The Packaging Conference

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

February 6, 2017
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
All data in this presentation is supplied by:

With a special packaging module is by:
Agenda

- Market Overview
- Key Trends
- Category Updates
- Projections
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.
The Shifting Beverage Landscape

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>-0.1%</td>
</tr>
<tr>
<td>2012</td>
<td>1.6%</td>
</tr>
<tr>
<td>2013</td>
<td>-0.1%</td>
</tr>
<tr>
<td>2014</td>
<td>1.1%</td>
</tr>
<tr>
<td>2015</td>
<td>1.7%</td>
</tr>
<tr>
<td>2016(P)</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refreshment</td>
<td>2.9%</td>
</tr>
<tr>
<td>Beverages</td>
<td>0.3%</td>
</tr>
<tr>
<td>Traditional</td>
<td>0.1%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Tap Water</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSDs</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Fruit Bevs</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Value Added Waters</td>
<td>10.1%</td>
</tr>
<tr>
<td>RTD Coffee</td>
<td>9.5%</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>6.5%</td>
</tr>
<tr>
<td>Sports Bevs</td>
<td>4.2%</td>
</tr>
<tr>
<td>RTD Tea</td>
<td>3.7%</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

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

- Beer: -0.2%
- Wine: 1.2%
- Spirits: 1.4%
- Total Beverage Alcohol: 0.1%

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.
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 - 2016*
Over the last five years, bottled water has increased its share of stomach by more than 5 share points, capturing the undisputed #1 position.
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

<table>
<thead>
<tr>
<th>Segment</th>
<th>5-Yr CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Wellness*</td>
<td>+3.3%</td>
</tr>
<tr>
<td>All Other**</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Total Market</td>
<td>+0.9%</td>
</tr>
</tbody>
</table>

* 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 - 2016

*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 gap between men, which gives them more purchasing power

### Female-to-Male Earnings* Ratio

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Ratio (%)</td>
<td>64.6%</td>
<td>66.0%</td>
<td>68.7%</td>
<td>69.9%</td>
<td>71.5%</td>
<td>71.4%</td>
<td>72.3%</td>
<td>72.0%</td>
<td>73.2%</td>
<td>73.8%</td>
<td>73.7%</td>
<td>76.6%</td>
<td>75.5%</td>
<td>76.9%</td>
<td>77.1%</td>
<td>76.9%</td>
<td>76.5%</td>
<td>78.6%</td>
<td>78.3%</td>
<td>79.6%</td>
<td>76.3%</td>
<td>76.6%</td>
<td>77.0%</td>
<td>77.0%</td>
<td>77.0%</td>
<td>77.0%</td>
<td>78.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 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

**U.S. Population* in Urban** vs. **Rural Areas**

* Share by Area

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban Share</th>
<th>Rural Share</th>
<th>Total U.S. Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>79.0%</td>
<td>21.0%</td>
<td>100% = 281.4</td>
</tr>
<tr>
<td>2010</td>
<td>80.7%</td>
<td>19.3%</td>
<td>100% = 308.8</td>
</tr>
<tr>
<td>2015</td>
<td>81.1%</td>
<td>18.9%</td>
<td>100% = 321.4</td>
</tr>
</tbody>
</table>

* Millions of people
** At least 2,500 people
Source: Beverage Marketing Corporation; United States Census Bureau

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

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

- 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

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

- **HPP Juice**
- **Cold Brew Coffee**
- **Plant-based Water**
- **Coconut Water**
- **Kombucha**
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**
- MALK
- Ripple

**Protein/ Sustenance**
- Muscle Milk
- Califia

**Probiotic**
- KeVita
- GoodBelly

**Matcha**
- Jade Monk
- Matcha Love

**Chia**
- Mamma Chia
- Chia Vie
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**

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

- 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**

<table>
<thead>
<tr>
<th>Package Type</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aseptic Pouches</td>
<td>1.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Paper</td>
<td>6.1%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Glass</td>
<td>15.1%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Plastic</td>
<td>36.5%</td>
<td>41.2%</td>
</tr>
<tr>
<td>Cans</td>
<td>40.0%</td>
<td>36.8%</td>
</tr>
</tbody>
</table>

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

Beverage Package Types Growth 2010 - 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>10/15 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aseptic</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Pouches</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Paper</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Glass</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Plastic</td>
<td>+3.8%</td>
</tr>
<tr>
<td>Cans</td>
<td>-1.2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>+0.8%</strong></td>
</tr>
</tbody>
</table>
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**

![Bar chart showing the market share of regular and diet soft drinks from 2011 to 2016P.]

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Regular</th>
<th>Diet</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/12</td>
<td>-1.1%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>12/13</td>
<td>-1.9%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>13/14</td>
<td>+0.8%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>14/15</td>
<td>-0.1%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>15/16P</td>
<td>-0.6%</td>
<td>-4.6%</td>
</tr>
<tr>
<td><strong>11/16P CAGR</strong></td>
<td><strong>-0.6%</strong></td>
<td><strong>-5.0%</strong></td>
</tr>
</tbody>
</table>

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.
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
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
### The Shifting Beverage Landscape

**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.
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

<table>
<thead>
<tr>
<th></th>
<th>Volume Share</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flavored Water</td>
<td>4.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Enhanced Water</td>
<td>0.9%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Regular PET</td>
<td>94.6%</td>
<td>84.0%</td>
</tr>
</tbody>
</table>

Retail Premium Bottled Water Market Growth by Type
2016P

<table>
<thead>
<tr>
<th>Segment</th>
<th>Volume</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flavored</td>
<td>-1.0%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Enhanced</td>
<td>+8.0%</td>
<td>+9.7%</td>
</tr>
<tr>
<td>Regular PET</td>
<td>+9.0%</td>
<td>+8.3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>+8.9%</td>
<td>+8.2%</td>
</tr>
</tbody>
</table>
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
In the future, the marketplace will be characterized by numerous high-value, low relative volume opportunities.
The Shifting Beverage Landscape

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

<table>
<thead>
<tr>
<th>LRB Category</th>
<th>2017(P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RTD Coffee</td>
<td>+10.5% to +11.5%</td>
</tr>
<tr>
<td>Value-Added Water</td>
<td>+9.0% to +10.0%</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>+8.0% to +9.0%</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>+5.5% to +6.5%</td>
</tr>
<tr>
<td>RTD Tea</td>
<td>+4.0% to +5.0%</td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>+3.0% to 4.0%</td>
</tr>
<tr>
<td>Fruit Beverages</td>
<td>-0.5% to -1.5%</td>
</tr>
<tr>
<td>Carbonated Soft Drinks</td>
<td>-1.0% to -2.0%</td>
</tr>
<tr>
<td><strong>TOTAL LRBs</strong></td>
<td><strong>+3.0% to +4.0%</strong></td>
</tr>
</tbody>
</table>
Thank You

Beverage Marketing Corporation

- Strategic Associates
- Research
- Advisors

ghemphill@beveragemarketing.com