IBWA 2016

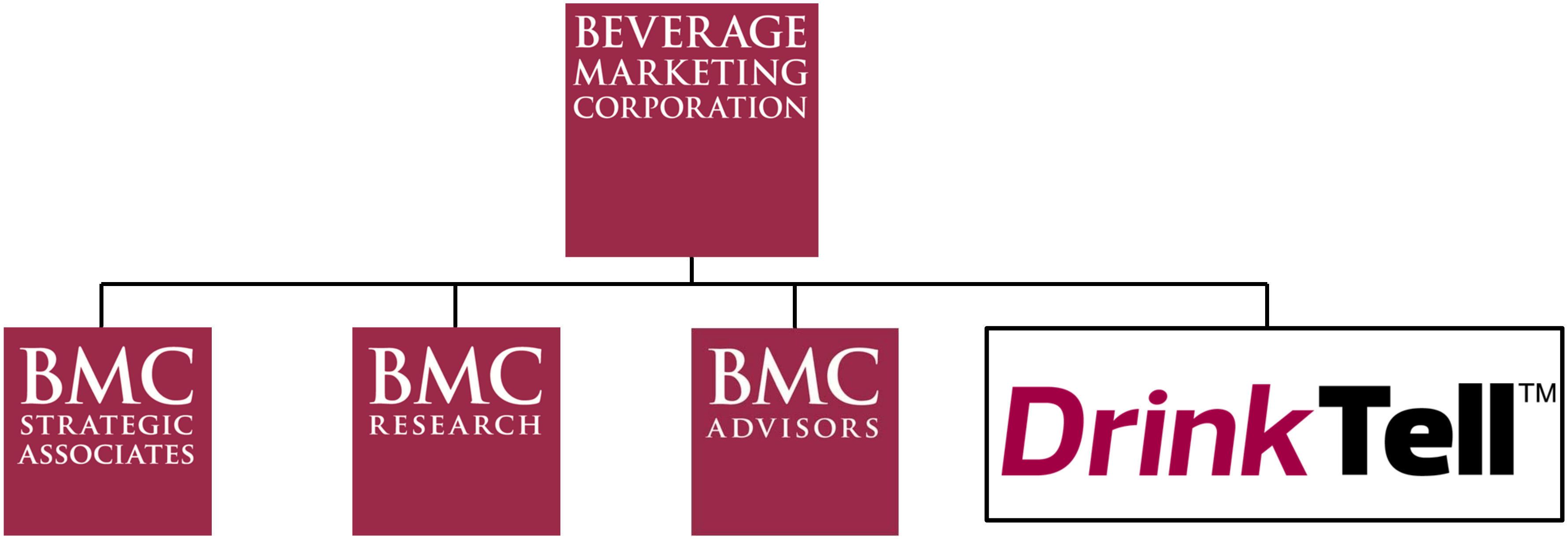
U.S. Bottled Water Market

Market Trends

November 9, 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

The Agenda

- ***Overview of U.S. Beverage Market***
- U.S. Bottled Water Market
- Projections

BEVERAGE MARKETING CORPORATION

State of the Industry – The Good and the Bad

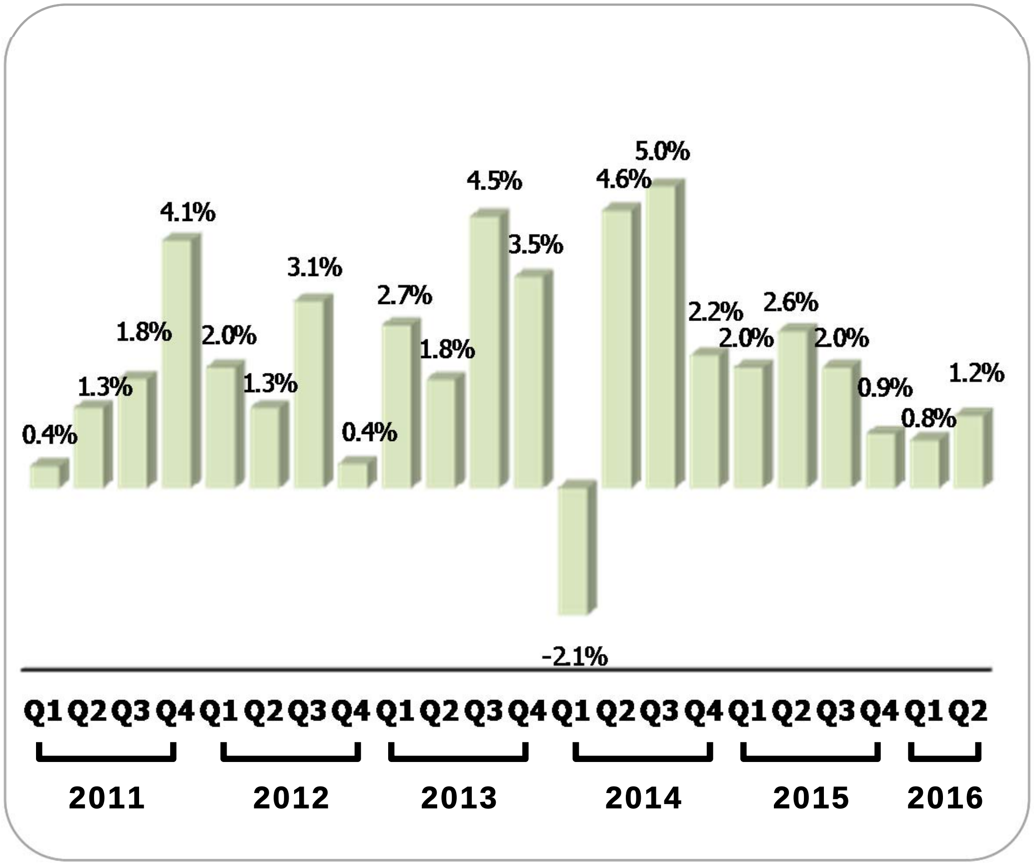
Beverage Headlines

- Liquid refreshment beverage market growing for third consecutive year in 2016, led by bottled water and niche categories
- Carbonated soft drinks declining once again in 2016, which will be its 12^{th} consecutive year of volume declines
- Bottled water will surpass carbonated soft drinks by end of 2016 or beginning of 2017 on volume basis
- Most mass market categories other than bottled water continue to struggle
- Wine and spirits lead alcohol growth in 2016, and beer is experiencing essentially flat performance

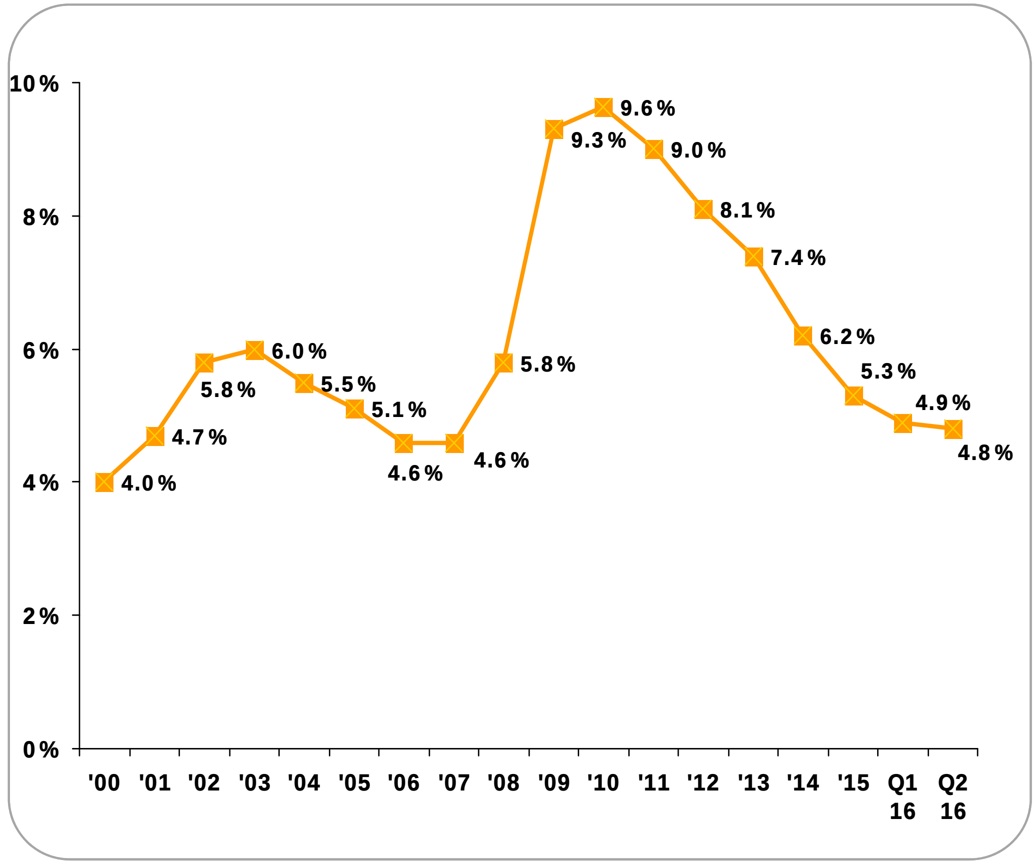
BEVERAGE MARKETING CORPORATION

The economy is greatly improved with unemployment below 5% and modest GDP growth; improvement had been slow due to severity of the recession

Quarterly GDP Change
2011 – Q2 2016



Unemployment Rate
2000 – Q2 2016

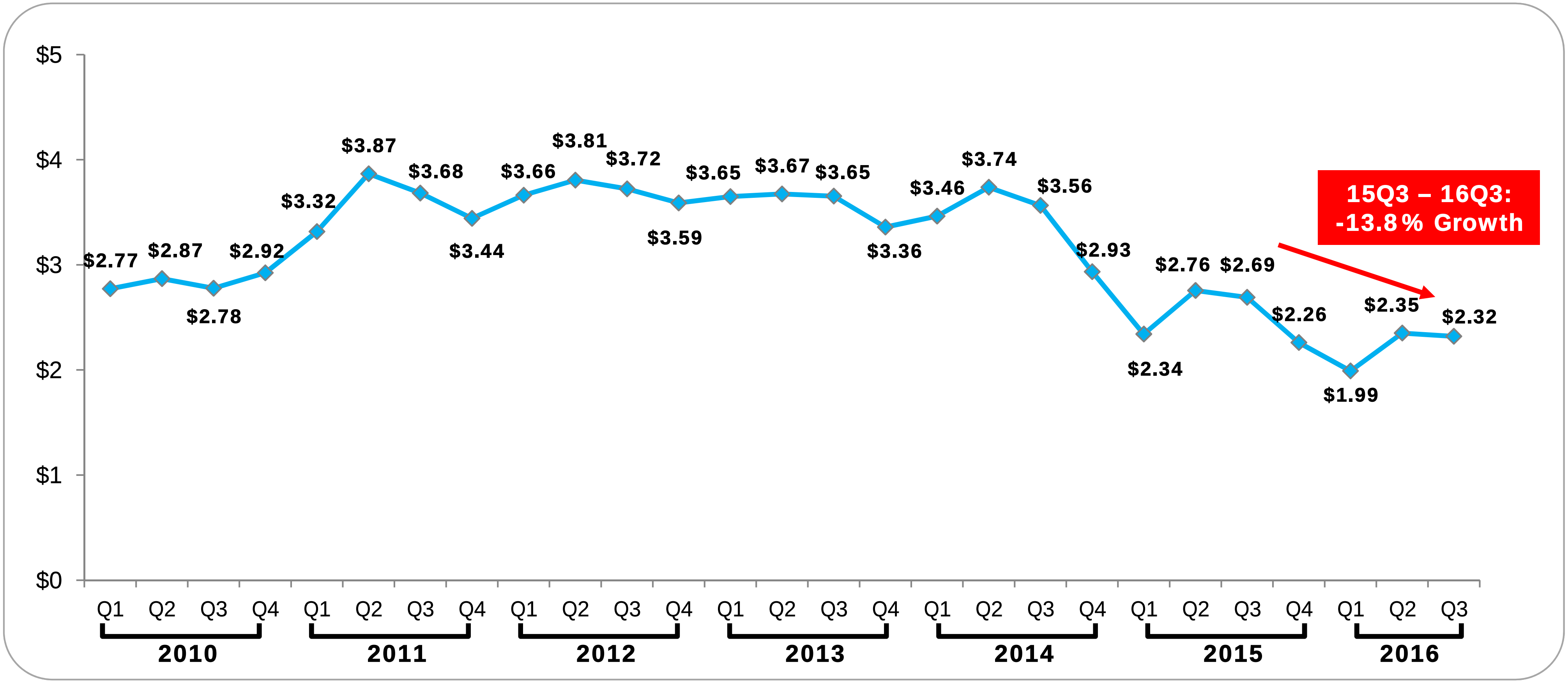


Source: Beverage Marketing Corporation; Bureau of Economic Analysis, Department of Commerce, Department of Labor

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

- Consumers have bought cars and other delayed purchases but also continue to save
- “Thriftiness” under changing economic times is now the new norm

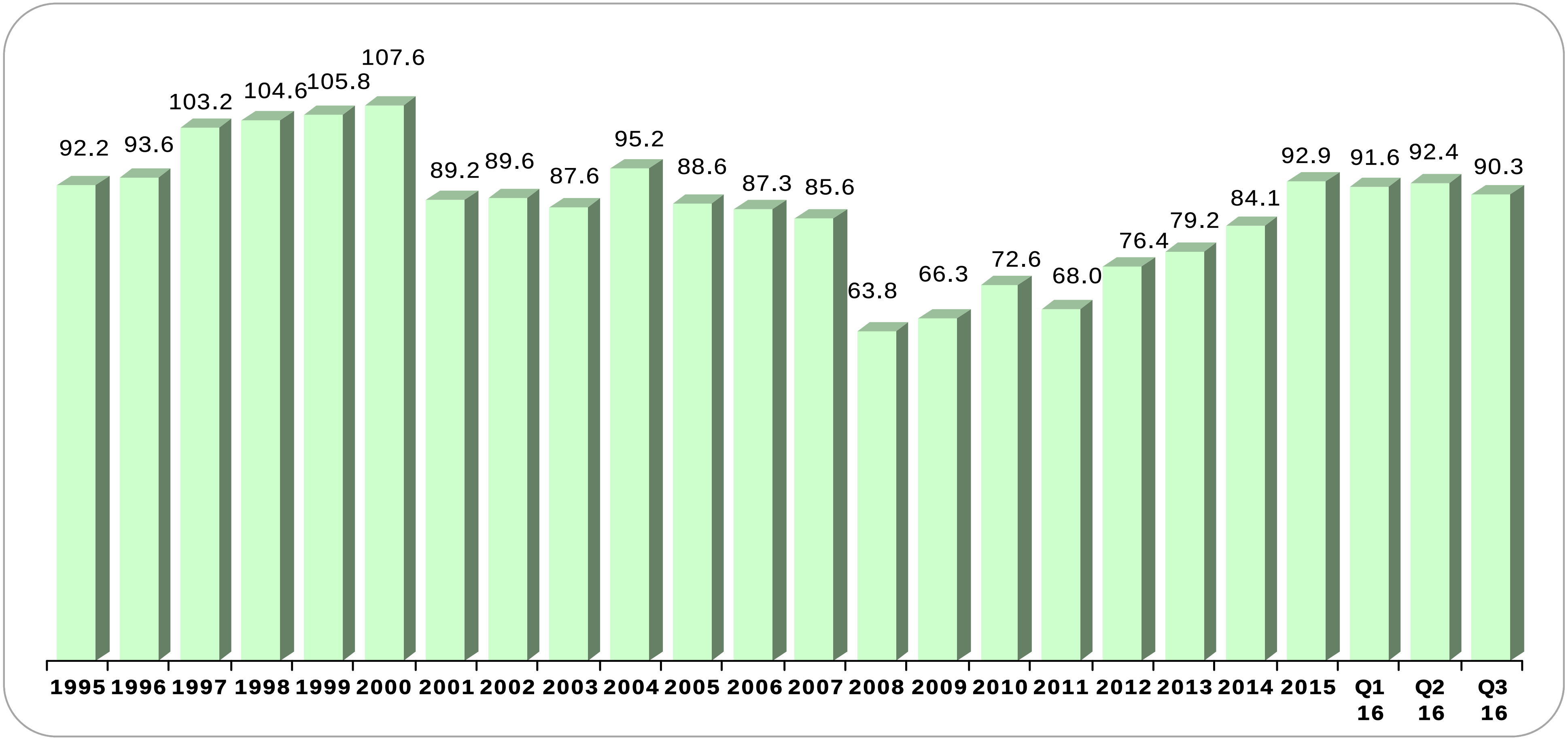
Gasoline Prices
2010 – 2016 Q3



Source: U.S. Energy Information Administration

Consumer sentiment surpassed pre-recession levels in 2015 for the first time, and remained stable, but somewhat uneven through the first three quarters of 2016

Annual U.S. Consumer Sentiment Index
1995 – Q3 2016

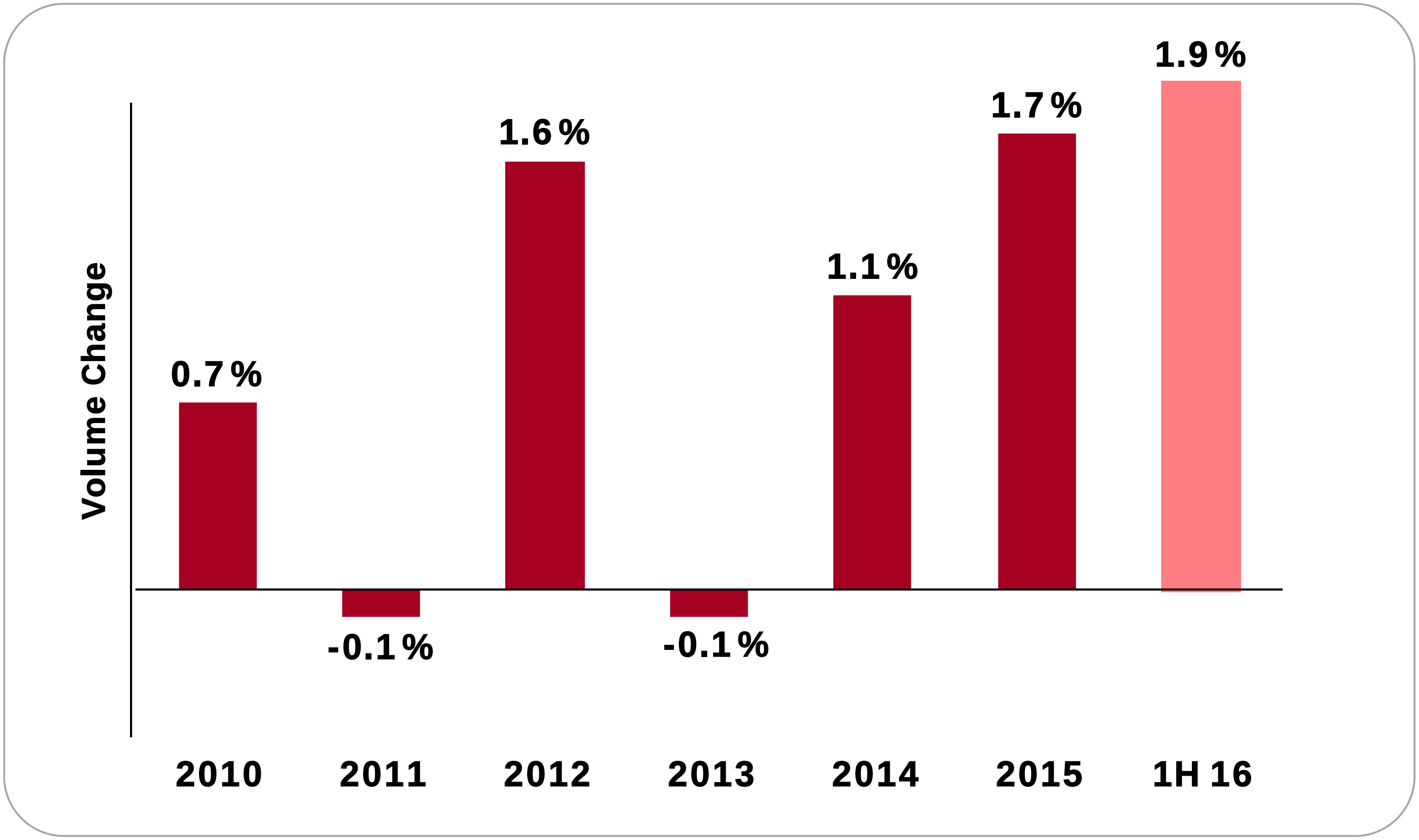


Source: Thompson Reuters/University of Michigan

The U.S. beverage market has experienced accelerating growth since 2014, and may be poised for steady consistent growth in the coming years

- Coming out of the recession, performance had been more mixed

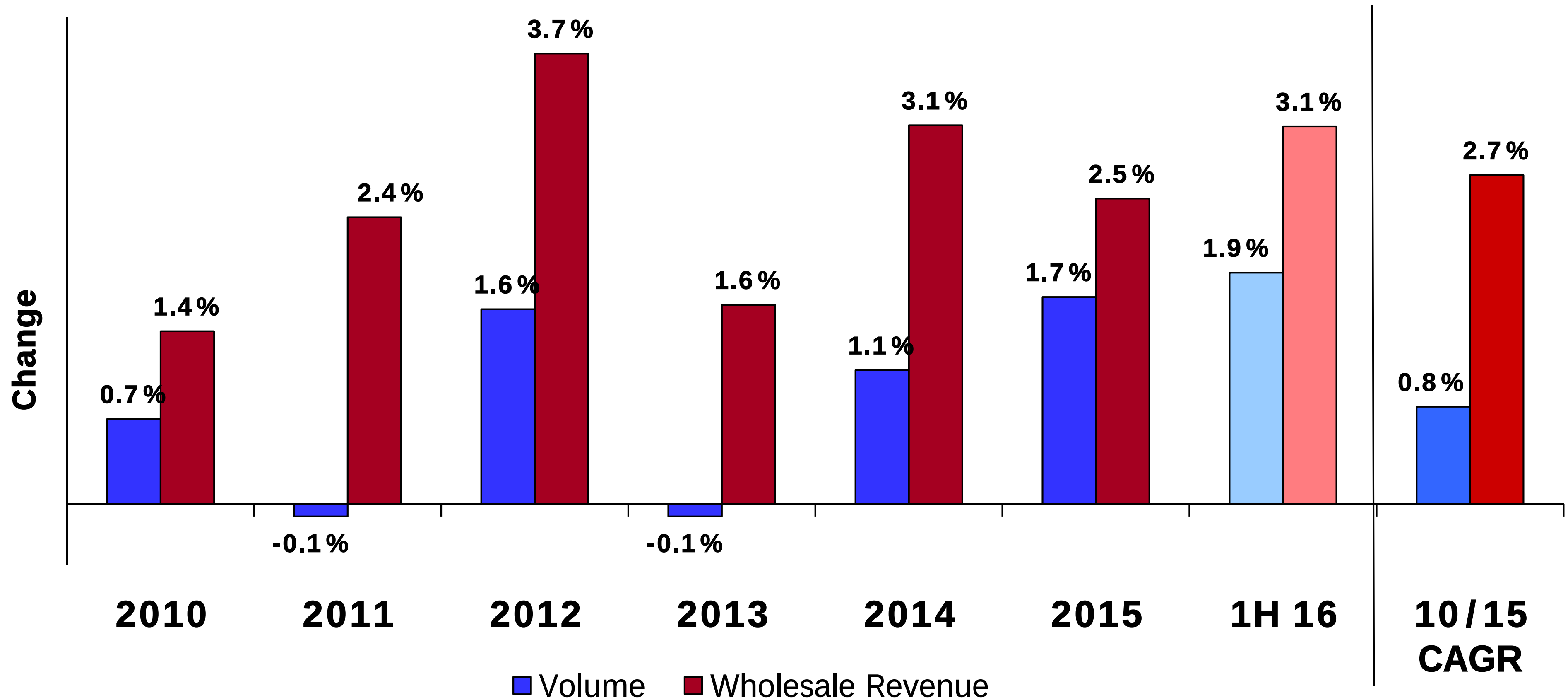
U.S. Total Beverage Market*
2010 – 1H 2016



** Excludes tap water*
Source: Beverage Marketing Corporation

Beverage revenues have outperformed volume and been consistently positive, but the differential versus volume growth is narrowing

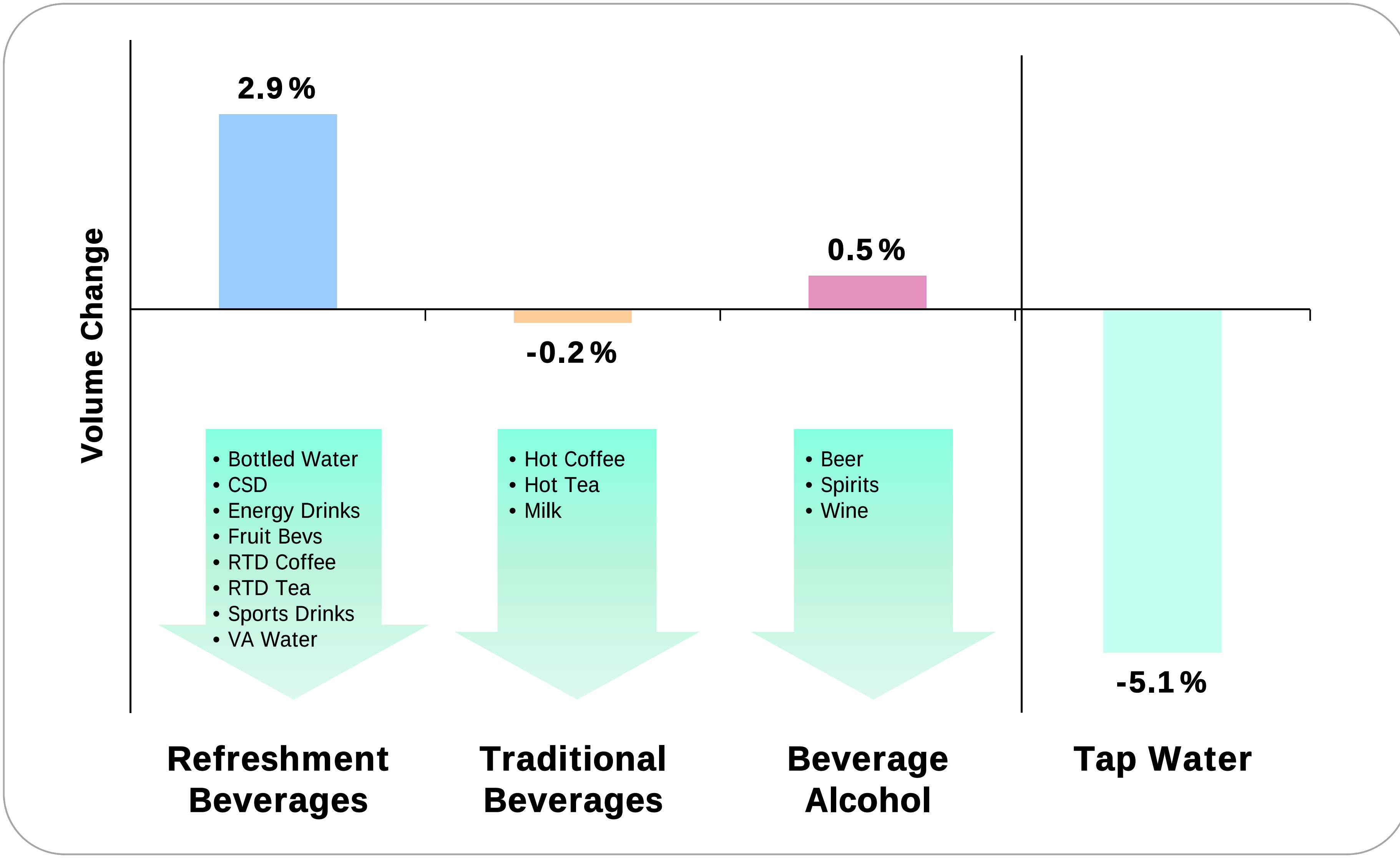
U.S. Total Beverage Market*
Volume and Wholesale Revenue
(Millions of Gallons and Wholesale Dollars)
2010 – 1H 2016



** Excludes tap water*
Source: Beverage Marketing Corporation

In 2015, refreshment beverages led by bottled water and some niche categories grew fastest, and this trend has continued into 2016

U.S. Beverage Market – 2015



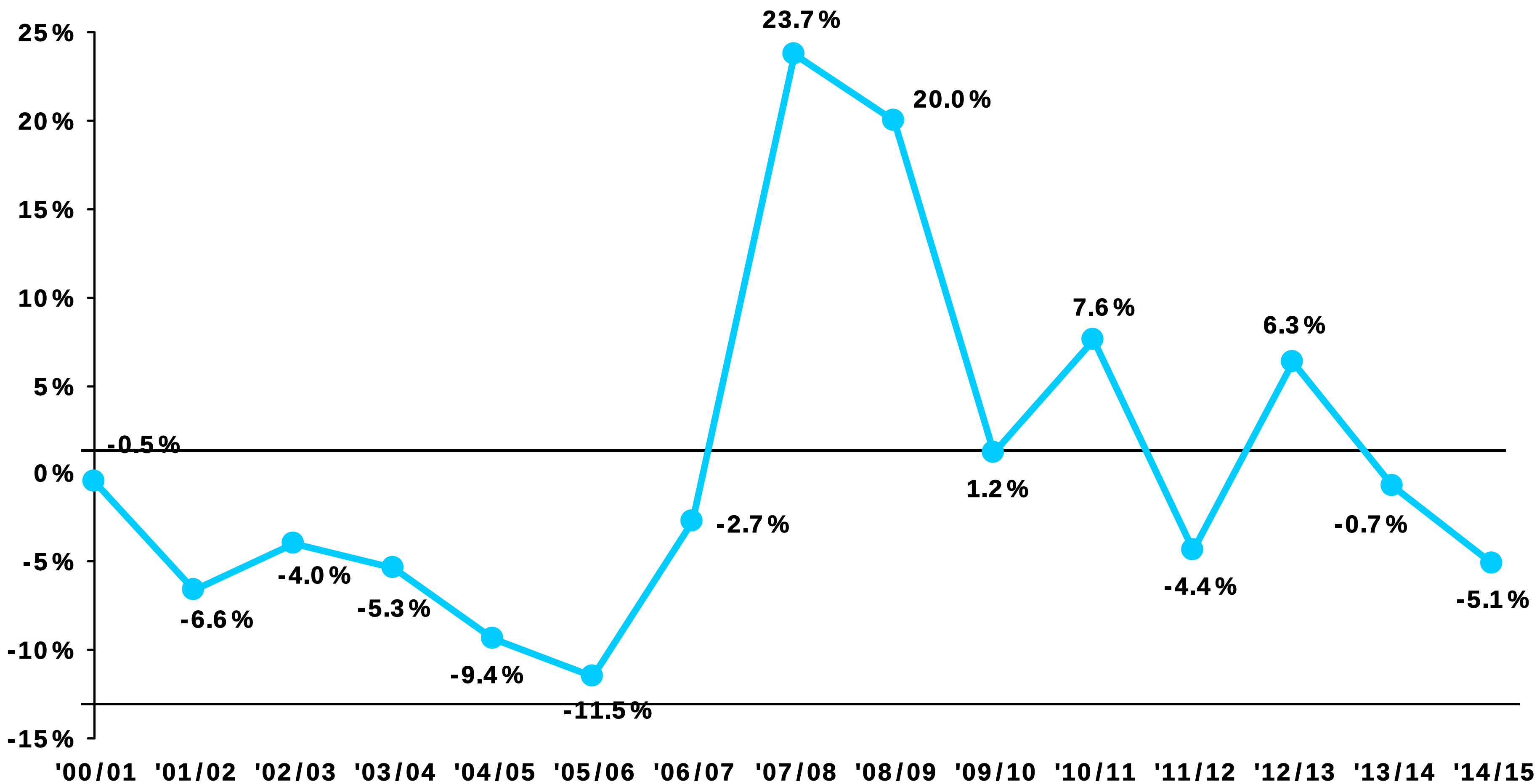
P: Preliminary
Source: Beverage Marketing Corporation

BEVERAGE MARKETING CORPORATION

Tap water consumption declined in each of the last two years and is likely to decline once again in 2016, a reflection of an improving economy

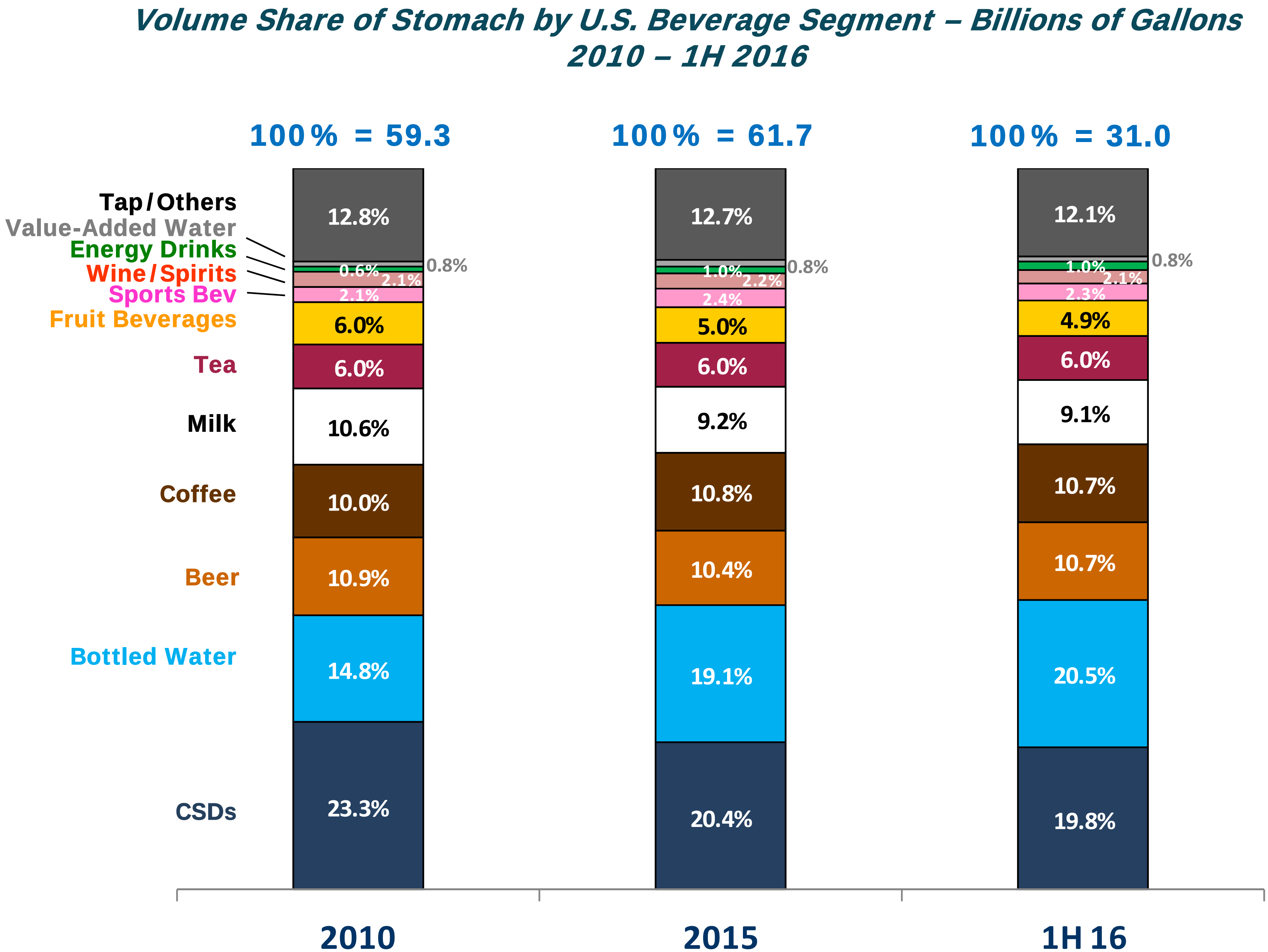
- After many years of declines, tap water consumption increased during the recession

Estimated Tap Water Volume Growth
2000 – 2015



Source: Beverage Marketing Corp.

Since 2010, bottled water has increased its share of stomach by more than 5 share points, while CSDs have continued their decline



Source: Beverage Marketing Corp.

Most non-alcoholic beverage categories grew in 2015, and niche categories generally outperformed large traditional categories

2015 Category Winners and Losers

WINNERS*

- Bottled Water
- RTD Coffee
- RTD Tea
- Sports Drinks
- Energy Drinks
- Value-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

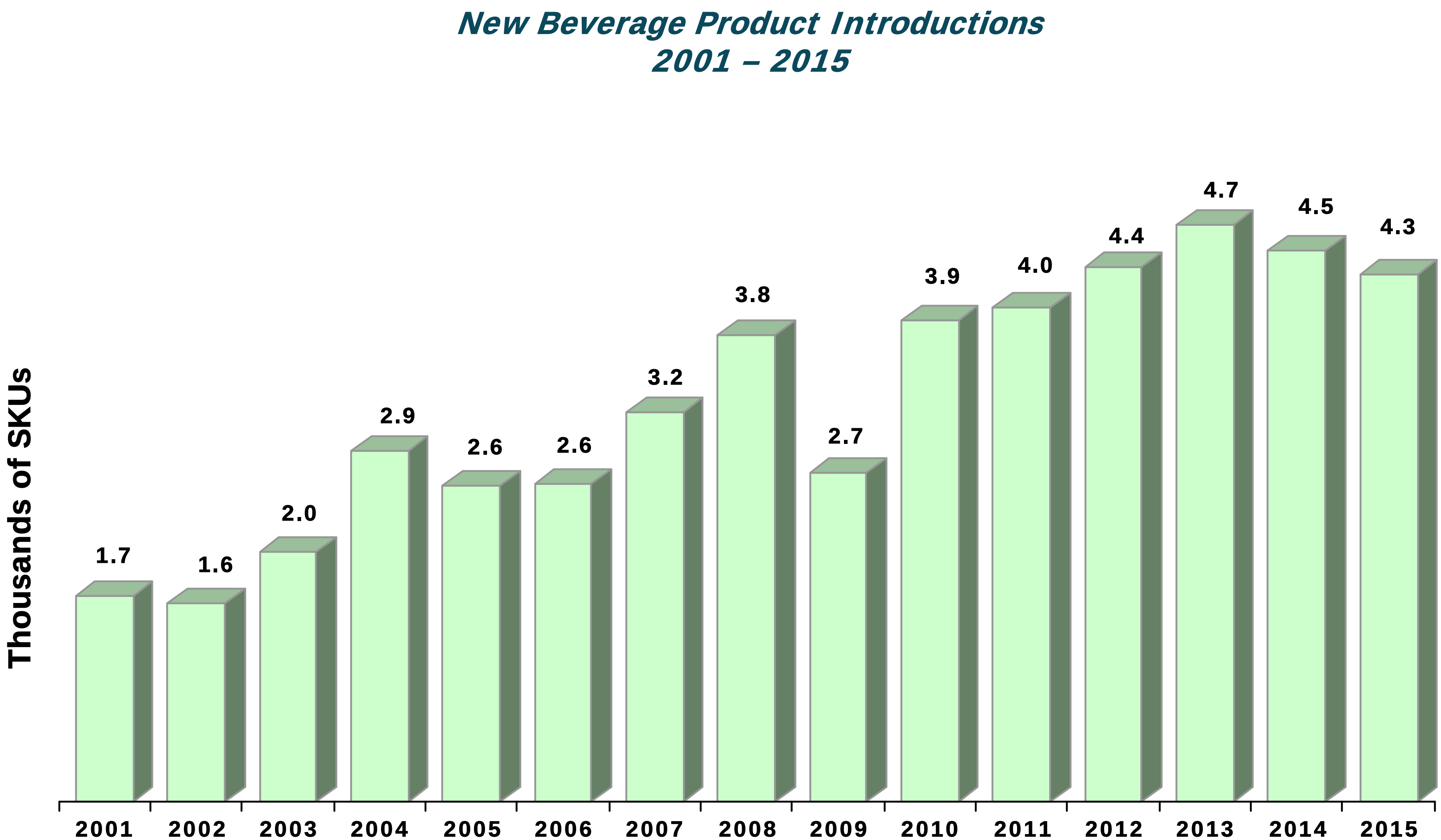
IMPROVED

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

WORSENED

- CSDs

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

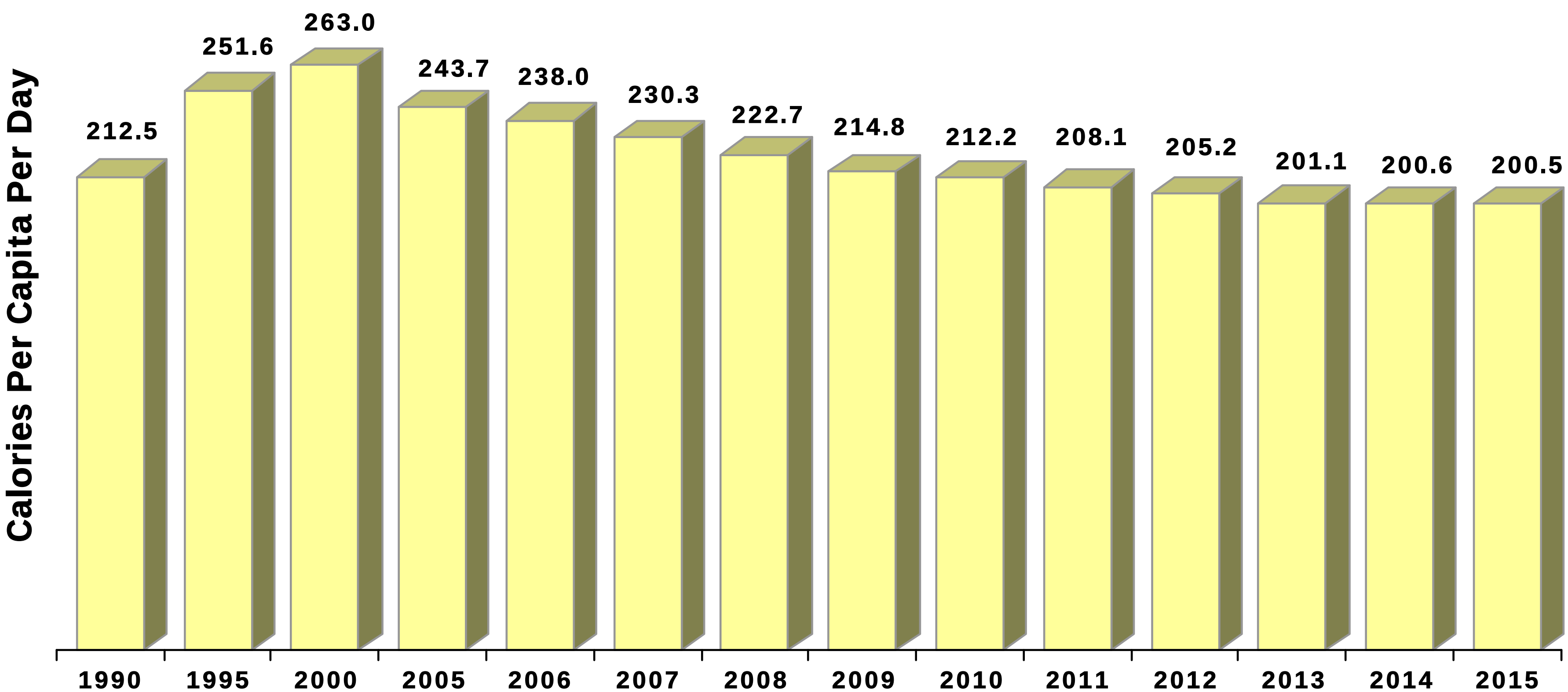


Source: Beverage Marketing Corp.; Mintel

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

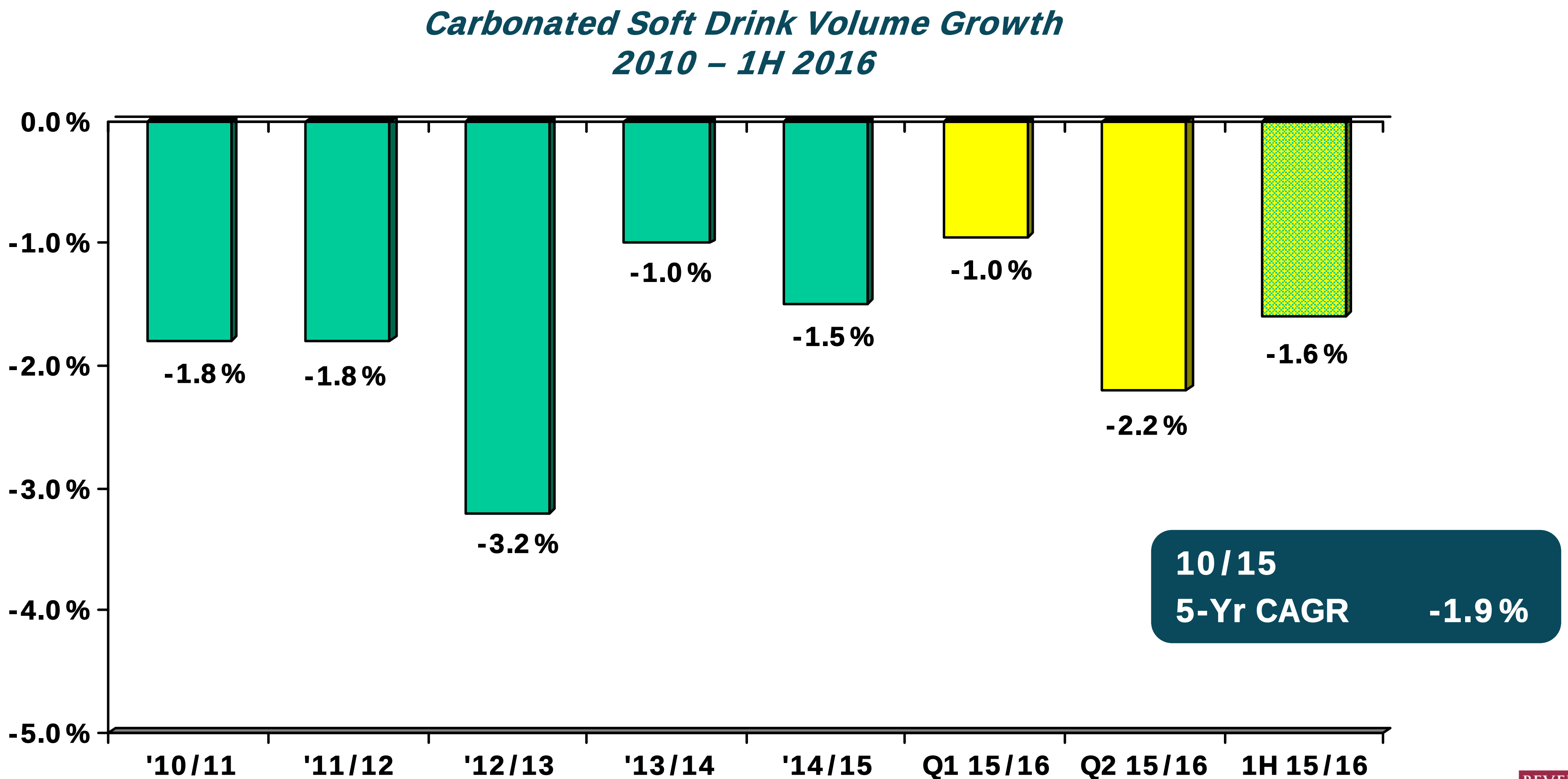
U.S. Refreshment Beverage Calories Per Day
1990 – 2015



Source: Beverage Marketing Corp.

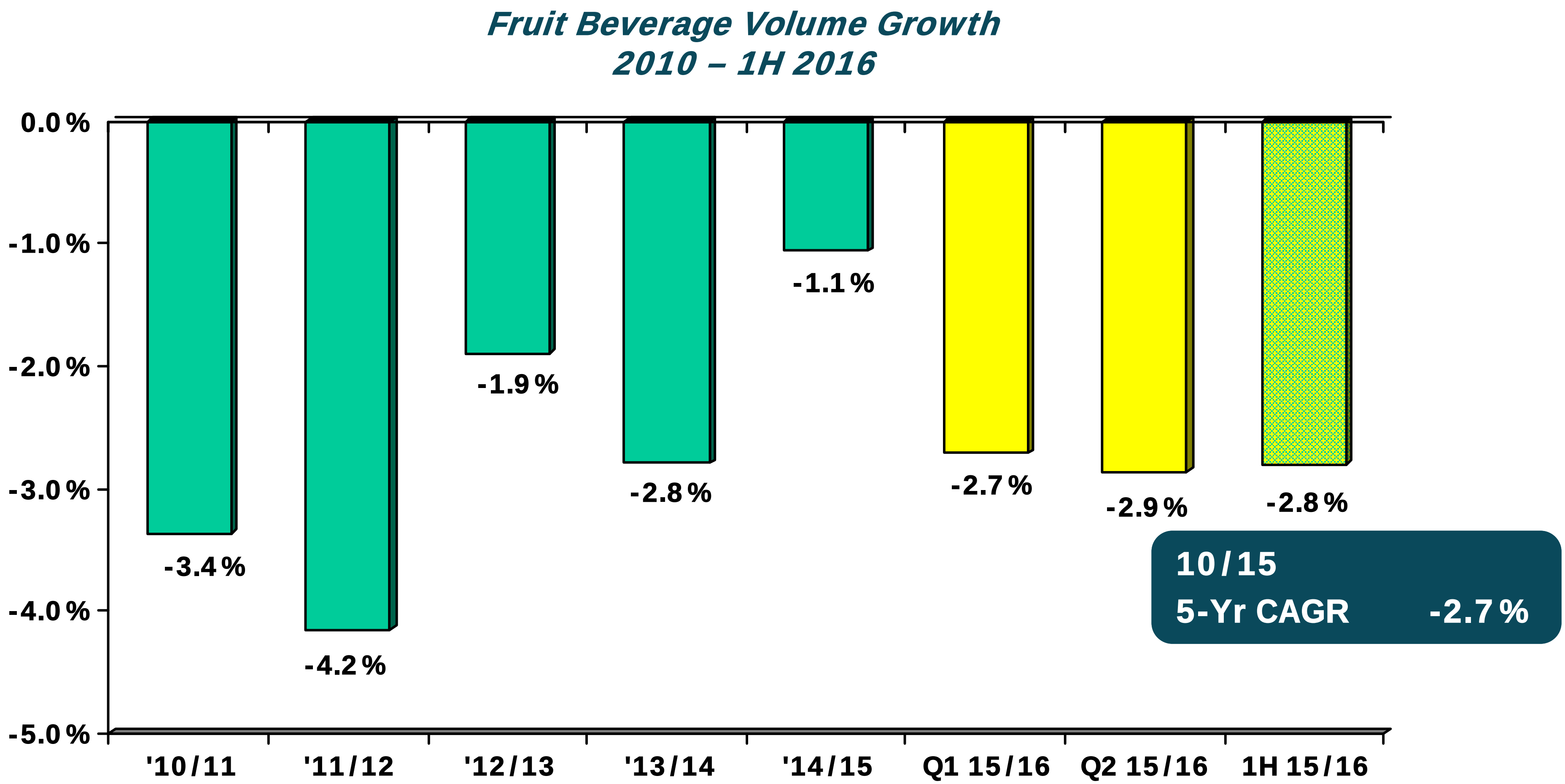
Carbonated soft drink volume declined for the 11th consecutive year in 2015 and is on pace to decline once again in 2016

- Volume declines in the first half of 2016 are relatively consistent with 2015
- Volume dipped to 12.6 billion gallons in 2015



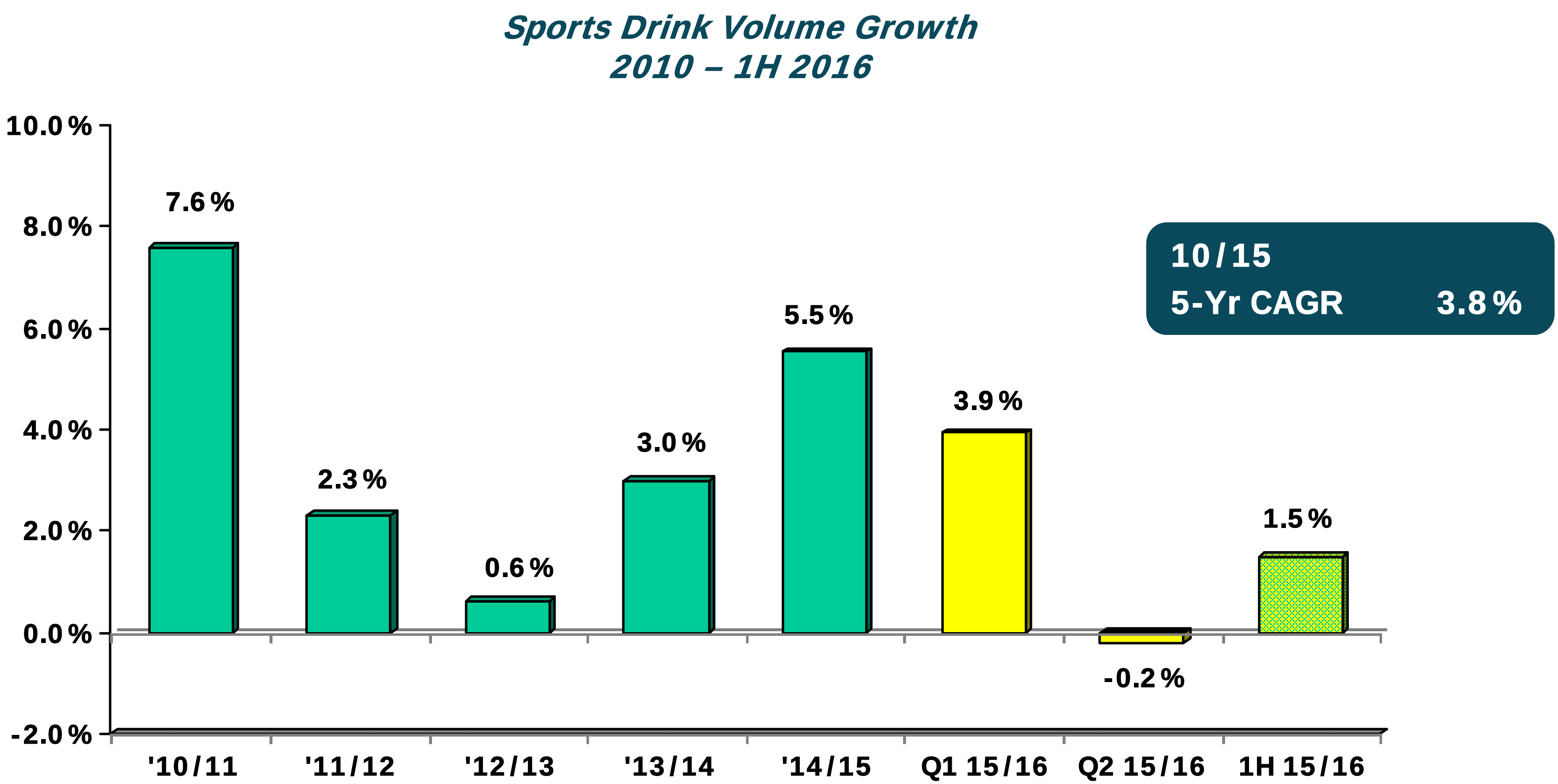
Source: Beverage Marketing Corp.

Fruit beverage volume has been declining in recent years because products are relatively expensive and high in calories



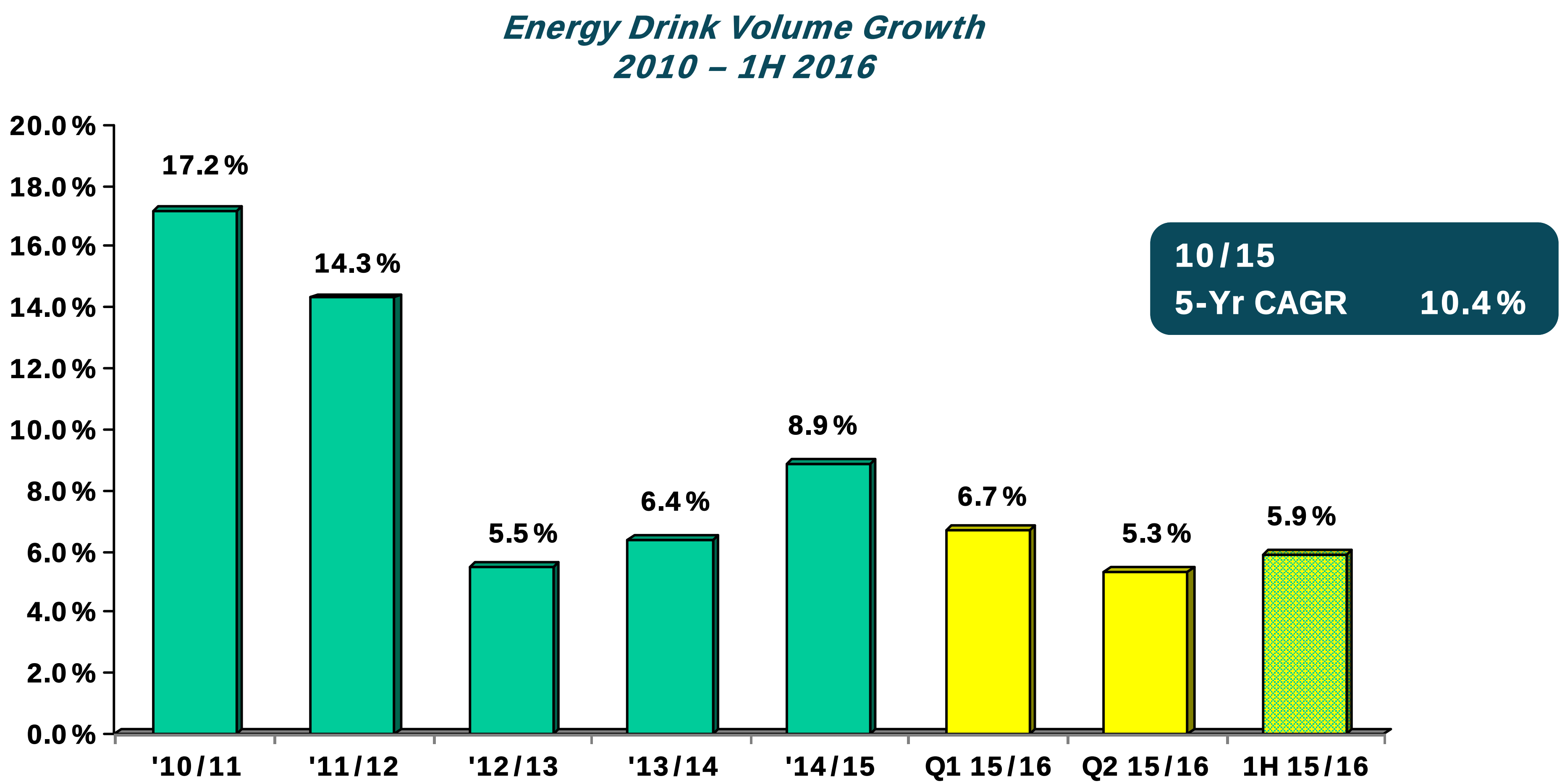
Source: Beverage Marketing Corp.

Sports drink consumption continues to grow but at a more modest pace



Source: Beverage Marketing Corp.

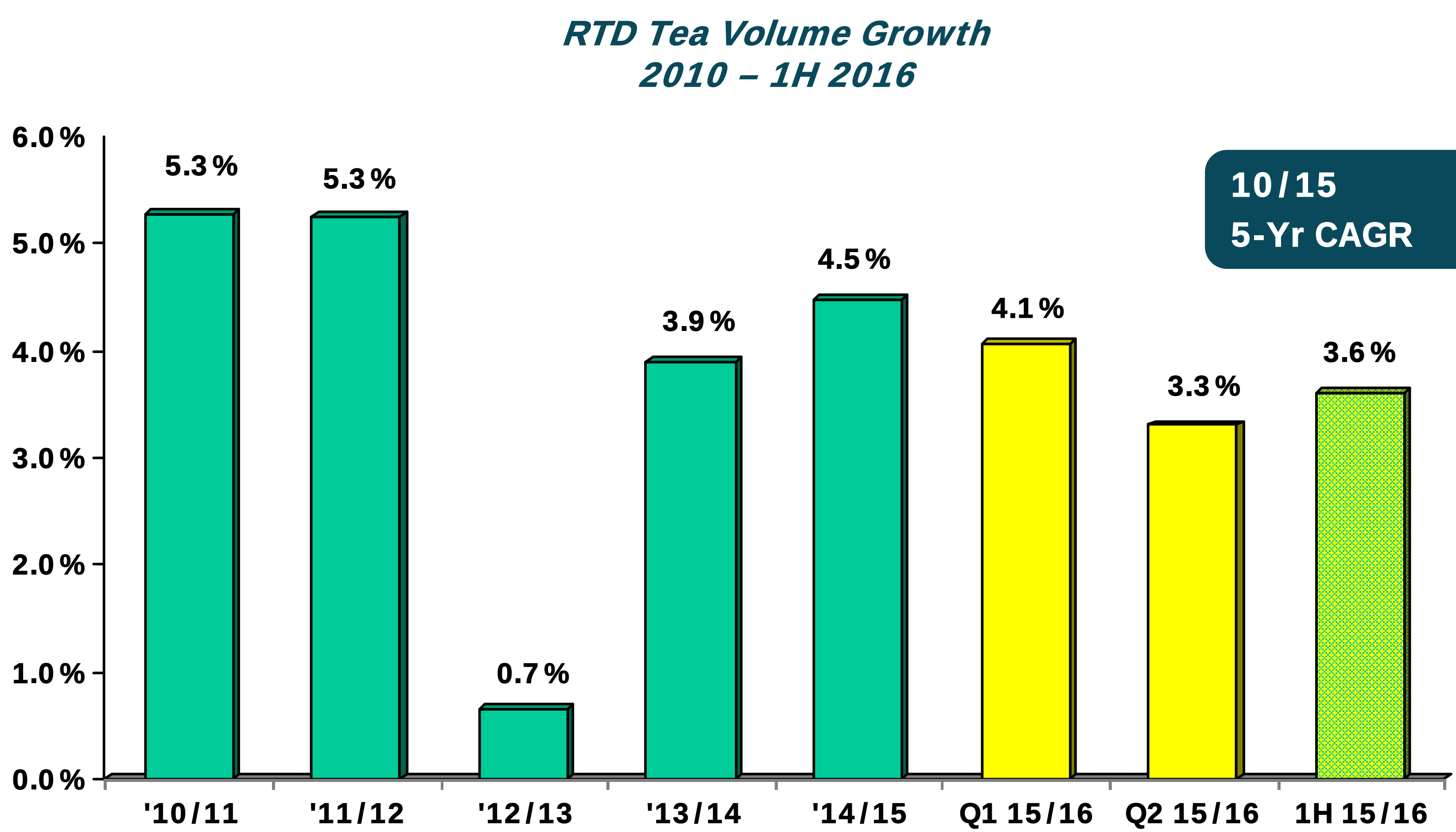
Energy drinks are experiencing solid growth in the first half of 2016, but at a slower pace than 2015



Source: Beverage Marketing Corp.

RTD tea category growth has been consistent in a range of 3%-5% since 2014

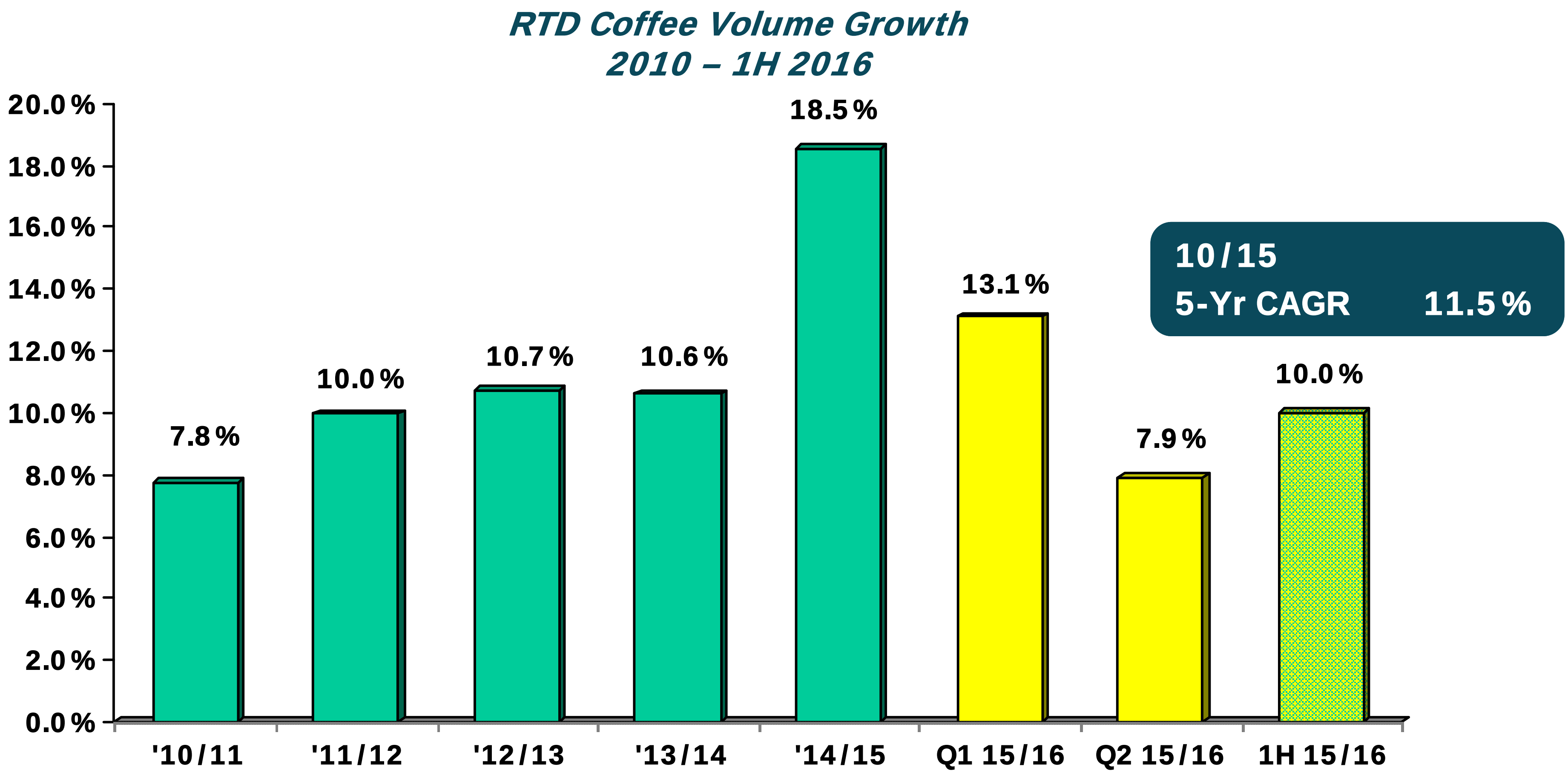
- In recent years, the category has benefited from its innovation and healthy positioning



Source: Beverage Marketing Corp.

RTD coffee has experienced continued solid growth since the recession, and is likely poised for more growth in the coming years

- Nevertheless, the category remains the smallest of traditional LRB categories

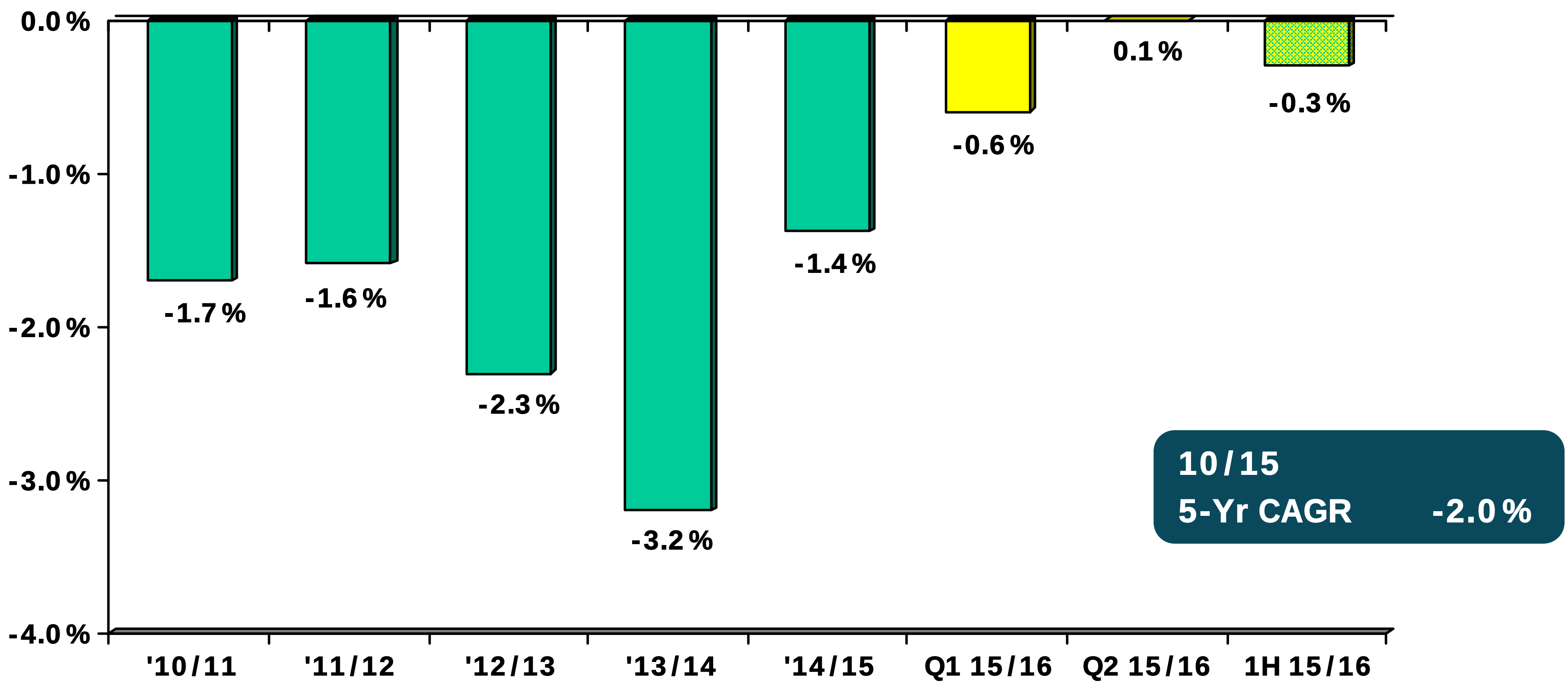


Source: Beverage Marketing Corp.

Fluid milk volume continues to decline – impacted negatively by competition from other categories, especially dairy alternatives

- Declines have been in excess of 1% since 2010
- Pricing can often mean the difference between category growth and decline

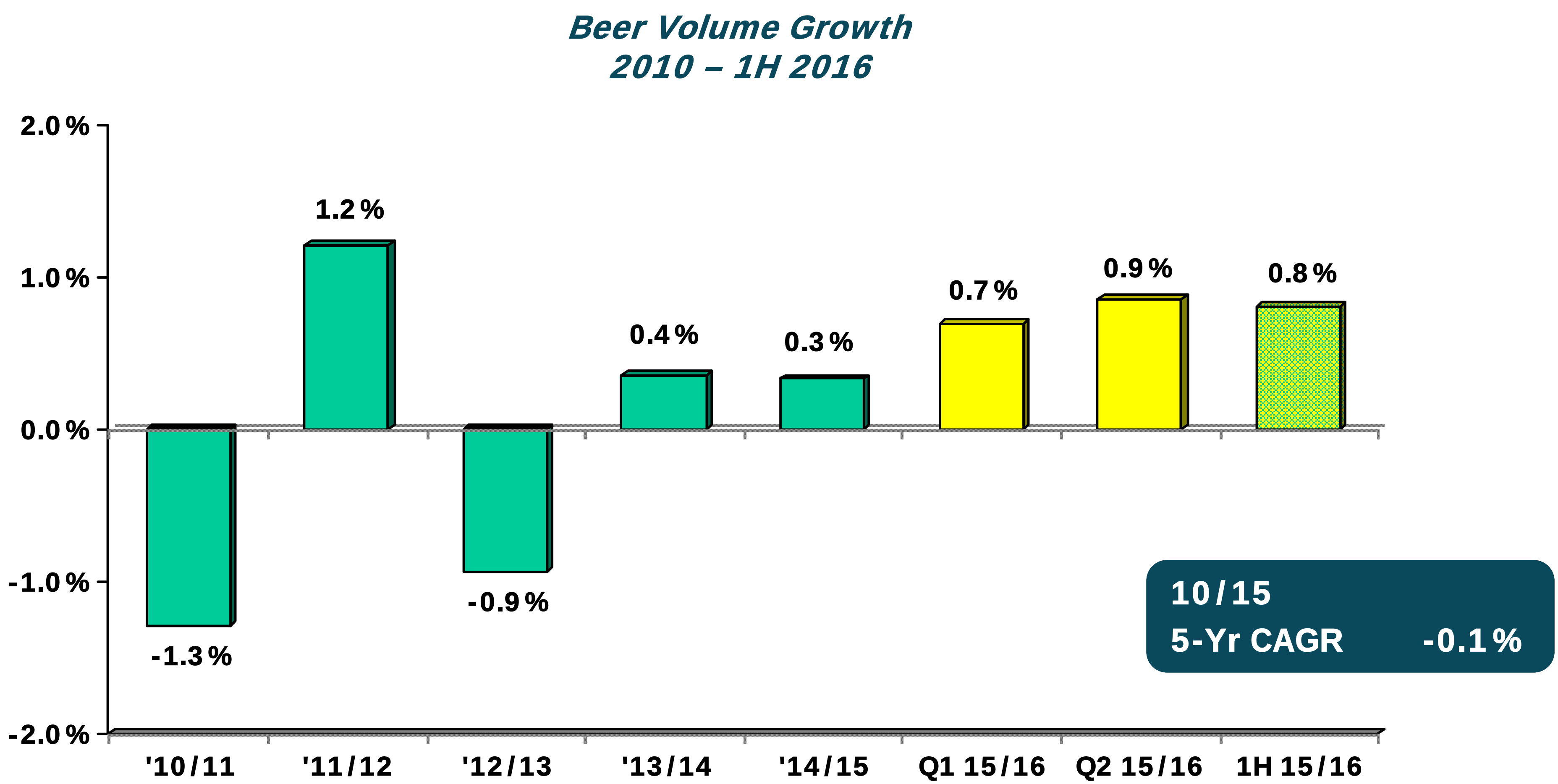
Milk Volume Growth
2010 – 1H 2016



Source: Beverage Marketing Corp.

The beer category has experienced lackluster performance over the last five years

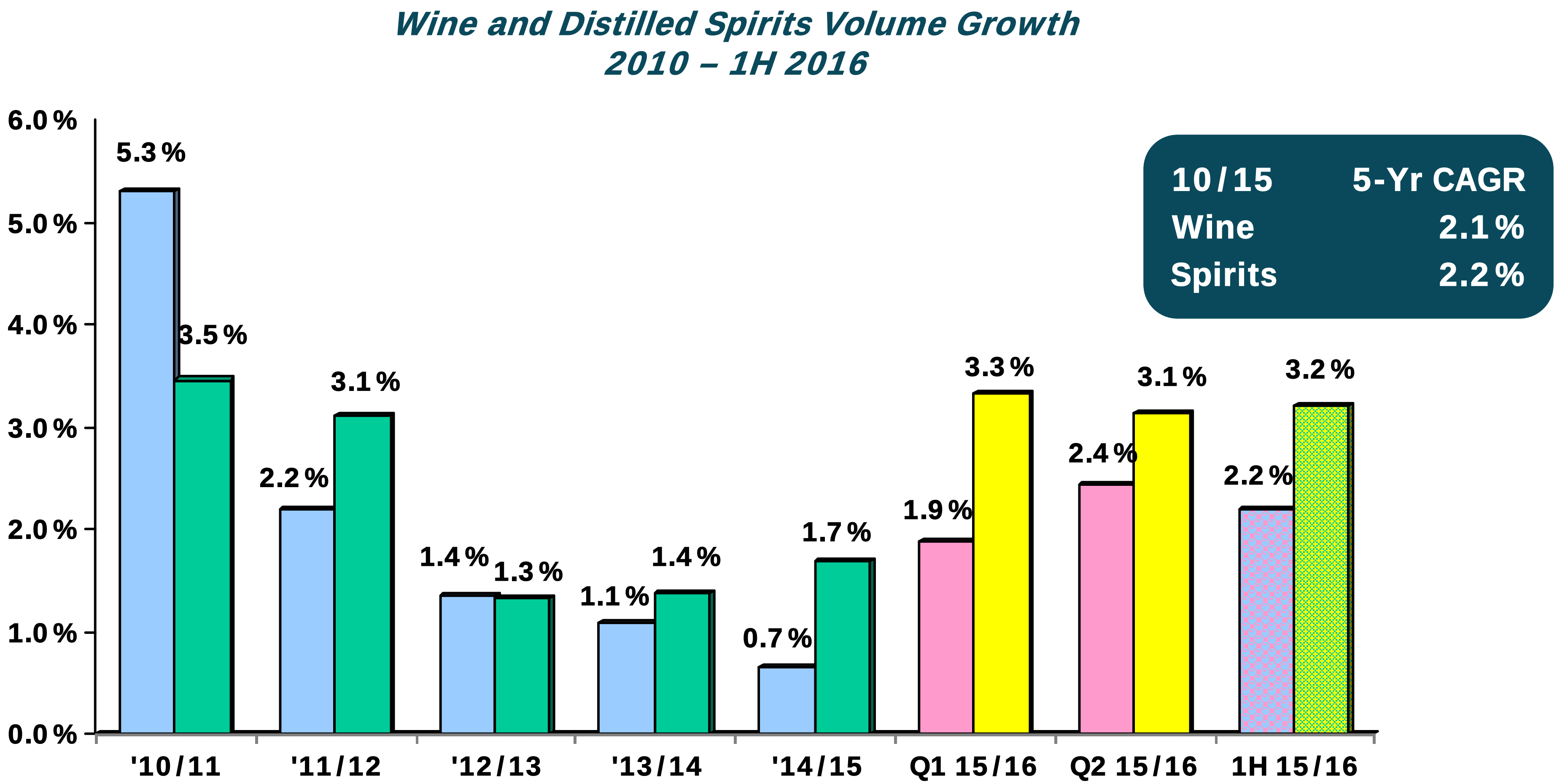
- Craft beers have been the category's greatest bright spot



Source: Beverage Marketing Corp.

Wine and spirits have experienced consistent growth in recent years

- Both have outperformed beer over the last five years



Source: Beverage Marketing Corporation

The Agenda

- Overview of U.S. Beverage Market
- ***U.S. Bottled Water Market***
- Projections

BEVERAGE MARKETING CORPORATION

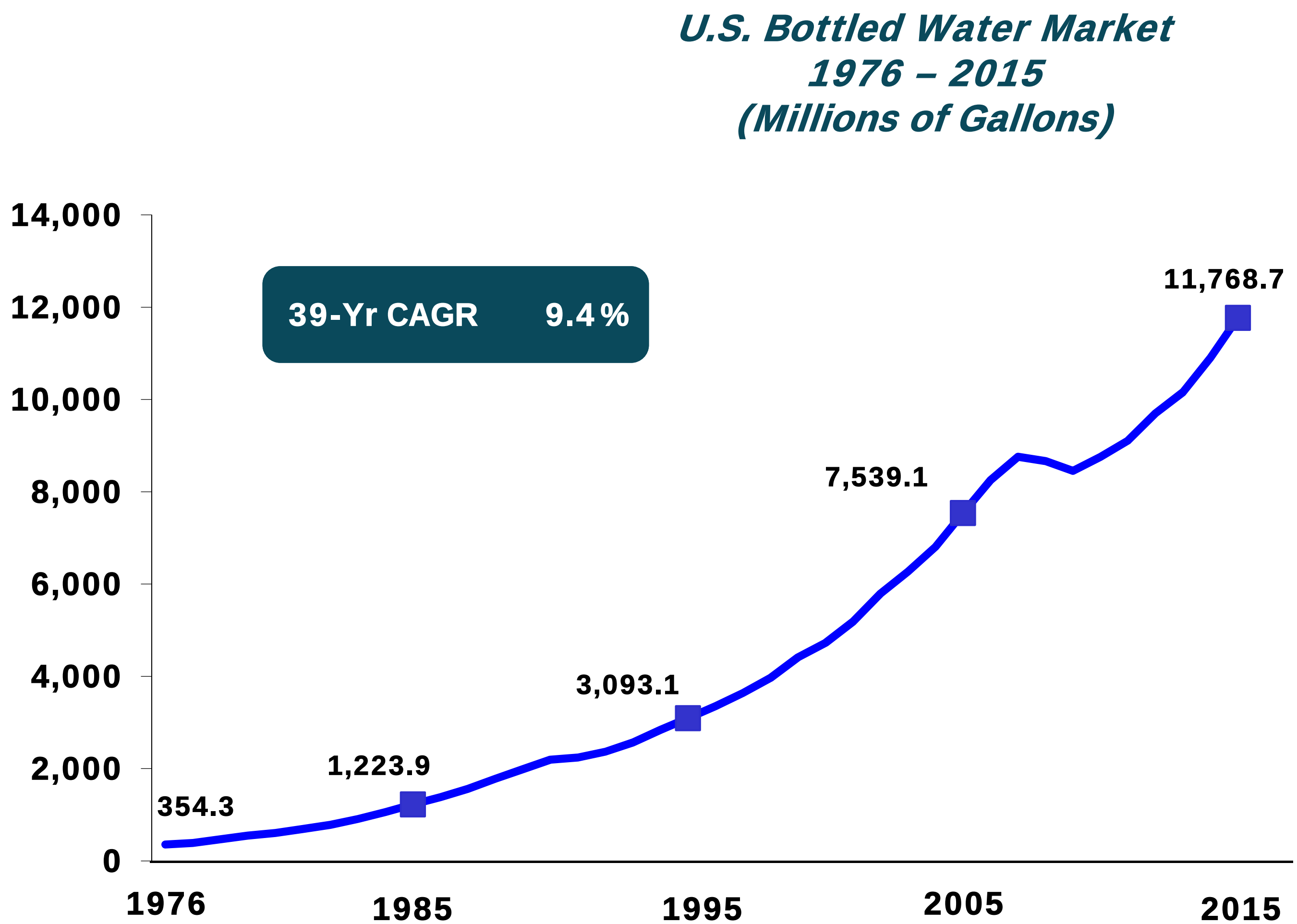
State of the Industry

Bottled Water Headlines

- Most successful mass-market beverage category in the U.S.
- Every segment has grown in each of the last three years, and are all growing again in 2016
- Projections show bottled water will surpass CSDs by the end of 2016 or beginning of 2017
- With exception of retail PET segment, pricing is strong
- Pricing is at all-time low for retail PET
- Category is best positioned since pre-recession

Over the last 40 years bottled water has been the biggest success story of the refreshment beverage marketplace

- Since 1976, bottled water has grown at a CAGR of 9.4%, outdistancing every other beverage category



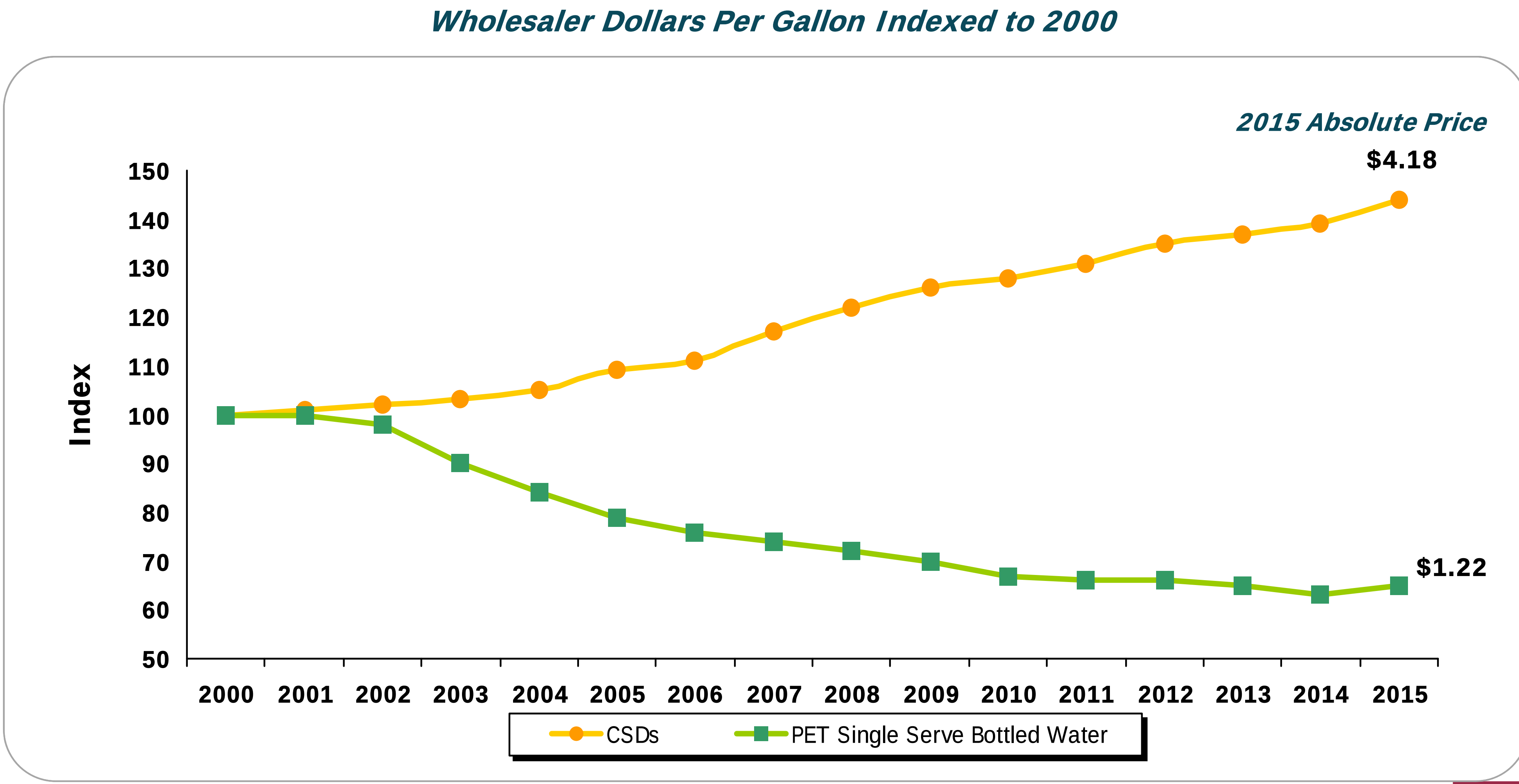
Bottled Water Per Capita

Year	Gallons
1976	1.6
1985	5.1
1995	11.7
2005	25.4
2015	36.6

Source: Beverage Marketing Corporation

BEVERAGE MARKETING CORPORATION

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

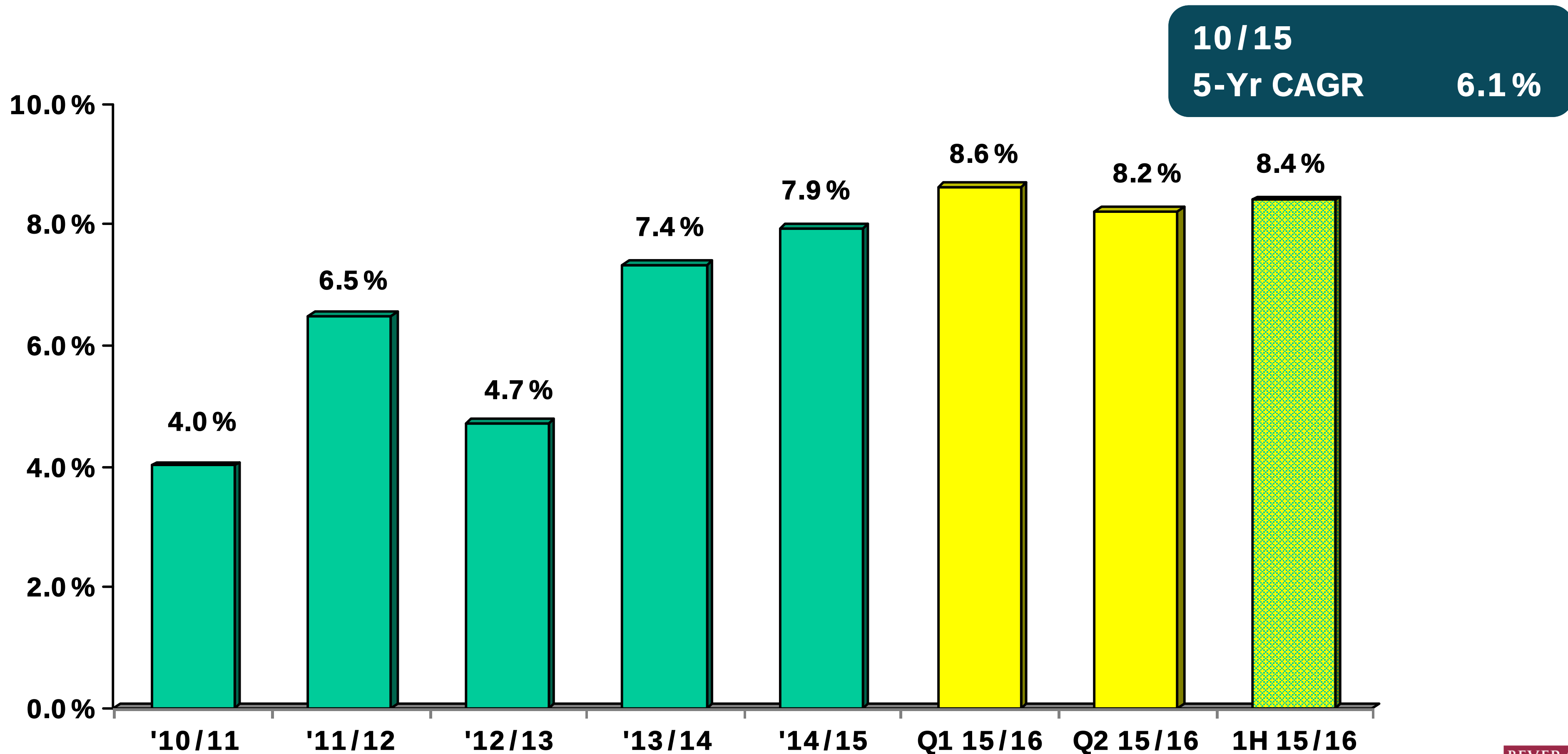


Source: Beverage Marketing Corp.

Bottled water volume has rebounded since the depths of the recession with accelerating growth in recent years

- The category is aided by its positioning as the ultimate health beverage
- Additionally, it has gotten a boost from aggressive pricing

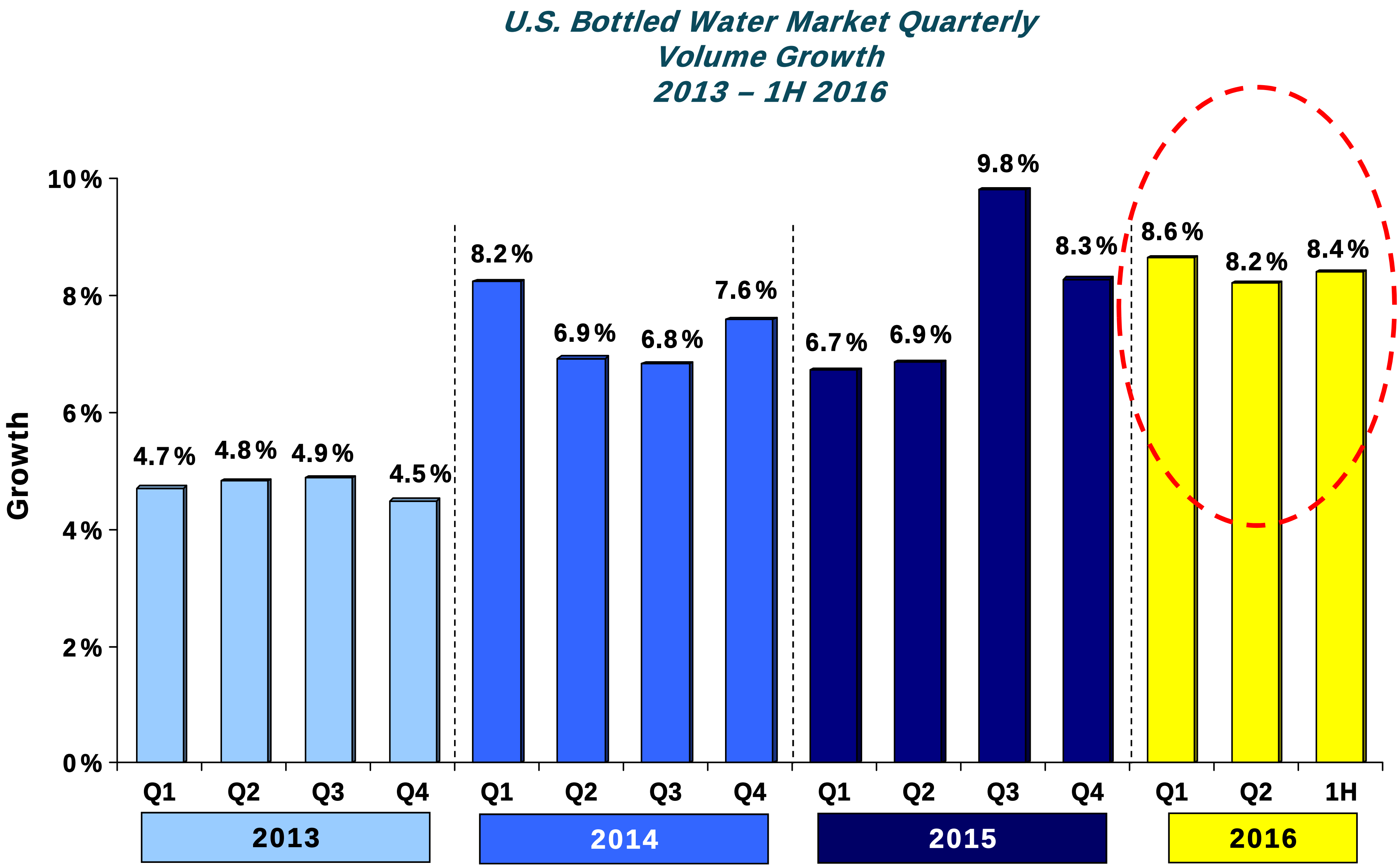
Bottled Water Volume Growth
2010 – 1H 2016



Source: Beverage Marketing Corp.

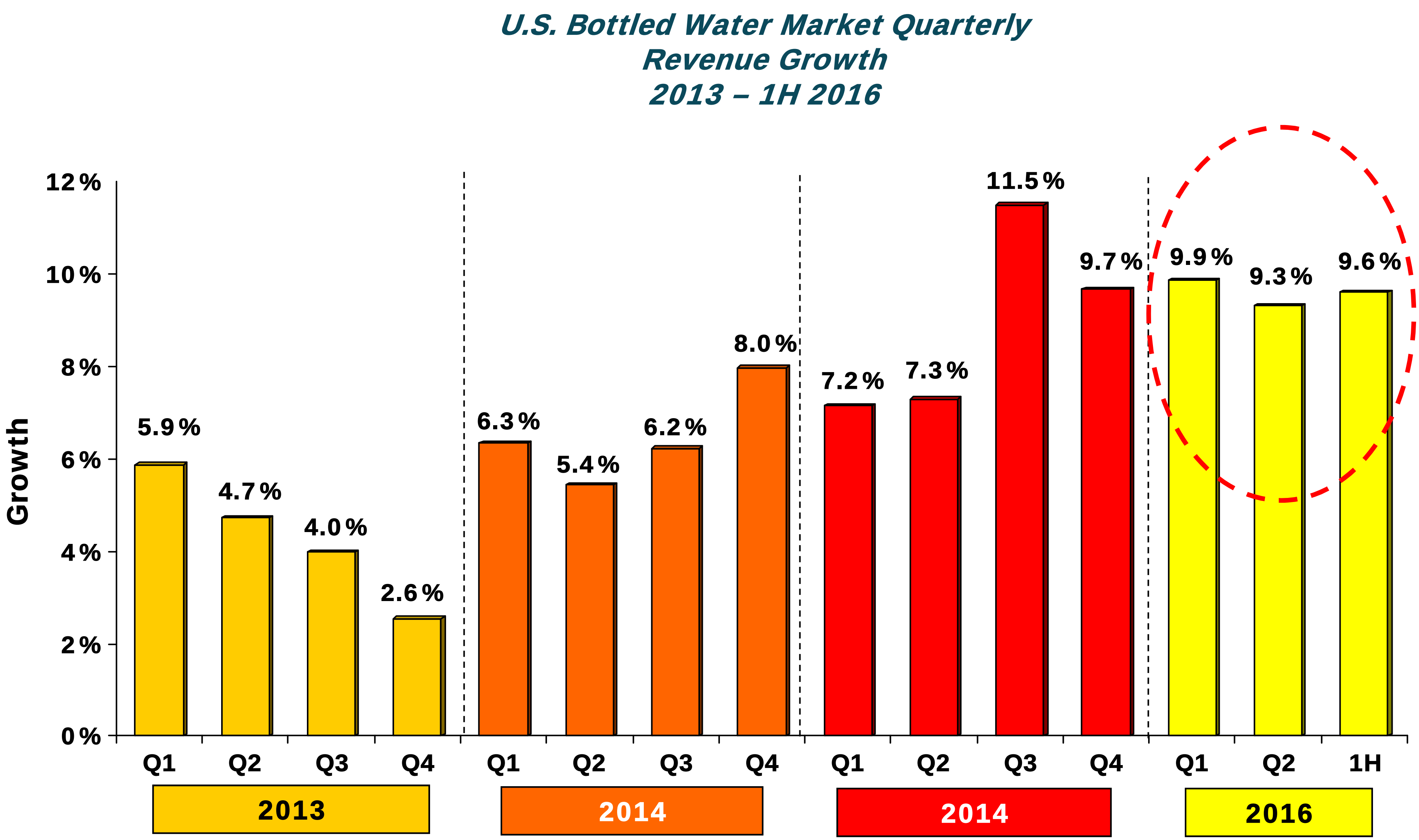
On a quarterly basis, the bottled water category has shown consistently strong growth since 2011

- Growth in the first half of 2016 has been relatively consistent with 2015 growth



Source: Beverage Marketing Corporation

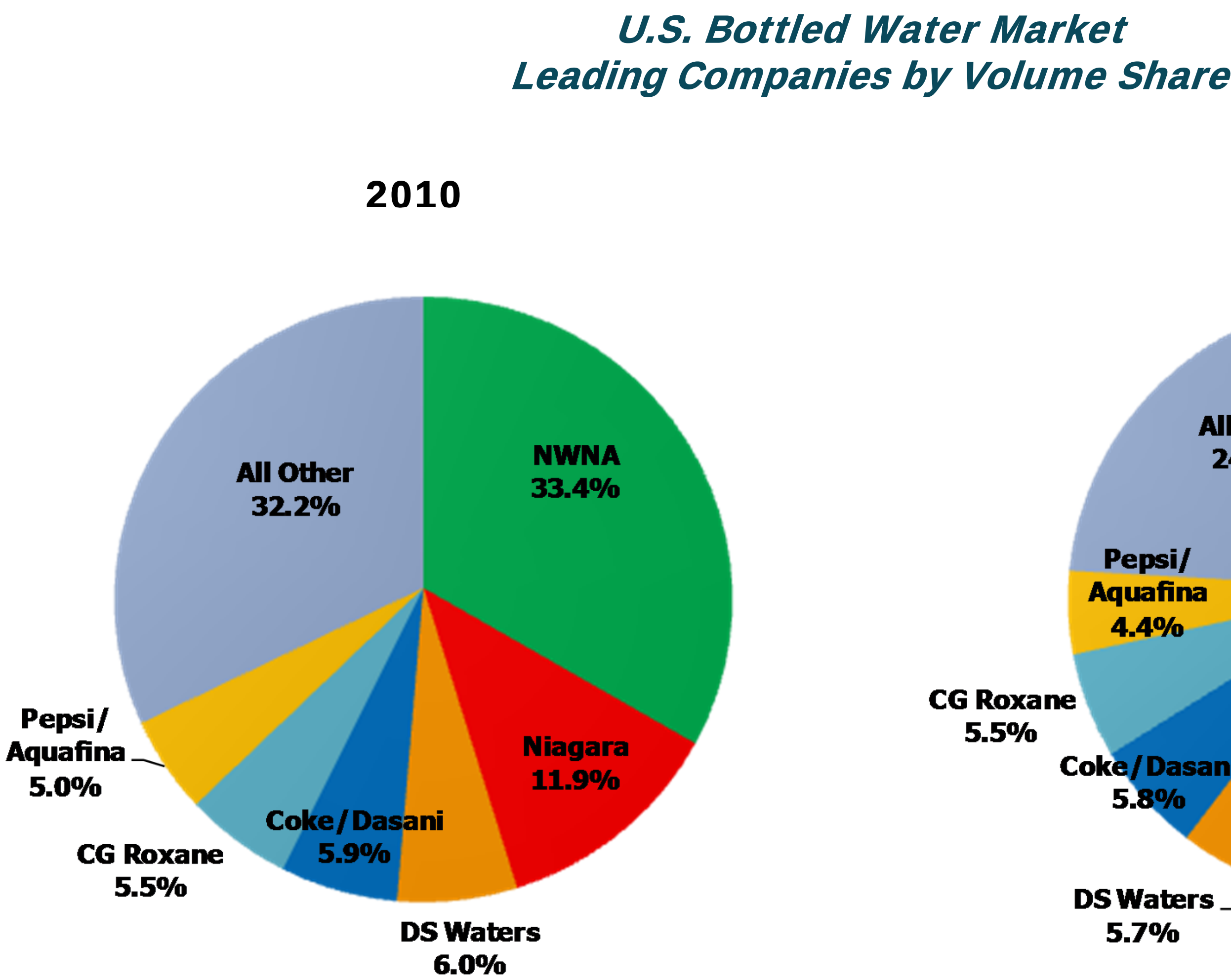
Total bottled water revenues in 1H16 have grown at 1% greater rate than volume



Source: Beverage Marketing Corporation

Nestle Waters remains the leading bottled water company with a 30% share in 2015

- Private label powerhouse Niagara has gained the greatest share in the last five years



Source: Beverage Marketing Corporation

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

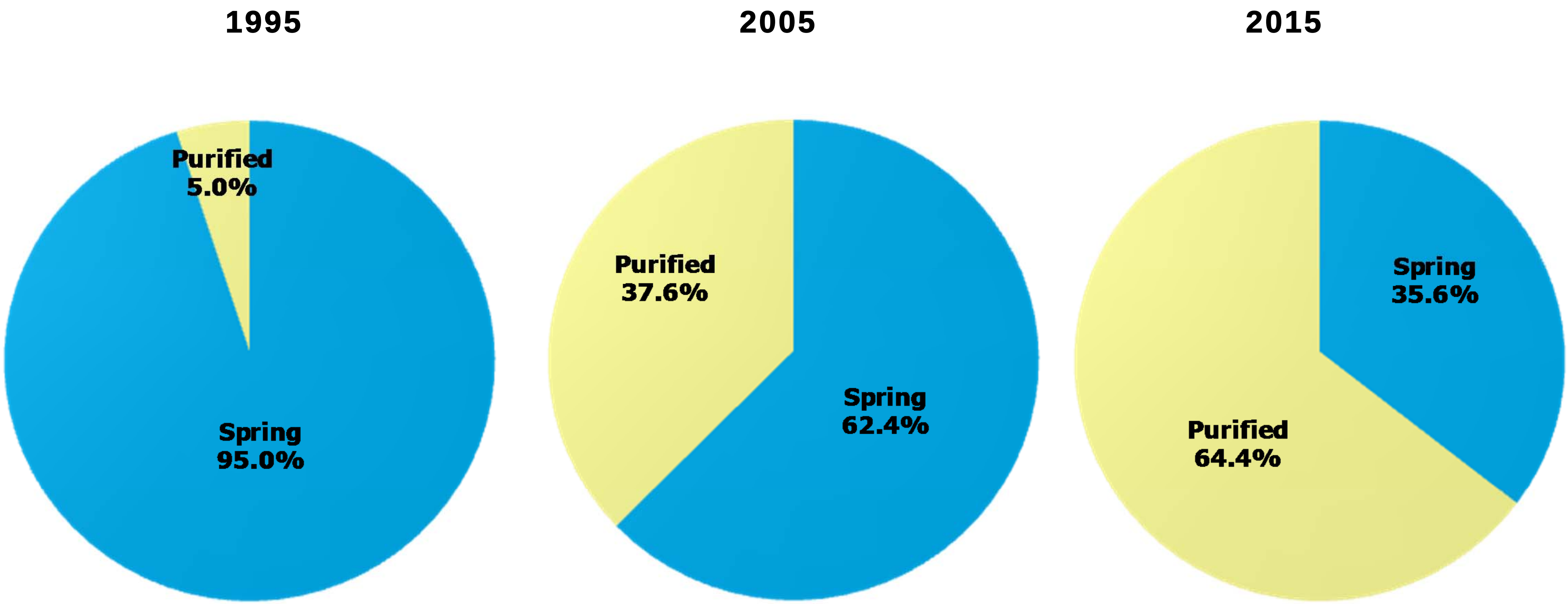
- Every-day pricing has been as low as $2.49-2.99 for 24-packs at retail

Advances in Supply Chain Costs

- High-speed bottle filling in a range of 16-18 million cases per year per line
- Stable resin costs, which are likely to continue at least through 2017
- Continued bottle light-weighting

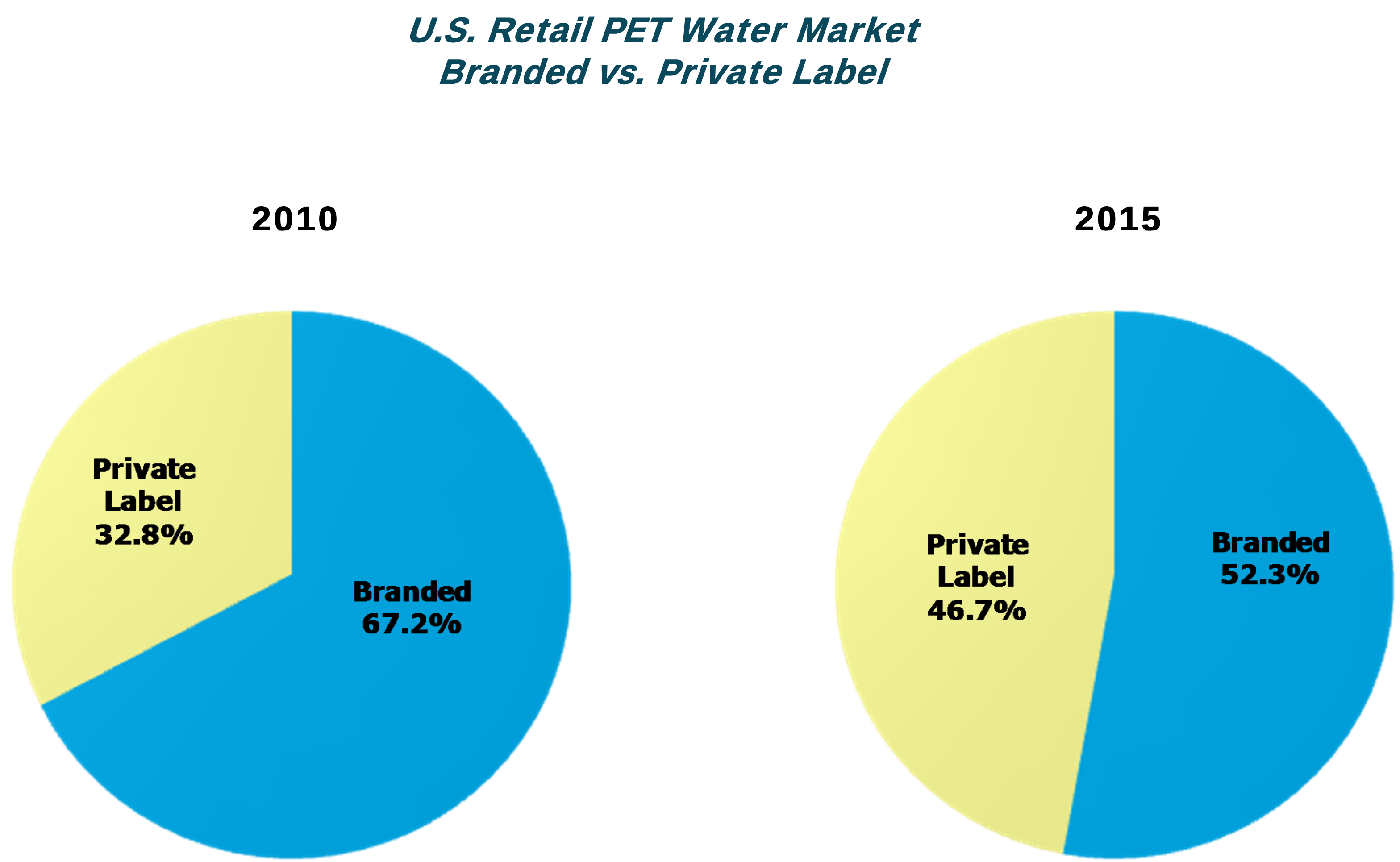
The growth of private label, in part, has resulted in purified water now outselling spring water in retail PET category

Retail PET Bottled Water by Source
1995 – 2015



Source: Beverage Marketing Corporation

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



Source: Beverage Marketing Corporation

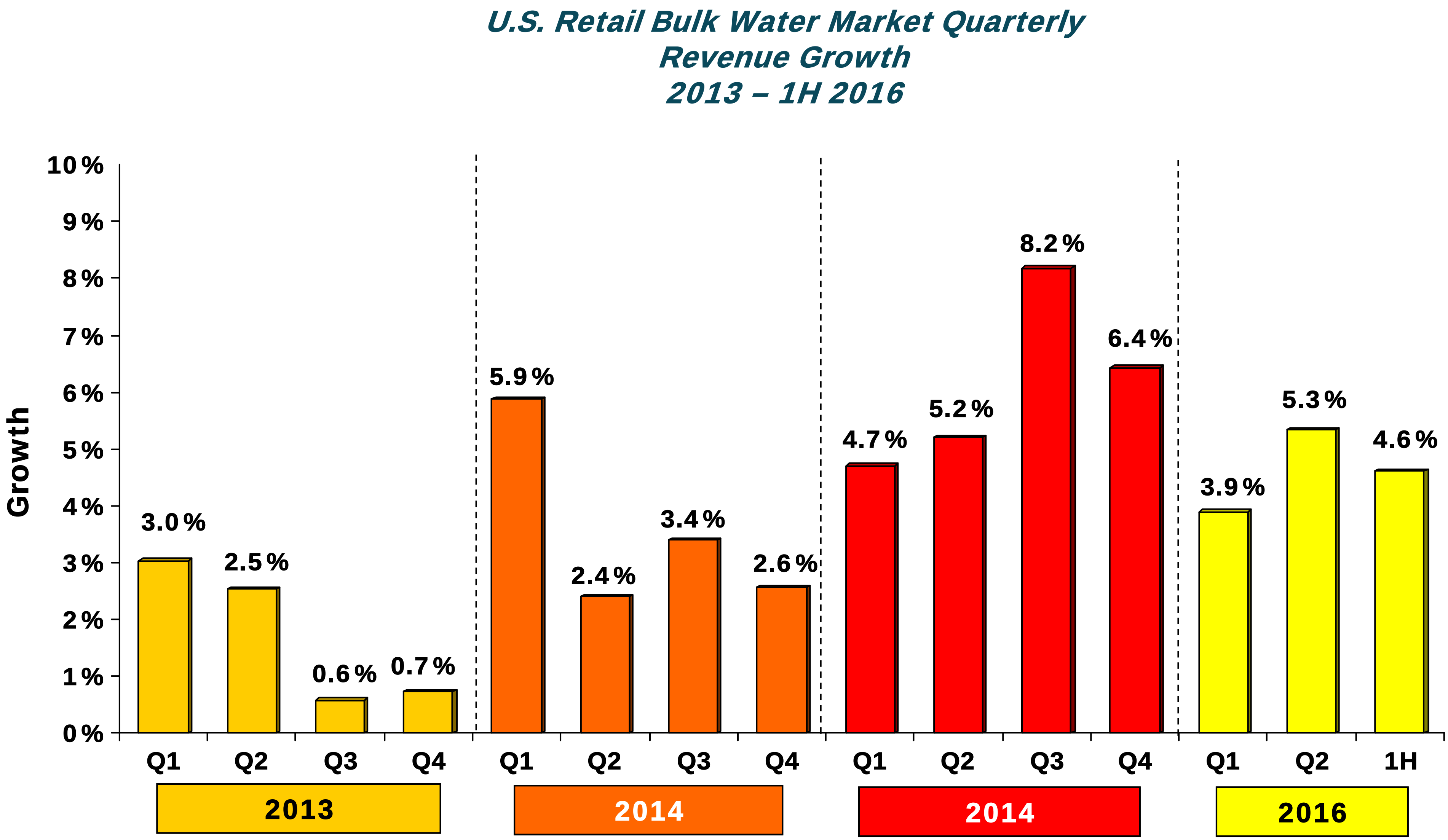
Value-added waters of all types are now proliferating and gaining traction in all parts of the country

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

Alkaline Water	Essence Water	Structured Water	Plant Water
			
Essentia	*Hint*	*Penta*	*Trader Joe*

BEVERAGE MARKETING CORPORATION

Revenue continues to grow faster than volume in the retail bulk segment

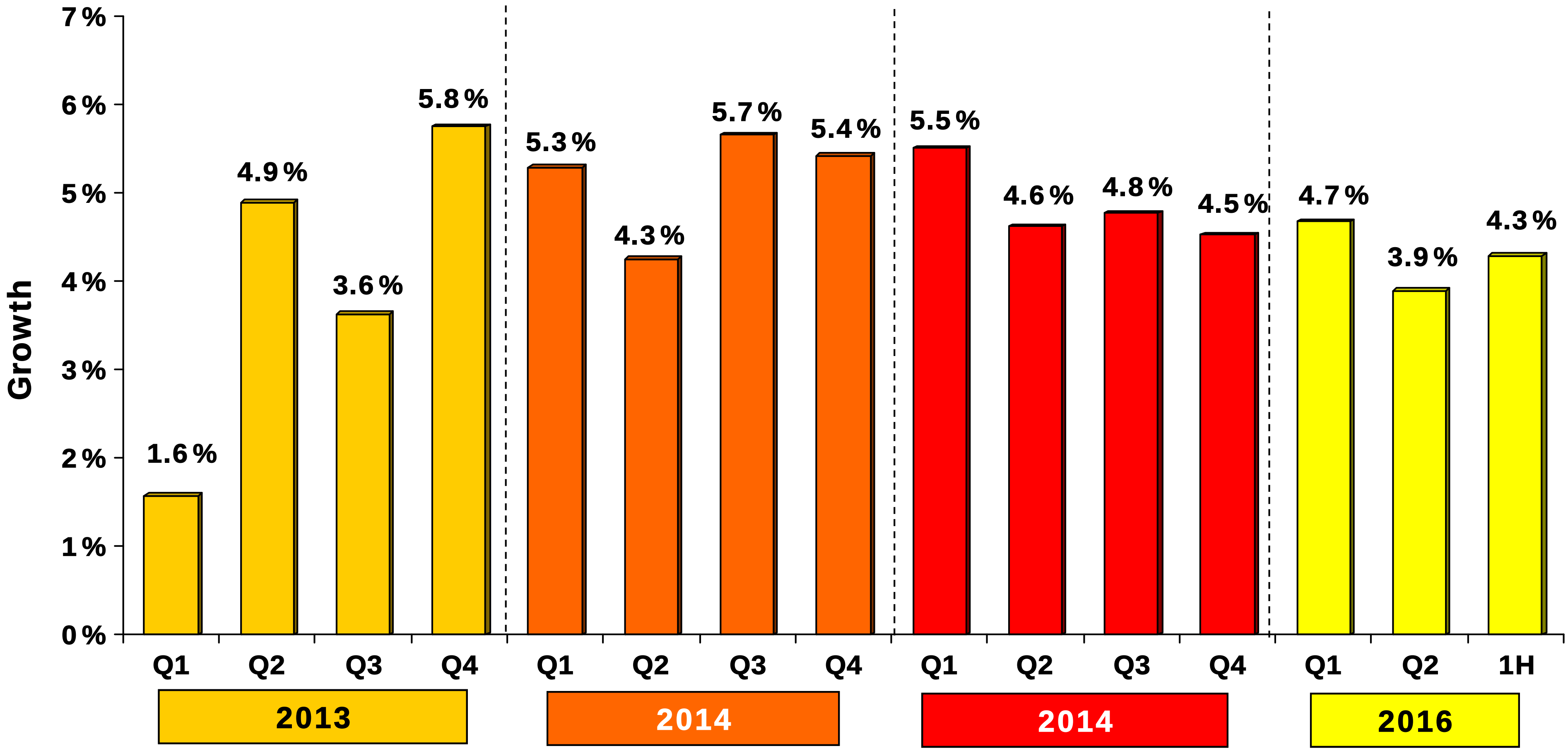


Source: Beverage Marketing Corporation

HOD revenue has generally grown slightly faster than volume, but in the first half of 2016 pricing and volume have increased at a similar pace

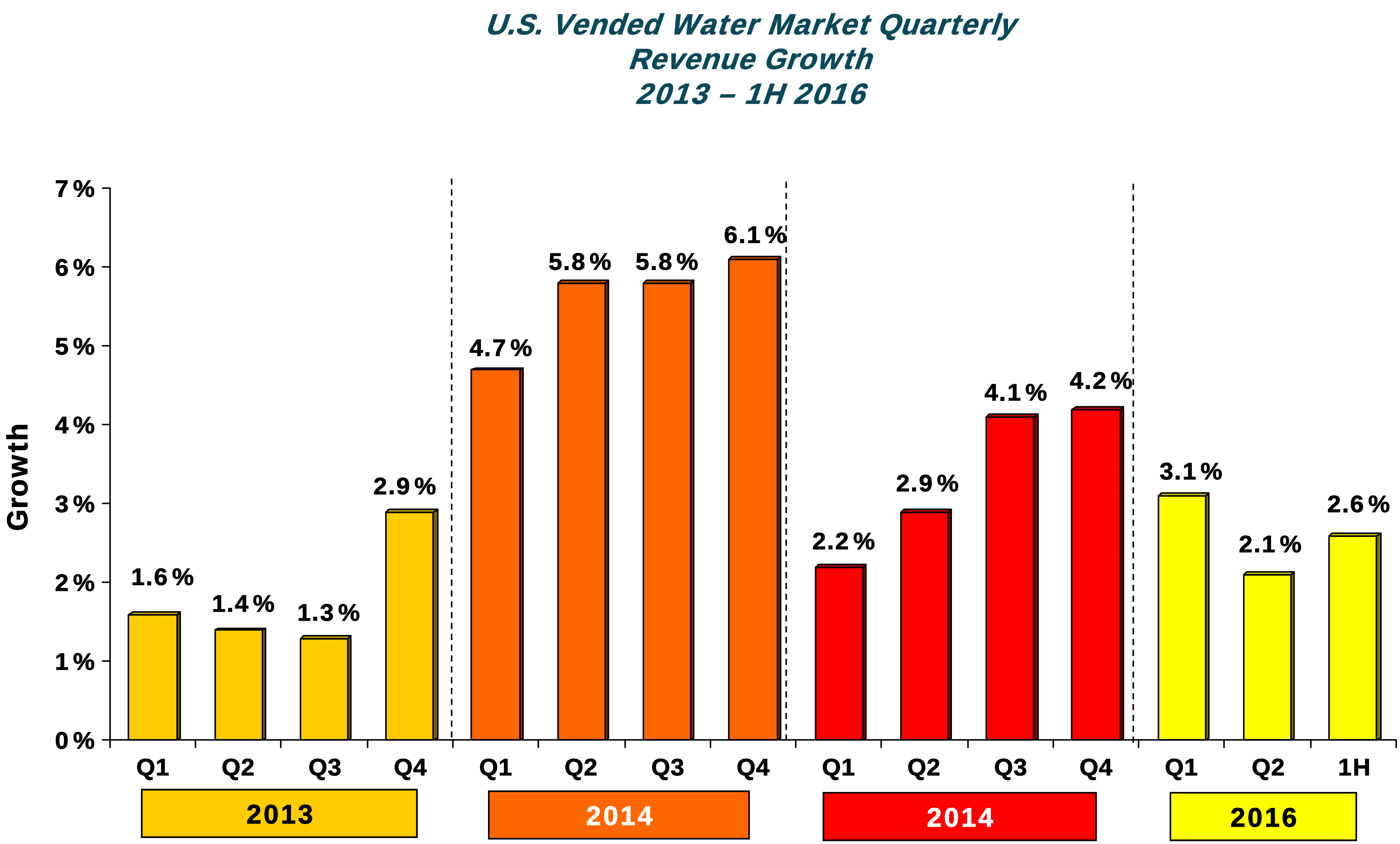
- Rising input costs have brought about slightly higher prices

U.S. HOD Water Market Quarterly Revenue Growth 2013 – 1H 2016



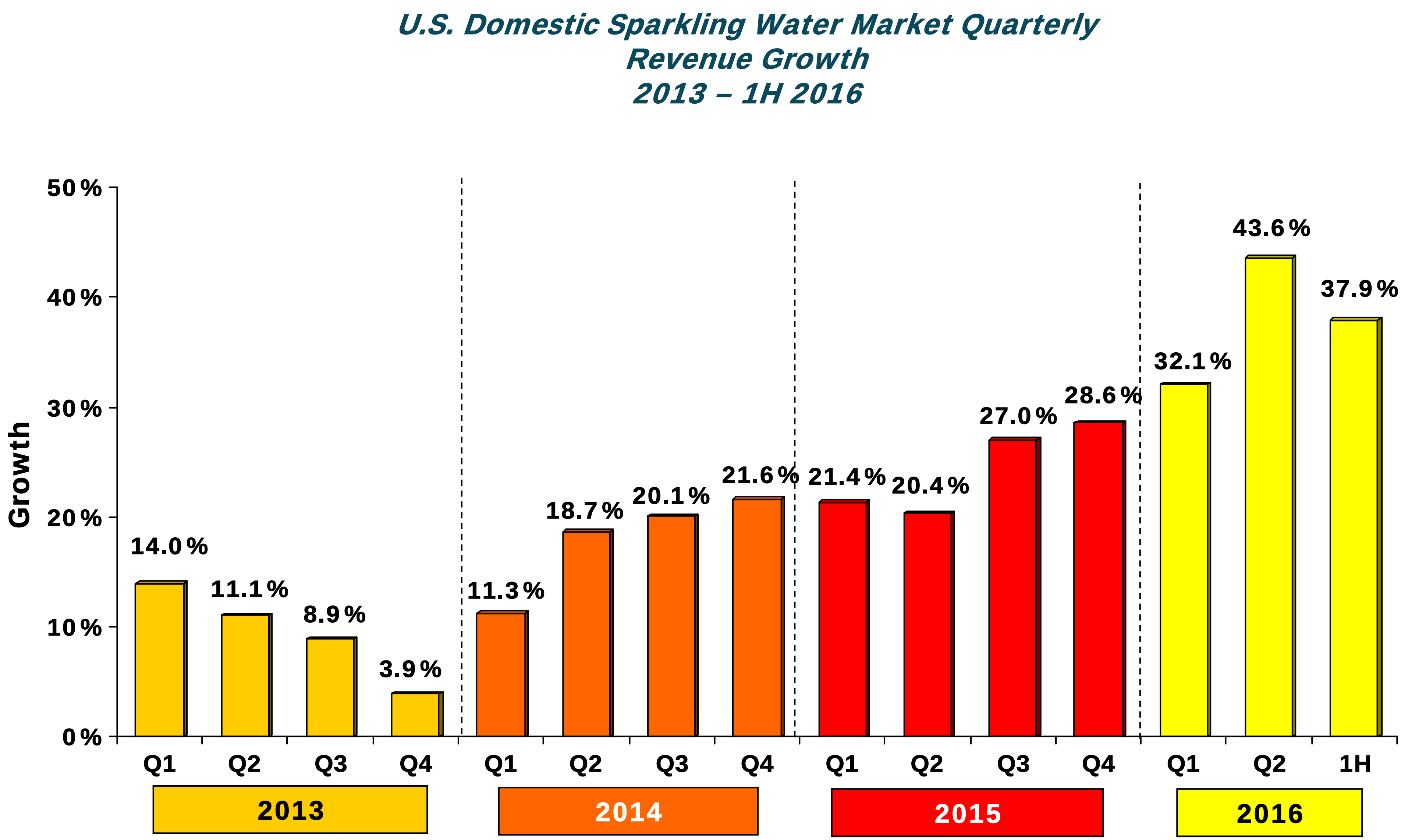
Source: Beverage Marketing Corporation

Revenue growth has slowed for vended waters and was essentially even with volume growth for the first half of 2016



Source: Beverage Marketing Corporation

Revenue is generally outpacing volume growth for domestic sparkling water in the first half of 2016



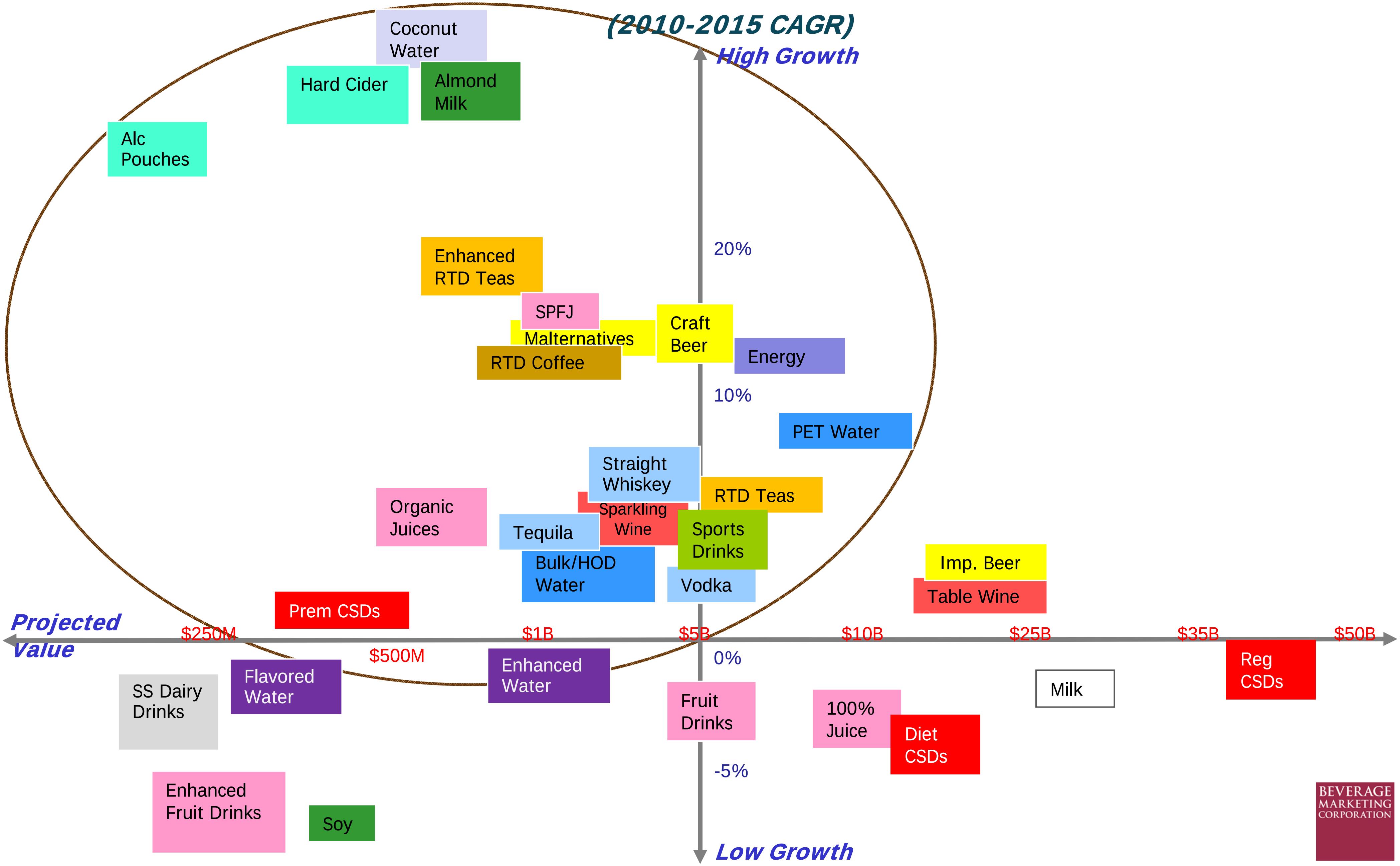
Source: Beverage Marketing Corporation

The Agenda

- Overview of U.S. Beverage Market
- U.S. Bottled Water Market
- ***Projections***

BEVERAGE
MARKETING
CORPORATION

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



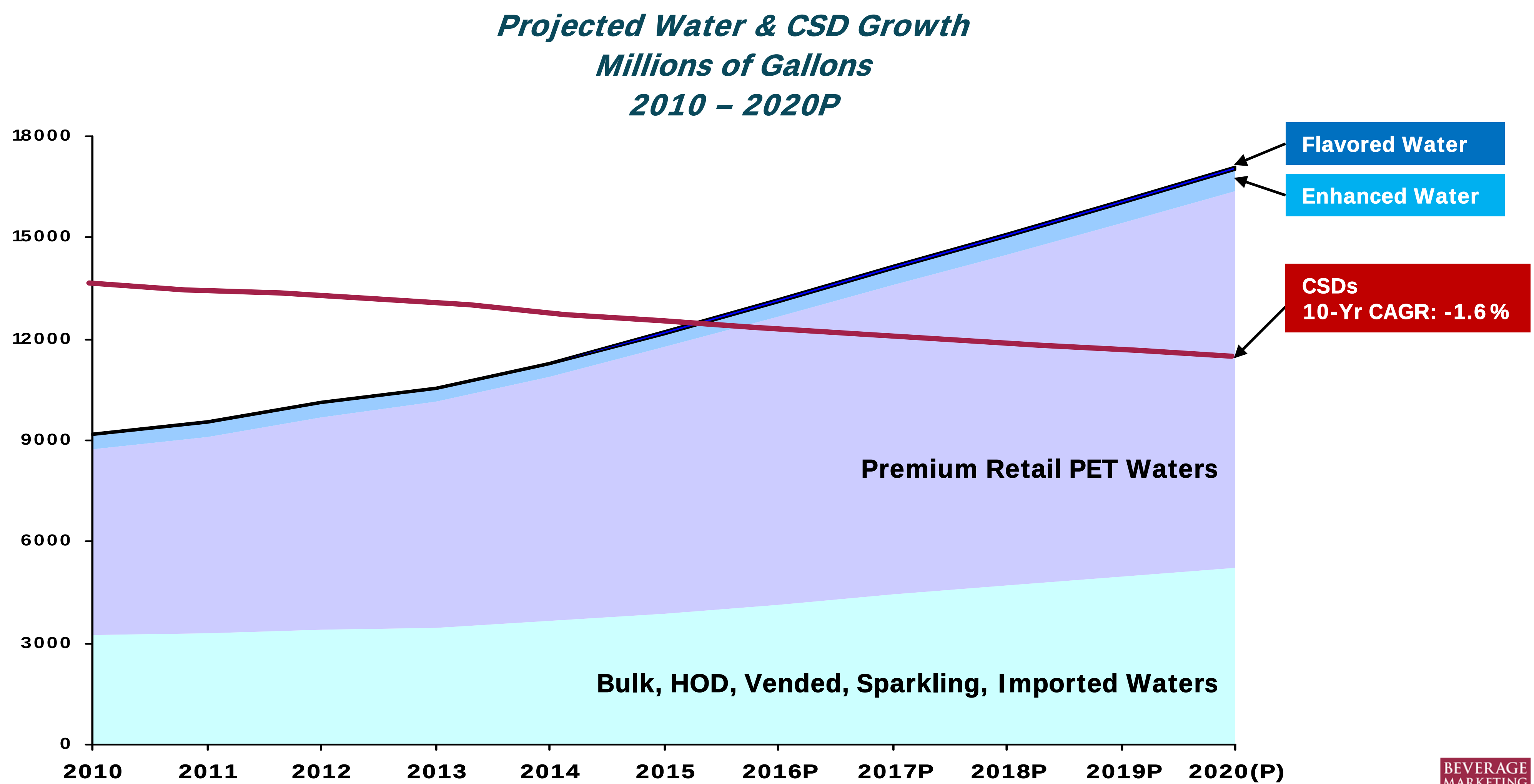
2016 and 2017 Liquid Refreshment Beverage Projections

LRB Category	2016(P)	2017(P)
Value Added Water	+14.0%	+15.9%
RTD Coffee	+11.5%	+11.0%
Bottled Water	+7.8%	+7.3%
Energy Drinks	+7.5%	+7.0%
RTD Tea	+3.7%	+4.1%
Sports Drinks	+2.5%	+3.2%
Carbonated Soft Drinks	-1.7%	-1.5%
Fruit Beverages	-2.5%	-0.9%
TOTAL LRBs	+2.7%	+3.0%

P: Projected
Source: Beverage Marketing Corporation

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

- Bottled water's solid steady growth coupled with the continued slide of carbonated soft drink sales are responsible for the shift in consumption patterns



P: Projected
Source: Beverage Marketing Corporation

Thank You

Beverage Marketing Corporation

- Consulting
- Research
- Advisory Services

ghemphill@beveragemarketing.com

BEVERAGE MARKETING CORPORATION