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 Shifting Beverage Landscape

Agenda

I. Market Overview

II. Key Trends

III. Category Updates

IV. Projections
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.
**The Shifting Beverage Landscape**

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

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

*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

Annual U.S. Consumer Sentiment Index
1995 - 2015

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
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 - 2015

---

**Change**

- 2010: 0.8%
- 2011: 0.9%
- 2012: 2.3%
- 2013: 1.5%
- 2014: 1.5%
- 2015(P): 1.1%
- 10/15 CAGR: 2.7%

---

*Volume* | *Wholesale Revenue*
---|---
0.8% | 0.9%
0.0% | 2.3%
1.5% | 1.5%
1.5% | 1.1%
1.7% | 2.7%
2.7% | 2.7%

**P:** Preliminary

*Source: Beverage Marketing Corp.*
In 2015, refreshment beverages led by bottled water and some niche categories are growing fastest.
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSDs</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Fruit Bevs</td>
<td>-2.1%</td>
</tr>
<tr>
<td>RTD Coffee</td>
<td>18.8%</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>10.1%</td>
</tr>
<tr>
<td>RTD Tea</td>
<td>6.1%</td>
</tr>
<tr>
<td>Value Added Waters</td>
<td>5.8%</td>
</tr>
<tr>
<td>Sports Bevs</td>
<td>5.5%</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

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

- Beer: 0.5%
- Wine: 2.5%
- Spirits: 2.0%
- Total Beverage Alcohol: 0.8%

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**

- Milk: -1.3%
- Tea: 0.8%
- Coffee: 1.9%
- Total Traditional Beverages: 0.5%

*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 - 2015*
Over the last five years, bottled water has increased its share of stomach by more than 4 share points, capturing the undisputed #2 position.
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**

<table>
<thead>
<tr>
<th>Year</th>
<th>Health/Wellness</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/11</td>
<td>1.8%</td>
<td>0.4%</td>
</tr>
<tr>
<td>11/12</td>
<td>2.8%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>12/13</td>
<td>1.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>13/14</td>
<td>3.0%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>14/15P</td>
<td>4.5%</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

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
The beverage industry has committed to a reduction of 20% of calories from beverages by 2025 through the Balanced Calories Initiative.

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**

- Premium juice (cold pressed)
- Plant-based beverages
- Value-added dairy
- Energy drinks
- At-home dispensing

**Investments**

- Monster Energy
- Suja
- China Culiangwang Beverage Holdings (Pending)
- 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**

**1997**

- Full- or mid-calorie refreshment, energy, indulgence: 76%
- Zero- or low-calorie beverages (<40 calories per 8oz), active hydration, healthy juices: 24%

**Today**

- Full- or mid-calorie refreshment, energy, indulgence: 51%
- Zero- or low-calorie beverages (<40 calories per 8oz), active hydration, healthy juices: 49%

Source: Beverage Marketing Corporation; PepsiCo
The Shifting Beverage Landscape

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
- Fortified Fuel
- Flavorful Health
- Portable Hydration
- Purifying

1990s
- Pick me up
- Social & Fun
- Active & Portability
- Sweet Indulgence
- Healthy Alternative
- Fortified Fuel
- Flavorful Health
- Portable Hydration
- Purifying
- Mood enhancement

2000s
- 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

Today
The Shifting Beverage Landscape

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
• Fresh-packed Juice

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-packaged 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.

**New Beverage Product Introductions 2001 - 2015**

Source: Beverage Marketing Corp.; Mintel
State of Emerging Small Brands

- Craft & artisanal products trending upward
- Consumers seek new experiences
- More startups enter industry
The Shifting Beverage Landscape

Most emerging categories have health and wellness attributes and/or promise specific functional benefits

Select Offerings and Categories of Today’s Emerging Beverages

### Functional
- *nawgan*
- *BLISS*
- *Mamma Chia*
- *neuro*

### Chia
- *Mama Chia*
- *Chiavie*
- *Stumptown Cold Brew Coffee*
- *Vertical*

### Cold Brew
- *Red Stained Glass*
- *Oasis*
- *Black*
- *Vita Coco*

### Plant-based Water
- *WTRMLN WTR*
- *KIRKLAND SIGNATURE*
- *Vertical*
- *Kombucha*

### Probiotic
- *KEVITA*
- *Kombucha*
- *GoodBelly*
- *Lemon Cayenne*

### Shots
- *5-hour ENERGY*
- *PAIN*
- *First Aid*
- *Vita Coco*

### Coconut Water
- *Zico*
- *KIRKLAND SIGNATURE*
- *Organic Raw Kombucha*
- *KIRKLAND SIGNATURE*

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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.
State of Big Brands

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

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**Big brands in Decline in 2014**

**The Shifting Beverage Landscape**

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**The Shifting Beverage Landscape**

**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?*

<table>
<thead>
<tr>
<th>Category</th>
<th>Millions of Gallons</th>
<th>2005/ 15P CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottled Water</td>
<td>4,163</td>
<td>4.5%</td>
</tr>
<tr>
<td>RTD Tea</td>
<td>795</td>
<td>6.6%</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>476</td>
<td>14.7%</td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>274</td>
<td>2.0%</td>
</tr>
<tr>
<td>Value-Added Water</td>
<td>136</td>
<td>3.6%</td>
</tr>
<tr>
<td>RTD Coffee</td>
<td>66</td>
<td>10.2%</td>
</tr>
<tr>
<td>Fruit Beverages</td>
<td>-1,041</td>
<td>-2.9%</td>
</tr>
<tr>
<td>CSD</td>
<td>-2,656</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Total LRB</td>
<td>2,212</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/11</td>
<td>-1.8%</td>
</tr>
<tr>
<td>11/12</td>
<td>-1.8%</td>
</tr>
<tr>
<td>12/13</td>
<td>-3.2%</td>
</tr>
<tr>
<td>13/14</td>
<td>-1.0%</td>
</tr>
<tr>
<td>14/15P</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>

CSD Market Growth

2011 - 2015P

**5-Yr CAGR**

-1.8%
As the search for a good-tasting, natural sweetener continues, some brands have begun to use stevia but taste issues remain.

**Stevia Sweetened CSDs**
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.

[Images of different beverage packaging sizes and brands, including Coca-Cola, Pepsi, Dr Pepper, and Hansen's, with captions indicating smaller sizes and reduced caloric intake.]
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.

Source: Beverage Marketing Corp.
**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 approaches nearly 12 billion gallons

**U.S. Bottled Water Market 2010 - 2015P**

<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/11</td>
<td>4.0%</td>
</tr>
<tr>
<td>11/12</td>
<td>6.2%</td>
</tr>
<tr>
<td>12/13</td>
<td>4.7%</td>
</tr>
<tr>
<td>13/14</td>
<td>7.3%</td>
</tr>
<tr>
<td>14/15P</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

**Bottled Water Market Growth 2011 - 2015P**

- 10/15P CAGR 6.0%

*P: Preliminary  
Source: Beverage Marketing Corporation*
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

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
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*
The Shifting Beverage Landscape

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.
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**

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions of Gallons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.6</td>
</tr>
<tr>
<td>2011</td>
<td>3.4</td>
</tr>
<tr>
<td>2012</td>
<td>3.3</td>
</tr>
<tr>
<td>2013</td>
<td>3.2</td>
</tr>
<tr>
<td>2014</td>
<td>3.1</td>
</tr>
<tr>
<td>2015P</td>
<td>3.1</td>
</tr>
</tbody>
</table>

**Fruit Beverage Market Growth 2011 - 2015P**

<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/11</td>
<td>-3.4%</td>
</tr>
<tr>
<td>11/12</td>
<td>-4.1%</td>
</tr>
<tr>
<td>12/13</td>
<td>-1.9%</td>
</tr>
<tr>
<td>13/14</td>
<td>-2.8%</td>
</tr>
<tr>
<td>14/15P</td>
<td>-2.1%</td>
</tr>
</tbody>
</table>

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
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*  

![Chart showing CSD and RTD Tea Volume by Dispensed vs. Packaged from 2000 to 2014. The chart indicates a declining trend, with dispensed volume showing a CAGR of -0.3% and packaged volume showing a CAGR of -1.4%.]
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
- Mtn Dew Baja Blast and Sangrita Blast
- Stubborn Soda
- Patio
New dispensing systems from Coke and Pepsi are offering consumers more variety particularly in QSR locations
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
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

<table>
<thead>
<tr>
<th>LRB Category</th>
<th>2016(P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RTD Coffee</td>
<td>+12.0% to +13.0%</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>+7.0% to +8.0%</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>+5.5% to +6.5%</td>
</tr>
<tr>
<td>RTD Tea</td>
<td>+5.0% to +6.0%</td>
</tr>
<tr>
<td>Value Added Water</td>
<td>+4.0% to +5.0%</td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>+3.0% to +4.0%</td>
</tr>
<tr>
<td>Carbonated Soft Drinks</td>
<td>-0.7% to -1.2%</td>
</tr>
<tr>
<td>Fruit Beverages</td>
<td>-1.0% to -2.0%</td>
</tr>
<tr>
<td><strong>TOTAL LRBs</strong></td>
<td>+1.9% to +2.3%</td>
</tr>
</tbody>
</table>
Thank You

Beverage Marketing Corporation

- Strategic Associates
  - Research
  - Advisors