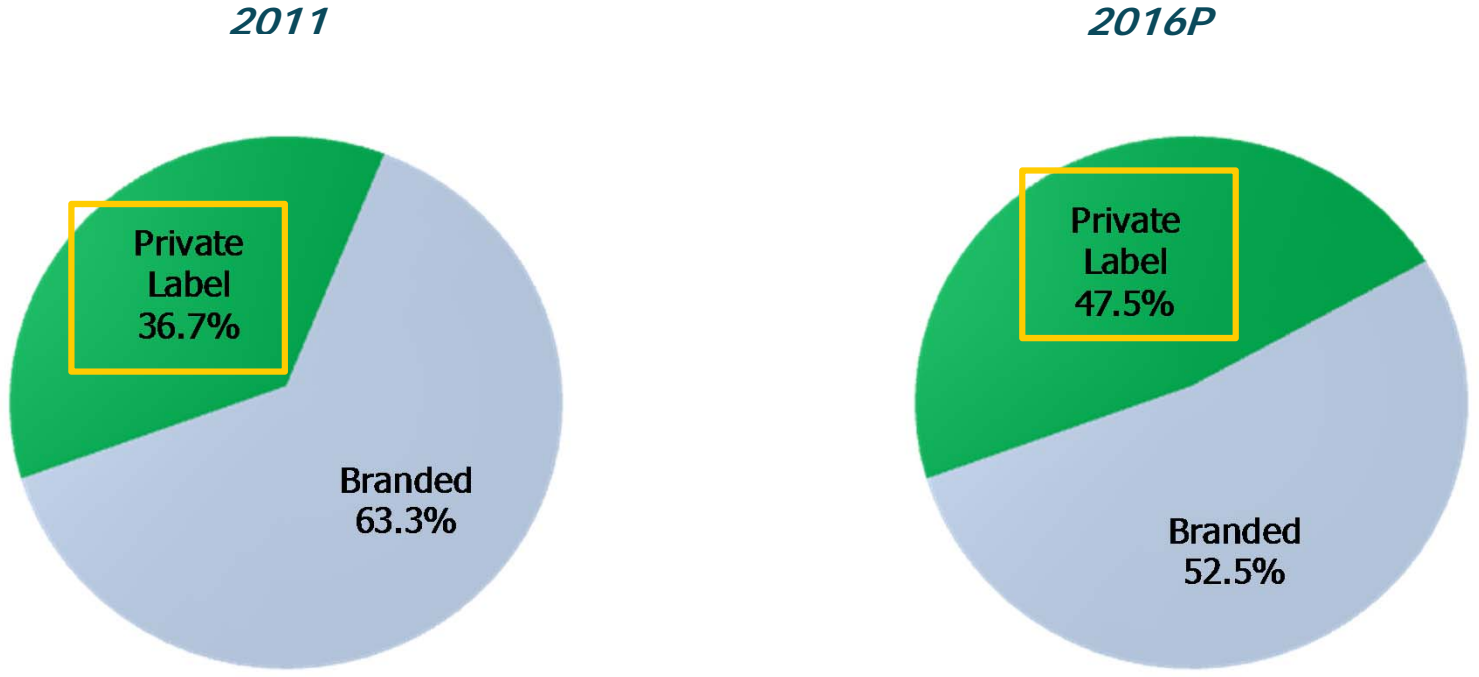
- Every-day pricing has been as low as \$2.49-2.99 for 24-packs at retail

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

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*

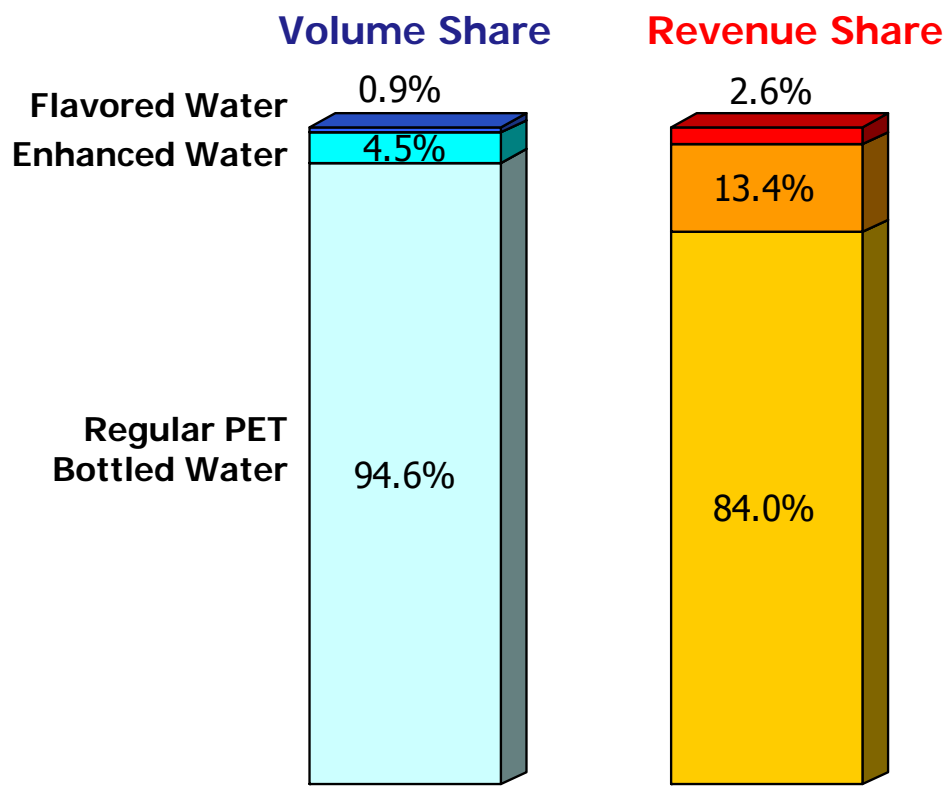


*P: Preliminary
Source: Beverage Marketing Corporation*



Value-added waters account for just 5% of single-serve water beverage volume, but hold a larger share of revenues due to higher pricing

*U.S. Retail Premium Bottled Water Market
Share by Volume and Revenues
2016P*



**Retail Premium Bottled Water Market
Growth by Type
2016P**

Segment	Volume	Revenue
Flavored	-1.0%	-2.4%
Enhanced	+8.0%	+9.7%
Regular PET	+9.0%	+8.3%
TOTAL	+8.9%	+8.2%

*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

Structured Water



Penta

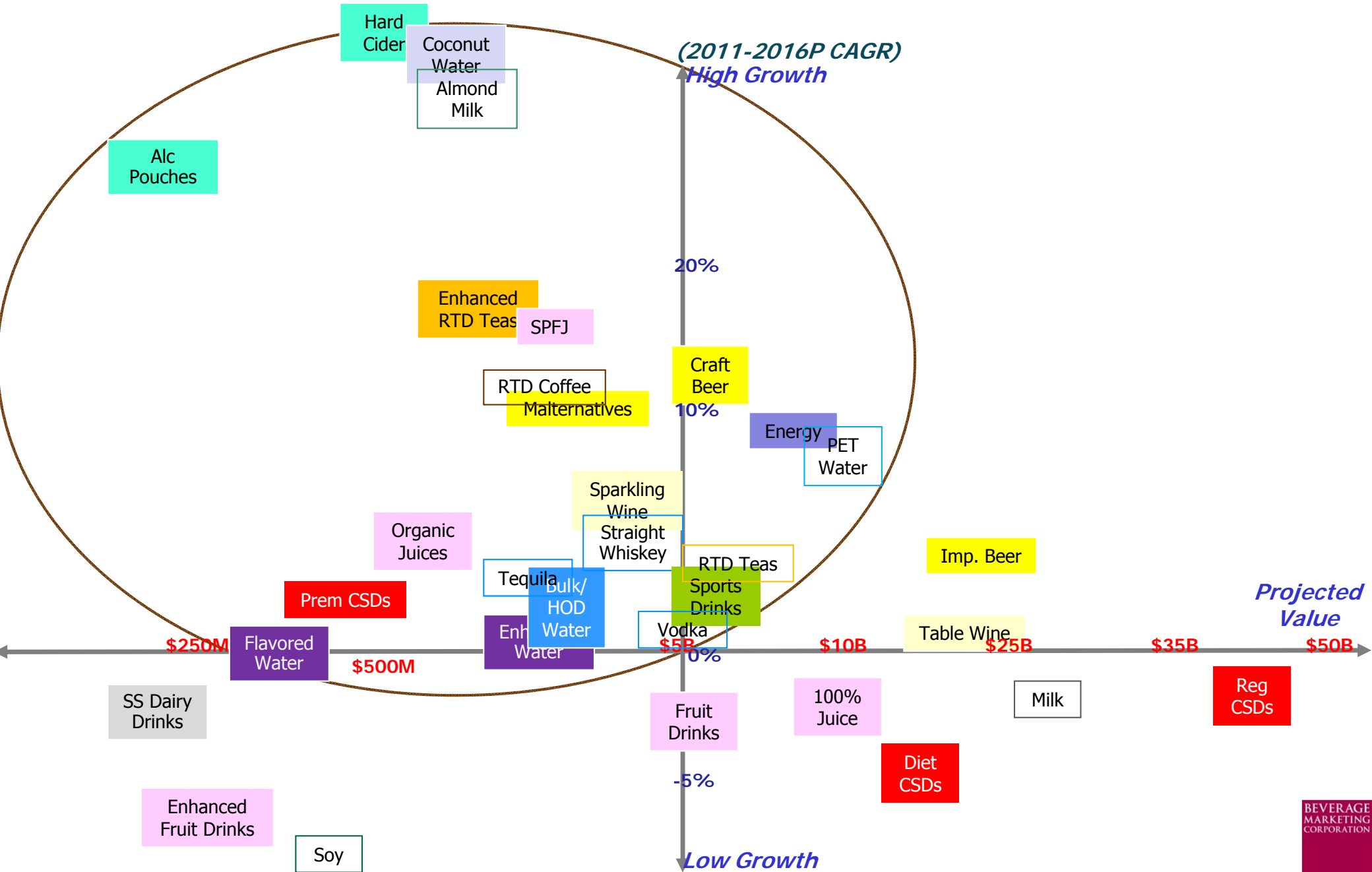
Plant Water



Trader Joe's

The Shifting Beverage Landscape

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, value-added water, energy drinks and RTD teas and coffees

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

2017 Liquid Refreshment Beverage Projections

LRB Category	2017(P)
RTD Coffee	+10.5% to +11.5%
Value-Added Water	+9.0% to +10.0%
Bottled Water	+8.0% to +9.0%
Energy Drinks	+5.5% to +6.5%
RTD Tea	+4.0% to +5.0%
Sports Drinks	+3.0% to 4.0%
Fruit Beverages	-0.5% to -1.5%
Carbonated Soft Drinks	-1.0% to -2.0%
TOTAL LRBs	+3.0% to +4.0%

P: Projected
 Source: Beverage Marketing Corporation



Thank You

Beverage Marketing Corporation

- Strategic Associates
 - Research
 - Advisors

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