Beverage Marketing Capabilities

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
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

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

DrinkTell™

With a special packaging module is by:

SBAcci
Strategic Business Analysis
The Shifting Beverage Landscape

Agenda

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

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

Copyright © 2018 Beverage Marketing Corp.
The Shifting Beverage Landscape

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

Annual U.S. Consumer Sentiment Index
1995 - 2017

Source: Thompson Reuters/University of Michigan
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

- 2012: 1.6%
- 2013: -0.1%
- 2014: 1.1%
- 2015: 1.7%
- 2016: 2.1%
- 2017P: 1.1%

P: Preliminary  
Source: Beverage Marketing Corporation  

Copyright © 2018 Beverage Marketing Corp.
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume Change</th>
<th>Wholesale Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>2013</td>
<td>-0.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2014</td>
<td>1.1%</td>
<td>2.7%</td>
</tr>
<tr>
<td>2015</td>
<td>1.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2016</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2017P</td>
<td>1.1%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

12/17P CAGR: 2.4%

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

**U.S. Beverage Market Volume Change 2017P**

- **Refreshment Beverages**: 2.2% increase
- **Bottled Water**
- **CSD**
- **Energy Drinks**
- **Fruit Bevs**
- **RTD Coffee**
- **RTD Tea**
- **Sports Drinks**
- **VA Water**

- **Beverage Alcohol**: 0.1% increase
- **Beer**
- **Spirits**
- **Wine**

- **Traditional Beverages**: -0.8% decline
- **Hot Coffee**
- **Hot Tea**
- **Milk**

- **Tap Water**: -1.7% decline

P: Preliminary  
Source: Beverage Marketing Corporation

Copyright © 2018 Beverage Marketing Corp.
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?

<table>
<thead>
<tr>
<th>Category</th>
<th>Millions of Gallons</th>
<th>2007/17P CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottled Water</td>
<td>4,898</td>
<td>4.5%</td>
</tr>
<tr>
<td>RTD Tea</td>
<td>514</td>
<td>3.6%</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>350</td>
<td>7.5%</td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>183</td>
<td>1.3%</td>
</tr>
<tr>
<td>Value-Added Water</td>
<td>100</td>
<td>1.8%</td>
</tr>
<tr>
<td>RTD Coffee</td>
<td>94</td>
<td>11.2%</td>
</tr>
<tr>
<td>Fruit Beverages</td>
<td>-759</td>
<td>-2.2%</td>
</tr>
<tr>
<td>CSD</td>
<td>-2,382</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Total LRB</td>
<td>2,998</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>Health &amp; Wellness*</th>
<th>All Other**</th>
<th>TOTAL MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-YR CAGR</td>
<td>+3.6%</td>
<td>-1.0%</td>
<td>+0.7%</td>
</tr>
</tbody>
</table>

* Health & Wellness* 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

** All Other** 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.

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

Probiotic

Matcha

Protein/ Sustenance

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

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>Plastics</th>
<th>Cans</th>
<th>Glass</th>
<th>Paper</th>
<th>Pouches</th>
<th>Aseptic</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-YR CAGR</td>
<td>+4.8%</td>
<td>-0.9%</td>
<td>+0.6%</td>
<td>-2.2%</td>
<td>-4.2%</td>
<td>-0.9%</td>
<td>+1.4%</td>
</tr>
</tbody>
</table>

* Includes Milk, does not include Beer kegs

Source: Beverage Marketing Corporation

---

Copyright © 2018 Beverage Marketing Corp.
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 - 2017**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>-3.2%</td>
<td>-1.0%</td>
<td>-1.5%</td>
<td>-0.8%</td>
<td>-1.2%</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>

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
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

<table>
<thead>
<tr>
<th>Category/ Retail $ Trends¹</th>
<th>Carbonates</th>
<th>Juice</th>
<th>Water</th>
<th>Sport / Energy</th>
<th>RTD Tea</th>
<th>RTD Coffee</th>
<th>Tea</th>
<th>SS Coffee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1%) to 1%</td>
<td>(2%) to 0%</td>
<td>3% to 6%</td>
<td>6% to 10%</td>
<td>6% to 10%</td>
<td>+10%</td>
<td>0% to 2%</td>
<td>+10%</td>
</tr>
<tr>
<td>Non-Colas</td>
<td>+1 to 2%</td>
<td>Coconut</td>
<td>+10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ McKinsey 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**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>+4.8%</td>
<td>+7.4%</td>
<td>+8.0%</td>
<td>+8.5%</td>
<td>+6.7%</td>
<td>+7.1%</td>
</tr>
</tbody>
</table>

P: Preliminary
Source: Beverage Marketing Corporation
Private label PET water accounts for virtually half of the single-serve market today

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

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>PRIVATE LABEL</th>
<th>BRANDED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-YR CAGR</td>
<td>+12.5%</td>
<td>+3.8%</td>
<td>+7.7%</td>
</tr>
</tbody>
</table>

P: Preliminary
Source: Beverage Marketing Corporation
Sparkling water is on fire – fastest growing segment in the bottled water category
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

<table>
<thead>
<tr>
<th>PH Balanced Water</th>
<th>Essence Water</th>
<th>Space Age Water</th>
<th>Plant Water</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="PH Balanced Water" /></td>
<td><img src="image2" alt="Essence Water" /></td>
<td><img src="image3" alt="Space Age Water" /></td>
<td><img src="image4" alt="Plant Water" /></td>
</tr>
</tbody>
</table>
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

Projected Water & CSD Growth
Millions of Gallons
2011 - 2021P

P: Projected
Source: Beverage Marketing Corporation
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**

**Consumers**
- Using digital to articulate needs
- Fulfill needs
- Aids in safety of product

**Shopping**
- Shop faster
- Swift convenience

**Product**
- Authenticity
- Some personalization
- Wellness as status symbol vs material things

**Voice**
- Younger consumers have voice in purchase decision
- Older consumers are articulate ambassadors

*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.

- Regular CSDs
- Diet CSDs
- Light Beer
- Table Wine
- Sparkling Wine
- Straight Whiskey
- Vodka
- Energy Drinks
- RTD Coffee
- RTD Tea
- Sports Drinks
- PET Water
- Light Beer
- Import Cider
- Import Beer
- Import Juice
- Potato Milk
- Almond Milk
- Coconut Milk
- Flavored Water
- HOD
- Alkaline Water
- Kombucha

(2012-2017 P CAGR)

High Growth

Low Growth

Copyright © 2018 Beverage Marketing Corp.
Thank You

Beverage Marketing Corporation

• Strategic Associates
  • Research
  • Advisors

ghemphill@beveragemarketing.com