
The Packaging Conference

*What Is America Drinking?
U.S. Market Trends*

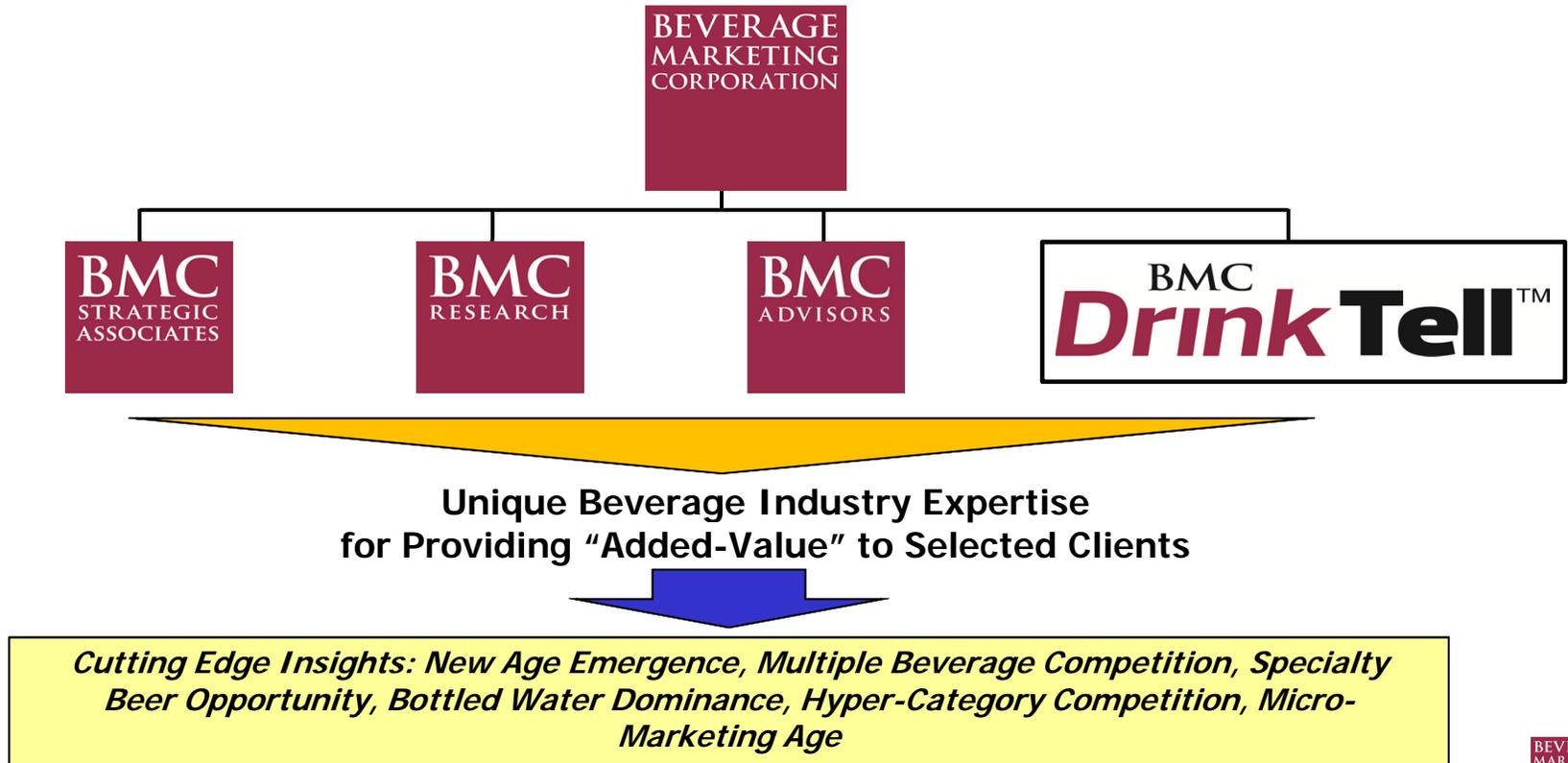
February 5, 2018

BEVERAGE
MARKETING
CORPORATION

The logo for Beverage Marketing Corporation is a dark red square. The text "BEVERAGE MARKETING CORPORATION" is written in white, uppercase, sans-serif font, stacked in three lines within the square.

Beverage Marketing Capabilities

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



Beverage Marketing Capabilities

All data in this presentation is supplied by:

DrinkTell™ Database with Market Forecasts
THE INDUSTRY'S ONE-STOP DESTINATION FOR ALL THINGS BEVERAGE

This powerful, customizable, easy to query database facilitates decision-making across the organization

- Enhance sales and marketing focus
- Zero in on growth segments
- Identify portfolio gaps and market opportunities
- Generate cross-category trend reports in just a few clicks
- Align management objectives around market-driven metrics

The graphic features a central red location pin icon with white dots and curved lines connecting to the five listed capabilities.

DrinkTell™

With a special packaging module is by:

SBAcci
Strategic Business Analysis

BEVERAGE
MARKETING
CORPORATION

Agenda



Market Overview



Key Trends



Category Updates



Projections

State of the Industry – The Good and the Bad

Beverage Headlines

1

Liquid refreshment beverage market grew for fourth consecutive year in 2017 after flat performance in 2013; however, growth was slower in 2017 than in 2016

2

Carbonated soft drinks (CSDs) continued modest sales declines in 2017, and have now decreased annually for more than a decade

3

Bottled water widened its gap over CSDs as the largest beverage category in the U.S., driven primarily by the single-serve PET segment

4

Niche categories continue to outperform traditional mass-market categories with exception of bottled water

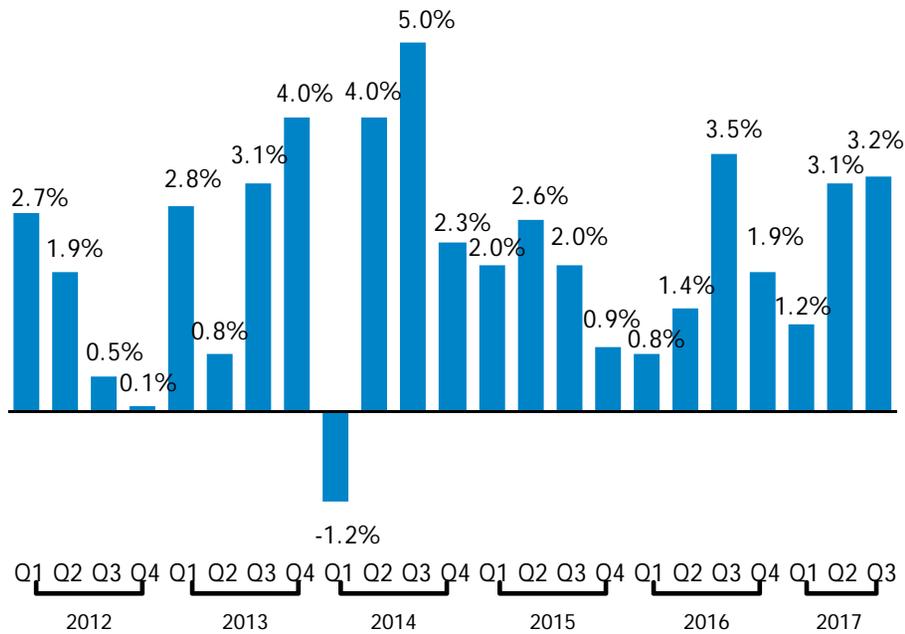
5

Wine and spirits led alcohol growth in 2017, and beer experienced essentially flat performance once again

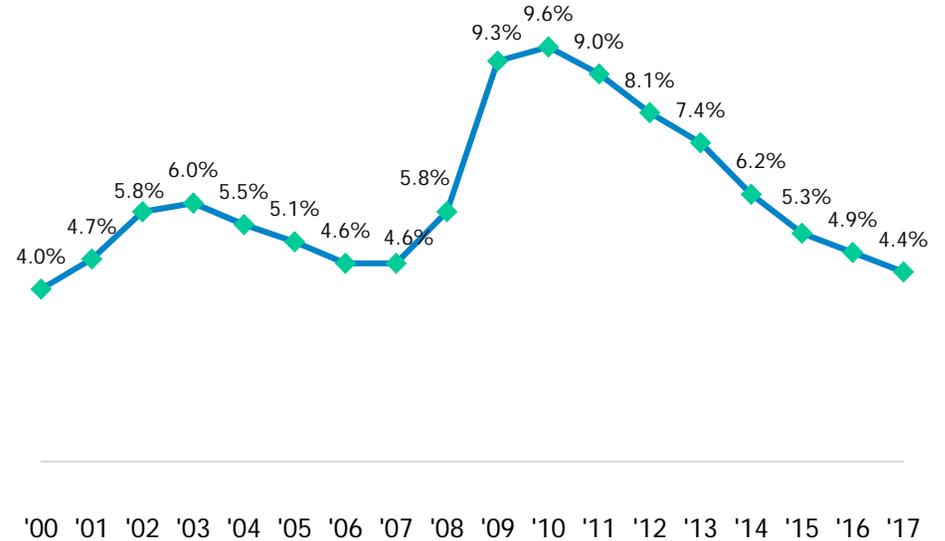
The Shifting Beverage Landscape

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 2017*



*Unemployment Rate
2000 – 2017*

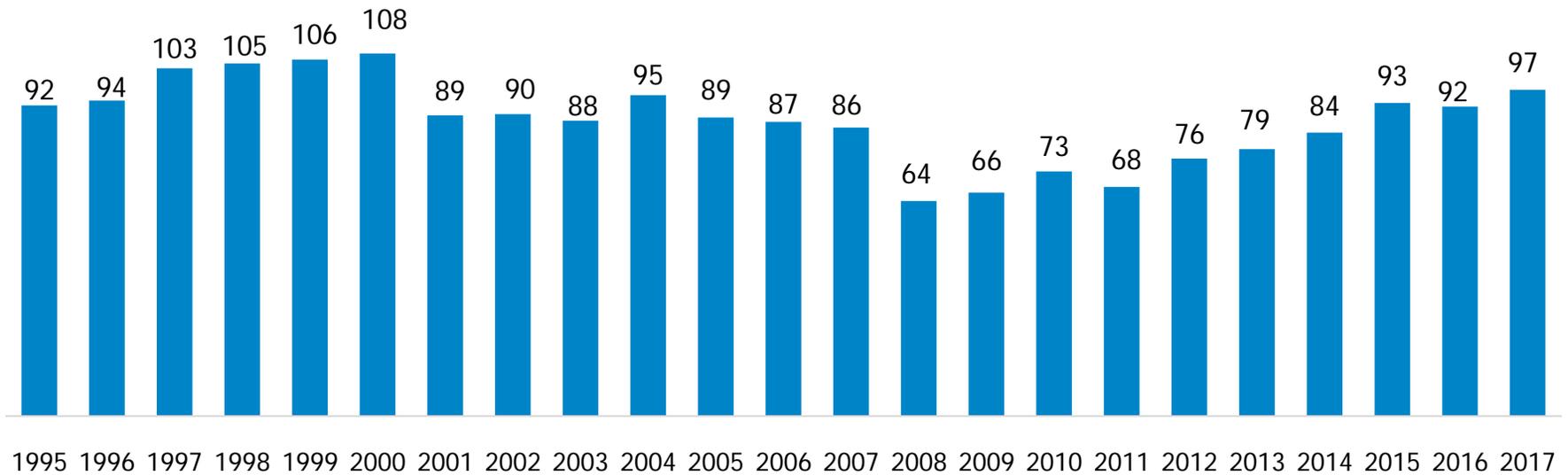


Source: Beverage Marketing Corporation; Bureau of Economic Analysis, Department of Commerce, Department of Labor

The Shifting Beverage Landscape

Consumer sentiment surpassed pre-recession levels in 2015 for the first time, but and increased modestly in 2017 after dipping in 2016

*Annual U.S. Consumer Sentiment Index
1995 – 2017*



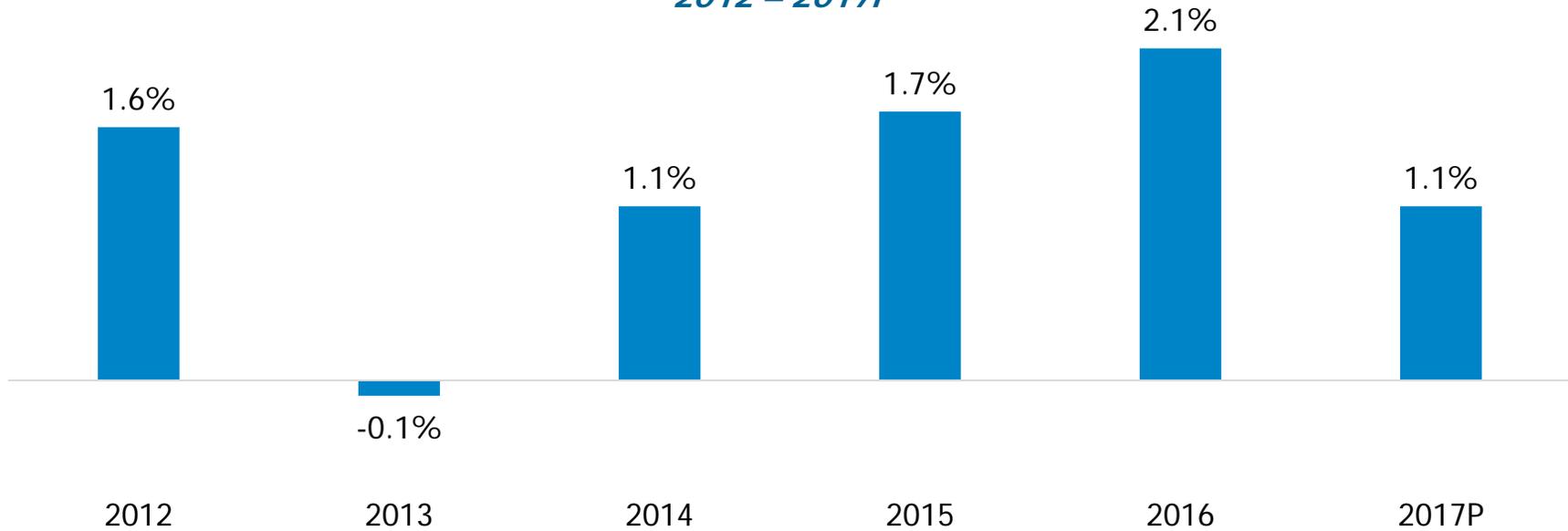
Source: Thompson Reuters/University of Michigan

The Shifting Beverage Landscape

The U.S. beverage market slowed in 2017 after experiencing modestly accelerating growth since declines occurred during the recession

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

*U.S. Total Beverage Market
Volume Change
2012 – 2017P*



P: Preliminary

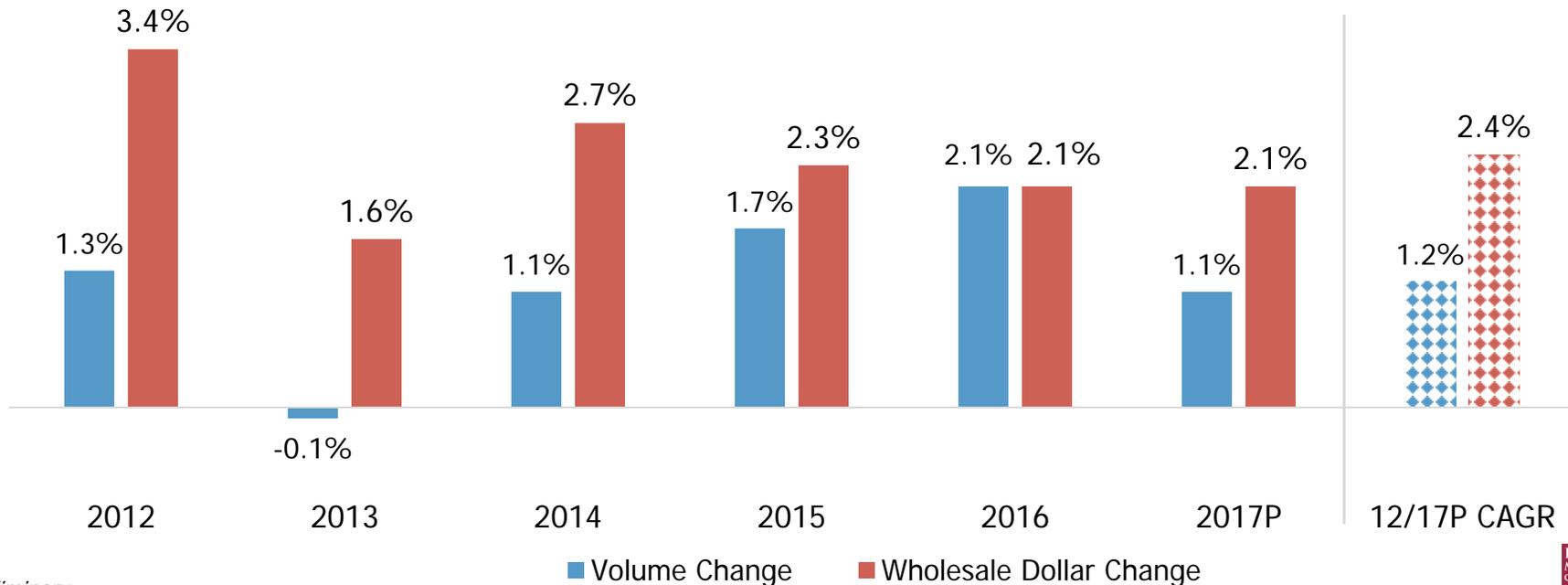
Source: Beverage Marketing Corporation



The Shifting Beverage Landscape

Revenues have grown consistently, and outpace volume performance due primarily to price increases, trend toward premiumization, and packaging mix shifts

***U.S. Total Beverage Market
Change in Volume and Wholesale Dollars
2012 – 2017P***



*P: Preliminary
Source: Beverage Marketing Corporation*



The Shifting Beverage Landscape

Nearly all beverage categories experienced a slowdown, especially in Q2 and Q3 of this year

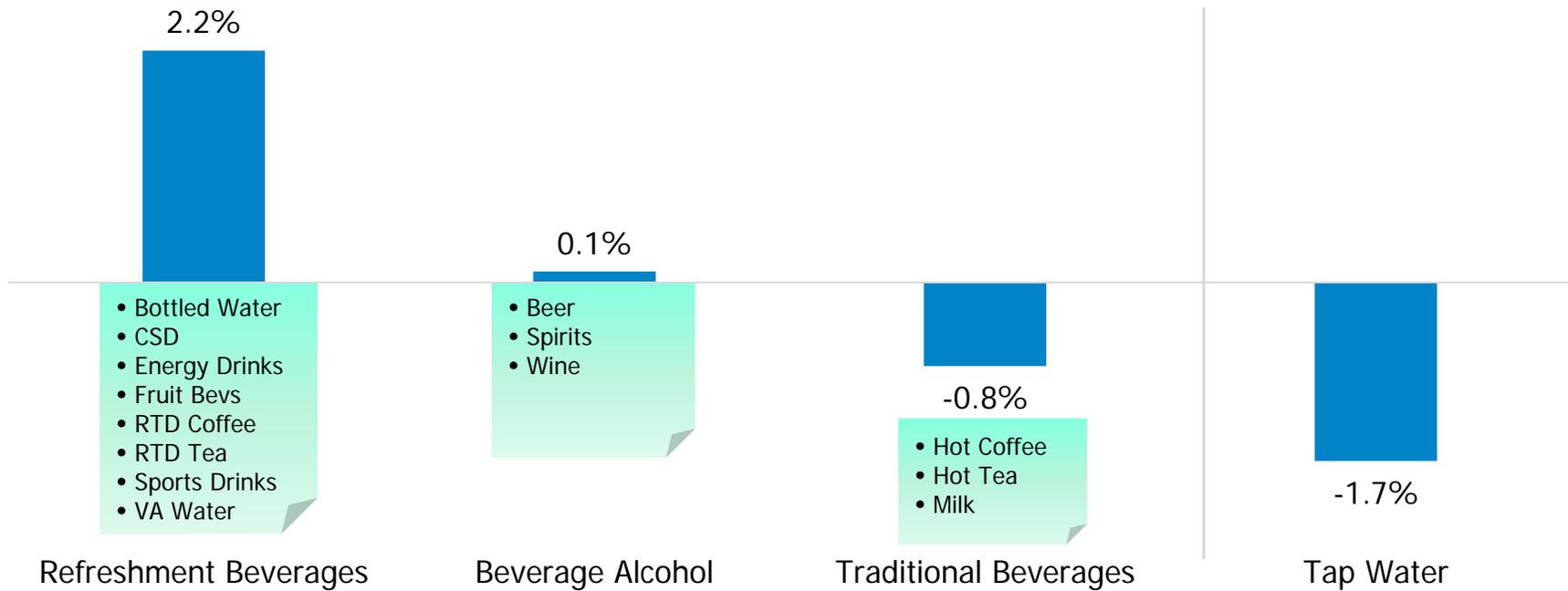
Key Factors Impacting 2017 Beverage Performance Slowdown

- 1 Strong comparables from 2016
- 2 Modestly higher gas prices
- 3 C-store channel slowdown, possibly caused by slightly higher gas prices
- 4 Political uncertainty
- 5 More stay-at-home eating
- 6 Increased volume through difficult-to-track outlets like taprooms and coffee cafes

The Shifting Beverage Landscape

In 2017, refreshment beverages performed best while other categories experienced weak performance and tap water declined

U.S. Beverage Market Volume Change 2017P



P: Preliminary

Source: Beverage Marketing Corporation

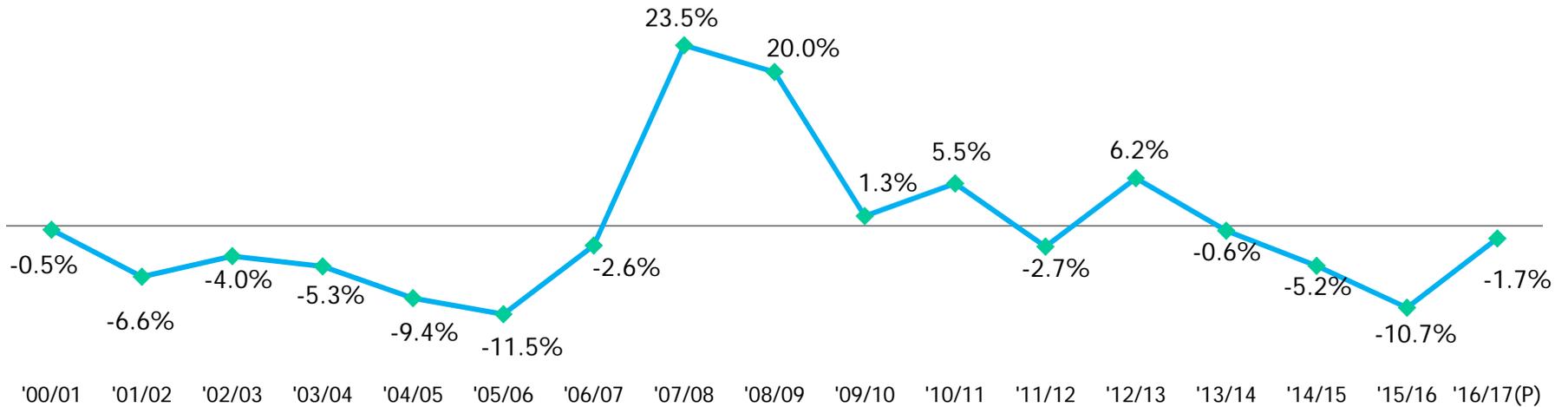


The Shifting Beverage Landscape

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 declined only modestly in 2017

*Estimated Tap Water
Volume Growth
2000 – 2017P*



P: Preliminary

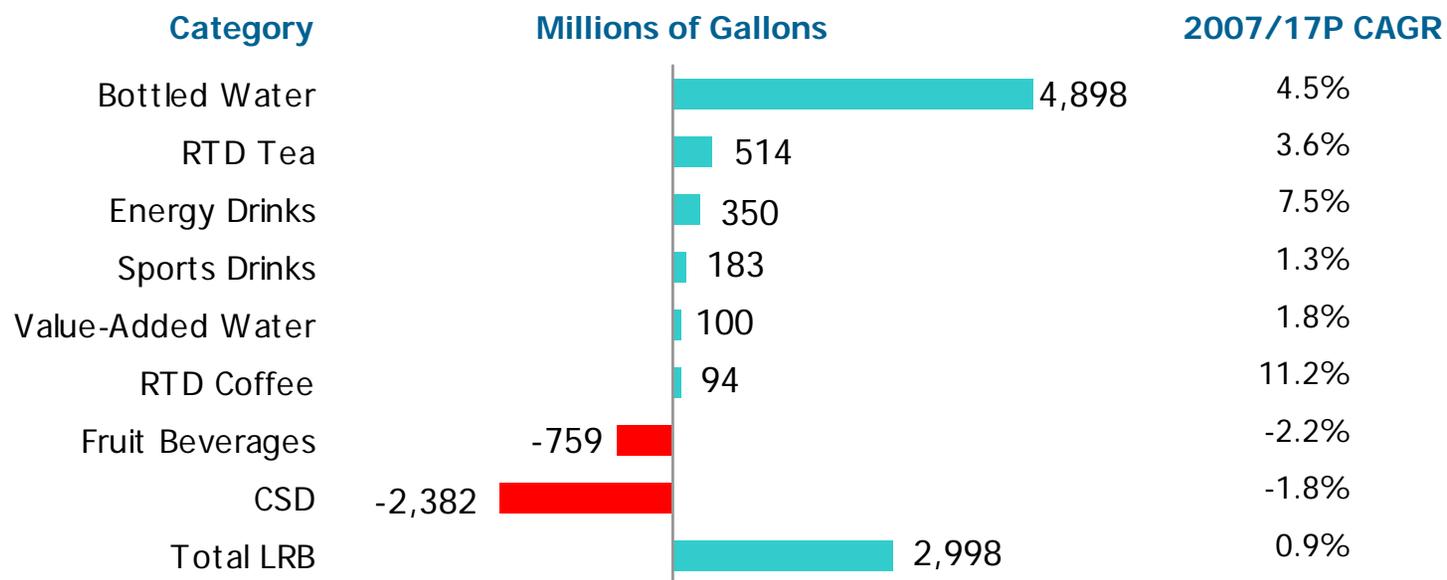
Source: Beverage Marketing Corporation



The Shifting Beverage Landscape

Bottled water gained the most volume over the last 10 years while CSDs lost the most

*Decade Comparison
2007 – 2017P
Which Categories Gained, Which Lost Volume?*



*P: Preliminary
Source: Beverage Marketing Corporation*



Traditional Key Consumer Drivers Are Evolving

1 Health and wellness ⇒ Balanced nutrition

2 Premiumization ⇒ Both LRBs and alcohol

3 Variety ⇒ Flavors, seasonals, hybrids

4 Packaging ⇒ Convenient and proprietary

The Shifting Beverage Landscape

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



* 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 Corporation

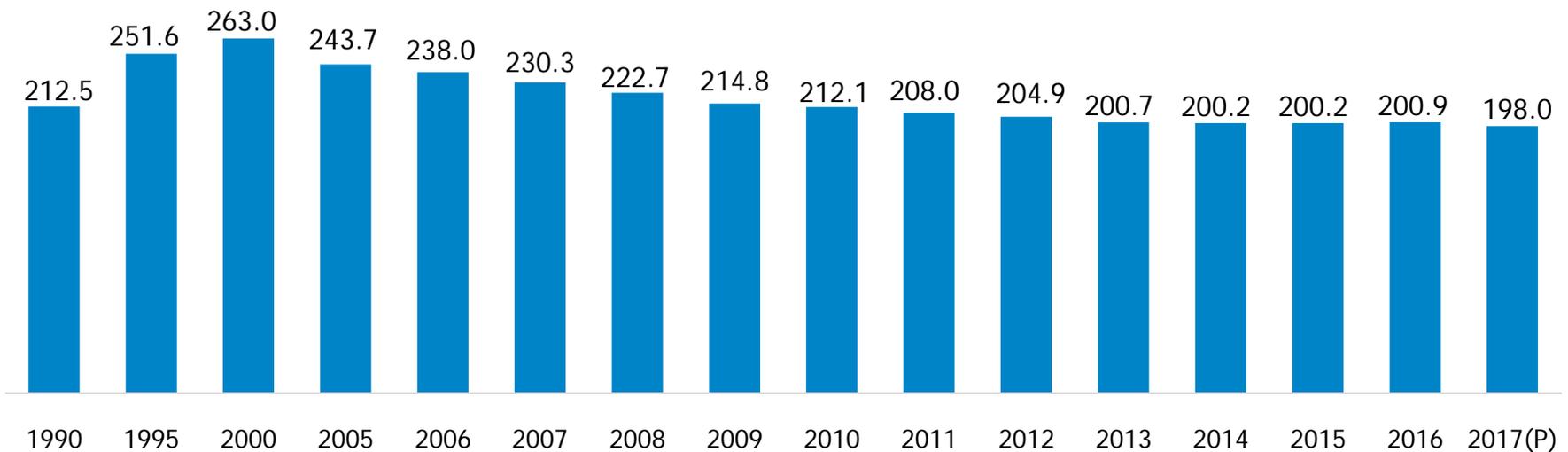


The Shifting Beverage Landscape

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, along with a concerted push by the industry

*U.S. Liquid Refreshment Beverage Market
Calories Per Capita Per Day
1990 – 2017P*



P: Preliminary

Source: Beverage Marketing Corporation



The Shifting Beverage Landscape

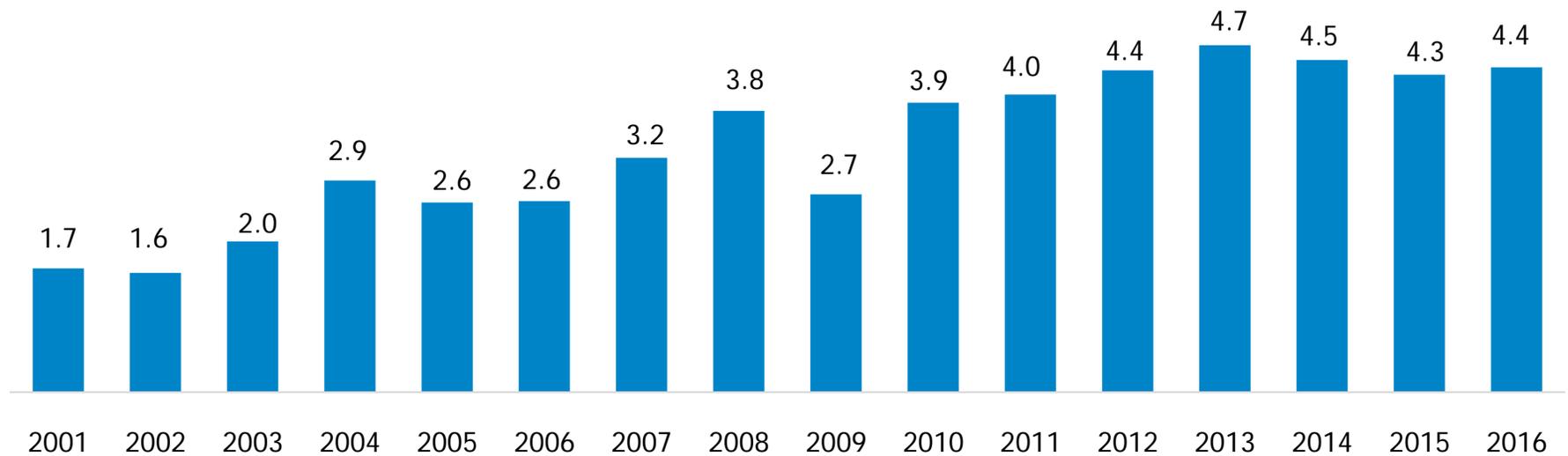
Premiumization: Both alcohol and non-alcoholic categories are going more premium. Consumers are trading up to more expensive products that they believe offer better overall quality or benefits



The Shifting Beverage Landscape

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

*New Beverage Product Introductions
Thousands of SKUs
2001 – 2016*



Source: Beverage Marketing Corporation; Mintel

The Shifting Beverage Landscape

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



Coconut Water



Plant-based Water



Cold Brew Coffee



Kombucha



The Shifting Beverage Landscape

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



Premium Mixers



BEVERAGE
MARKETING
CORPORATION

The Shifting Beverage Landscape

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



The Shifting Beverage Landscape

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

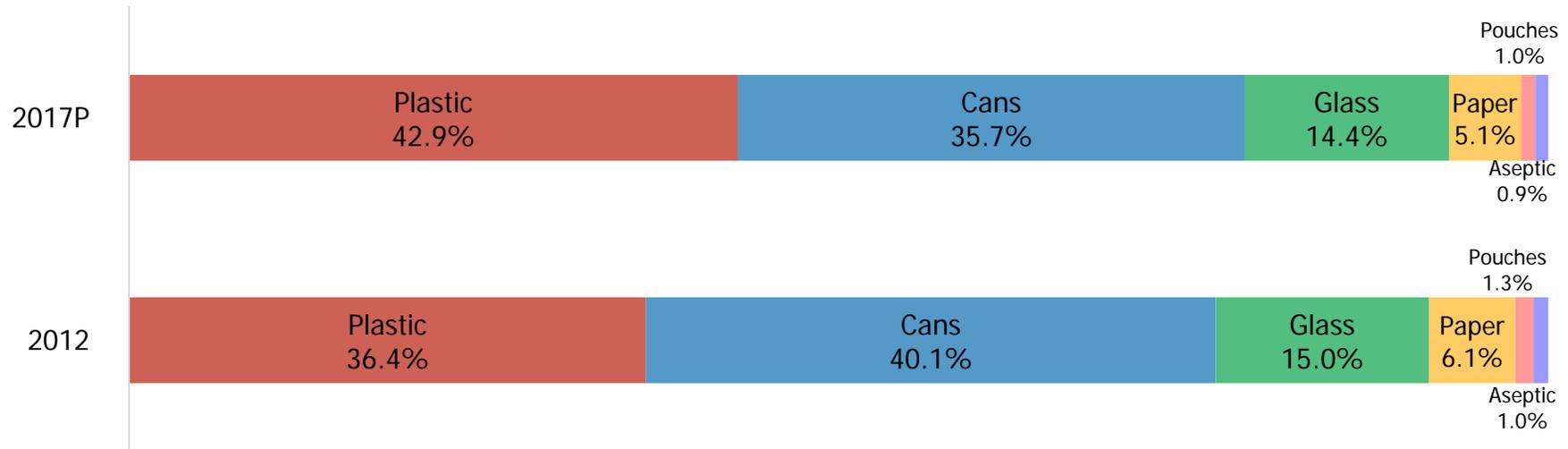


The Shifting Beverage Landscape

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*



SEGMENT	Plastics	Cans	Glass	Paper	Pouches	Aseptic	TOTAL
5-YR CAGR	+4.8%	-0.9%	+0.6%	-2.2%	-4.2%	-0.9%	+1.4%

* Includes Milk, does not include Beer kegs

Source: Beverage Marketing Corporation

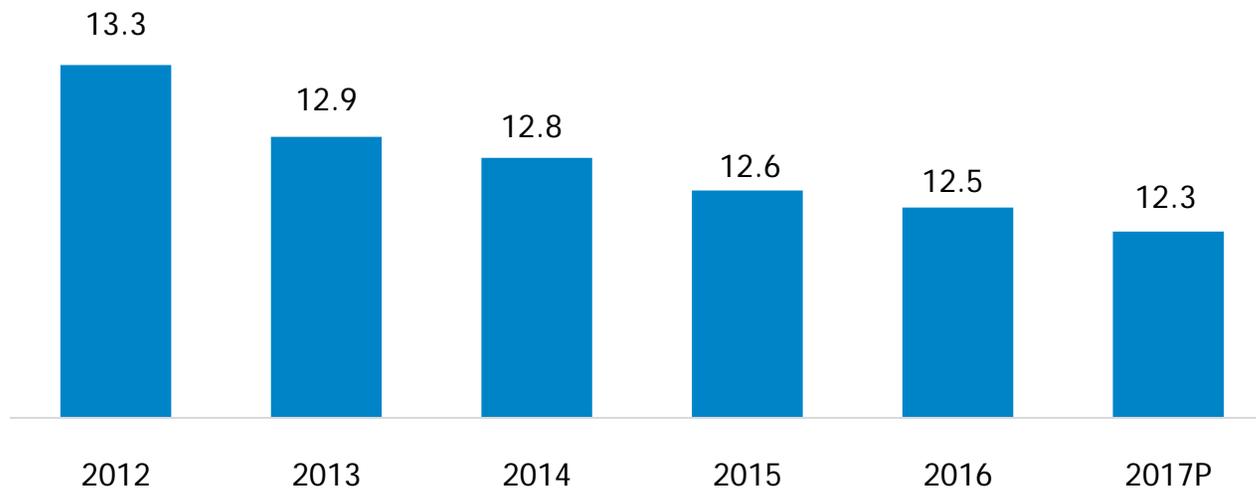


The Shifting Beverage Landscape

Carbonated soft drink volume declined for the 13th consecutive year in 2017 and more declines are likely to come in the years ahead

- Today's consumers are migrating to healthier options and want more variety

*U.S. Carbonated Soft Drink Market
Billions of Gallons
2012 – 2017P*



YEAR	2012/13	2013/14	2014/15	2015/16	2016/17P	12/17P CAGR
Change	-3.2%	-1.0%	-1.5%	-0.8%	-1.2%	-1.5%

*P: Preliminary
Source: Beverage Marketing Corporation*



The Shifting Beverage Landscape

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



Sugar/Stevia



Sugar/Stevia



Stevia



BEVERAGE
MARKETING
CORPORATION

The Shifting Beverage Landscape

Besides natural zero-calorie sweeteners, marketers are seeking novel ways to engage the carbonated beverage consumer – some times with products outside the CSD category



The Shifting Beverage Landscape

The acquisition of DPSG by Keurig provides a range of synergies

- 1 Broader product portfolio in a range of formats appeals to array of consumer need states
- 2 Heightened focus on high-margin, high-growth segments such as RTD coffee and tea
- 3 Enhanced nationwide distribution capabilities combining each company's strengths
- 4 Proven and experienced beverage industry management team
- 5 \$600 million in annual cost savings by 2021

But also poses some questions and challenges

- 1 Is strategic rationale sound?
- 2 Can new company manage complexity of integration seamlessly?

Source: Beverage Marketing Corporation

The Shifting Beverage Landscape

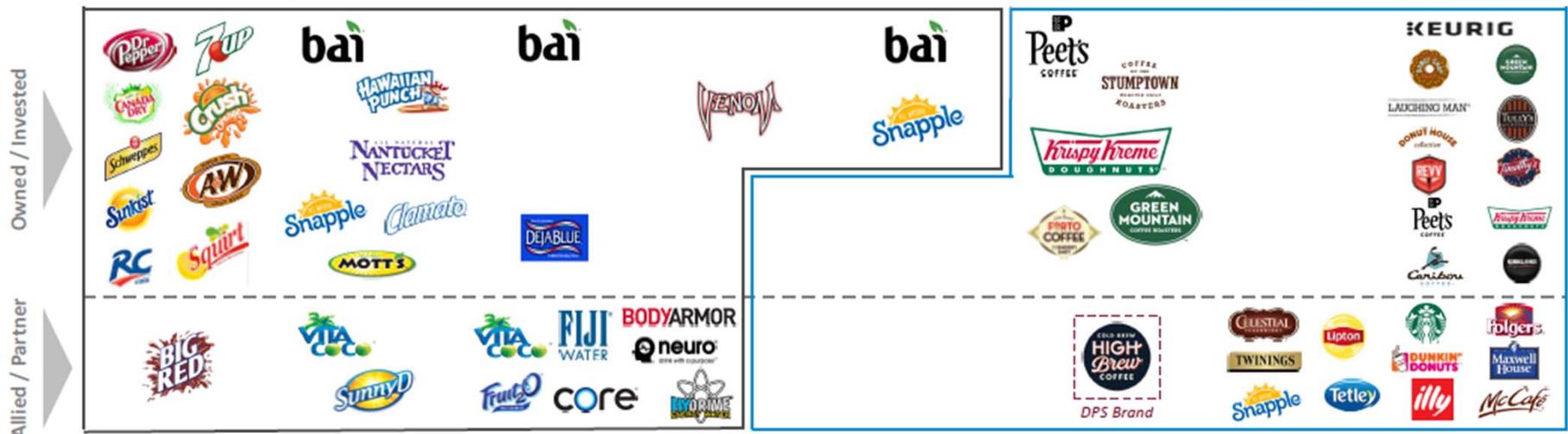
The acquisition of DPSG by Keurig helps to fill in product portfolio voids

DPSG and Keurig Product Portfolios

Category	Carbonates	Juice	Water	Sport / Energy	RTD Tea	RTD Coffee	Tea	SS Coffee
Retail \$ Trends ¹	(1%) to 1%	(2%) to 0%	3% to 6%	6% to 10%	6% to 10%	+10%	0% to 2%	+10%
	Non-Colas +1 to 2%	Coconut +10%						

Dr Pepper Snapple

Keurig Green Mountain/ JAB



¹McKinsey Retail Dollar Estimates for 2011 to 2016, based on Beverage Digest, Nielsen and Euromonitor; US + Canada; excludes non-packaged formats (e.g. CSD Fountain, Coffee Shop Retail locations)

The Shifting Beverage Landscape

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

- 1 Heightened consumer demand for healthier refreshment and variety
- 2 Legislation and messaging from government and regulatory agencies
- 3 Tax threats aimed at reducing consumption
- 4 Negative commentary from medical studies
- 5 Steady drumbeat of negative press

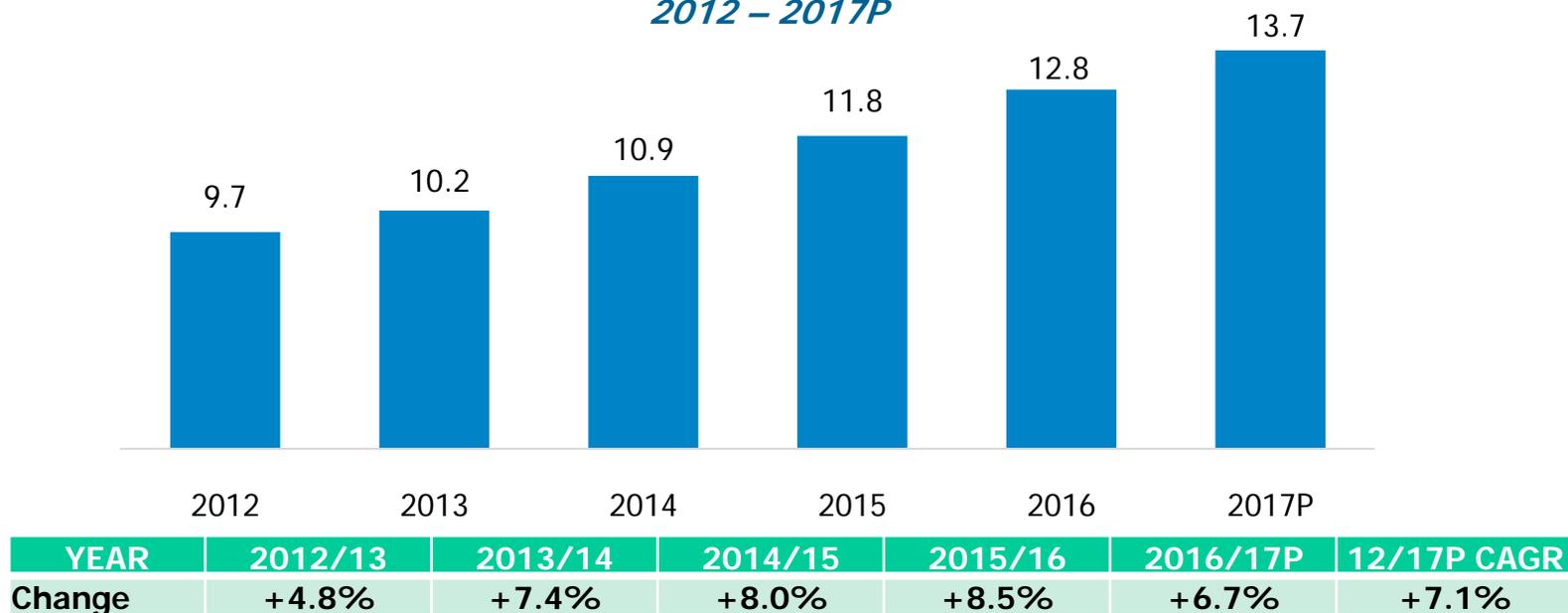
Source: Beverage Marketing Corporation

The Shifting Beverage Landscape

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 is now the largest beverage category in the U.S.

*U.S. Bottled Water Market
Billions of Gallons
2012 – 2017P*



P: Preliminary

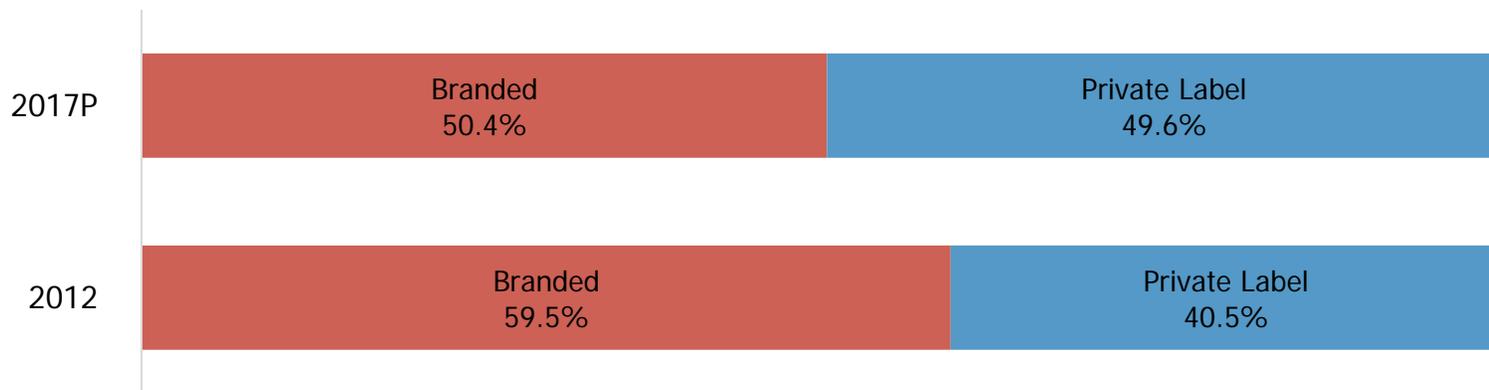
Source: Beverage Marketing Corporation

BEVERAGE
MARKETING
CORPORATION

The Shifting Beverage Landscape

Private label PET water accounts for virtually half of the single-serve market today

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



SEGMENT	PRIVATE LABEL	BRANDED	TOTAL
5-YR CAGR	+12.5%	+3.8%	+7.7%

*P: Preliminary
Source: Beverage Marketing Corporation*



The Shifting Beverage Landscape

Sparkling water is on fire – fastest growing segment in the bottled water category



BEVERAGE
MARKETING
CORPORATION

The Shifting Beverage Landscape

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 beyond vitamins and minerals

Enhanced Waters

PH Balanced Water



Essence Water



Space Age Water



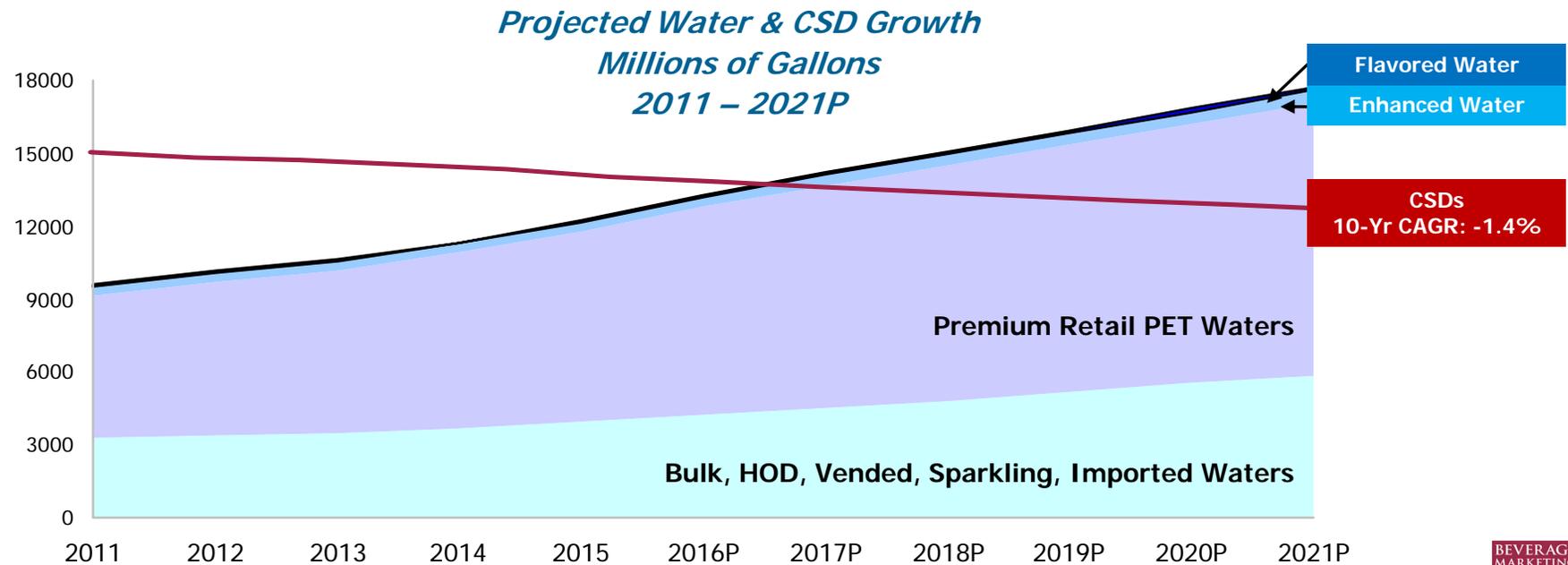
Plant Water



The Shifting Beverage Landscape

Bottled water became the leading beverage category in the U.S. on a volume basis in 2016, surpassing CSDs and widened its volume gap in 2017

- As CSDs continue to decline and bottled water continues to grow, the gap between the two categories is only likely to widen even more
- On a dollar basis, CSDs continue to be larger than bottled water however



P: Projected
Source: Beverage Marketing Corporation



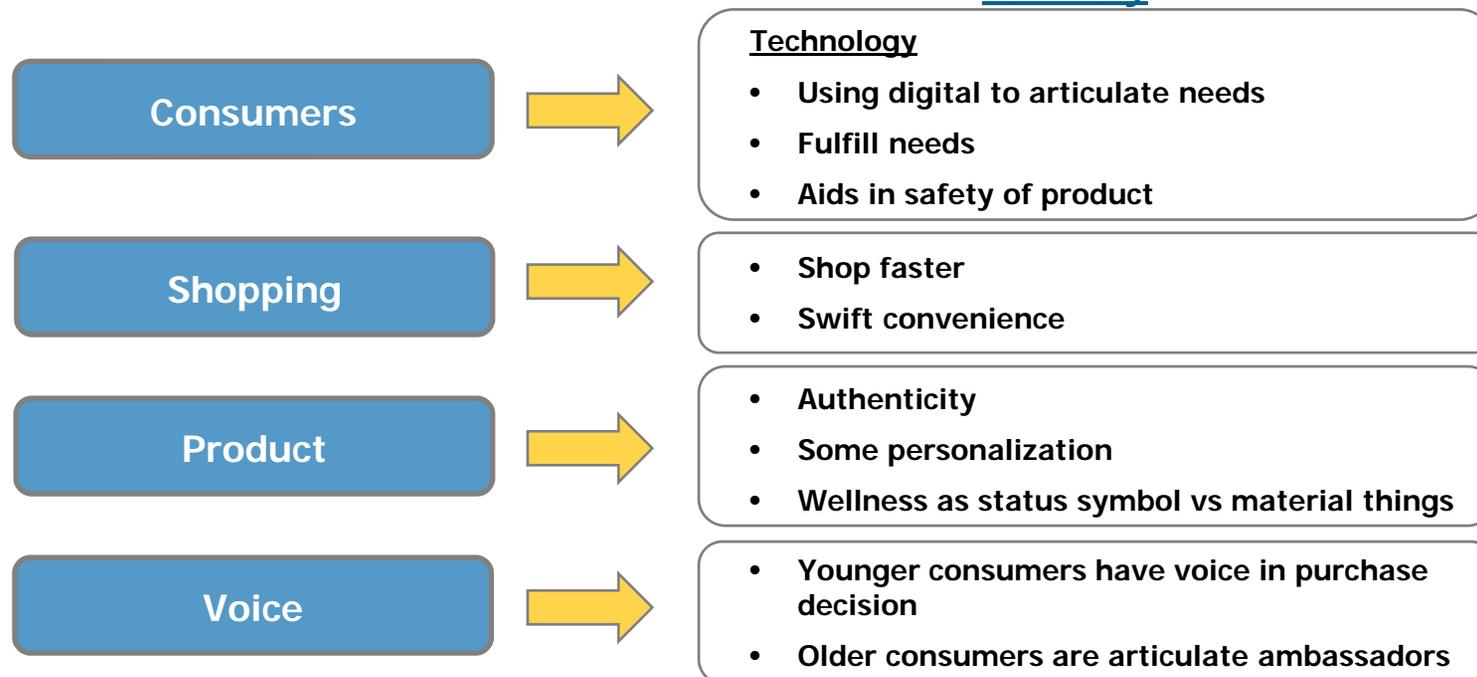
The Shifting Beverage Landscape

The ability of beverage companies to address global consumer trends will impact their performances in the future

- Consumer trends can be placed in four buckets

Global Consumer Trends

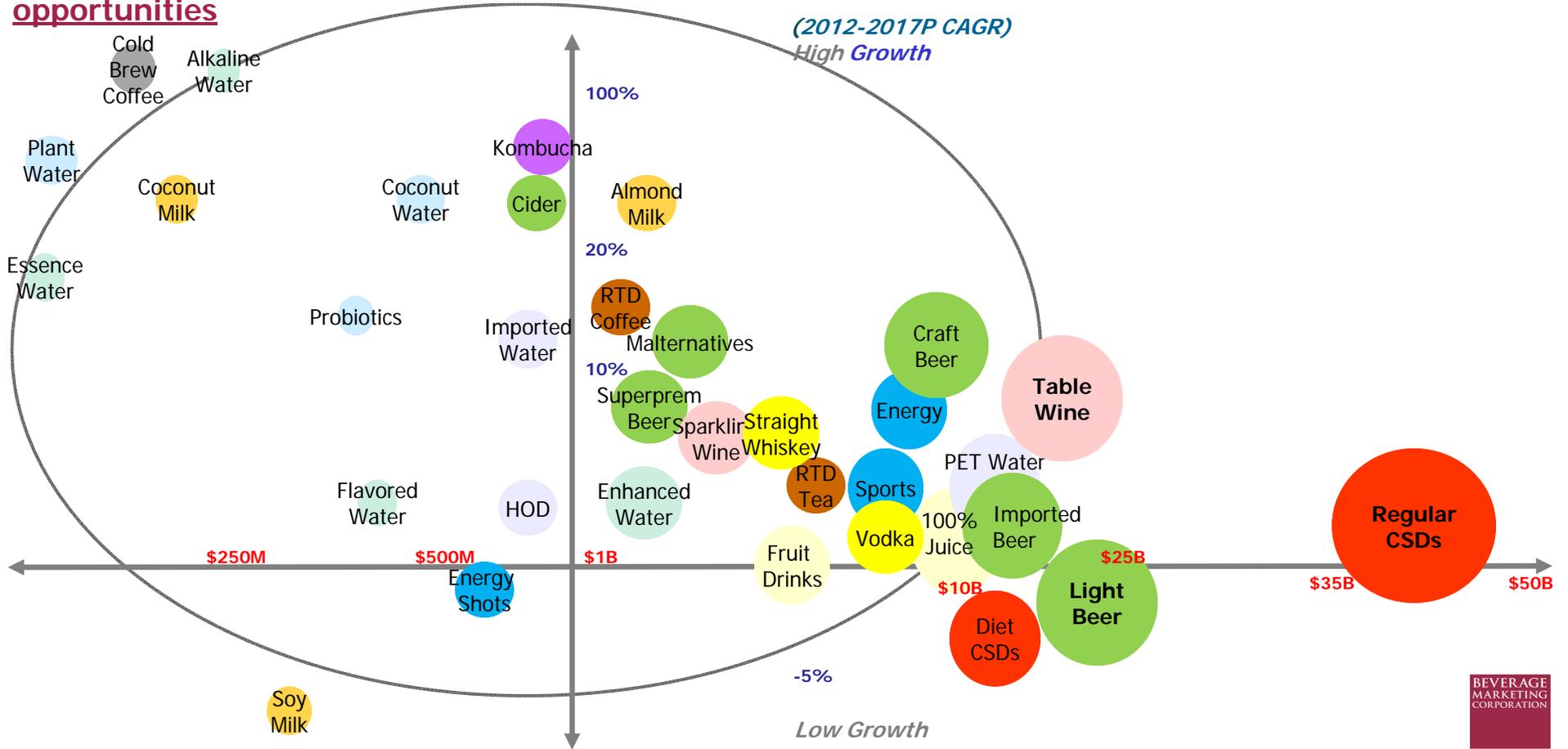
Summary



Source: Beverage Marketing Corporation; Euromonitor International

The Shifting Beverage Landscape

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**

ghemphill@beveragemarketing.com

**BEVERAGE
MARKETING
CORPORATION**
