



SOFT DRINKS REVIEW

LEISURE

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Introduction

Welcome to the 2016 Britvic Soft Drinks Review!

For those of you who are familiar with this annual report, the eagle-eyed amongst you will probably have already noticed that we're trying something a bit different this year. In simple terms, this year's review is shorter, more channel specific and is hopefully easier to navigate to help you find what you are looking for. Perhaps in the past we've been a little guilty of using this report as a vehicle to show you just how much we know about the soft drinks category, so some key facts, stats and stories have got lost... well hopefully not any longer.

We've listened to your feedback and have attempted to deliver a new look, shorter version with more relevant and channel specific information for maximum impact. It's still going to be the annual barometer of the UK soft drinks industry, packed full of data and our insight on consumer trends, but now there will be three condensed versions, each focused on the Grocery, Convenience or Leisure channels.

So, how was 2015 for soft drinks and what can we all look forward to in 2016 and beyond? Well in some respects it was a 'Tug of War' year for the category. With the economy, the sugar and health agenda and a poor summer on one side, squaring up to the growth of the Leisure channel, increasingly health conscious consumers, a warm winter and growing consumer spend on the other. The end result was that soft drinks sales remained fairly flat, with the estimated total value of the category well over £14 billion. As for the future challenges, you'll read more about that later...

We hope you like the new 2016 version of the Britvic Soft Drinks Review and as always, keep giving us your feedback so we can continue to fine tune the report to meet all your needs.

Yours Sincerely



Paul Graham
UK General Manager

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Total Soft Drinks Overview

2015 – The Tug of War

2015 was a 'Tug of War' year for soft drinks. Strong headwinds in the form of a deflationary economy, increasing negative spotlight on the health credentials of soft drinks and poor summer weather restricted opportunities for the category to grow. Conversely positive tailwinds such as increasing numbers of socialising occasions with soft drinks at the heart, proactive health conscious consumers seeking premium products and a raft of in-store events provided significant opportunity.

The end result was that soft drinks value sales remained flat at total market level in 2015, but the estimated value of the UK category as a whole was still well over £14 billion.

Savvy Shopping Drives Omni-Channel Growth

In last year's Soft Drinks Review, we headlined the rise of the savvy shopper. These behaviours accelerated in 2015, with increasing numbers of shoppers happy to visit multiple environments, whether physical or online to meet their growing needs.

These trends translated into a tough year for the major grocers, attempting to balance competing with the Discounters on price, to offering an in-store experience to deliver added value and shopper loyalty. Ultimately, to succeed in market it was crucial to deliver a point of difference to shoppers, be it the Discounters through a fantastic value offer, or premium grocers through a focus on quality fresh and convenient solutions. All too often the Top 4 Grocers found themselves struggling to deliver a clear proposition and defaulting to price cuts led to challenging times for all categories including soft drinks.

Increasing Relevance of Soft Drinks in Licensed & Leisure

Conversely to Grocery, the Licensed and Leisure channel enjoyed a strong year through capitalising on the UK consumer's increasing desire to socialise out of home. There was strong growth, specifically across food led and on the go environments, with soft drinks playing a vital and increasingly important role especially in the growth area of day-time socialising. Soft drinks became increasingly sophisticated, driving premiumisation through

tapping into a growing demand for alcohol alternatives and mixed drink solutions.

Continued Growth of 'Better Me' & 'Better For Me'

Another participant in the tug of war of 2015 was the health agenda. Bombarded by negative messages around sugar, concern around sweeteners and the World Health Organisation's call for the reduction of recommended daily sugar allowances¹, consumers continued to drink healthier soft drinks across the board in 2015. There was a significant shift towards consumers demanding 'better me' solutions driving water & water plus consumption, together with a trend into 'better for me' versions such as no added sugar across all categories.



¹ Source: WHO calls on countries to reduce sugars intake among adults and children, March 2015

A Summer Washout

The UK is a nation obsessed with the weather for good reason, and 2015 saw the push and pull of soft drinks fortunes at the hands of the weather. A chilly August capped off the coldest British summer in three years², meaning that there wasn't the usual level of expected seasonal summer spike in sales, while unseasonably warm months during early 2015 helped get the year off to a strong start.

The soft drinks category withstood some fierce forces in 2015 and came out fighting to deliver a strong performance. Through a joint focus by manufacturers and operators on meeting the needs of consumers across all soft drink occasions, there is much to be positive about in 2016 and beyond.

² Source: The Met Office

Overview & Trends

Increased Occasions Drove Strong Growth In The Licensed And Leisure Channel

What's The Story in a Sentence?

Consumer desire for on the go and social occasion food and drink solutions created significant opportunities for soft drinks.

Licensed and Leisure Overview

2015 has proven to be a great year for soft drinks within licensed and leisure. This channel had an estimated value of £6.7 billion³ and soft drinks saw value growth of +6.6%⁴, while in terms of volume sales, the channel grew by +3.2% to 1.9bn litres⁵. This was primarily driven by three major consumer trends: the increase of social occasions, the delivery of more premium experiences and the rise of the health agenda.

Socialising More, Especially with Food

The UK consumer officially became more social in 2015, with 1 million more UK adults choosing to eat and drink out of the home⁶. Consumers chose to socialise in a variety of environments which contributed to the frequency of eating out occasions growing by +3%⁴. Growth was driven by consumers in urban areas, where there was a +2.9%⁵ uplift in licensed premises in the year to June, with food-led sites, including restaurants and pubs, increasing +5.9%⁵.

Whilst the overall trend showed more people socialising in more places, more often, there were differences by outlet type across the licensed and leisure channels, driven by changing consumer needs, especially around food.

Licensed and Leisure Performance

In the licensed channel, there was a continued decline in consumer visits to traditional wet-led pubs in 2015 (with 27 net closures per week)⁷. However restaurants, hotels, and food-led pubs benefitted from consumers eating out more and this had a subsequent positive impact on soft drinks sales growth, with these outlets contributing to +96% of overall growth⁸.



³ Source: combined Brand Index & Foodservice to December 2015

⁴ Source: combined Brand Index & Foodservice to December 2015

⁵ Source: Combined Brand Index & Foodservice to December 2015.

⁶ Source: M&C Allegra Top of Mind debrief, Feb 2016.

⁷ Source: Source: AlixPartners CGA Peach Market Growth Monitor H2 2015.

⁸ Source: CGA Brand Index, total on premise, value sales 52w/e 26.12.2015.

The trend in licensed was predominantly driven through packaged soft drinks, which grew by +5.5% in value in 2015 (vs. +3.1% draught)⁹. From a leisure channel perspective, coffee shops, quick service restaurants and travel outlets grew by +17%, as a result of consumers' increasing desire for food and drink to go¹⁰.

The time of day was an influencing factor upon consumer eating out behaviour; with day time food-led occasions growing versus last year. This was driven by the growth of both lunchtime and breakfast occasions, which were up +4% and +7% respectively¹¹. The great news is that 45% of breakfast and 55% of lunch occasions featured a soft drink¹², highlighting the significance soft drinks had in this channel in 2015.

Premium Experiences

2015 saw the rise of premium soft drinks as consumers searched for more sophisticated and discerning drinks experiences out of home. Consumers looked for authenticity, heritage, craft and elevated serve experiences. Brands such as Fentimans successfully delivered against these trends and were able to command a premium price.

The Drive for Personalisation

The drive for more discerning drink experiences also led to a surge in customisation through cocktails and mixing, both inspirational experiences that consumers couldn't easily replicate at home. As part of this, premium spirits was the growth segment of the spirits category in licensed, growing by +19% compared to +1.9% for mainstream spirits¹³. As a consequence, strong growth was also seen for premium mixers (+14% in 2015)¹⁴, which highlighted the need for soft drinks to deliver high taste and quality credentials to be able to stand alongside their premium spirit partner. Fever Tree accelerated distribution in licensed outlets, becoming the leading premium mixer.

Understanding this need to bring exciting and premium flavours to cocktails, Britvic launched its range of Teisseire bartender syrups, giving flexibility to outlets to develop unique and inspirational drinks recipes with and without alcohol.

Delivering Healthier Options

Soft drinks also continued to become more relevant in 2015 as the desire to moderate alcohol consumption moved to front-of-mind. 1 in 5 adults chose not to



drink alcohol at all, driven by the 16-25 year old age group, which has grown by +40% over the last decade¹⁵.

Health was a hot topic across soft drinks in 2015 and with sugar a huge focus, low calorie purchases accounted for over a quarter (27%) of soft drinks sales in both licensed¹⁶ and in leisure.¹⁷ Low calorie value sales grew particularly well in leisure with growth of +14.4% compared to +9.2% for full sugar equivalents¹⁸ and packaged low calorie colas like Pepsi MAX performed impressively with a +24% growth across both channels¹⁹.

9 Source: CGA Brand Index, total on premise, value sales 52w/e 26.12.2015.

10 Source: CGA Foodservice, Soft Drinks value sales, MAT to 31.12.2015.

11 Source: M&C Allegra Top of Mind debrief, Feb 2016.

12 Source: M&C Allegra Eating out panel Q4 2015

13 Source: CGA Total On Premise, Value sales, MAT 26/12/2015

14 Source: CGA Total On Premise, Value sales, MAT 26/12/2015

15 Source: Health and Social Care Information Centre, Statistics on Alcohol 2015

16 Source: CGA Licensed, Value Data to w/e 26/12/2015

17 Source: CGA Food Service, Value Data to w/e 31/12/2015

18 Source: CGA Food Service Data to w/e 31/12/2015

19 Source: CGA Foodservice and Licensed Value MAT sales to Dec 2015

Overview & Trends



Consumers Were On the Go in Leisure

On the go was yet again one of the key growth drivers in leisure for 2015, on the go occasions meant that 92% of consumers ate out at lunch and 50% had breakfast out²⁰. In addition, £20.2bn was spent in 2015 through on the go trips in foodservice, up +5.7% on the previous year which equated to £1 in every £4 being spent out of home²¹. The pressure for outlets to deliver great food and drink 'fast' grew, as the squeeze on lunch hours dropped to just 27 minutes in 2015 (versus 36 minutes in 2000)²²! As for what people were buying on the go, sandwiches and soft drinks remained key purchases. However, the increasing variety of freshly made solutions continued to drive value in the channel.

20 Source: M&C Allegra Eating out panel Q1-Q4 2015.
21 Source: M&C Allegra Food to go report 2015.
22 Source: M&C Allegra Food to go report 2015.

A Poor Summer Affected Licensed Sales

Despite the positive factors providing the industry with opportunities to drive soft drink growth, the one thing manufacturers and operators couldn't control was the weather. The poor summer in 2015 reduced footfall in licensed premises versus 2014 and this negatively impacted soft drinks, which saw a -1.5% volume decline across the key summer months of June – August compared to the same period in 2014²³.

Despite the Weather, Soft Drinks Had a Shining Year

The soft drinks category last year was the fourth most valuable beverage category in licensed, after beer, spirits and wine and champagne. It also delivered the second fastest value growth of all drinks categories at +4.3%, growing the category to £4.1bn²⁴, demonstrating its huge significance to the channel. As a result of consumers looking for premium products, premium soft drinks grew by +75% year-on-year²⁵ in licensed. The consumer trends we're seeing in licensed and leisure clearly show that more and more operators will become increasingly focused on soft drinks to unlock further growth.

Evolution of Consumer

23 Source: CGA Food Service Data, volume % change in total licensed - June to August 2015 vs 2014.

24 Source: CGA brand index, total on premise, value sales 52we 26/12.2015

25 Source: CGA brand index, total on premise, value sales 52we 26/12.2015



/// 2015 was the year when soft drinks made the most of changing consumer purchasing patterns in both Licensed and Leisure. Shaped by multiple consumer trends, such as on the go, experiential and eating out purchasing, the soft drinks category performed well across both channels, despite poor summer weather reducing footfall to Licensed premises. ///

Nigel Paine, GB Commercial
Director Out Of Home

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The Future is Bright for Soft Drinks in Licensed and Leisure

Experiences

Premium Products

Despite their increased popularity, premium soft drinks still only made up 5% of total soft drinks sales in 2015²⁶. Compare this to 40% of sales coming from premium products in lager, 31% in ale and 26% in spirits, and it shows the huge growth potential that remains for premium soft drinks in future²⁷.

Personalised Serves

Premium products play their part, but there also remains a clear opportunity to deliver more sophisticated soft drink serves, delivering a greater level of experience for consumers. Cocktails are set to account for 10% of all spirit sales in licensed outlets by 2020²⁸ and with it, mixers will also continue to grow. As well as creating inspiring non-alcoholic cocktails, when paired with alcohol, a good quality mixer will make all the difference to the final taste and the overall drinking experience.



²⁶ Source: CGA brand index, total on premise, value sales 52we 26/12.2015

²⁷ Source: CGA brand index, total on premise, value sales 52we 26/12.201

²⁸ Source: Finest Call and Cellar Trends predictions 2016: http://www.drinksint.com/news/fullstory.php/aid/5690/Finest_Call_presents_cocktail_trends_predictions.html

Passion for Soft Drinks

Staff in outlet also have the potential to make a huge difference to soft drinks sales in future. Staff who are passionate and knowledgeable about the range of soft drinks they serve, will deliver great drinks and ultimately provide a better experience for their consumers. Outlets can unlock further growth potential by showcasing premium soft drinks at the bar, making them more visible to consumers and providing the opportunity for staff to communicate their taste credentials.

Health Trends Will Continue to Drive Low Calorie and Functional Options

With the health agenda set to continue, the popularity of low calorie 'better for me' products and functional soft drink solutions will increase presence. Both manufacturers and the trade should collaborate to innovate and invest in this space, as it is a clear route to delivering greater value from their soft drinks offer.



The Future is Bright for Soft Drinks in Licensed and Leisure



On The Go and the All Day Offering

Last but not least, immediate refreshment will continue to drive growth throughout the leisure channel. Operators must ensure that they're capturing adult and kids spend by stocking relevant ranges, driving visibility and delivering added value solutions such as meal and snack deals for food to go missions.

Outlets also need to be able to cater for different occasions throughout the day and soft drinks have a lead role to play whether this is in enhancing coffee with syrups, serving juices at breakfast, offering family solutions at lunchtime or providing premium products and mixers in the evening.

Final Thoughts...

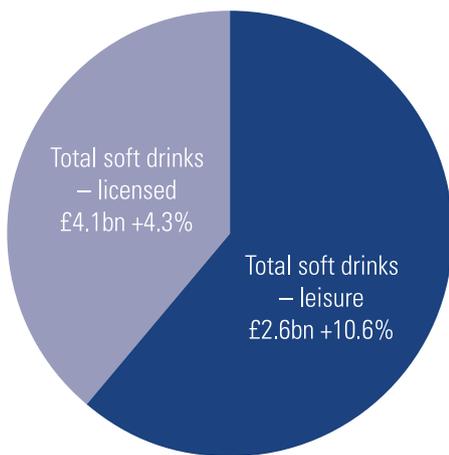
There is a huge opportunity in licensed and leisure to showcase soft drinks as relevant and exciting offerings suitable for consumption across a wide variety of on the go and social occasions. Macro trends show a consumer desire for experience, health credentials and alcohol moderation, meaning soft drinks have the opportunity to invite consumers to step into a more inspired drinking experience.

If consumers can be inspired to choose soft drinks more often and on more occasions, it will generate even more value within the licensed and leisure channel next year - and that's something worth raising a glass to!



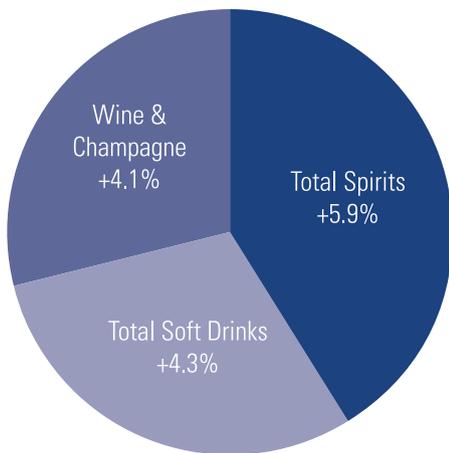
Soft Drinks Licensed Performance Stats Illustrations

Soft Drinks Performance in Licensed and Leisure



Both licensed and leisure benefitted from changing consumer habits

The Fastest Growing Categories in Licensed



Spirits was the fastest growing category in licensed, followed by soft drinks.

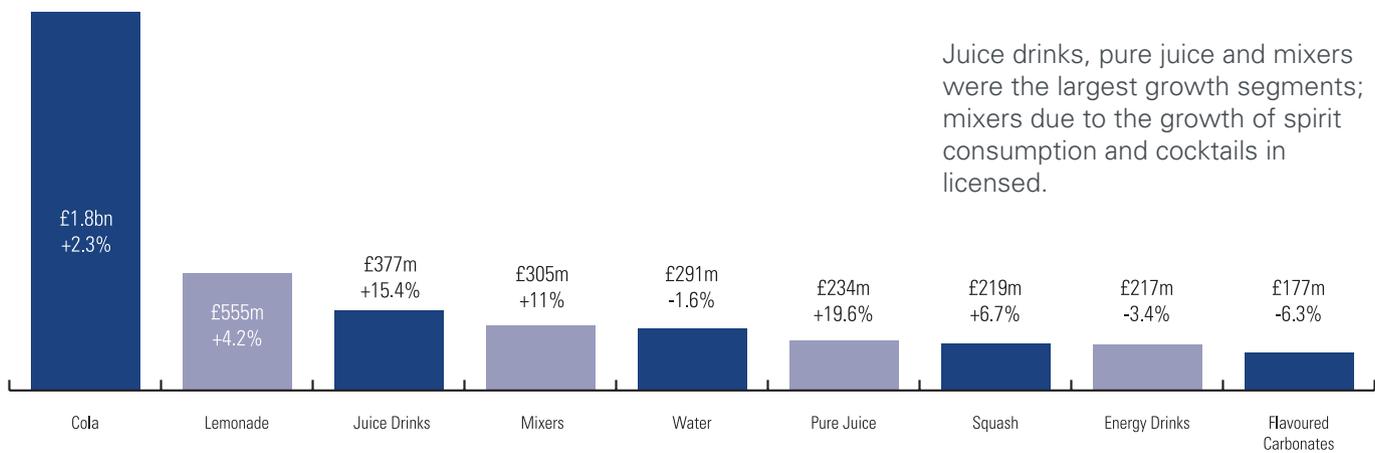
Source: CGA Total On Premise, Value sales, MAT 26.12.2015

Licensed Data from CGA Brand Index Data to w/e 26/12/2015 and includes: Restaurants, Food Led Pubs, Wet Led Pubs, Sport/Social Clubs, Wine Bars, Circuit Bars, Proprietary Clubs, Hotels

Leisure Data from CGA Food Service Data to w/e 31/12/2015 and includes: Education, Health & Welfare, Workplace Catering, Travel & Leisure, High Street Food to Go, Quick Service Restaurants.

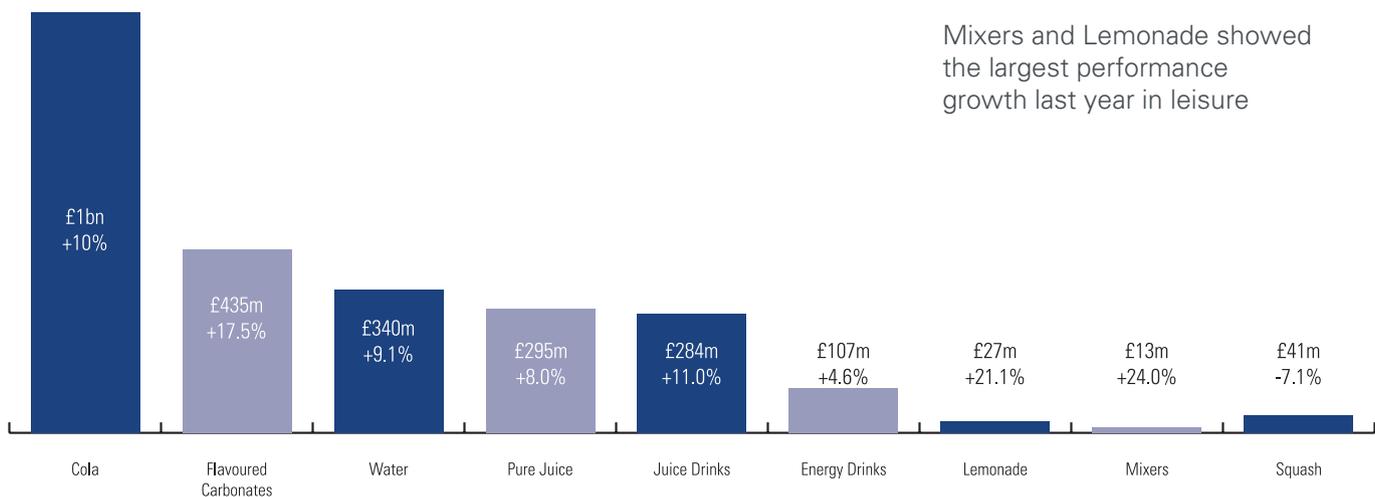
Soft Drink Segments in Licensed

Data: Value Sales (size of each segment £m and % growth / decline) – every segment



Soft Drink Segments in Leisure

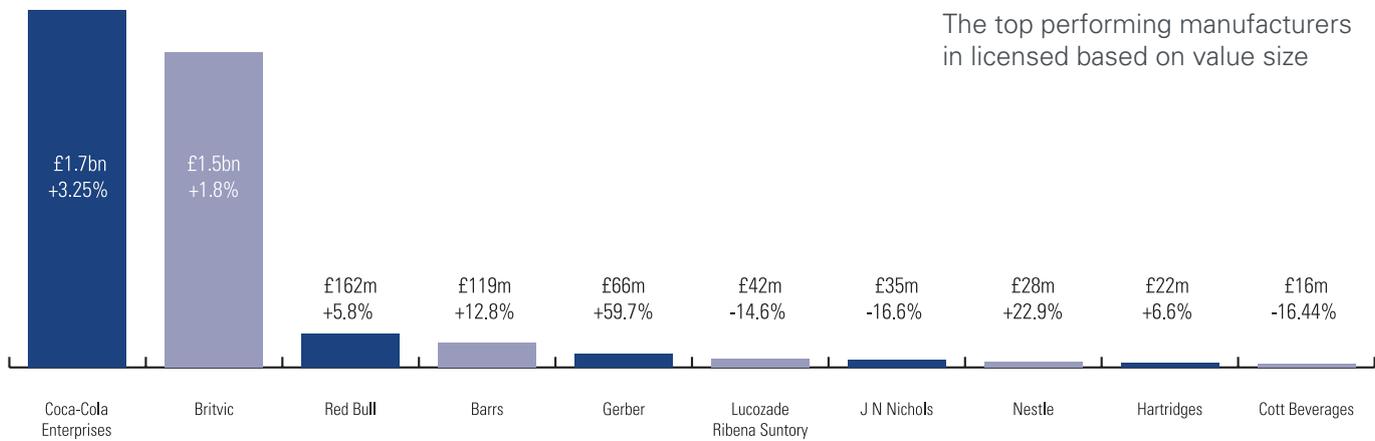
Data: Value Sales (size of each segment £m and % growth / decline) – every segment



Leisure Performance

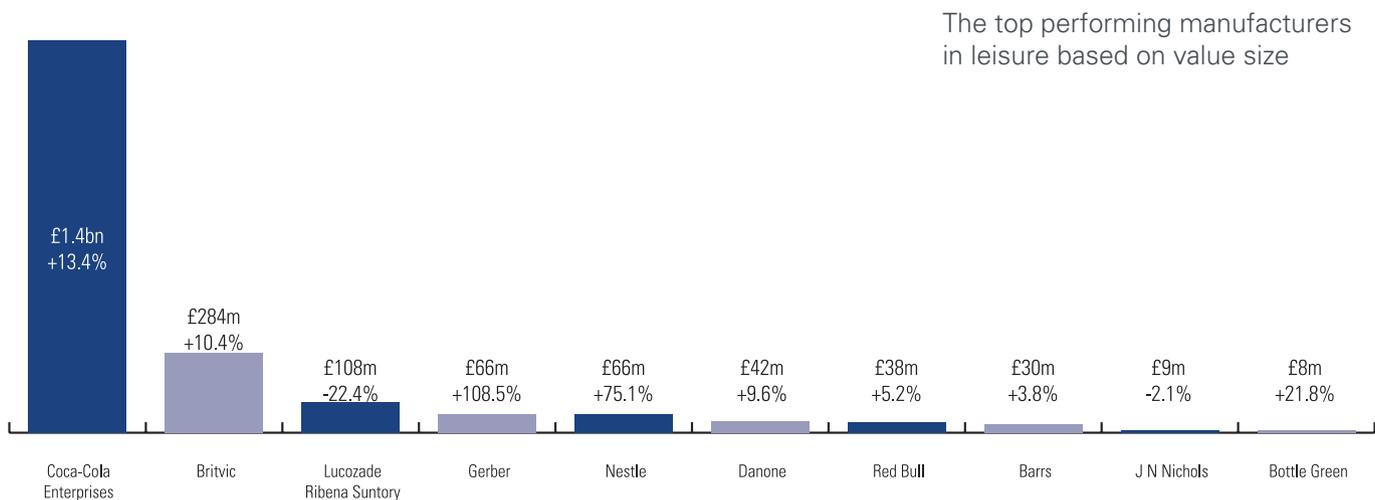
Leading Manufacturers in Licensed

Data: Value sales and growth / decline



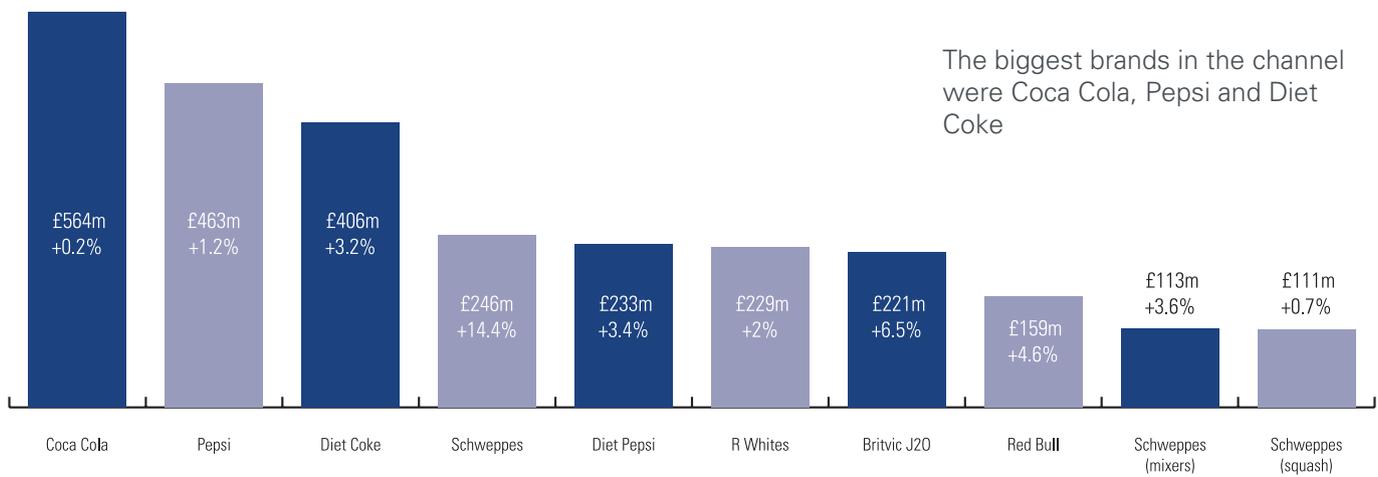
Leading Manufacturers in Leisure

Data: Value sales and growth / decline



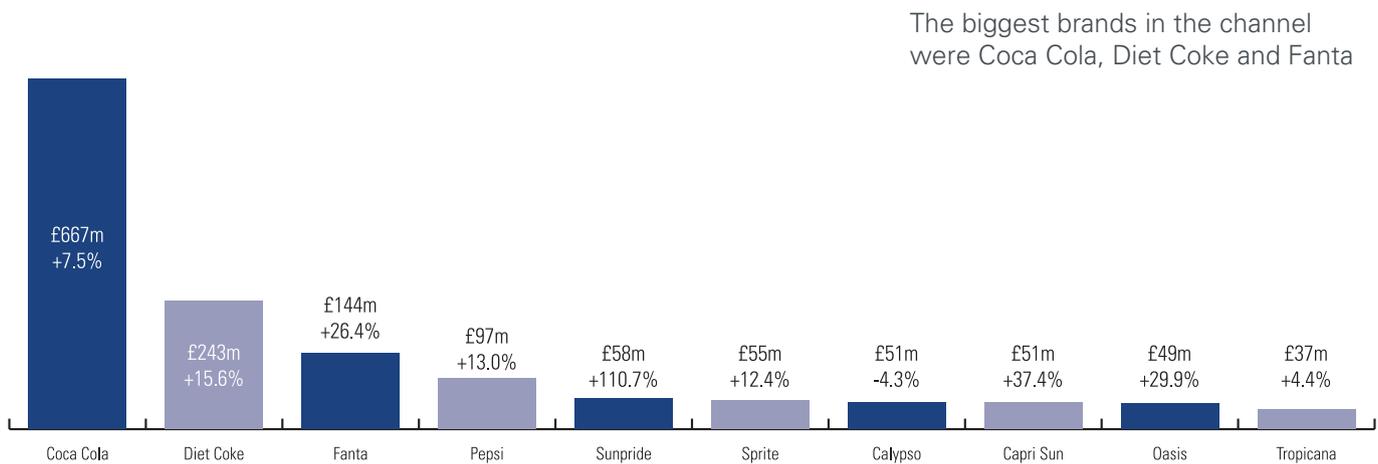
Leading brands in Licensed

Data: Greatest value sales £m (include % growth / decline)



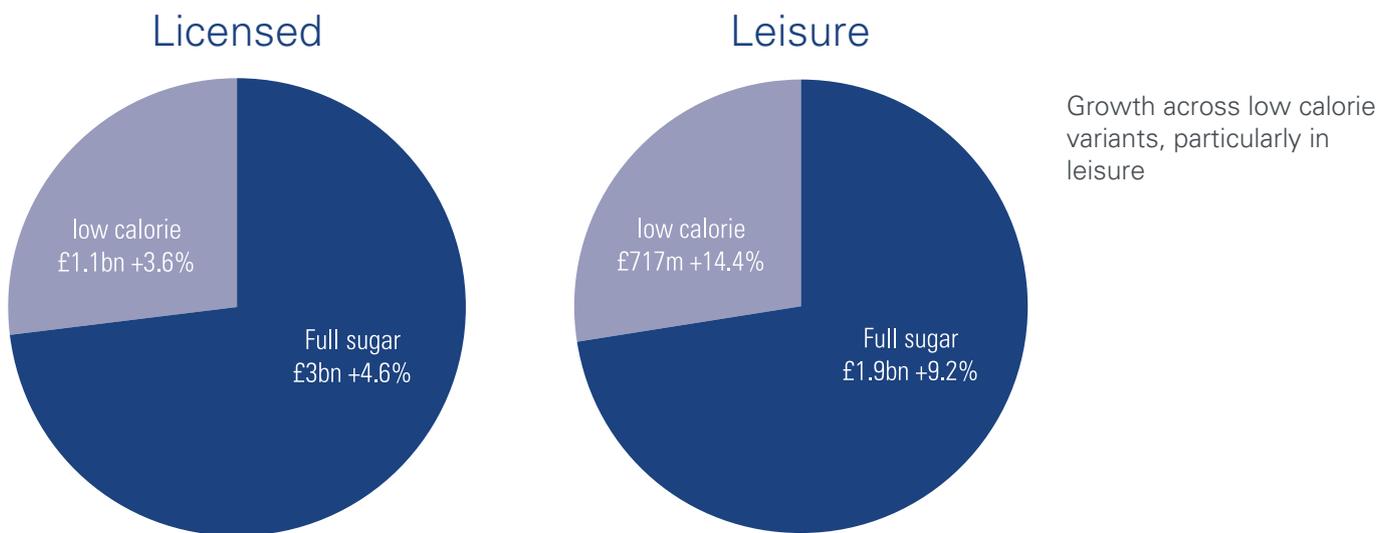
Leading brands in Leisure

Data: Greatest value sales £m (include % growth / decline)

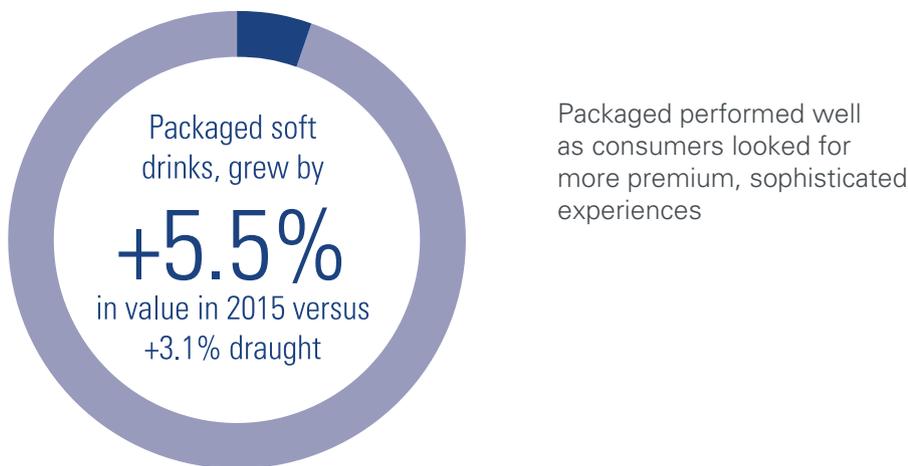


Leisure Performance

Full sugar versus low calorie performance across the channel



Packaged versus draught in licensed



Source: CGA Brand Index, total on premise, value sales 52w/e 26.12.2015.

Glossary

Leisure trade – Defined in this report as Education, Health & Welfare, Workplace Catering, Travel & Leisure, High Street Food to Go, Quick Service Restaurants.

Total licenced trade – Defined in this report as Restaurants, Food Led Pubs, Wet Led Pubs, Sport/social Clubs, Wine Bars, Circuit Bars, Proprietary Clubs, Hotels.

Food-led pubs – Outlets that have a dining menu of some description.

Wet-led pubs – ‘wet-led’ pubs are outlets that don’t sell food (other than over-the-counter snacks such as packaged crisps).

Freehold pub – Pubs that are bought and owned in their entirety by the landlord.

Leased pubs – Landlords of leased pubs have a long-term (traditionally 10-25 year) commercial and assignable lease.

Tenanted pubs – landlords of tenanted pubs are more likely to have shorter term agreement which is contracted outside of the Landlord and Tenant Act (meaning that the term is fixed for 3 or 5 years and no longer).

Managed pubs – A brewery appoints a salaried manager, while retaining ownership of the pub; this arrangement is a “managed house”.

Proprietary clubs – For-profit groups, such as a health clubs, that sells membership to the general public

Carbonates – A drink made predominantly from carbonated water to which juice or flavourings have been added.

Cola – Cola-flavoured carbonated drinks, including cola with flavours such as cherry, twist of lemon, etc. Includes all clear and coloured colas.

Fruit flavoured carbonates – Flavours are typically orange, cherry, lime, blackcurrant, apple, pineapple and grapefruit, lemon, lemon and lime, tropical and other mixed fruit flavours. Also includes Tizer, Dr Pepper and Vimto, as these brands now contain fruit.

Non-fruit carbonates – Non-fruit flavoured carbonates, excluding cola but including Irn Bru. Also includes traditionals such as cream soda, ginger beer and shandy.

Lemonade – All conventional clear and cloudy or traditional, carbonated lemonade; flavoured with lemon juice and additional fruit flavours to produce coloured lemonade.

Energy drinks – All ‘energy boosting’ drinks such as Red Bull, normally fizzy.

Sports drinks – Drinks that are specifically designed to replace minerals, sugars, trace elements and fluids as a result of exercise. Can include dilutables and powders.

Squash – Concentrated beverage, commonly called squash, cordial or syrup. Must be diluted prior to consumption.

Premium mixers – High perceived quality drinks intended to dilute an alcoholic beverage, as well as being consumed as a standalone soft drink.

Iced Tea & Coffee – Includes cold soft drinks that are tea and coffee based such as Lipton Ice Tea.

Smoothies – Generally drinks described as smoothie, either in brand name or as a descriptor on the packaging. Drinks described as thickie will also be included.

Dairy drinks - Ready to drink milk or milk substitute to which flavouring or juice has been added. May consist of any type of milk, regardless of fat content.

Juice drinks – A non-carbonated drink which generally contains fruit juice (some may not) plus added water or other ingredients.

Pure juice – A non-carbonated 100% pure juice or other juice blend with no added water or sweetener, that may be chilled or long-life. Includes all concentrated juices, with the exception of frozen juice.

Water – Still or sparkling water with nothing else added.

Flavoured water – Sparkling or still flavoured water, or functional water (excluding sports water).

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