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Dr Pepper Snapple Group, Inc. (DPS)

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CORPORATE PARTICIPANTS

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Chief Marketing Officer, Bai Brands LLC

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OTHER PARTICIPANTS

Stephen R. Powers

Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Stephen R. Powers

Analyst, UBS Securities LLC

Hi. I'm Steve Powers. I'm UBS' Beverages, Household, Personal Care and Tobacco analyst here in the U.S. And I'm thrilled to be joined on stage by representatives of Dr Pepper Snapple. We've got Michael Simon who's the Chief Marketing Officer of Bai, recently acquired by DPS; as well as Heather Catelotti, Vice President of Investor Relations. So, thank you both for joining us.

We're going to focus the conversation mostly on Bai, but I'm sure Heather would entertain any questions on DPS more broadly as well. If you have questions that you'd like to ask either Michael or Heather, please feel free to send them in. The way to do that is to go crowdmics.com, C-R-O-W-D-M-I-C-S.com\ubsgcr; and if you didn't catch that, it should be on the screen to my right, to your left, and at anytime during the conversation, again, feel free to submit those questions that come up directly to me, and I will do my best to weave them into our conversation.

QUESTION AND ANSWER SECTION

Stephen R. Powers

Analyst, UBS Securities LLC

Q

So, first, I guess, Michael, I guess in your words, just maybe summarize for everybody the Bai story, and in your role within it. I mean, a little bit of background on yourself as well because you got both big company and entrepreneur experience.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah. Why don't I start with that...

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Sure.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

...or how I got to Bai. So, I've spent most of my career – all of my career in the food business. I spent 17 years with the Campbell Soup Company, never worked in the soup business. I worked at Godiva Chocolate which they owned until about five or six years ago, and I also worked at Pepperidge Farm in a variety of marketing and general management positions. Prior to my coming to Bai, I was the chief marketing officer at Panera Bread. So, I've had the opportunity of working at a lot of great food brands.

I've known the founder, Ben Weiss, of Bai, for 20-plus years, in fact, when he was a – as I would describe him, a 25-year old, snot-nosed kid. He came into my office when I was the head of marketing in Godiva and I actually hired him to do a new product project for me and we remained friends. And he had a number of entrepreneurial experiences, and then about eight years ago, he shared with me the Bai idea, which, particularly having been at Panera at that point, I saw the huge shift in consumer behavior to healthier foods and beverages, and I thought he really had something and I tasted some of the prototypes of the product he was developing, and I thought this was really good and so, I was excited for him personally.

And then maybe about four years ago, we started talking about maybe my coming over there. For me, it wasn't the right time to leave Panera, and I think it was probably premature for me to come to Bai because we're still building distribution about three years ago, really most of the months. We developed our initial strategic partnership with Dr Pepper Snapple that really accelerated our distribution.

So, two years ago, I came over when marketing was sort of that next stepping stone to drive our business. I mean, the way I would describe Bai, I mean, simply put, it's a line of great-tasting beverages that also include good-for-you ingredients. I think we certainly see both in the restaurant business and as well as the beverage category. There are numbers of people who are looking for healthier options. But if you looked where they have move from, often, much of it from the CSD category. A lot of it has moved to water, and in our research, what we see is that people are still yearning for great flavor and taste. So, they've almost, at some level, had to sacrifice because they're looking for better-for-you products, but other than water, there just hasn't been a huge breadth of products out there.

We've often talked about Bai as a total beverage solution. So, if you – and I've described it, in some way this is what we can be is a microcosm of the beverage industry, but with a – the primary difference is that people who come to the Bai franchise walk through, well, called the gate of health. These are people who want to be better to their bodies. They want to drink healthier options, but they still want to satisfy the same functional needs that they were satisfying before.

So, on average, people are drinking 8-ounce beverages a day, but to serve multiple needs. In the morning, you want a coffee because you want a pick-me-up, or you want something to go with a meal, or you're working out and you want hydration. We offer products that provide or solve those functional needs, but we'd look for categories where there are voids with products that people see that are good for you, but they're somehow today sacrificing taste.

So, that's really how we look at our point of differentiation for – people are looking for healthier options. We offer both the health they're looking for, but with no sacrifice or compromise on taste.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And what does the core demographic look like and how has that changed as you've launched more variants of Bai?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Well, one of the first things I did when I came to the business, often times with entrepreneurs, a lot of it is built on judgment and gut and how they feel and so, I wanted to get a little bit of a more granular fact-based look at the category. So, we did a quantitative segmentation and what we learned is, our core segment, somebody we call the conscious authentic; the sweet spot, demographically, is a slightly older millennial, 30 years to 35 years, they're highly educated, affluent, but these were the people who are really looking for – to be better to their bodies. They were looking for healthier options. But the definition of health for them had evolved from taking the bad stuff out to keeping the good stuff in.

So, purity, natural ingredients were key to them. But they also wanted flavor. They didn't want to compromise on that. The other important characteristic of that segment is they're all very socially conscious and they were looking to do business with brands and companies that they could trust, that felt authentic. And so, I think with our portfolio I'd met some of their functional needs for beverage, but as a challenger brand that wasn't a start-up mode. It very much appealed to the type of company that they wanted to do business with.

In terms of evolutionary change in the customer, the conscious authentics, as we've defined it, represent 25% to 30% of the population which still is a big number. So, our goal, really since we've started to materially invest in marketing, which was started in 2016 in February was really the focus on this conscious authentic group by driving awareness, consideration and trial.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay. And I guess if we think about what the aspirations for the brand are, your aspirations, Ben's aspirations now, DPS' aspirations, where do we take – where do we take the brand from here and how does it – does it continue to expand laterally or...

Michael D. Simon
Chief Marketing Officer, Bai Brands LLC

A

Yeah, I think you could say vertically and horizontally; at the same time, our ultimate vision is to really have Bai be the leader of this healthy beverage segment which sort of exists in some form today, but if any of you have shopped in a grocery store, it's still a little bit of mix and match. New products come out. There's no real organization. But that's where consumers are going to and that's at least for a retailer's perspective, these are better educated, more affluent customers, so it's a very attractive customer to the retail.

And we think there is an opportunity for someone to play a leadership role in bringing this all together. So, again, anybody who is looking to be healthier, whether it's in the foods they eat or the beverages they drink, we offer a portfolio of different product forms that deliver or provide solutions for the different functional needs that somebody will see and want to address throughout the day.

And so, it's almost a microcosm of the total beverage industry again with the primary difference being health or being healthy as the first partition in the decision tree. And so I think – and we've talked about this a little today, you can – this category is highly dynamic. It's dominated by three big players, but there's a ton of entrepreneurs starting businesses, but if you start looking at how many businesses break through to \$10 million or \$50 million, to a \$100 million, you can count them on two hands and over \$250 million is probably one hand.

And I think what differentiates us from some of the other new businesses that have been highly successful is that there seems to be some ceiling on their growth. And I'll just use coconut water as an example, which has been a great partner with Vita Coco for us, but it is a category that growth is slowing because there's just a certain number of people who only want vitamin water, and that becomes an expansive part of their portfolio of beverages.

We think with Bai, because I've always said it's been built on a philosophy or an idea, not a product form, which is, again, giving great taste, but with a healthy profile we think we can play in almost every type of product form if you think about it as an enabler, to getting to solve a functional need. But again, with this entry point of first and foremost, I want to feel like I'm doing something good for my body.

And so that's sort of the expensive you. How do we get there? Well, first and foremost, I think it's distribution. I mean, despite the fact that we have had triple-digit growth for – since the company was founded with our base business, which is our base Bai, enhanced water product, we've done a good job in grocery, we've done a good job in [ph] club, and in mass (10:09), but in terms of small footprint, it's really a fertile territory. So, drug, C-store, food service.

Some of our new products which were on the table, we've just introduced over the last 1.5 years, a fruit-based carbonated beverage and more recently, we've introduced our version of a better-for-you soda called Bai Black which has traditional soda flavors. We are just scratching the surface in every channel to get our foot in.

So, in terms of the basic blocking and tackling, we think there's breadth of distribution, so getting our innovation into all outlets, getting our base business into small format, and there's also depth of distribution. Even though we have a strong business with our base product, we still, in any given store, only have probably three or four SKUs out of the line that has many more SKUs of solid distribution in large format and within innovation, even where we may have distribution and maybe one or two or three SKUs.

So, we think there's huge opportunity to build our business from a distribution and merchandising perspective and then coupled with external communications, we often refer to our external communications as air cover, driving

awareness and trial, getting people to go to the stores to look for the brand and then our ground support is really what happens in store.

So, we think, first and foremost, just doing some of the fundamentals better and leveraging the capabilities of Dr. Pepper Snapple, there's huge growth still remaining. And then there's also a number of categories, if you'd take our vision [indiscernible] (11:41) complete where we still believe there are voids and products that taste good and are also good for you whether that be in energy category or some of the other categories. So, we think in a secondary way, that also has a huge opportunity to get us to this total beverage solution and that's just the definition of a total beverage solution within the United States. And so, we also think there's significant opportunity particularly in the short term in Mexico and Canada where Dr. Pepper already has an infrastructure and some expertise but this macro health trend is really pervading the entire globe. And so, we think this product has an opportunity to scale not only in the U.S., Mexico and Canada, but other markets as well.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Does the consumer – how does the consumer see the brand? I mean, I remember when the brand first came out, it was by five – or the emphasis was on five calories and that's how I perceived the brand because that's how I was introduced to it and my comment or was I an early noticer of it?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Well, I think early on, we actually had a mid-calorie drink which was Bai, and then they introduced Bai5, and we realized, a mid-calorie which in some ways is the old definition of health, I mean, Vitaminwater, which is sort of the first in – has done an excellent job but today even they have 20 grams of sugar and over 100 calories, so, we weren't really adding incremental value to the category with our original Bai product, so we discontinued that and we focused on Bai5.

I think in general, it's not only 5 calories, it's sort of a stew of reasons to believe, so all of our products have 1 gram of sugar, 5 calories, so the 5, no artificial sweeteners and each product is infused with antioxidants and the source of the antioxidants come from the coffee fruit. So the coffee fruit is the outside berry of the coffee bean, so coffee [indiscernible] (13:39) will harvest the bean and then they'll just throw away the pulp or the fruit and the fruit – our founder figured out a way to create a soluble extract, and that's how we sourced the antioxidants. So, I think it's that stew of reasons to believe is that people, say, oh, this is a product that I feel is going to be...

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Because I think about the brand moving into other sub-segments of the beverage category that – some combination of that stew needs to...

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

And I think – we were talking about this this morning, in some categories, one reason to believe might be more prominent, I think, for CSDs, as an example...

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Yeah, I agree.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

... and I've said this this morning, nobody walked away from the CSD category because they didn't like the flavor. It was really at some point the sugar or the artificial sweeteners got them to look for different alternatives. So, in the CSD with our carbonated sugar and/or artificial sweeteners may be the enemy and in some other categories it may be other things that we can rely on. But I think it is that mixture of a variety of attributes that tell a consumer that they're being good to their body; that really drives at least the perceptions of health.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay. And then, Heather, in terms of DPS' overarching series of priorities...

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Yeah, yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

...where does Bai rank and then how do you run sort of a very growth-focused mandate on Bai with arguably more of a cash-and-harvest focus on some of the other brands?

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Yeah, it's a great question. So, I think you know we typically had had eight priority brands that were rooted in pretty in-depth consumer research and this is where consumers – these are the brands that consumers told us we could win in specific spaces. Bai is now our ninth priority brand and I think as we mentioned, it's really important for us to recognize that Bai has been successful based on being such a strong entrepreneurial organization, right? It is very important for us that we are not going to bring Bai into our sphere. We are going to allow them to operate independently, same as they've been doing, to make sure that they can continue to drive significant growth, disruptive innovation, do everything that they've been doing so well to-date, and continue to be able to do that.

So, with – from the perspective of competing resources, we're not there. We are going to allow them to continue to operate the way they've been doing. That said, we think they've got a lot of internal resources that we can help provide them to help support that growth. And Michael and I talked a lot this morning about sort of data, analytics, analytical capabilities, and supply chain best practices, things that we have that we think we can help Bai grow better with, but being very cognizant that we are not going to bring them into our organization and mandate the way that they grow their business. We are going to allow them to continue to operate the way they've been doing so, which has clearly been highly successful.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

So, in terms of the way you would interact with the Packaged Beverage organization of DPS, does it change or is it the same? Are you going to come in almost as an allied brand in this mix, or you're now...

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

No, they are a priority brand. I would say it's actually different. Right? But they are a priority brand, but we're going to allow them to continue to make decisions that they've been making. So, our marketing team that exists in Plano will not have oversight of Bai.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Michael and his team will remain intact. In fact, on our earnings call, we mentioned that we absorbed 100% of their SG&A. So, we are leaving their facility, we are leaving their teams 100% completely intact. And we're doing that recognizing that we don't want to be the big fish that swallows the small entrepreneurial brand and then it gets lost in our system. We are absolutely committed to helping provide them resources to support their growth, but not to mandate how they're going to do that.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay. And I guess as we think about pushing especially into the smaller format stores...

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

...where the Dr Pepper system is mixed in terms of its – just its breadth, and I would also – you can, we can talk about this, but mixed in terms of its capabilities in terms of penetrating; certain markets, Dallas, fantastic.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Certainly, we have – we've got really strong markets. So, we have some [ph] tail (18:23) markets, right?

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Right.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Certainly.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And then you've got other markets where you're still having to rely on third-party independent bottlers?

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

Yeah, absolutely.

A

Stephen R. Powers

Analyst, UBS Securities LLC

Have you seen – do you – I guess, have you seen – how homogenous is the execution today...

Q

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

Yeah, it's a good question.

A

Stephen R. Powers

Analyst, UBS Securities LLC

...and then as you go forward, how confident are you that you can get the right push and get that push consistently across the U.S.?

Q

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

Yeah. You know, the interesting thing about the [ph] fill-in (18:47) space, where we don't actually own the distribution is it's mainly housed with distributors that we currently do business with today, and they are partners of ours that distribute some of our other brands, Snapple, Canada Dry, 7UP. And so, we're – they're very strong partners of ours and we feel really good about the relationships that we have with them.

A

As we look to continue to grow distribution of Bai, we will absolutely look to leverage those relationships with those independent bottlers. But where they have them today, we feel really good about their distribution networks. Those are some really large, white, independent, strong bottlers that we think do great things with our other brands today, and we suspect will continue to do well with Bai. So, we feel really good about the network that we have from a distribution standpoint for Bai.

Stephen R. Powers

Analyst, UBS Securities LLC

Okay. And one of the things that we've talked about and I've written about it is just my perception, and you can correct me if I'm wrong, but my perception is that the brand has – well, it has expanded rapidly and has expanded with lots of innovation. Right? Lots of flavor innovation, formulation innovation, gone from the original Bai to many variants, and when you look at the spread of Bai's sales across those SKUs, it's pretty spread out, right? There's not a core SKU.

Q

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

Yeah.

A

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And I wonder – my question is, does that – is that calling the question of sustainability of the brand over time? And is too much innovation – let me just pause there actually. Is that a challenge, or is that just a new reality of how you're growing this brand?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Well, I think everything brings us challenges. I actually think one the advantages that we bring is variety, and we hear a lot of that from consumers. In the end, unlike a lot of other companies who have one dominant product, I think the fact that ultimately, we see these business opportunities locked in solving consumer needs, which require different forms, and in some cases, different varieties, it becomes a competitive advantage. I think there is [ph] tension (20:58) with innovation and SKU proliferation, and I think one of the things having that work for two entrepreneurs in a row, there is a lot of enthusiasm for [indiscernible] (21:11)

Stephen R. Powers

Analyst, UBS Securities LLC

Q

New SKUs.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah. New SKUs and products. And on one hand, that's been our strength. But I think now as we're growing up a little bit as a business, it's not that we want to have one or two SKUs, but we don't want to have 15 either. And the way I look at it is you want to look at the portfolio in terms of how do you extend the reach of the brand to maximize the business, but also I think each SKU has to live by itself.

And so you have to look at it that way. And anytime you bring in a new flavor, A, it does create news and excitement, and that's been a tool that marketers have been using for years, but we've got to go in with a philosophy one in, one out. And with every new flavor of variety, we want to raise the bar that's more productivity. So it's a constant looking at productivity and understanding that we're not just going to be able to get that many SKUs. And to your point, in some ways, there's a lot of pitfalls. Too many SKUs can weaken the whole line and make all SKUs or many SKUs vulnerable where you have a strong line. I think there's also a tremendous inefficiency in a supply chain when you're trying to produce 15 SKUs versus 6 that are strong SKUs.

So I think it's this balance of still providing the variety in solving the various needs that we try to address for the consumer, but doing it in a way where we're not making ourselves weak, whether that be our on-shelf sustainability or through the supply chain. But, again, I think with this notion of total beverage solution, there is the opportunity for different product forms as one level of variety and a number of varieties or flavors within each of those product forms. I mean, just look at the carbonated soft drink category today, there are colas, there are root beers, there are creams. So this Bai Black, which is our version of a better for you soda, we have ginger ale and root beer cream, cola and a lemon lime. So today, those flavors are satisfying different needs, but we don't need three different versions of lemon lime, right?

So I think we just – part of the growing up and having worked at Godiva and Pepperidge Farm, which has a very similar relationship to Campbell Soup as we do to Dr Pepper, we know that for us to become – I think we're probably going through adolescence right now, but to become a young adult we have to be a little more thoughtful on how we think about these things, but also know that the strength of variety and getting us where we've gone today. That make sense?

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Yes. It does. And so is it fair to sort of spin that and summarize those as I look forward? Maybe more of a focus on – you said that there are new innovations, there's more one in, one out, and more of what's consolidated around what we've got, find the winners and losers, push the switch on the winners and losers, and then build off of that [indiscernible] (24:14).

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

I think the other thing that we're learning and I think an entrepreneur learns is particularly in a multi-tiered system while we may want to introduce five new products at the same time. A system can only effectively focus on one or two. And so, as I often told my team, I rather execute a really good idea extremely well than execute a great idea poorly, so I think dealing with the reality of a system in a marketplace that we operate in is also going to force us to change our behavior a little bit.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

So, that's a tough change for an entrepreneur or an organization.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

It is.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

What gives you confidence that...

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Because I've done it before.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

I think it gives me confidence. And I mean we need to start thinking like a business, not just a – which thinking like a business is yeah, we want to grow sales, but we want to do it profitably, so.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

I think DPS might help you with that focus.

Michael D. Simon
Chief Marketing Officer, Bai Brands LLC

A

Oh, they already have.

Stephen R. Powers
Analyst, UBS Securities LLC

Q

I guess maybe that pivots a little bit, not that I – and we've talked a little bit about this that RCI DPS's sort of cash and cost efficiency mindset. It may not directly apply to Bai in its early stages. But how do you think over time the discipline that you have developed at DPS can apply to Bai? And I think most immediately I would think that from a marketing ROI standpoint, some of the work that actually that Heather leads up could be directly relevant to Bai's evolution.

Heather Catelotti
Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Yeah. RCI obviously our program about eliminating waste, right, focused on Lean and Six Sigma principles. We've always said that the acquisition of Bai was really driven for growth, right? We did it for growth and not for cost. That said, over the past couple of years, we've been using the same tools and principles of RCI that help us drive productivity to actually help us drive top line growth. We use very specific tools. We go into specific targeted markets. And we identify voids or essentially distribution gaps or closures that are in the marketplace where we should have product in shared shelf and our product doesn't exist.

So we have very specific tools to help drive closures of this distribution gap. We piloted this back in 2014 with the Snapple brand and found that it was very successful in the markets where we had applied in RCI toolkit mindset. We grew at exponential rates in those specific markets versus our base growth in other markets.

Last year, we had a Lean track specifically dedicated to our allied brand priority SKU distribution, which Bai played a big role in that. And so we've actually utilized the tools of RCI over the past year or so to help drive top line growth for Bai for the piece of business that we already distributed. I think certainly again, the acquisitions about growth, but there are certainly some back office and supply chain type productivity things you can do that we'll look to do over time with the business, marketing ROI absolutely, even trade efficiency, right? And Michael will probably talk about some things he did on pricing last year. But there's overall a huge opportunity for these guys to get involved with respect to data and analytics around what they've been doing to help drive the business, right?

Last year was their big first investment in marketing. They've sat down with our third-party analytical firm, and they've had several conversations around their capabilities and how we think we can help them with respect to driving a higher ROI. That doesn't mean budget cuts, right? That means, [ph] bringing (28:09) up resources, monetary resources to invest in additional marketing. But that's really where we're at with these guys. They know it's important, they're committed to it.

I'll tell you that we've shared some of our portfolio learnings, Steve. There are some things that we've seen across every single one of our brands that has been a universal truth, right? And we've shared a lot of that with Michael so that they can adjust their plans accordingly and they'll get on an MROI system so that they can adjust their plans throughout the year. But even from a trade standpoint and thinking more holistically, how could we make sure that every dollar that they're spending is as effective as it can be so that we make sure that we're growing the brand as quickly as we can without needing additional resources, right, making sure that we're maximizing every penny that they have today. And you know us, our mantra is that we're always going to invest what we need

to behind our brands. We're investing significantly behind by this year. We'll do it for the next couple of years. But yeah, we want to be as effective as we can with every dollar that we spend.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

I would just add two things there.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Michael will be [indiscernible] (29:20)

Stephen R. Powers

Analyst, UBS Securities LLC

Q

You got a certificate.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah. Yeah?

Stephen R. Powers

Analyst, UBS Securities LLC

Q

You do.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

I was hoping for a medal, but I'll take a certificate. I was saying hyper growth covers a lot of [indiscernible] (29:32). And I mean I know we have not done things nearly as efficiently as we can, so with their capability and their approaches to productivity is certainly going to help us. I think the other thing is, while some of this goes to the bottom line, I look at the productivity gains as incremental investment pools.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Yes.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

That's right. Yeah.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

So if we want to continue to invest behind the business, how do we do things smarter so we can create new pools of money that we can invest? I know I mean since we – as Heather alluded to, our first major material communications campaign started in February of last year, and we see this brand as hugely responsive to advertising. So the more money I can invest in advertising versus trade or something else, I think it bodes well for

us to continue to build and sustain the momentum that we've had to-date on the top line and also be more productive on the bottom line.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Right. And I mean, to that point, I think you've said 15% to 20% increases in advertising behind the brand.

Heather Catelotti

Vice President-Investor Relations, Dr Pepper Snapple Group, Inc.

A

Yes. Correct. Yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And that's off of a base that substantially went up last year.

Heather Catelotti

Vice President-Investor Relations, Dr Pepper Snapple Group, Inc.

A

Yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

I guess, two things. The Super Bowl commercial that you ran, right, it's early, but is there a way you're assessing sort of the success of that? And how are you tracking it in terms – I mean, obviously there's sales response, but there's also social media response and all kinds of different things.

Heather Catelotti

Vice President-Investor Relations, Dr Pepper Snapple Group, Inc.

A

Absolutely.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

What are you seeing in terms of – does that encourage you? Does that help the odds that you do spend more if you find those [indiscernible] (31:05) pools to invest?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Well, I'll speak relative to the Super Bowl. I mean we have seen tremendous buzz and word of mouth, and we have social listening tools. We've generated nearly 3 billion impressions with the ad and 400 million in social media. We've had – the ad itself was viewed 17 million times on social media. So we're getting the awareness around it. Now, the big question which – we're just getting data back this week – is did that awareness and buzz translate to sales. So we'll look at consumption data.

We also have – we've been using a continuous brand track over the last year, and we are going to be whether it's with the organization that Dr Pepper uses today and we've also looked at some other mix modeling agencies. We're going to use them to help us assess how much of our sales growth or lift over this period of time can be attributed to [indiscernible] (31:58) advertising. But we have seen again in the past – last year, we advertised in

the Super Bowl, but in just three markets because that's what we could afford; Chicago, New York and LA. And we saw a huge lift, I mean our average weekly sales which was running about \$3 million a week went up to \$4 million. We saw a huge lift literally on the day we started advertising, which part of that gave us the confidence...

Stephen R. Powers

Analyst, UBS Securities LLC

Q

To go further.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

...because we're still in an awareness driving mode to take the local investment and go national. Plus, we have this great partnership with Justin Timberlake, one of the top five stars in the world. What a better way to showcase that partnership, as well as his social network which he has 60 million fans on Instagram by being a part of the largest live television event every year, so.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Right.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

I think it was one of the, you said, top five commercials on the list [indiscernible] (32:56).

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah, and it's the number of ratings, but we were the top five in most of them and [indiscernible] (33:02) it's something on word of mouth and buzz in terms of brands that we're able to get significant lift from against those metrics. And we were at the top or amongst the top in the list of those as well.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay. And you had mentioned trade spend optimization. One of the other observations that I've made based on the Nielsen data is that in the past and you see this most noticeably in the C-store, but you can draw the same kind of conclusion in mass as well is that as you've gained distribution, it has correlated with some price concessions and I'm assuming while that's promotion, I don't know how much, but to what extent can you gain distribution without those price concessions, are those price concessions temporary, is your pricing where it needs to be in order for the brand to continue to grow?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

I think first and foremost, our philosophy is that we want to be premium to our books out of competition. So even at our hottest price points which were generally \$3, \$4, or \$5, we're still \$0.30 to in some cases \$0.70 more expensive than it. So, that was still important. I think the price discounting was less about – we have a discount to get distribution but more to drive trial. I mean, just the same reasons why we invested in television this year and last year to drive trial or awareness in trials. We wanted to eliminate some of the risk that a consumer might see in a new product that they don't know anything about or heard something about on TV.

I think in hindsight, though, we could have spent more efficiently. I think we got a little overly aggressive in some of our pricing. So, this year, we're going to be much more disciplined than we were in the past. You won't see the same level of promotion, but it was really more of maybe not the best tactical expression of a strategy, but it was about a strategy of driving trial in store and now I think we just have to pull it back a little. And I think to the earlier discussion on productivity, there's a lot of dollars there just to be spent more efficiently that [ph] can (35:10) drive the same amount of volume, but for a significantly smaller cost.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Yeah. And you've been successful. I mean you've been successful in Costco. You've been successful – and I guess is that where you want to be success – has that been good for the brand or not good for the brand?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

I think it's a bit interesting. This is before my time there. From a retail perspective, the business we're still early on through club, particularly Costco where we had what we called a biosphere where we've looked at Costco as sort of a leading retailer, a retailer at other brands and then other retail channels or banners would look up to in a market. So we actually started our distribution in many ways with our base product.

In Costco, we did Costco road shows, the way to introduce consumers, as well as other competitors to Costco, to the brand, and try to sort of built – people would see in Costco, consumers would get a taste of the brand. They would ask on different shopping trips, in grocery stores, A, do you sell Bai and then it's sort of built from there. Club has been an important driver of sales. I do think there's – as we see their allocation of our overall pie, it will still be important in absolute terms, but I think the percentage of our total volume will decline because we're so overdeveloped in club, both Sam's and Costco. We have great relationships with them.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Costco is a natural fit for their consumer too, right?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

For sure.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Yeah.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah.

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Yeah. Yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

There's been some success online too relative to other beverage brands, right?

Heather Catelotti

Vice President-Investor Relations, DrPepper Snapple Group, Inc.

A

Absolutely.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And is that – how developable – is that a word, developable...

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

It is now.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

...is that channel, which is always a challenge for [indiscernible] (36:55).

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah. It's interesting because we've been very successful in e-commerce and I think we've been successful for two reasons. One, we don't – we look at it as a dedicated business unit. And I've talked to a number of other different brands who almost see it as a channel. So we have Target and we have Amazon, which is still 90% of our volume. The second piece is how you address that market. It's not like bricks and mortar. It is a direct market business. We have people who have CRM experience.

And so we think one of the core reasons of our success is we've been able – although Amazon doesn't give me a ton of data, but we've been able to use their data to better target to test different messaging and really be efficient. And because the Amazon owns the entire customer journey, I can target water drinkers or energy drinkers or people who like snack bars, and I can give them different messaging and see what best affects their behavior, whether it's to do with a detailed page view or click through or actually make a purchase.

So it's become a great means for us to be more efficient, and we've garnered some learnings for our bricks-and-mortar businesses as well. And I think we have a formula that we're now looking to scale with the breadth of other online retailers that are coming to the floor as well. And so, for us, this has been a great means. And I think the

other interesting thing for us from a category perspective, I was reading an article about BCG and they basically were talking about the growth of retail, and I think online retail is about 1% penetration. They were projecting by 2025, it was going to be between 5% and 10%.

But if you look at bricks-and-mortar retail in terms of volume growth, it's basically going to be flat. All the incremental volume is going to come from online. And the unique thing, particularly, about something like Amazon, first mover is highly important because their algorithm is built on purchases and at some level just relevance like Google. So it's hard. Once you're in there and you come in late in the game to supplant people who have been doing this for a while. So we think there's some competitive advantage both in terms of Amazon as well as our broader business and particularly a millennial customer, who used to buying online. And you're seeing more and more companies bringing e-commerce into their own businesses as well, and I think there are certainly benefits in terms of price realization, but also the data and the learning that you get.

When I was at Panera, I launched our loyalty program. The loyalty program today has 25 million members represent 50% of Panera's transactions. The ability to assess customer health, to understand trial and repeat, to do targeted CRM becomes critical. And so we're in early stages now and it's still – while it's one of the fastest-growing pieces of our business, it's still relatively small, 5.5%, 6%, but we think going forward not only the value of being in this business as a first-mover, but starting to help us understand how we leverage data in technology is going to be critical three and five years down the road.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And I don't know how this – if this is relevant, but I mean I was going to ask you about this because of the Panera experience. It seems to me that the loyalty around Bai, for those that have it, is really high.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah, people are passionate.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

And the demographic as you said is younger and is more ought to be online. Is there a way to actually go more direct to consumer, build more of a loyalty program around the brand and collect a mass information direct from that most loyal consumer base?

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

Yeah.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Okay. More to come.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

A

More to come.

Stephen R. Powers

Analyst, UBS Securities LLC

All right. Well, with that, I think we're out of time. Thanks so much.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

Yeah. Cool.

Stephen R. Powers

Analyst, UBS Securities LLC

And thanks, everybody, for joining us.

Michael D. Simon

Chief Marketing Officer, Bai Brands LLC

Thank you.

Heather Catelott

Vice President-Investor Relations, Dr Pepper Snapple Group, Inc.

Thank you. Thanks. Thanks, Steve, for having us.

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