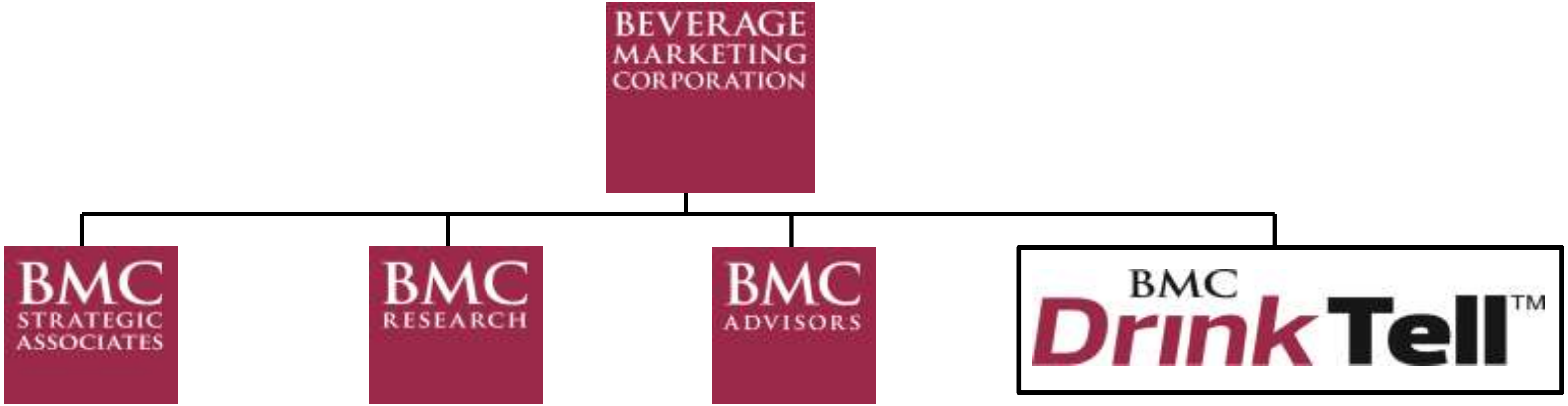
Beverage Forum

Market Trends II: Non-Alcoholic Beverages

May 3, 2023

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:

DrinkTell™

And introducing *The Beverage Strategist*, BMC's bi-weekly newsletter

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THE BEVERAGE STRATEGIST™

Planning Insights for Beverage Professionals

Powered by: DrinkTell™

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Agenda

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

State of the Industry – The Good and the Bad

Beverage Headlines

1. **The total U.S. beverage** market slowed in 2022 after healthy rebound growth in 2021 coming out of the pandemic

2. **High inflation** drove beverage prices to all-time highs, which likely had some impact on volume performance

3. **Bottled water** topped 16 billion gallons, widening its gap as the largest volume beverage category in the U.S.

4. **Niche categories** continued to outperform most traditional mass-market categories with new segments still emerging

5. **Restaurant and other foodservice** outlets continued to see improved performance after weakness in 2020 due to the pandemic

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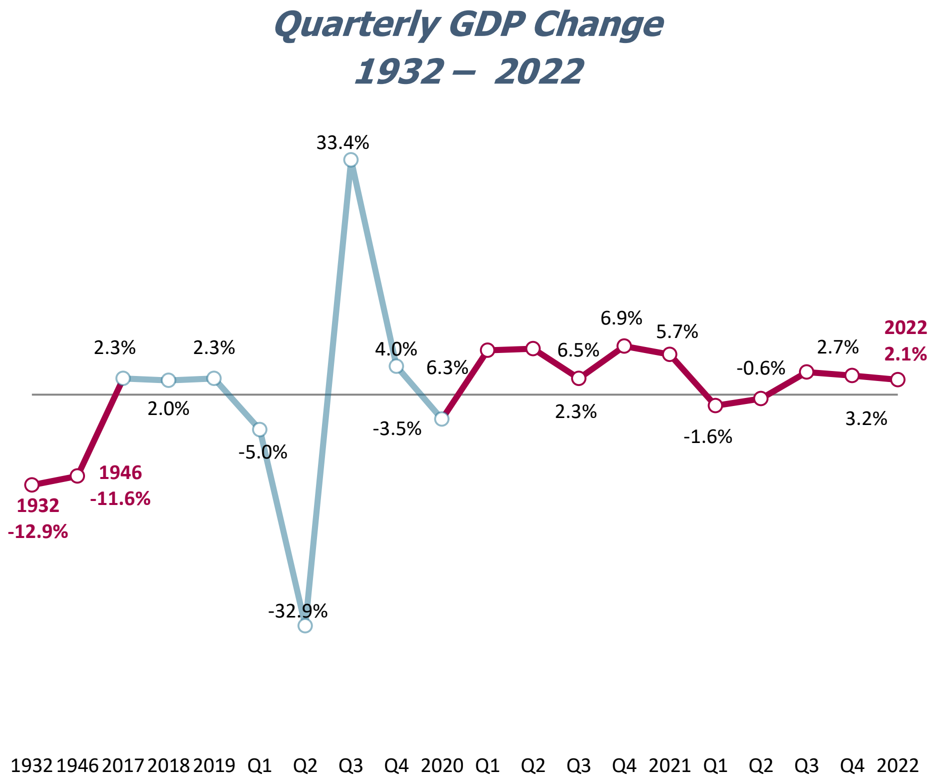
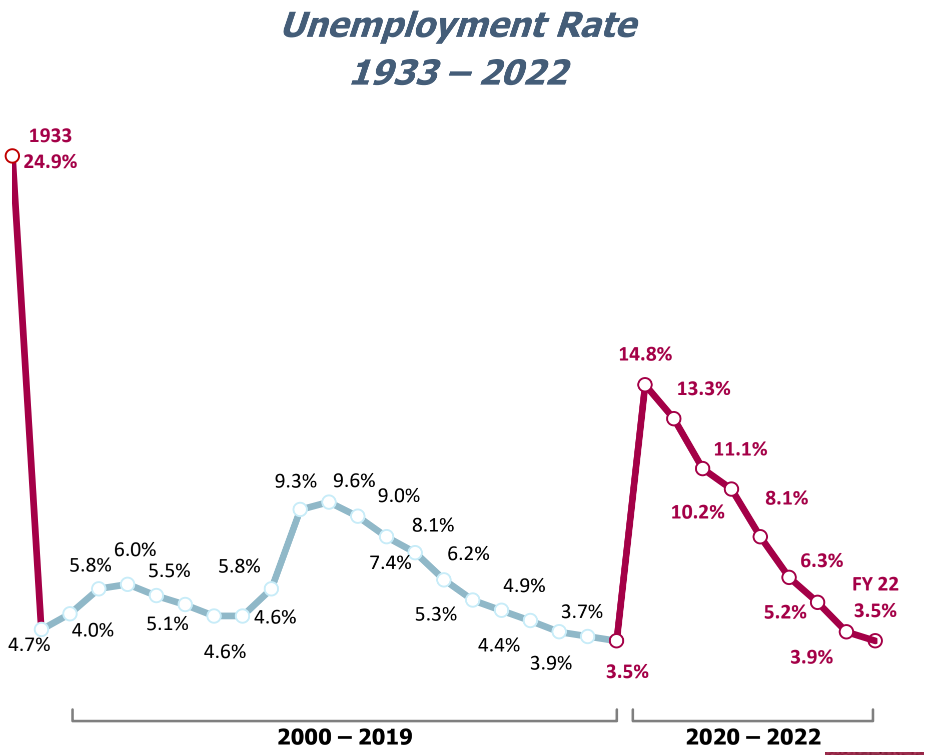
These key trends are impacting consumer beverage choices today

Major Consumer Trends Impacting the Greater Beverage Market

			Implication
Health & Wellness		Growth across categories is attributed to products/sub-segments that provide consumers perceived/actual functional health benefits or health improvements over existing products	More better-for-you beverage innovation e.g. hemp-infused beverages
Increasing Beverage Variety		Consumers are demanding an ever-widening variety of beverage options Sugar continues to be avoided and, in some areas, is being taxed (e.g. Chicago, Seattle)	Wider array of functional and targeted brands Manufacturing flexibility e.g. short runs
Premiumization		Beverage categories are seeing increasing numbers of premium offerings, both in terms of price point and brand marketing	Niche categories e.g. kombucha, coconut water etc.
Consumer Convenience		Consumers want beverages that are easy to carry The convenience of e-commerce will drive innovation to overcome the barriers that it faces with CPG	E-commerce logistics capabilities e.g. Copper Peak Logistics
Environmental Concerns		Concerns regarding single-use plastic impact continue to accelerate, but have not yet reached levels to enact sweeping changes	Environmentally-friendly packaging capability e.g. paper, rPET, etc.

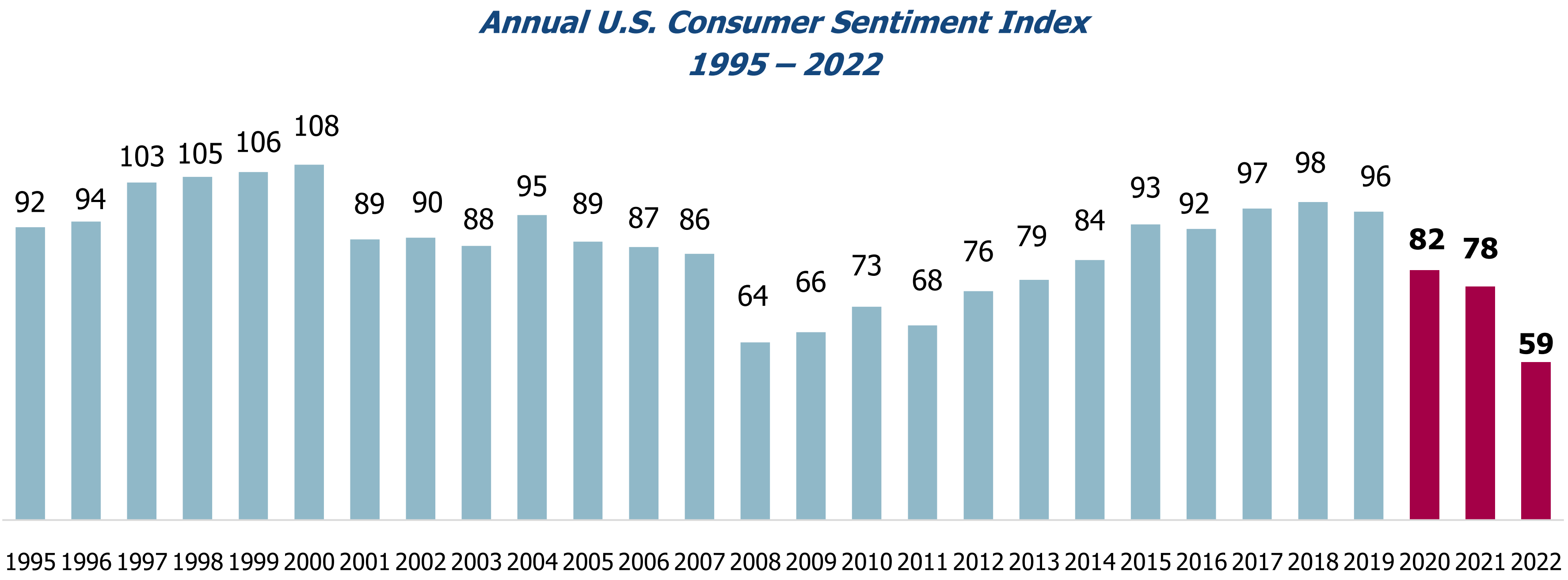
After years of positive growth, the economy took a pandemic-driven dip in 2020 but both GDP and unemployment rate have since improved





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

Consumers are feeling the strain and are less optimistic: first the pandemic, then inflation and now potential for a recession looms



Source: Thompson Reuters/University of Michigan

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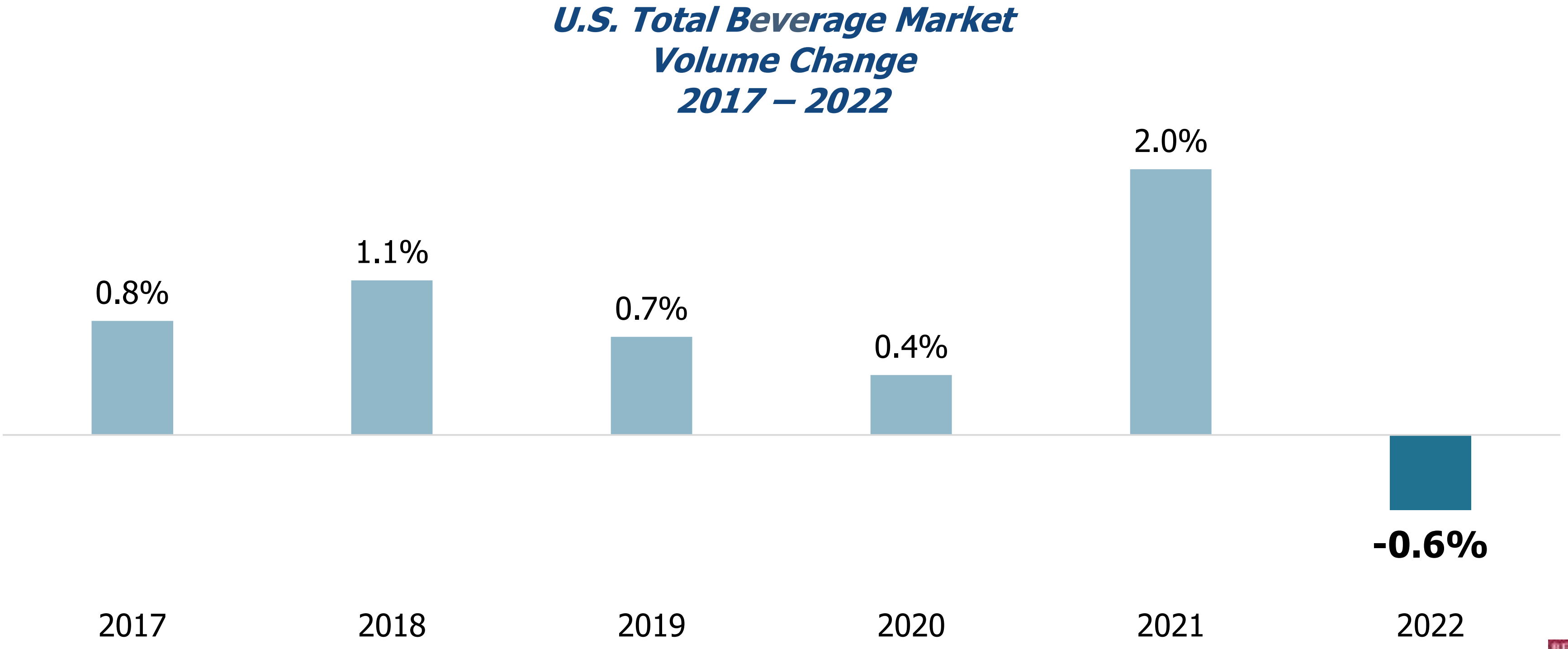
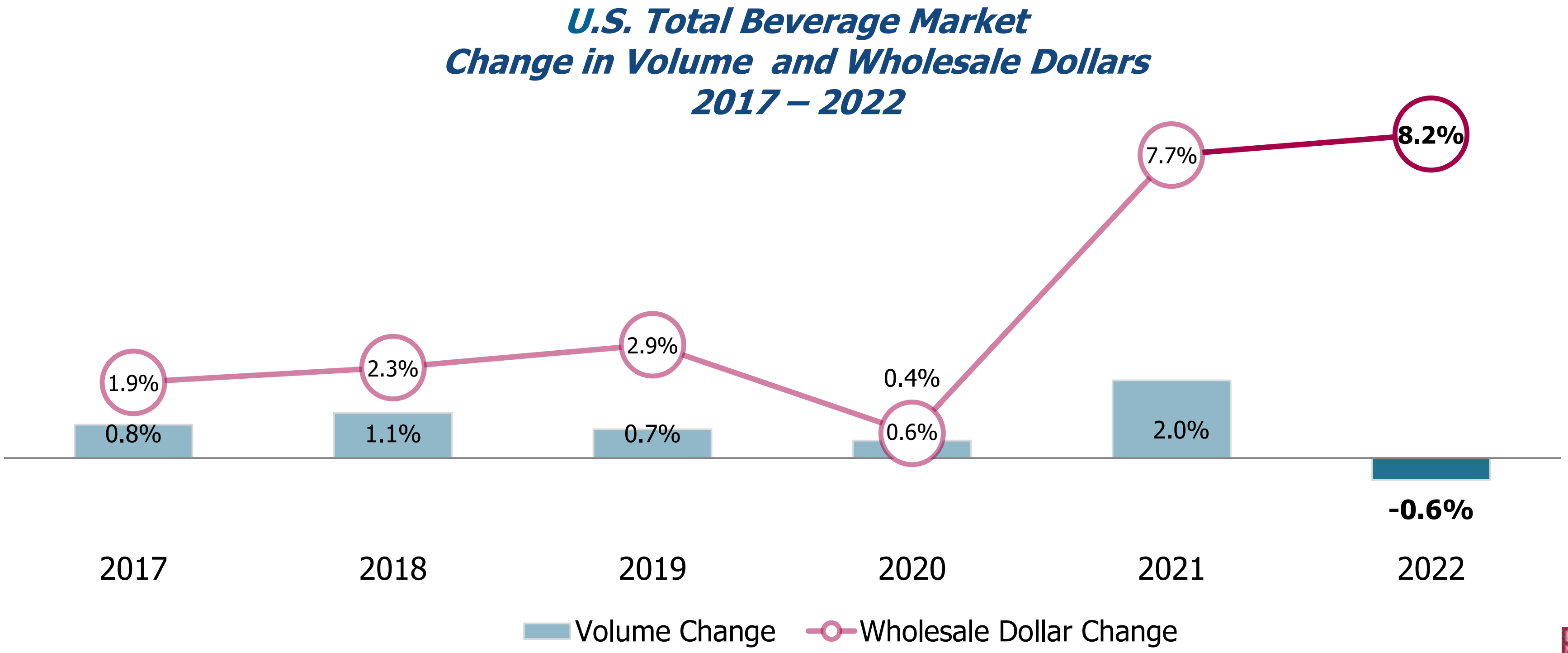
U.S. beverage market growth was soft in 2022 after a pandemic-induced performance rebound in 2021



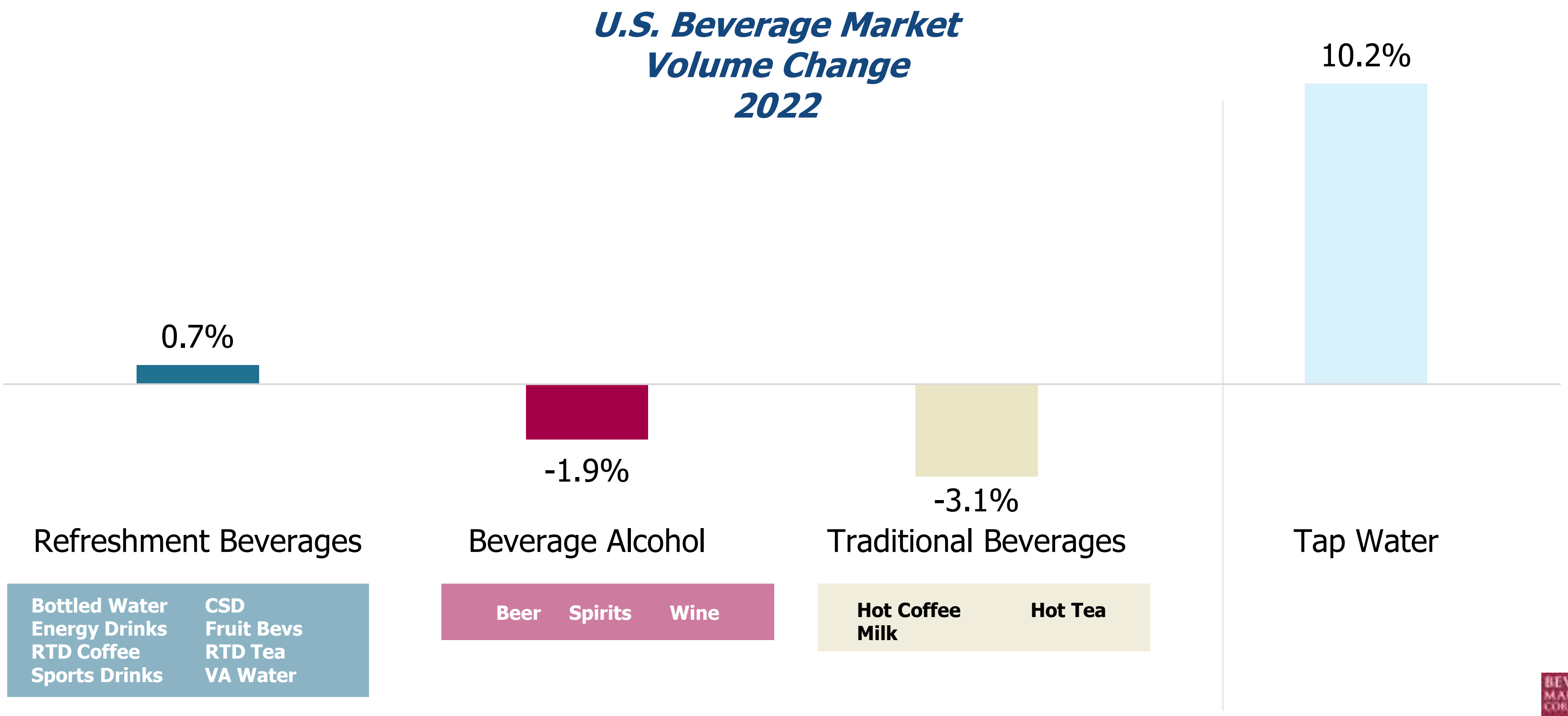
Source: Beverage Marketing Corporation

Post-recession revenues have generally outpaced volume growth – a trend that accelerated in 2021 and 2022 due mostly to inflation



Source: Beverage Marketing Corporation

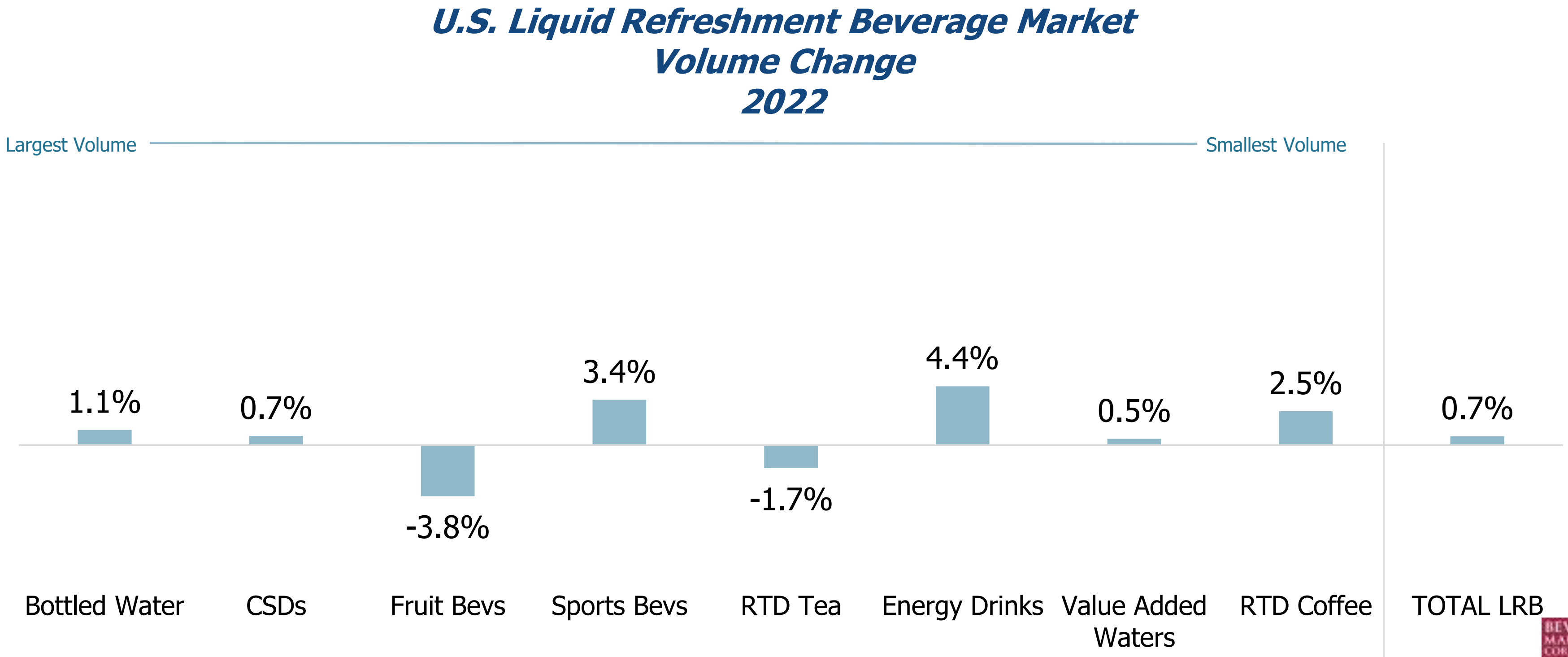
In recent years, refreshment beverages have generally outperformed the overall beverage market



Source: Beverage Marketing Corporation

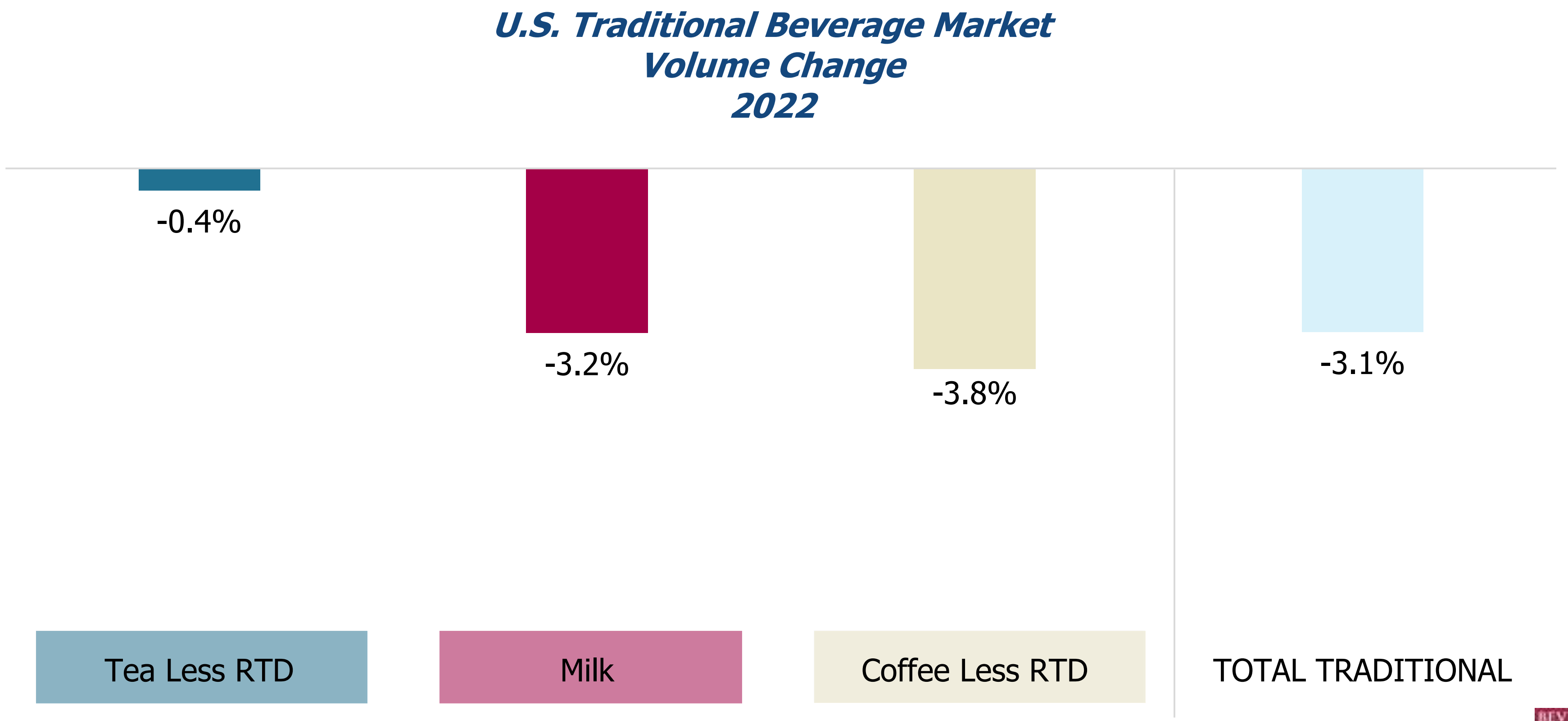
Most large mass market refreshment beverage categories have struggled while niche categories have experienced growth

- Bottled water is the primary exception of a mainstream category that has thrived



Source: Beverage Marketing Corporation

Traditional beverages generally have lagged in volume performance in recent years

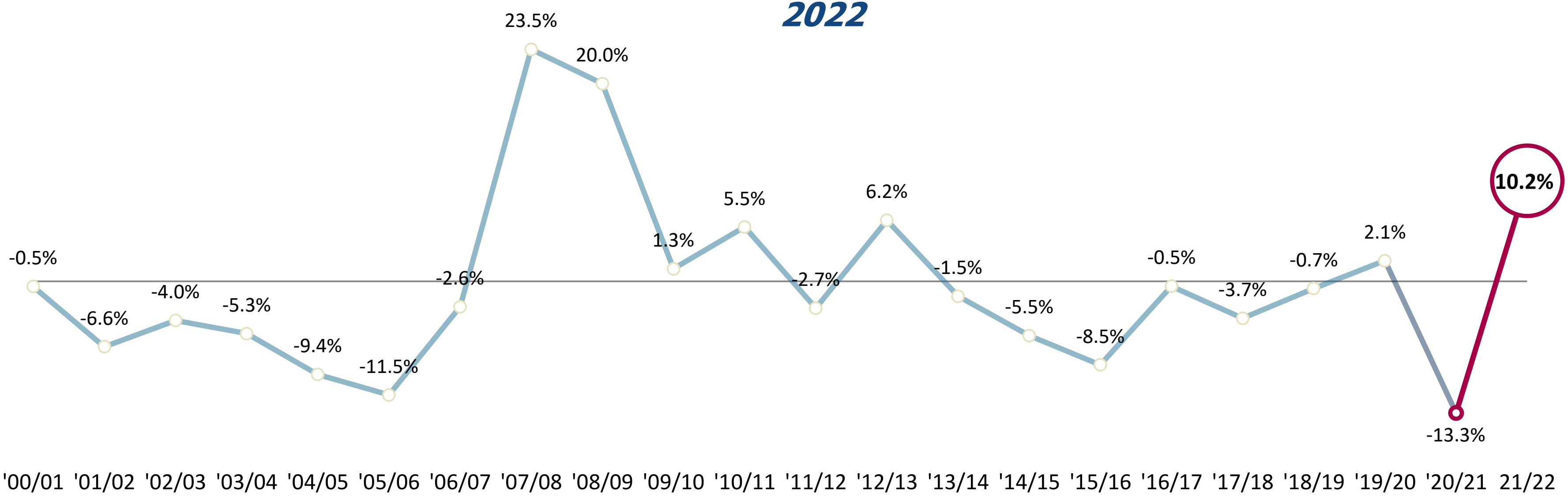


P: Preliminary
Source: Beverage Marketing Corporation

One reflection of a healthy beverage industry is the decline of tap water, and tap water consumption has generally trended down in most years

- In 2022, tap water consumption experienced solid growth

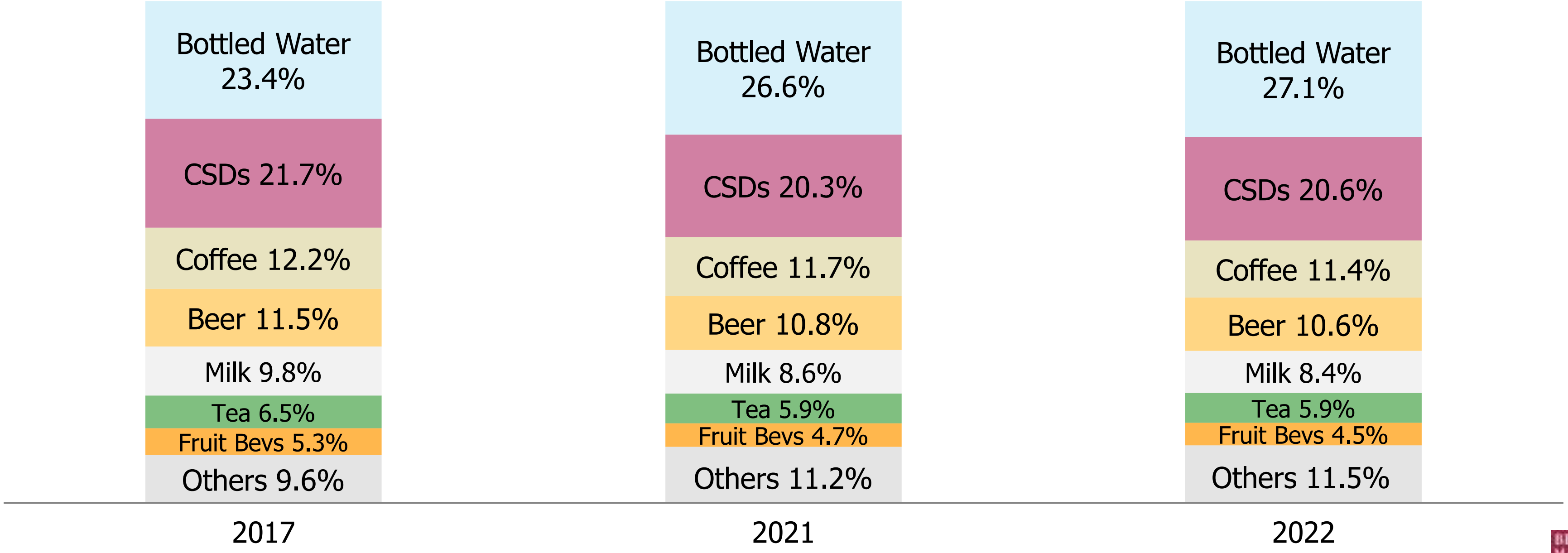
U.S. Estimated Tap Water Volume Change 2022



Source: Beverage Marketing Corporation

Bottled water has been the biggest volume share gainer, while CSDs have been the largest share loser over the last five years. Niche categories have experienced some small share gains

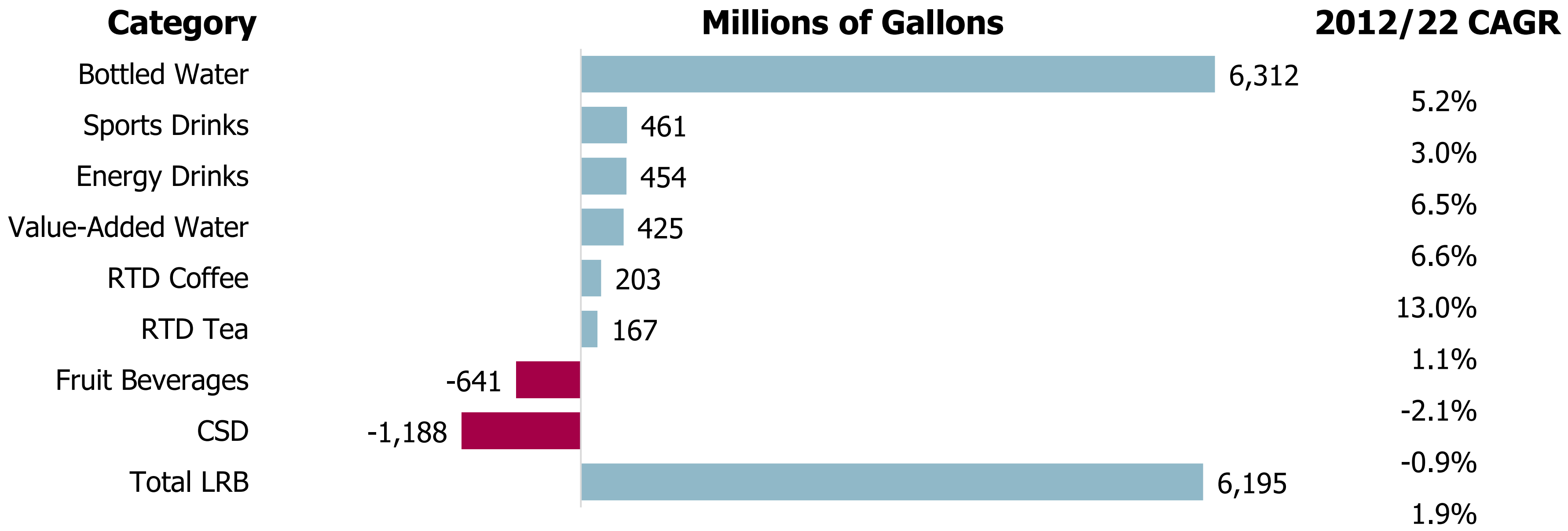
U.S. Beverage Market Volume Share by Category 2017 – 2022



Source: Beverage Marketing Corporation

Over the last decade, bottled water consumption has increased more than the entire liquid refreshment beverage universe

Decade Comparison
2012 – 2022
Which Categories Gained, Which Lost Volume?

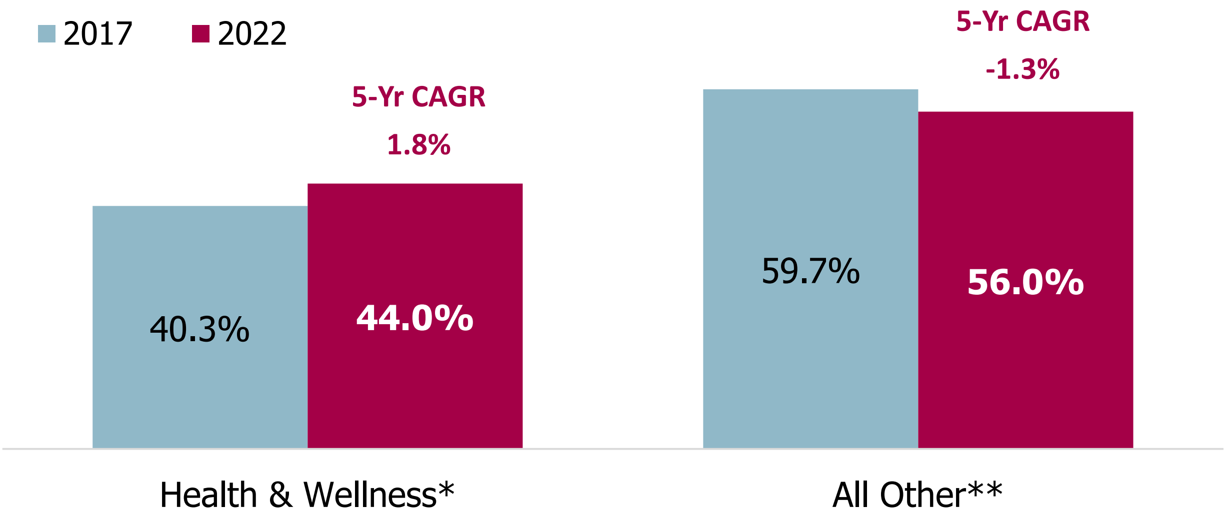


Source: Beverage Marketing Corporation

Health and wellness is a key market driver. Beverage categories with health and wellness attributes are outperforming those without

- Additionally, heightened concerns about health caused by the pandemic could accelerate this trend

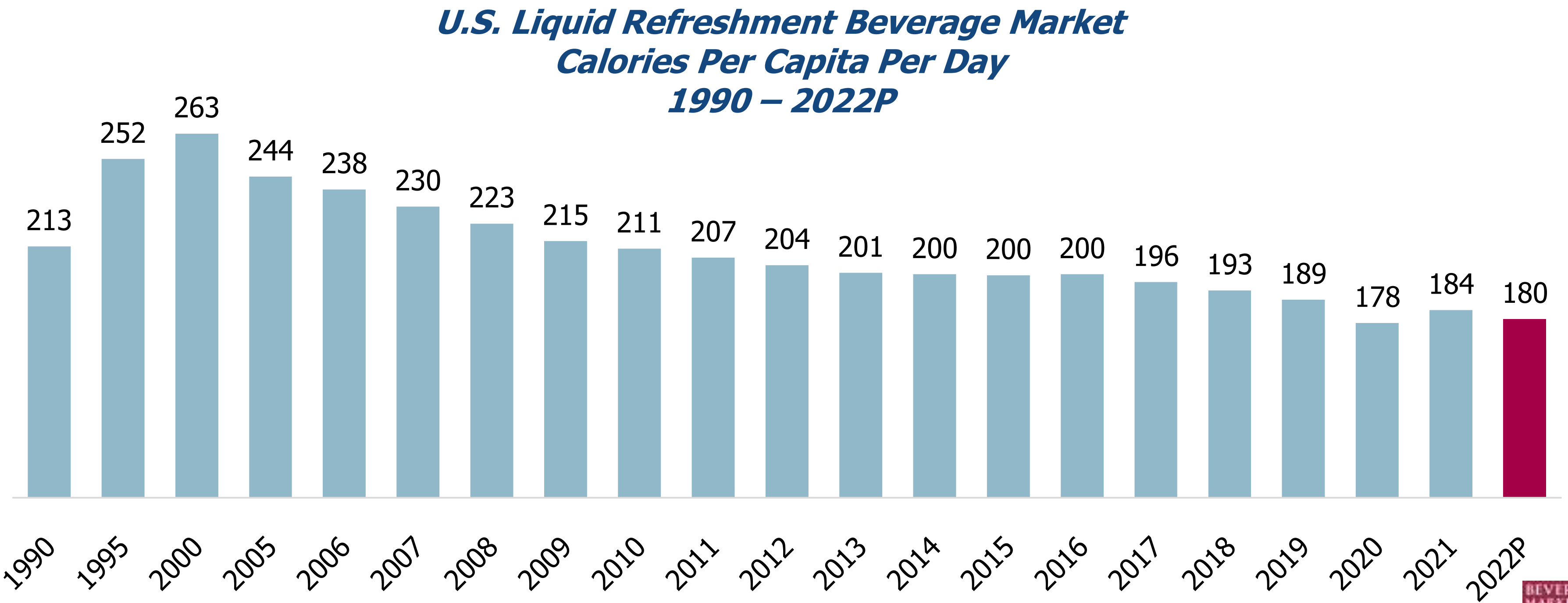
Health and Wellness RTD Categories in U.S. Beverage Market Volume Share



** 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*
Source: Beverage Marketing Corporation

Driven by the trend toward healthier refreshment, caloric intake from refreshment beverages has been steadily declining since 2000

- The slight increase in 2021 is the result of the pandemic and likely temporary

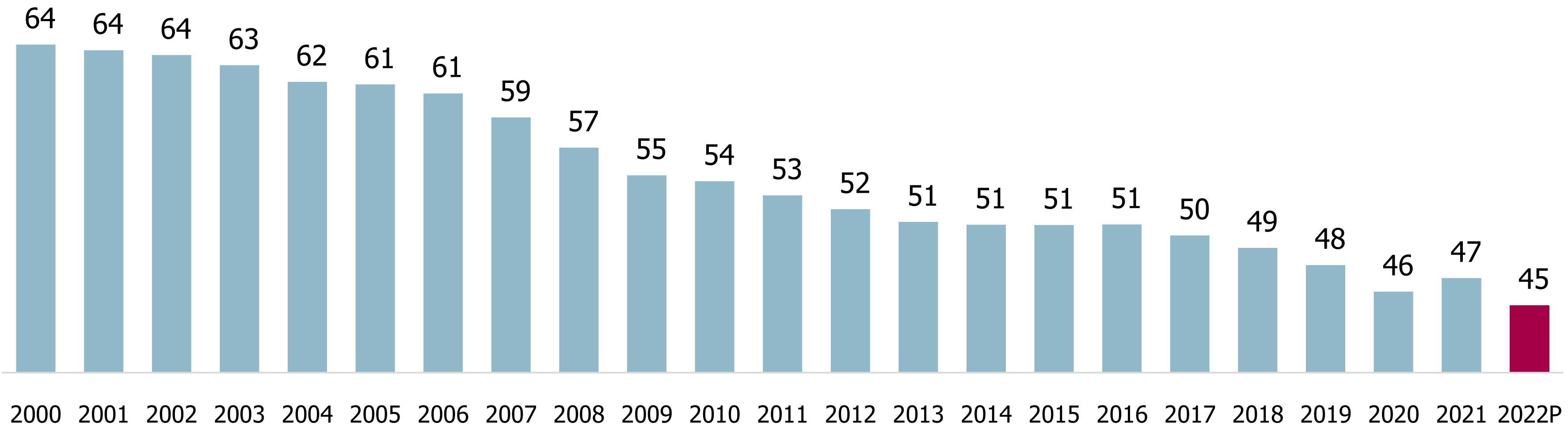


P: Preliminary
Source: Beverage Marketing Corporation

Sugar intake from refreshment beverages has also seen declines dating back to 2000

- As with calories, the sugar decline has occurred due to the growth of bottled water and increasing number of low-calorie options in the marketplace

U.S. Liquid Refreshment Beverage Market
Grams of Sugar Consumption Per Capita Per Day
2000 – 2022P



P: Preliminary
Source: Beverage Marketing Corporation

Beverages experienced unprecedented retail price increases in 2022 with some segments still seeing accelerations. Higher prices are likely to continue well into 2023

Refreshment Beverage Prices on the Rise
Unit Pricing Growth By Beverage Segment in 2022

Beverage Category	Trending	Last Quarter	Last 52 Weeks
Sports Beverages	▬	+13.2%	+13.7%
CSDs	↑	+16.3%	+14.6%
Sparkling/Seltzer Water	↑	+12.4%	+10.7%
Juice and Drinks	▬	+10.5%	+10.2%
Enhanced Water	↑	+13.2%	+11.9%
Bottled Water	↑	+14.5%	+13.0%
RTD Tea	↑	+10.6%	+9.3%
Energy Drinks	↑	+9.1%	+5.4%
RTD Coffee	↑	+10.5%	+5.7%
TOTAL LRB	↑	**+12.9%**	**+11.3%**

↑ Accelerating
▬ Holding
↓ Decelerating

Source: Beverage Marketing Corporation; IRI Multi-Outlet + Convenience Last 52 Weeks Ending 01/01/2023

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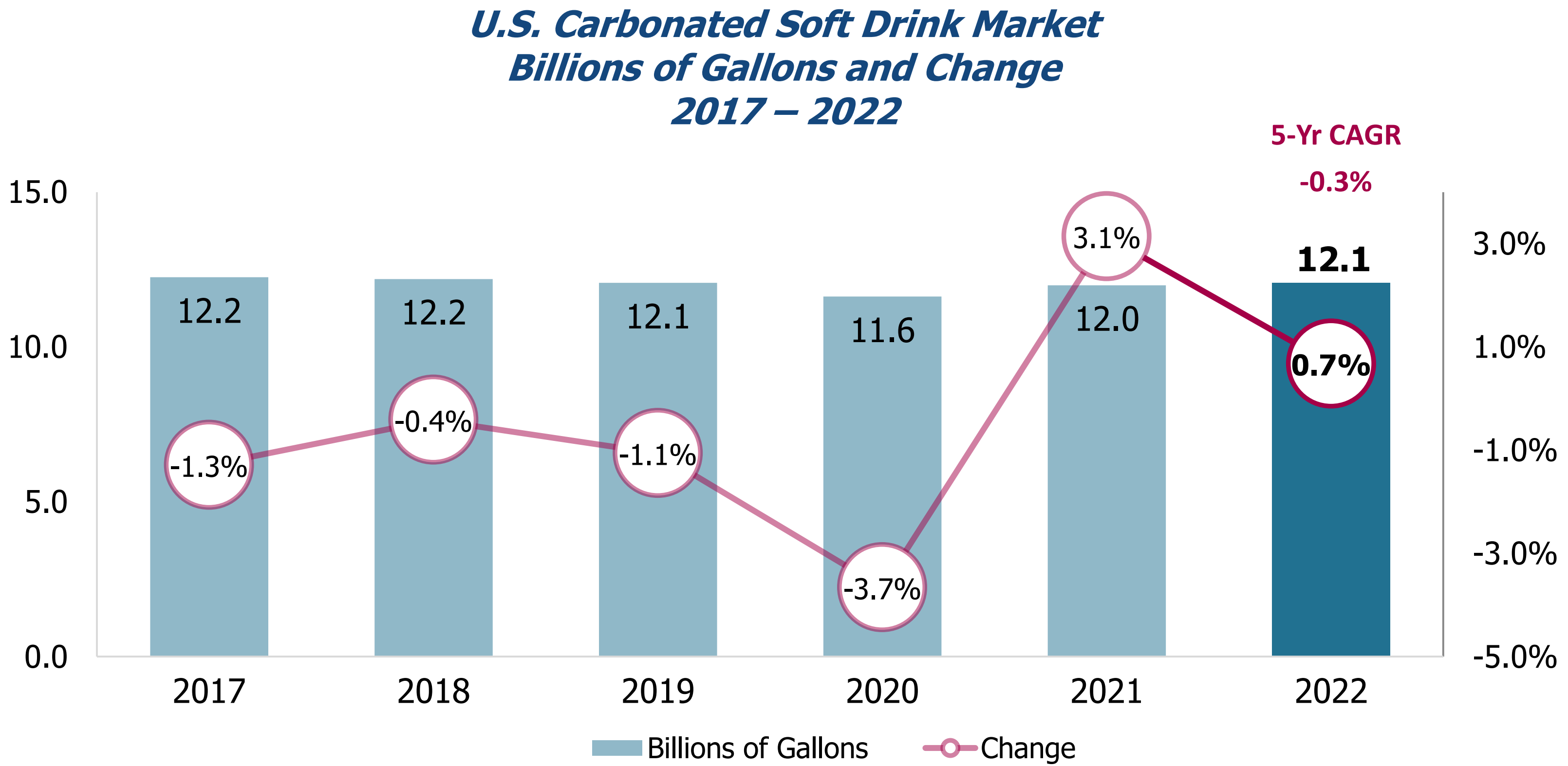
2023 LRB Situation Analysis

Evolving Consumer	**Consumers, especially Gen Z and Millennials, are looking for more flavor innovation, healthfulness, functionality and, in the context of inflation/recession, value**
Inflation	**Inflation, while moderating, will likely be with us at least through the first half of the year**
Recession Risk	**There is great uncertainty about the economic situation in 2023; all companies are preparing for a possibility of an economic slowdown/recession. Experts are forecasting a 35-65% chance that there will be economic downturn next year**
Supply Chain	**Supply chain disruptions and manpower shortages appear to be slowly abating, and will likely continue to improve, especially if there is a slowdown in 2023**
Pricing	**Modest price increases are expected in 2023; however, the 1H23 revenues will benefit from the continuation of higher 2H22 increases, while 2H23 will return to normal ranges**
Need for Agility	**In a world of uncertainty and volatility, the need for agility becomes even more important**

Carbonated soft drink volume increaded slightly in 2022 after strong growth in 2021

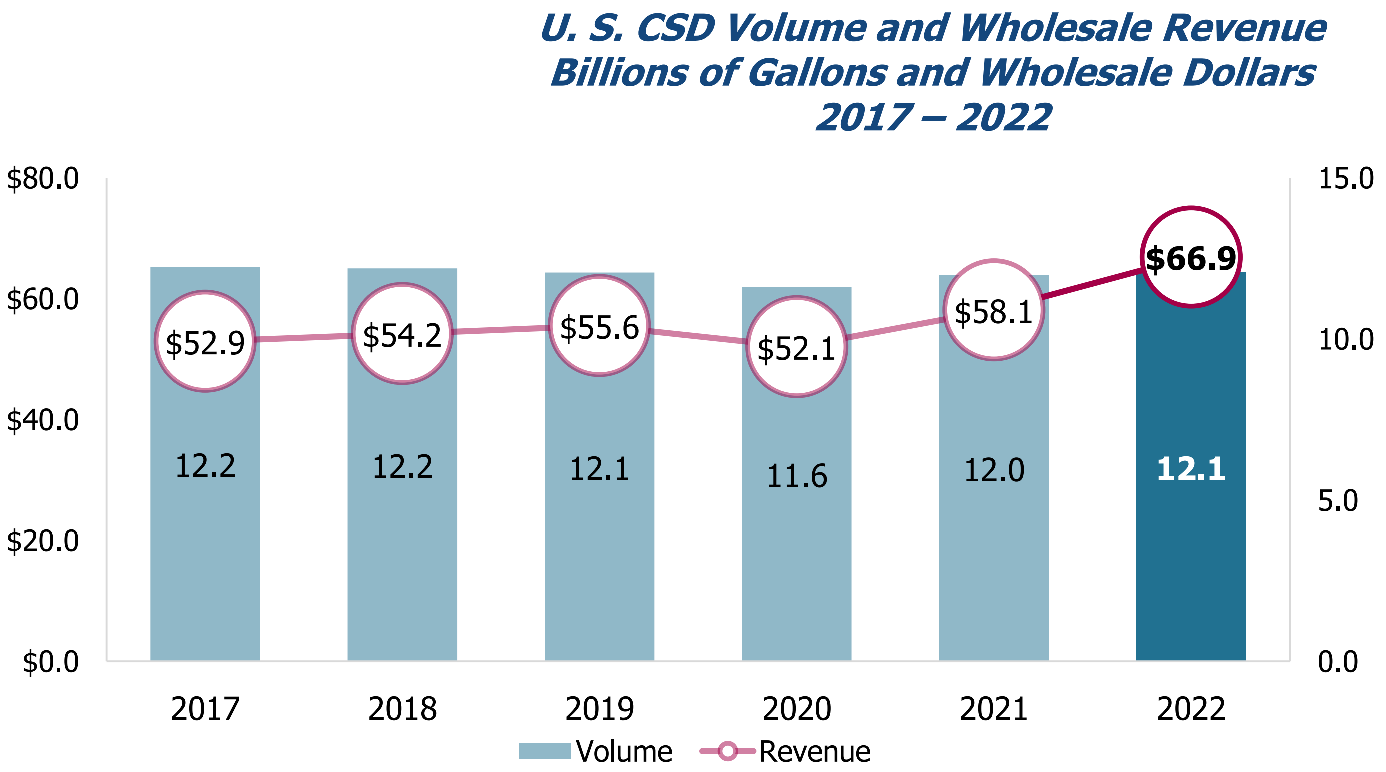
- Previous to 2021, the category had endured 16 consecutive years of volume declines



Source: Beverage Marketing Corporation

CSD dollar growth has outperformed volume – especially in the last two years

- More single-serve and on-premise purchases along with greater inflation have contributed to the dollar gains



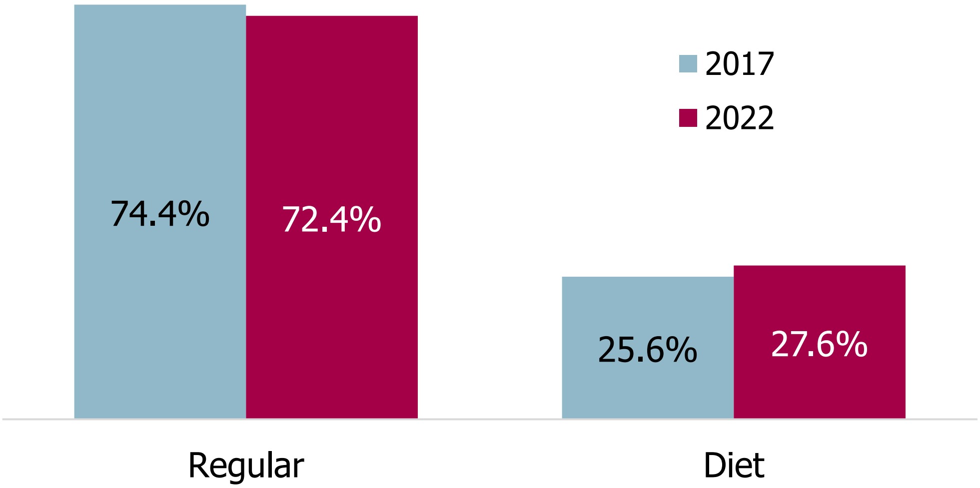
	% CHANGE	
YEAR	VOLUME	DOLLAR
2017/18	-0.4%	2.4%
2018/19	-1.1%	2.5%
2019/20	-3.7%	-6.3%
2020/21	3.1%	11.7%
2021/22P	**0.7%**	**15.1%**
17/22P CAGR	**-0.3%**	**4.8%**

Source: Beverage Marketing Corporation

Diet CSDs outperformed regular once again in 2022

- Improvements in diet sweeteners and product relaunches have helped improve diet performance

U.S. Carbonated Soft Drink Market
Share by Type



	% CHANGE	
YEAR	REGULAR	DIET
2017/18	-0.9%	0.9%
2018/19	-1.6%	0.6%
2019/20	-4.8%	-0.4%
2020/21	3.0%	3.5%
2021/22P	**0.3%**	**1.7%**
17/22P CAGR	**-0.8%**	**1.2%**

Source: Beverage Marketing Corporation

CSDs have long been positioned as fun refreshment but this is changing as some newer brands tout their functional benefits

Functional CSD Emerging Brands

OLIPOP

- OLIPOP is a prebiotic soda that promotes digestive health
- Each serving contains 32% of daily recommended fiber
- The CSD line is low in sugar and calories

Koios

- Nootropic carbonated beverage enhanced with MCT oil, Lion's mane mushroom, electrolytes, Alpha GPC, caffeine & L-theanine, among others.
- Koios was launched several years ago by Koios Beverage Corporation, based in Vancouver, which also introduced the Fit Soda brand in 2019

Poppi

- Poppi is a prebiotic soda that promotes gut health
- Formulated with apple cider vinegar that helps aid digestion, the company claims
- Sweetened with stevia, cane sugar and juice, each can contains 20 or fewer calories

REBBL POP

- Just launched: REBBL POP is a functional soda formulated with vitamin C and prebiotics
- It contains 50 calories and 5 grams of sugar per serving

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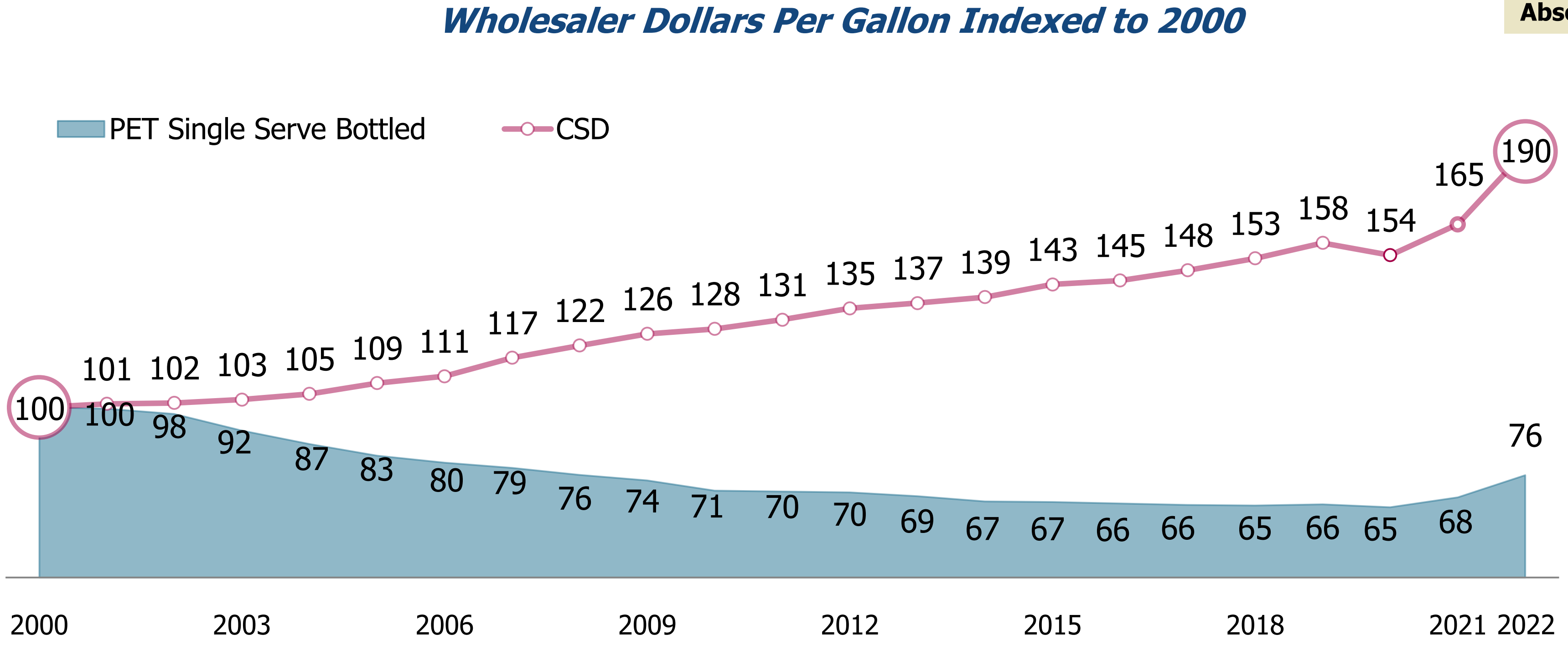
Steady pricing increases in carbonated soft drinks coupled with historical pricing declines in bottled water have contributed to respective category performances

2022
Absolute Price



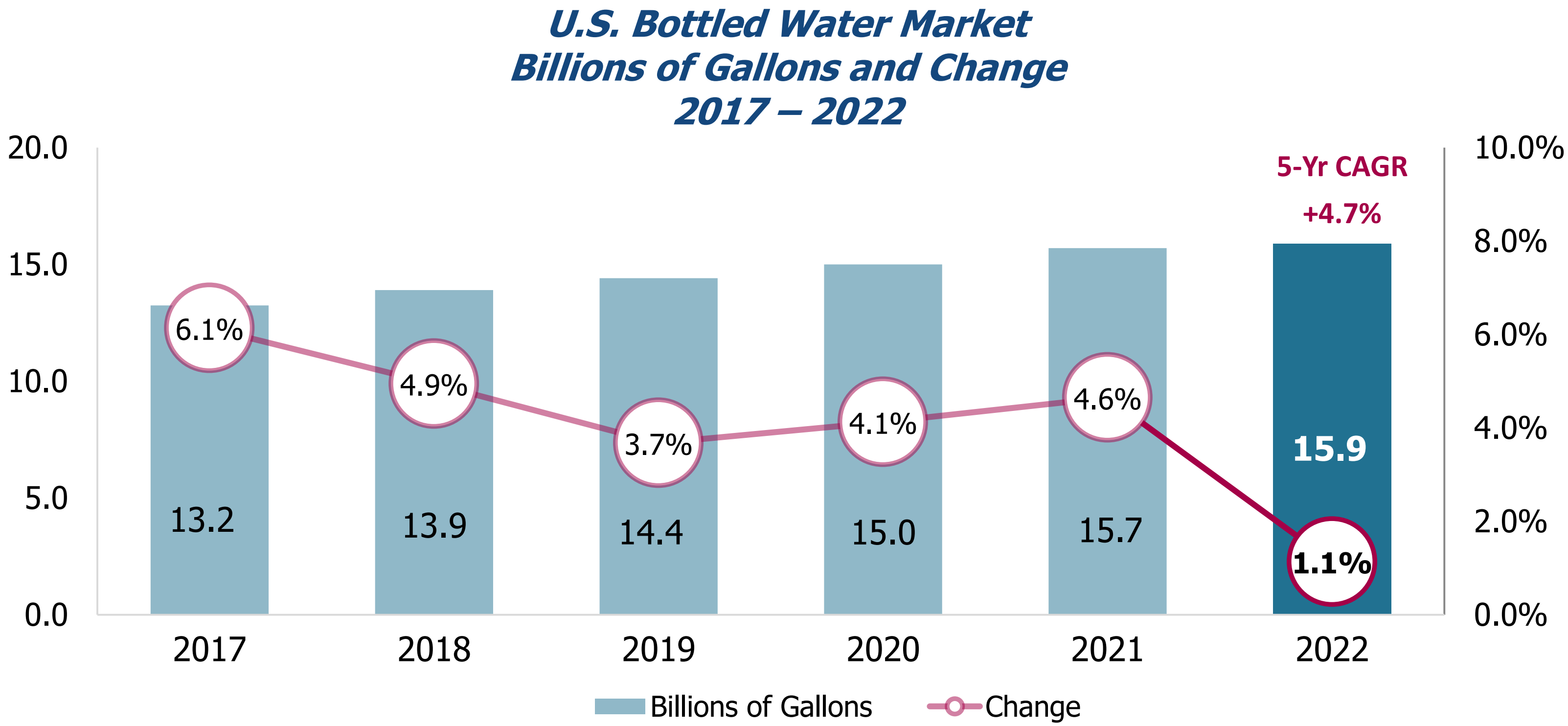
$5.55

$1.48

Source: Beverage Marketing Corporation

Bottled water slowed to its lowest growth since a recession-induced decline in 2009

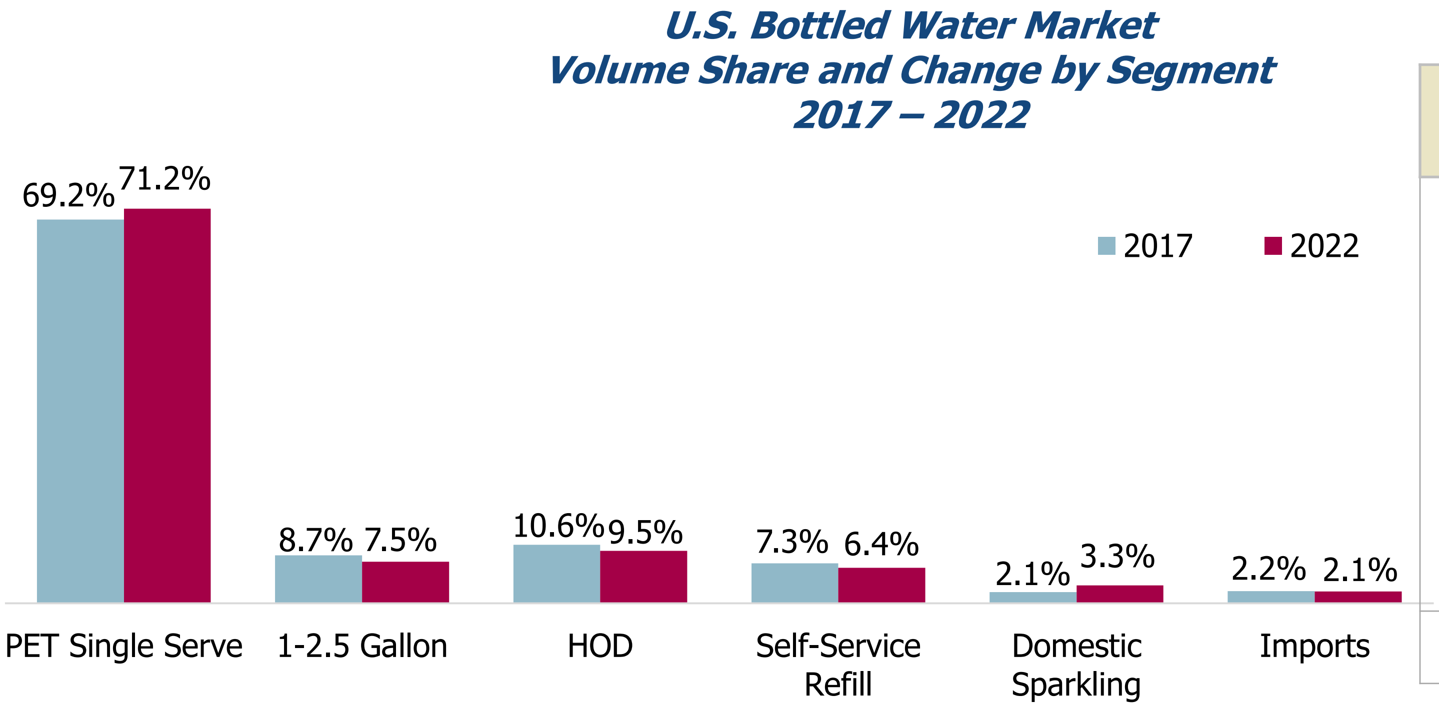
- Higher prices and the category's mammoth size contributed to its modest growth
- Still, the category approached 16 billion gallons in 2022



Source: Beverage Marketing Corporation

The single-serve water segment is driving most of the category's growth and today accounts for more than 70% of category volume

- Sparkling water declined after several years of healthy growth as did imports and retail bulk
- Over the last five years, all category segments experienced increased volume



SEGMENT	Change 21/22	CAGR 2017/22
PET Single Serve	1.4%	4.3%
1-2.5 Gallon	-3.3%	0.7%
HOD	4.9%	1.5%
Self-Service Refill	3.9%	1.2%
Domestic Sparkling	-4.9%	13.6%
Imports	-5.3%	3.0%
TOTAL	**1.1%**	**3.7%**

Source: Beverage Marketing Corporation

Despite declining in 2022, sparkling water has been a star segment in the category

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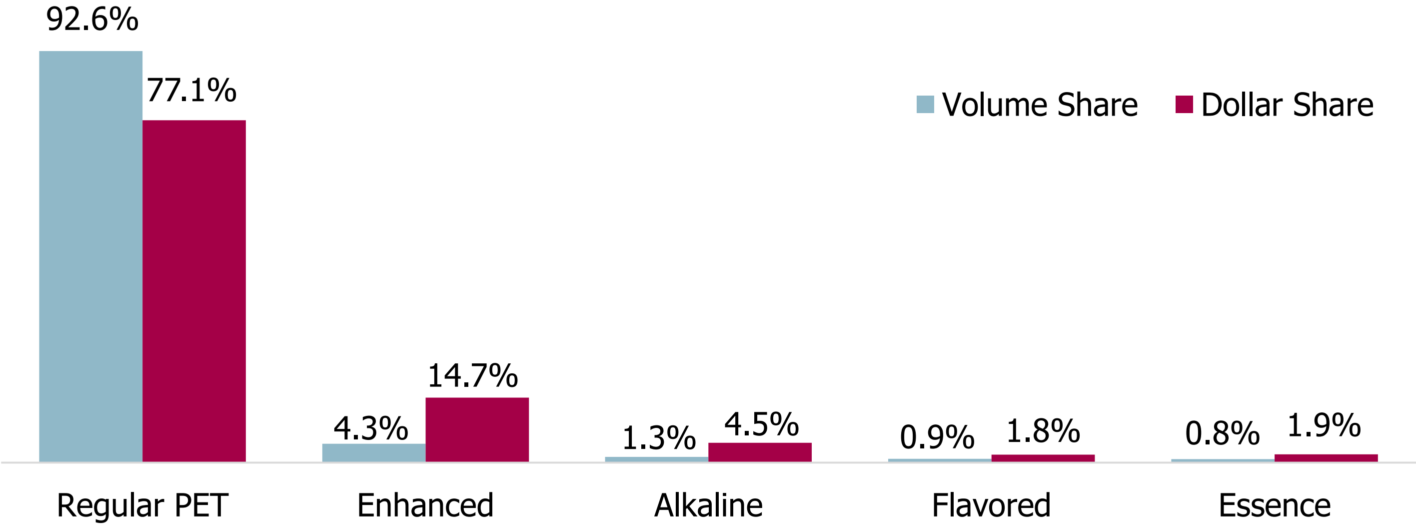
Value-added waters account for just 7% of single-serve water beverage volume, but hold a larger share of revenues due to higher pricing

U.S. Single-Serve Bottled Water Market Share by Volume and Revenues 2022



	% CHANGE	
Segment	VOLUME	DOLLAR
Regular PET	1.4%	13.4%
Enhanced	-3.4%	8.8%
Alkaline	12.9%	18.8%
Flavored	-4.0%	7.6%
Essence	9.9%	14.0%
TOTAL	**1.3%**	**12.9%**

Source: Beverage Marketing Corporation

These premium value, craft type waters are adding additional benefits to consumers' water experience beyond vitamins and minerals

Enhanced Waters

Alkaline Water

Essence Water

Protein Water

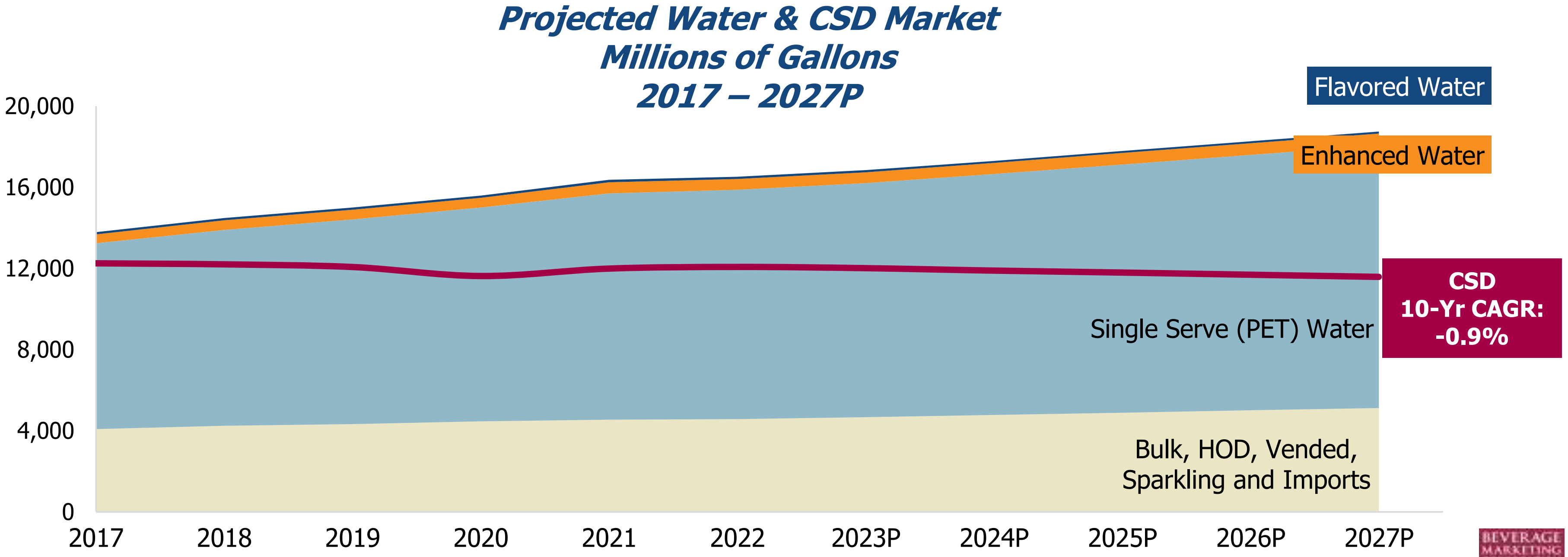
Plant Water

Floral Water

Hydrogen Water

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

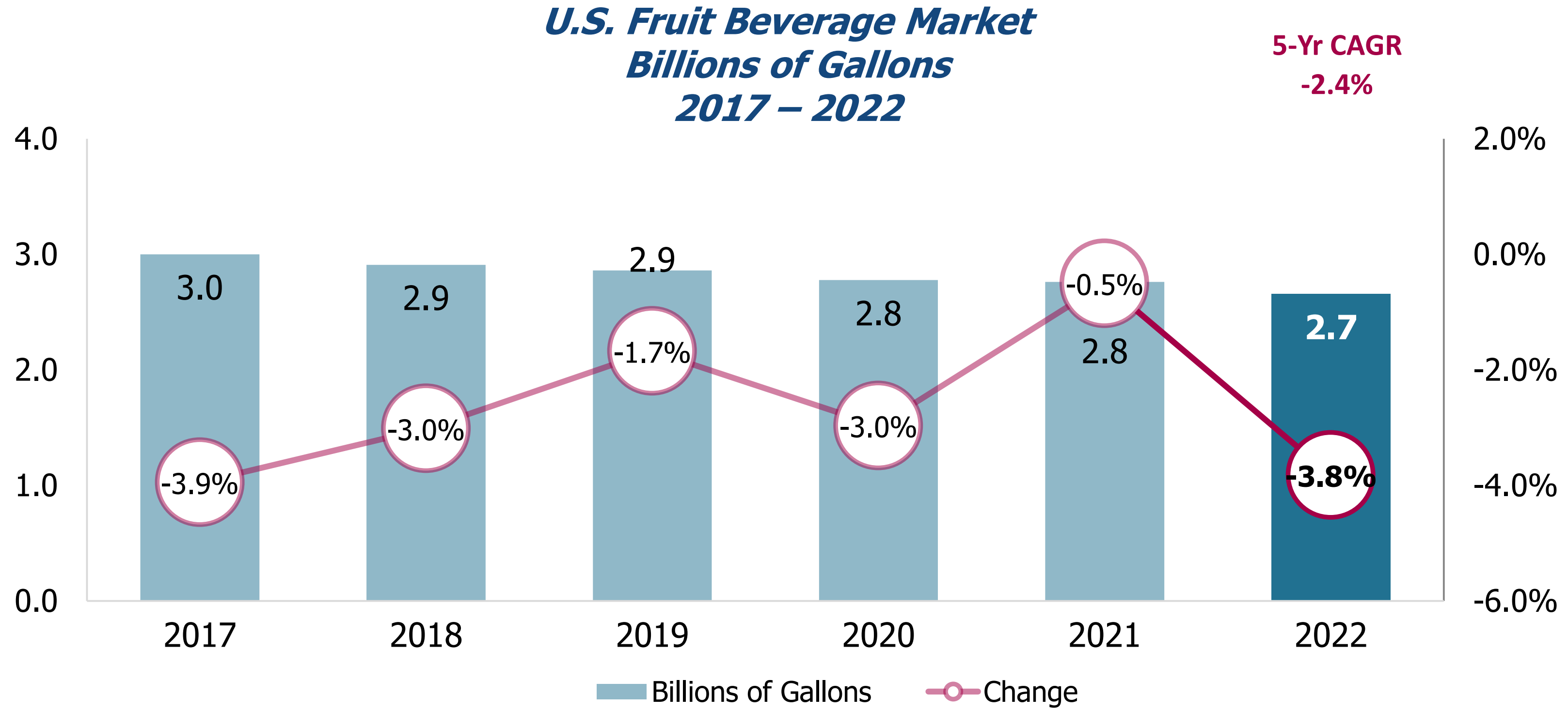
- As bottled water continues to outperform CSDs, the gap between the two categories is projected to widen even more
- On a dollar basis, CSDs continue to be larger than bottled water



P: Projected
Source: Beverage Marketing Corporation

Fruit beverage performance has lagged most refreshment beverage categories in recent years

- Category performance has been negatively impacted by high relative prices, high caloric and sugar content, and limited innovation

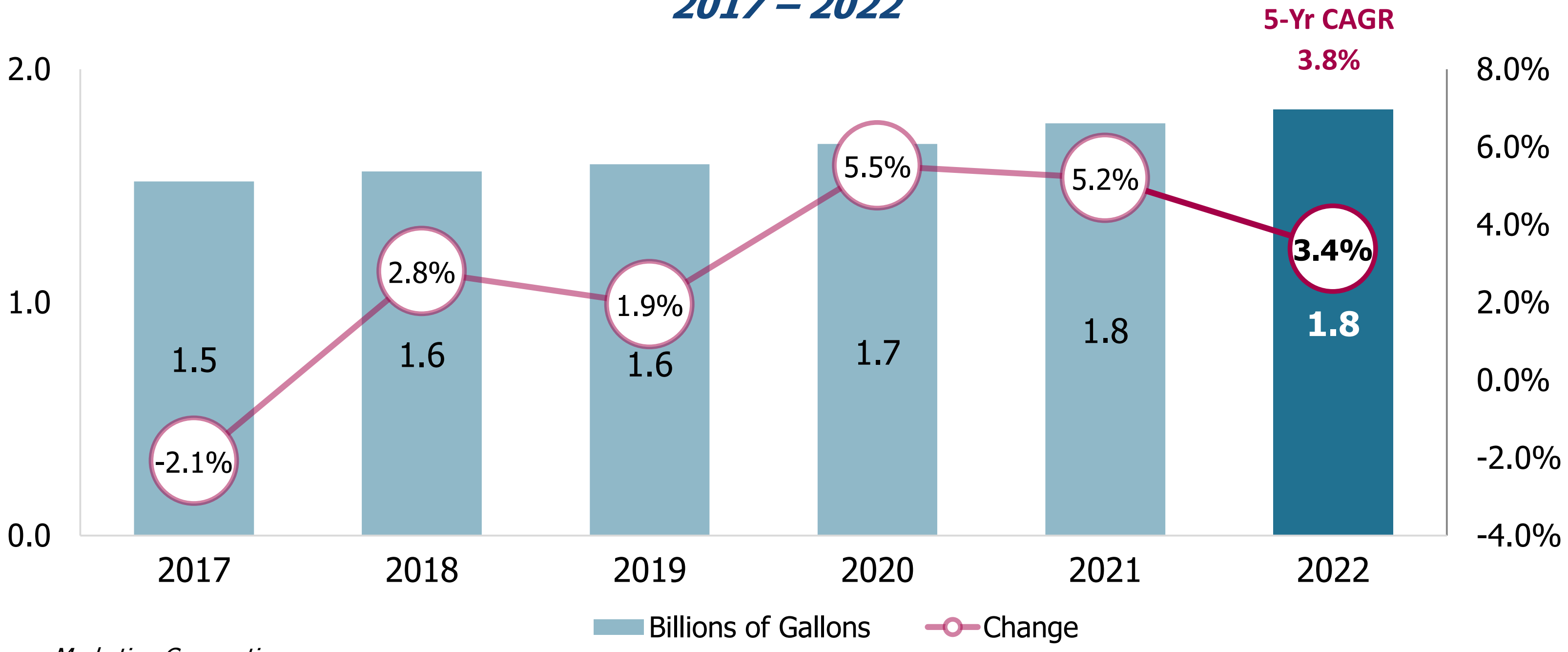


Source: Beverage Marketing Corporation

Sports drinks, which provide hydration, electrolytes and energy, have achieved solid growth the last five years

- Category volume in 2022 surpassed 1.8 billion gallons

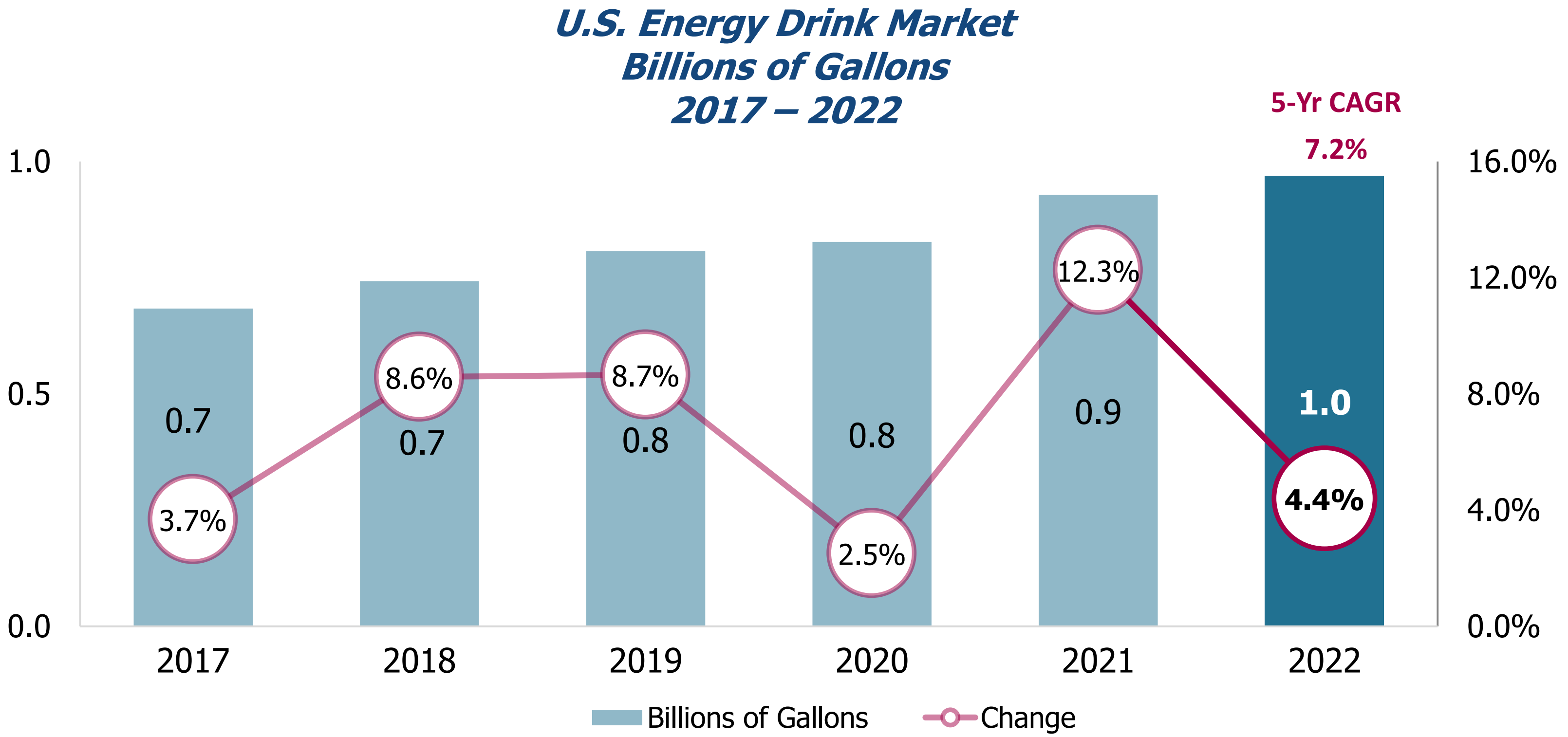
U.S. Sports Drink Market
Billions of Gallons
2017 – 2022



Source: Beverage Marketing Corporation

Energy drink performance rebounded in 2021 after soft sales in 2020, impacted by the pandemic, and continue to show solid growth

- The category's high profitability makes it popular with brand owners, distributors and retailers alike



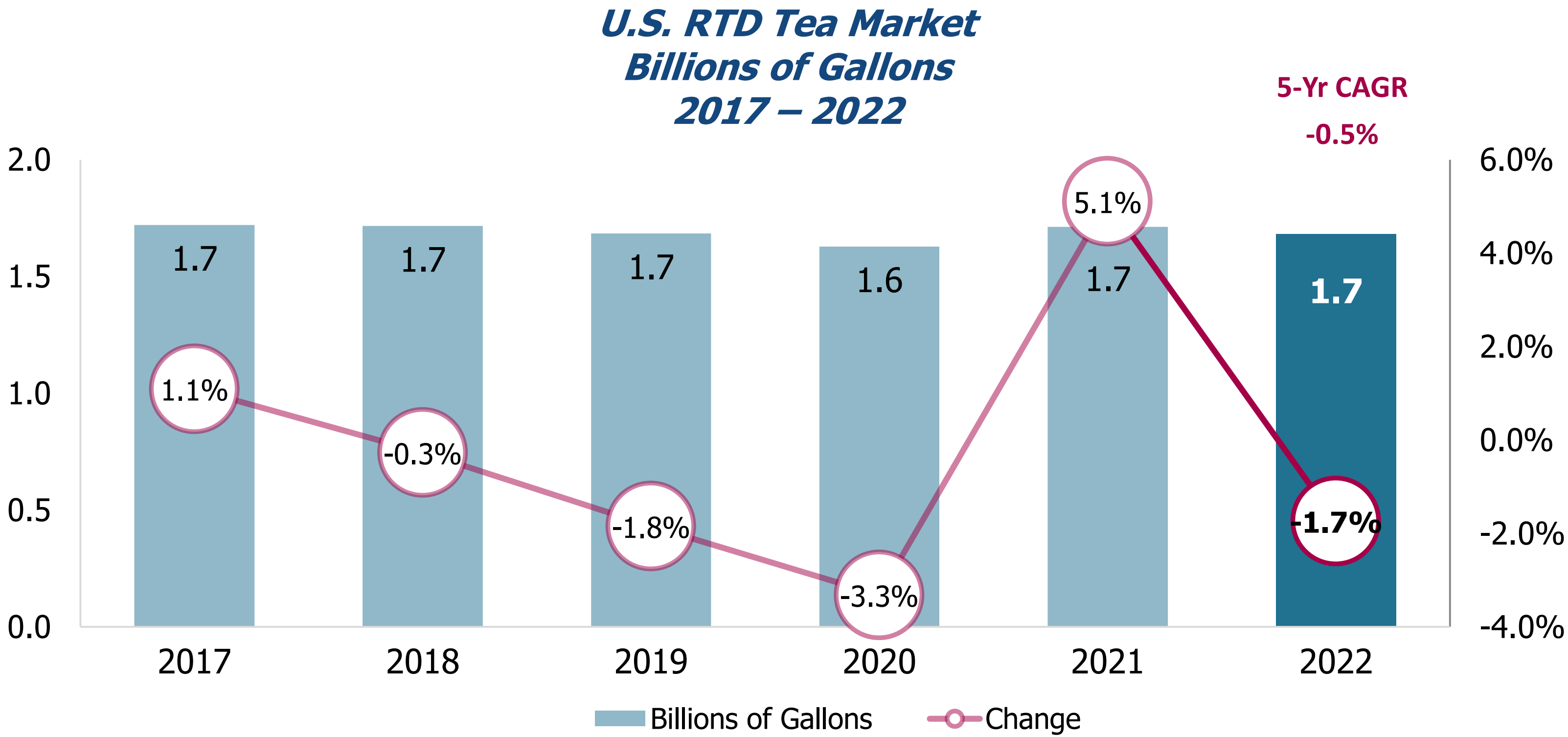
Source: Beverage Marketing Corporation

Accelerated innovation has helped propel growth in both energy and sports drink categories

- In sports drinks, the well-funded BodyArmor became the first viable "third brand" in the category in a couple of decades and then was acquired by Coca-Cola Company. Smaller brands are emerging in its wake. PepsiCo, meanwhile, continues to innovate to maintain its category dominance
- In energy drinks, "performance energy" drinks such as C4, Bang and Reign (Monster) have emerged in the past several years, often with extra caffeine and other ingredients to the usual energy drink formula such as branched-chain amino acids (BCAAs)

The RTD tea category has experienced sluggish performance in recent years but remains well-positioned from a health and wellness perspective

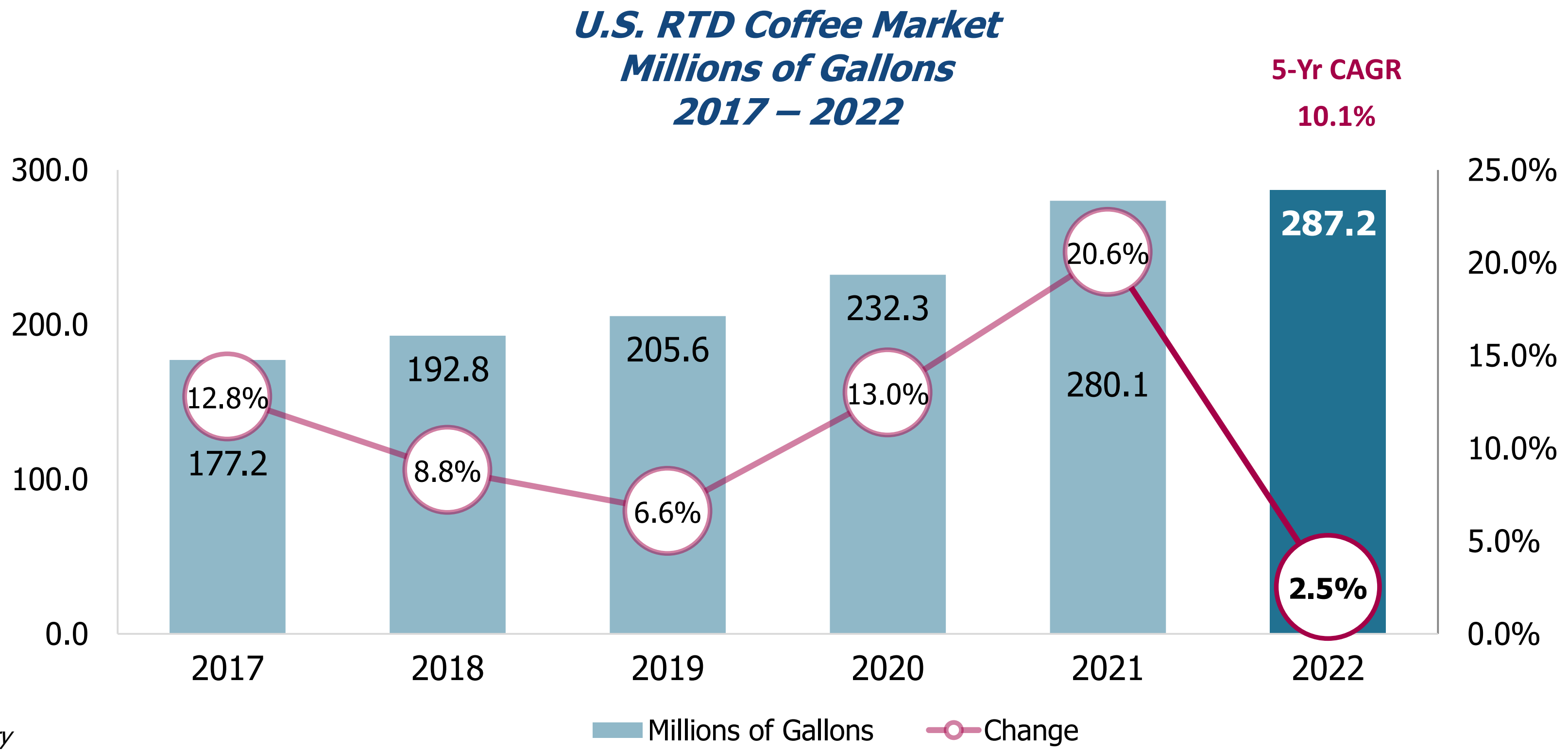
- Category volume exceeded 1.7 billion gallons in 2022



Source: Beverage Marketing Corporation

RTD coffee has achieved solid growth over the last five years but performance cooled in 2022

- After years as a single-serve dominated category, multi-serve packaging is experiencing a surge of growth through channels like supermarkets along with innovations like cold brew and nitro coffees

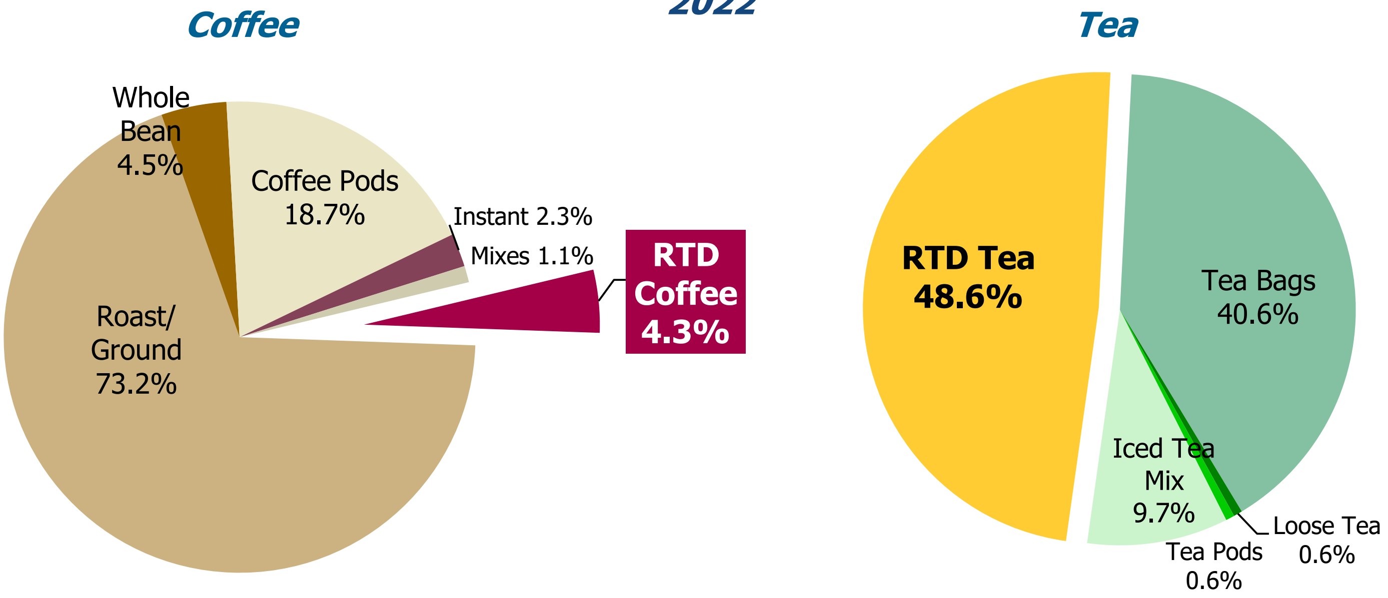


P: Preliminary
Source: Beverage Marketing Corporation

The coffee category is dominated by roast/ground format while the tea category is led by tea bags and the RTD format

- Coffee pods have gained significant share while a significant market for tea pods has yet to develop

U.S. Coffee vs. Tea Market
Share by Segment
RTD vs. All Others
2022



Source: Beverage Marketing Corporation

A host of emerging categories has entered the market and most boast health and wellness attributes and/or promise functional benefits along with competition for mainstream categories

Select Offerings and Categories of Today's Emerging Beverages

CBD Beverages

Probiotic

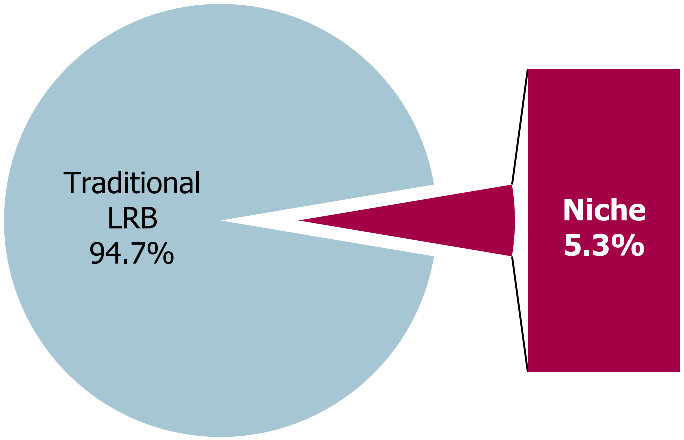
Performance Energy

Protein/Sustenance

Plant-based Water

Products in emerging categories, whose combined revenue is over 5% of the total refreshment beverage universe today, may become the successful brands of the future

Niche Categories vs. Traditional LRB Categories Wholesale Dollars and Share of Wholesale Dollars 2021 – 2022*



Category		2021		2022	21/22
Protein Drinks	$	1,059.0	$	1,246.9	17.8%
Vegetable Juice	$	981.6	$	1,020.3	3.9%
Kombucha Tea	$	996.2	$	988.3	-0.8%
Cold Brew Coffee	$	742.8	$	875.8	17.9%
Meal Replacement	$	659.8	$	653.2	-1.0%
Energy Shots	$	591.9	$	579.5	-2.1%
Coconut Water	$	506.0	$	557.3	10.2%
Probiotics	$	420.9	$	466.8	10.9%
Liquid Water Enhancer	$	434.8	$	461.3	6.1%
Vegetable/Fruit Juice Blends	$	332.4	$	335.0	0.8%
Plant Water	$	134.0	$	144.7	8.0%
Protein Waters	$	43.8	$	50.1	14.4%
Detox	$	6.7	$	7.6	13.3%
Fiber Water	$	2.2	$	2.5	17.3%
Wine Waters	$	1.0	$	1.3	36.4%
Flower/Floral Waters	$	1.0	$	0.9	-0.9%
Probiotic Waters	$	0.5	$	0.6	11.4%
Collagen (Beauty) Waters	$	0.3	$	0.3	6.9%
Rain Waters	$	0.1	$	0.1	4.9%
Niche Beverages	**$**	**6,914.9**	**$**	**7,392.7**	**6.9%**

** Millions of dollars*
Source: Beverage Marketing Corporation

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Among refreshment beverages, the strongest growth is projected for RTD coffee, value-added water, and sports and energy drinks with bottled water having the largest net volume gain from a large base

- Meanwhile, dollars will outperform volume in 2023 due primarily to the impact of inflation

2023 Liquid Refreshment Beverage Projections Volume Growth

LRB CATEGORY	2023(P)
RTD Coffee	6.0% - 7.0%
Value-Added Water	2.5% - 3.5%
Energy Drinks	4.5% - 5.5%
Sports Drinks	3.0% - 4.0%
Bottled Water	1.5% - 2.5%
RTD Tea	(-1.0%) - (-2.0%)
Fruit Beverages	(-3.0%) – (-2.0%)
Carbonated Soft Drinks	(-1.0%) - 0.0%
TOTAL	**0.5% - 1.5%**

Source: Beverage Marketing Corporation

Thank You

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- **Strategic Associates**
- **Research**
- **Advisors**

ghemphill@beveragemarketing.com

mbellas@beveragemarketing.com

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