CottCorporation

May 16, 2018
08:10 AM EDT

Emmett: So it's my honor to kick off the conversation with the Cott Corporation. With the recent divestiture of the legacy private-label business, other than the name everything about Cott has changed. It's a new product portfolio. It's a new sales channel they go to. It's a new and improved balance sheet, new and stronger growth and margin profile as well. What has not changed is their relentless focus on cost, cash generation, and capital discipline. To further discuss Cott's evolution and opportunities over the next 12 to 24 months, please join me in welcoming Chief Financial Officer Jay Wells and Head of IR, Jarrod Langhans. Following the presentation, I will open it up for Q&A.

Jay?

Jay Wells: Good morning everyone. And they Emmett (ph) and BMO for allowing us this opportunity to present today and answer some questions. Before we begin, could you please take a look at the Safe Harbor statement on the screen. It's something you all have seen many times, but please keep this in mind as we go through the day discussing various materials.

As Emmett mentioned, I am Jay Wells, Cott CFO. I'm joined here today by Jarrod Langhans our Head of Investor Relations. And our goal today is to briefly accomplish, discuss what's been accomplished over the last several years in really transforming the company. I mean Emmett mentioned that change is the new norm. I don't think you'll see a company that's changed more than us over the last three years.

Then I'll also provide an overview of our business profile as we've really become a focused growth-oriented water, coffee, tea, and filtration services business. And then I'll expand on the traits of the business that will drive top-line growth, profitability and shareholder value. So onto the presentation.

Over the last few years, Cott has undergone significant transition from a mature, low margin, private label soft drink business with high big-box retail customer concentration to a growth oriented, higher margin business with much lower customer, product, and channel concentration. In essence, although we operate within the consumer sector we're now a services based business that no longer mirrors the exposure to the CTG markets that Emmett mentioned. The diversification strategy we've focused on was building leadership position and platforms and growing categories including water, coffee, tea, and filtration services.

Today Cott has a leading position in water delivery services across 20 countries, as well as the leadership position in the custom roasting and grinding of coffee and blending of tea within the U.S. food service channel. As well as strong positions with an office coffee services and filtration in multiple countries.

These position or this business platform supplies over 2.4 million customer locations by a more than 3600 routes, 360 depots, and 60 manufacturing facilities. Our diverse HOD water customer base is predominantly made up of medium to small enterprises alongside residences and home offices. With our coffee, tea, and extract solution segment predominately supplying U.S. food service and convenience channels in the U.S.

But we no longer expose to any form of significant customer concentration and have little in the way of exposure to big-box retail. In addition, our scale and leadership position coupled with the fragmented nature of the 20 markets in which we operate provides a good opportunity to add customers organically through our marketing programs and partnerships as well as through small complementary overlapping tuck-in acquisitions.

These tuck-in acquisitions provide the ability not only to strengthen our business but also fuels additional top-line growth and synergies from the many cost savings that arise from increased scale, from procurement scale, from route density. Thereby providing very attractive post-synergy EBITDA multiples and value creation. In addition, we don’t have exposure to many of the company’s traits that we used to be compared to.

For instance, our route-based services segment takes price every year on a customer’s anniversary date. And we have much less exposure to commodity type prices. And in those areas where we have exposure we have incorporated various risk mitigation techniques to offset these exposures such as energy surcharges, commission-based pay, and our coffee-hedging program.

So on Slide 6, let’s take a quick look at the three business segments that we are in. We have two larger segments and a smaller segment we refer to as all other. The largest of these reporting segments with over $1.5 billion of revenue is our route-based services segment. This segment focuses on water, coffee, tea, and filtration services across 20 countries. The second largest segment is our coffee, tea, and extract solutions segment with over $600 million of revenue which focuses on the provision of premium custom coffee and roasting and tea blending. As well as extract solution to the U.S. food service industry. These two larger segments plus our all other segment generated an excess of $2.2 billion of revenue and $296 million of adjusted EBITDA in 2017. And we would expect them to generate an excess of $2.35 billion of revenue in 2018.

So on Slide 7, provides our new vision. And our vision is to be the preeminent international route-based direct to customer water and coffee solution provider. With superior shareholder return for above market topline growth, expanding margins, growing free cash flow and further acquisitions with a key focus on increasing route density and capacity utilization.

Slide 8 outlines our mission which focuses on good topline growth as we look to 2018 and beyond generated from better-for-you product offerings positioned in growing categories and channels. And innovation, cross selling, and tuck-in acquisitions in the various markets in which we operate. In addition, we see continued modest margin expansion of around 10 basis points per year supported by increased customer and route density, route logistics, synergies, and other technological savings.

With our transformation into a water and coffee services business, we now have a culture and operational expertise focused on social responsibility and sustainability. This mindset and the programs associated with these practices assist in driving efficiencies, inspiring further innovation and building platforms for long-term growth and assured supply at a time when many individuals and businesses have a very short focus. Plus of course, last but not least, solid growth to free cash flow to $150 plus million in 2019 with compound growth thereafter.

Now let me hand it over to Jarrod so we'll take you through each one of these points in a little bit more detail.

Jarrod Langhans: Thanks, Jay. Starting with Slide 9, as consumers have been shifting to better-for-you beverages total bottle water volume has seen good growth from increased customers and consumption. The market has grown at a 2+% CAGR over the last seven years. When you add pricing to the volume growth, the category has grown at just under 3%. We would anticipate a similar dynamic going forward where we are able to utilize customer growth, consumption, and pricing to drive our topline growth with of course the opportunity to add tuck-in acquisitions as well.

When looking at our European-route based division the growth profile is similar but we would look for a one-ish topline percent growth. Which combined with our North American Division creates a route-based services company that has ongoing revenue growth in the 2% to 3% range, FX neutral of course.

To provide some additional color and looking at volume the expected U.S. market growth shows a CAGR of around 1% for cooler replacement which we equate to increased customers. Plus consumption which has been increasing as consumers have been moving away from sugar sweetened beverages towards healthier sources of hydration as well as through ongoing economic growth and in turn increased headcount at our customer's offices. Pricing and cross selling would complete the growth profile.

Although a much smaller component of our business, water filtration is a growing category that we will focus on in the coming years with both organic and acquisition-based initiatives. Moving to coffee, the market data is a little bit more difficult to find within these channels that we operate. Coffee, tea, and extract solutions segment, which is what we run, has a strong focus in the on the go or food service coffee channels. And has been seeing outside (ph) growth in the cold coffee or extract formats such as cold brew and iced coffee. We anticipate volume growth within our coffee and tea business being generated from general market growth, owning the menu with our customers whereby we are able to capture additional SKUs each year as well as growth within extracts.

Moving to Slide 10, and our focus on innovation. We are currently rolling out our Storm water cooler in North America. This is a sleek looking bottom loading water cooler that historically we only marketed within our in-store marketing program. Over the years, we have had significant positive customer feedback on this cooler and have thus decided to expand its availability to all customer segments across North America. We believe that it'll provide our team with another advantage when soliciting new customers. In addition, we will be rolling out the Storm water cooler to our European division in the back half of 2018 and into 2019.

As an update to our Aqua Café rollout, that being our bottom loading water cooler with an integrated K-cup single-serve brewer. We ended 2017 placing just under 8000 units and we see a good opportunity for additional placements in 2018 with 2500 units being placed in the first quarter. We'll utilize this machine to package both water and coffee services to our water-only customers while also gaining new customers. In addition, this unit will assist us in expanding our presence in the growing single serve office coffee market. We often are asked about certain technologies such as longer-life filtration units, ultra violet light systems to prevent contamination within the unit as well as a variety of other product offerings.

If you look to the bottom of the slide, you'll see some of our latest filtration units that encompass many of these latest technologies associated with these types of units. In addition, in line with our strategy of expanding our water filtration, we acquired a small filtration company during 2017 called Remington Pure. While Remington was a relatively small filtration business, it owned an impressive range of intellectual property that covered patent protected technologically advanced water purification systems. These multiple intellectual property patents mainly cover long life, environmentally friendly water filtration devices and associated technologies for use in the water filtration market. The technology which offers the potential for attractive synergies across much of our existing filtration customer base is being rolled out over the coming years.

On Slide 10, improving our logistics and technology platforms and service standards is an ongoing process and it's key to assisting our teams and increasing efficiency and improving customer service. In North America, we have rolled out new modernized handheld iPhones that are capable of providing real-time data such as delivery location, on truck inventory, as well as real-time links to the drivers between the distribution center and customer care center. Which will allow us to have clear lines of communication and the opportunity to serve our customers in a more timely fashion.

In addition, we're implementing improved logistics software that will further improve our operation through route optimization, inventory control, and the ability to offer additional products to customers all while ensuring the lowest operating costs and maximizing customer satisfaction. Through the utilization of these tools, we will continue to improve our customer service levels as well as our customer density and route optimization. Our ability to continue to drive these improvements will be key to our future growth as they will support topline growth, margin expansion, and other operational efficiencies.

Turning to Slide 12, and margin expansion. Our route-based services business is a scalable business that can be leveraged with minimal additional costs. In our case, we are able to leverage our route and customer density to drive margin expansion and profitability. Our scale, route, and customer density, and tech enabled platforms not only allow us to leverage our business and deliver quality service but since our leading infrastructure is already well developed in 20 countries we are not exposed to the high capital intensive start-up costs and losses that would be incurred by any new entry as they seek to build customer density and to establish the needed infrastructure. Thereby creating good barriers to entry.

The net result of this because profile is that we can see modest margin expansion around 10 basis points per year. Ten to 20 basis points per year within just our route-based services segment. Supported by increased customer and route density, route logistics, synergies, and other technology savings that could be greater as we further accelerate our tuck-in acquisition program.

Moving to Slide 13, our new business model includes a focus on sustainability and social responsibility. This is embedded in our businesses and is an important competent of our ongoing culture and operational mindset as we believe that it is important to meet the social, economic, and other requirements of not only our present stakeholders but also future generations. This mindset is not mutually exclusive from profitability as it helps drive efficiencies, inspires innovation and assists in developing a platform for long term and assured supply.

Turning to Slide 14, and pivoting to our tuck-in acquisition program, our route-based services business like many other service-sector businesses utilizes small acquisitions or tuck ins as a component of growth as we're able to roll up the highly fragmented water, coffee, and filtration service markets. With our scaled platforms and wide geographic coverage, these tuck ins are in essence customer-less acquisitions with financial metrics that are very similar to our other marketing efforts.

The benefit of these activities is that the coolers, brewers, and filtration units are already placed and these customers have already been onboarded and understand the service which results in a stickier customer relative to many of our other efforts. We have executed well over 100 of these small overlapping acquisitions in the last decade. As a result of our existing route coverage we are generally able to integrated these customers onto our existing route infrastructure.

Now in addition to these small tuck ins we have also seen good success in acquiring larger tuck ins in the $10 million to $16 million range. Such as Aquaterra in Canada or our recent acquisition of Crystal Rock in the Northeastern part of the U.S. In these larger tuck ins we often acquire a greater amount of infrastructure in areas where our existing route density is not so developed.

Hence we retain a greater amount of the acquired company's infrastructure such as manufacturing plants, depots, and the post-synergy EBITDA multiples tend to be slightly higher than the smaller tuck ins depending upon the specific circumstances and locations of each transaction. To provide some financial metrics around our tuck in program, as you can see on the slide, small HOD or home and office delivery, water tuck ins deliver post-synergy EBITDA multiples of approximately three times in the U.S. and approximately four times in Europe.

While office coffee service tuck ins generate post-synergy EBITDA multiples of approximately four times in the U.S. and five times in Europe. As just noted, we also have a number of opportunities in acquiring large tuck ins that generally generate post-synergy EBITDA multiples in the five to seven times range with these acquisitions providing enhancements to our platform or density, operational assets such as manufacturing plants and depots. As well as the ability to build upon these transactions through marketing programs in additional smaller follow on tuck in opportunities. And in turn, provide further layering and density.

On Slide 15, we outline the adjusted free cash flow expectations for new Cott in 2019. The drivers of our expected free cash flow as well as our current capital deployment strategy. We believe that we will continue to see attractive free cash flow generation and compound free cash flow growth driven by our topline growth, remaining synergy capture, margin expansion, interest savings and tuck in activity. In addition, we'll be carrying some additional costs in 2018 related to the sale of our traditional business that we don't anticipate having once the transition service agreements end, which will provide some additional support as we look to deliver $150 million plus in adjusted free cash flow in 2019.

Subsequent to 2019, we believe we can deliver a growth CAGR of 10% from organic growth and small tuck-in acquisitions. Our current strategy is to utilize our free cash flows in order to continue to pay our stable dividend, to accelerate the pace of our tuck-in acquisitions, to opportunistically repurchase stock within the market, to support further innovation and organic growth, and to continue to strengthen our balance sheet and increase EBITDA in an effort to have the flexibility to fund scale acquisitions that will strengthen one or more of our leading platforms if they meet our acquisition criteria and we believe that they will provide further value to our business and shareholders.

Turning to Slide 16, here we have outlined many of the traits of our business profile that we believe have us positioned well for success and growth over the coming years. These factors support our positive outlook and include leading service platforms across the growing categories of water, coffee, tea, filtration, and extracts with positive topline momentum across our businesses, increased market share in U.S. coffee roasting, increased customer penetration in market share in the U.S. and European water services categories. A very good pipeline of value creating synergistic tuck in opportunities. Successful integration of multiple companies, a history of synergy capture with further synergies to come. Reduced debt levels and a strengthened balance sheet. All our outstanding debt being long-term with fixed coupons, and growing adjusted free cash flow. Plus the opportunity to add value creating scale acquisitions onto our platforms if and when the appropriate opportunities arise.

Thank you again. And now I'll turn it over to Emmett.

Emmett: Thank you, Jarrod. If you have any questions in the room, please feel free. There are two mikes in the room or submit them through our (inaudible) app. Let me just quickly kick it off here. Jay, can you just talk about the overall growth opportunity in the route-based services? Especially as you're thinking about the U.S. HOD water business. Like how should we think about what's the size of the market and what is a sustainable growth rate in that segment?

Jay Wells: I think Jarrod did a good job talking about the market in general. So overall, we see our U.S. HOD water business growing at roughly 3% topline here. And it's really made up of three different areas. It's not the exact one-third, one-third, one-third every year because they're different levers. But it's basically new customers come into the market. And we see a third of our growth coming from that.

Two, as we see more consumers move away from sugar sweetened beverages and other unhealthier beverages really the water market itself has grown greatly. So greater consumption will provide us with growth. And on top of that, we will have another 1% growth basically on pricing. But again it's not exact levers.

Emmett: Got it. And maybe to think about household penetration in this segment. Where are we? Where could we be in the next three or five years?

Jay Wells: I mean overall you look at the water market itself, as we said it's growing at 2% volume alone on increased placement. So overall I think the penetration is roughly 12% of the market is HOD water of the overall bottled water market. That's one opportunity too. There's about 40% of the market that is still just run by local mom and dad type businesses that is really the opportunity that Jarrod talked about is we continue to roll up.

So not only are we seeing an ability to add new placements as people want healthier alternatives, more concern about the municipal water supply, but also the ability to continue to roll up a very fragmented market.

Emmett: Got it. And then can you give us a similar outlook for the European business (inaudible).

Jay Wells: Canada is very similar to the U.S. market. So what I just said about the U.S. applies to Canada because it's really a North American view. When you look at Europe, Europe is a little bit more of a mature market when you get to Western Europe. It's really Eastern Europe is the growing part of the market where there is a lot of concern about the municipal water supply there. So overall, we see that market growing about 1% a year really through more increased consumption and some pricing. And that's why we say overall our route-based services segment just on organic type volume growth should be growing at about 2% to 3% a year.

Emmett: Got it. And then one of the questions we get a lot on your update (inaudible) is related to your distribution, so actually in the context of higher pay costs. Can you talk about how the distribution especially you trucks (ph) are configured in the U.S.? And whether or not you have any exposure to higher pay costs?

Jay Wells: Thank Emmett, there's been a lot of questions about freight cost with any type of consumer good type company. And when you look at our overall fleet transportation type costs really 90%, 95% of the cost are truly just the route drivers. Which we are not seeing -- it's our fleet, our employees, we're not really seeing any pressure with hiring those types of people. And we're not really seeing any cost inflation in that area other than cost of living type.

It really is on the freight between our plants to our depots is really the type of freight, the spot rates where a lot of companies are seeing the elevated prices. For us that's about 5% to 10% of our transportation costs. We do have our own drivers. We do have our own fleet. So generally we're not seeing as much of a cost pressure in that area as other consumer goods companies. We do have about 20 to 25 open driver positions right now, so we are using the spot market a little bit to cover those open positions.

So we did call out about $2 million of cost headwinds in the first quarter, about another million to $2 million in the second quarter where we are in the process of filling those jobs, but it will take this quarter to do so. But again once we get into the third quarter we really should see those cost headwinds go away as we fill those roles.

Emmett: And diesel is (inaudible) for you mostly, right?

Jay Wells: Yes, diesel right. Yeah, in the U.S. we have an energy surcharge that runs in the mid-$3 on your monthly bill. It moves up and down based on the last 30 day average of diesel prices. So really the movement in diesel costs do not affect our overall profitability because we do pass it through to our customers as part of their energy surcharge.

Emmett: All right, and then, Jay, can you talk about some of your filtration business (inaudible) today but obviously growing much faster off a smaller base. Can you talk about what is the opportunity there and then as you grow that part of the business does it have any margin implication for your (inaudible)?

Jay Wells: So the filtration you look in the U.S. and Europe, we have about 2.2 million customer locations so really the HOD 160, 170,000 location is filtration. So that's just an example.

It is a very small part of our business, but it is an area we are focusing on growing both organically and through acquisitions because, as Jarrod covered, we see that type of market growing more in the mid-single digits. So it is an area we are focusing tape to gain (ph) better presence and better share in the market.

Overall on the economics when you look at the U.S., the monthly revenue on a filtration unmet might be about $20 lower than an HOD customer. But the overall cost to serve is much lower because our HOD business we are delevering products every two weeks, where with a filtration business it's two visits a year to do service and filter changes. So overall, a much lower cost to serve. So when you look at the overall dollar profit of the two businesses, the dollar gross profit is very similar between the two businesses.

And the other question we also get asked is how much is filtration cannibalizing our HOD business? So we track reasons for quit, and only about 2% to 3% of the people who quit our HOD service are going to filtration. Because really it depends on the customer you're serving. When you're dealing with small businesses and we talk small businesses. It's going to a strip mall where you get your hair cut or something else done, they really don't have the capacity to do plumbed in filtration units because it's a higher cost of capital to install. They don't have easy access to water nor do they have the pull through on the unit. So in those areas we're targeting much smaller customers in our HOD business. It really fits their economic model much better. So we're not really seeing much cannibalization of our HOD business from filtration.

Emmett: Got it. Just that should we think about an impact on your distribution over the next five years or so? Or do we think about the deleveraging up distribution network as most or all of our clients shift to filtration? Are we many years away from that?

Jay Wells: No, we are many years away. You look at the various different reports of the bottling industries. We project, they project to see HOD water continue to grow. So no, our focus is not on deleveraging our route trucks, it's to increase density.

Jarrod went over the details of what we're doing with centralizing logistics, implementing logistics programs. So our focus is on how can we create more efficient, denser routes, more drops per stop, less miles driven between stops. And we're finding good efficiencies in that area, but it's not because we're deleveraging. We're just trying to maximize each route because that's our main asset. Because we really are a service company that we're allowed to charge the profit and make the money we do. Because we are delivering a product to our customers as a service, and it's how can we minimize the cost associated with each drop. And that's our focus. But it has nothing to do with deleveraging.

Emmett: Got it. And on that I'm continually surprised, shocked by the number of stops your driver makes daily. Where are we with that on the average? And is there room for it to get even higher?

Jay Wells: Yes, it varies depending on what markets you're in. If you're in a very big city, there's very compact routes. They can do up to a hundred drops a day. When you get more to the rural areas it might be 40 to 45. When you do on average it's about 60 drops. But what we're really doing is we're working with new software, a new team of logistics experts to really maximize the density, which is increasing the number of drops a day, reducing the number of routes we need to service our customer base, to continually take costs out of the system.

Emmett: Got it. And Jarrod said and you said about 10 basis point margin expansion in that business. Does that seem a little bit low given the potential for you to take pricing and the potential to make the routes even --

Jay Wells: By the way, this is Emmett's favorite question. He always asks me. That's why he's smiling over here because he always argues me about the 10% CAGR. And what we see we were able to get the leverage on our routes, we see about a 10 basis point improvement in margin. Because what you've got to keep in mind, we do reinvest part of our increased margin in the growth that we're seeing. So it won't all fall to the bottom line. Where we try and average SG&A which is where our routes are contained, where our marketing is contained to about 55% of revenue. So if we get additional margin, some of it falls to the bottom line. But we're reinvesting the remainder back into growth. So that's what really nets out to overall on a consolidated basis about 10 BPS a year of margin improvement.

Emmett: Got it, and (inaudible) touch on that a little bit? Can you provide a little more update how far along are we on that launch? And where do you expect it to be in the next --

Jay Wells: I'll take it. I was just giving you an opportunity to say something, Jarrod. Overall, as Jarrod said, we placed 8000 last year. We're seeing very good combination of existing clients that we're converting them from the base water cooler to the Aqua Café which is really we've been trying to cross sell our coffee into our water customers for years. Where it wasn't the easiest way to displace their existing coffee service provider.

What we find with the Aqua Café it really is the technology we needed to do the cross sell of coffee. So it varies, but about half of our placements of the 8000 we placed last year and about the 2500 we placed in the first quarter it's really half existing clients that we're cross selling coffee to. And then the other half are brand-new clients. So not only are we selling coffee which is additional revenue, the coffee itself is being brewed by the bottled water. So we're seeing a 20%, 30%, 40% lift in the amount of water each unit is serving. So we're very happy with what we see thus far. Our hope is to place about 10,000 additional units this year, but we're seeing very good success at the beginning of our roll out.

Emmett: That's a good segue to the coffee business, the S&D has been a very solid performing at HRVU (ph). What do you see in that category that is most exciting from a cost perspective?

Jay Wells: First off, I mean I think you mentioned earlier on growth is hard to find in a lot of sectors. Coffee on the grow is a growing category. I mean that's how we're doing our 3 plus percent growth. Even though we are taking share, that's really where the category has grown because I don't know about you guys but we have really good coffee machines in our office and everybody is still walking in with a Dunkin Donuts cup of coffee or a McDonalds cup of coffee. Now a McDonalds or a Dunkin Donuts, that's a coffee. And it really is the way the consumer trend is. So number one and beverage categories where growth is hard to find we are in a category and a channel that we are seeing significant growth with more and more opportunity.

Jarrod mentioned how we're seeing cold coffee and cold-brew coffee and other types of flavored coffee growing. That's what we do for our customers. We help them develop the menu of the future. We help them develop the product. So we see a lot of runway for continued strong growth within that category.

Emmett: Can you just talk about your pricing in that segment in terms of where bean coffee prices are and how you're able to pass them through to your customers?

Jay Wells: Yes, on green coffee I mean what we've highlighted for this year coffee prices are currently going down. So you look at the topline it will provide maybe a 1%, no not maybe. It will provide a 1% headwind on our consolidated revenue because coffee prices are going down. Now normally revenues going down that would be a negative thing, but how our customers work is it really is you take the price of coffee that we're selling to them and you just add basically a tolling fee on top of it.

So what you will see is our COGs going down the same amount because it really is basically a pass through to our customers. So we neither have the risk of increasing or decreasing within 90% of our customer base. So it really doesn't affect our profitability. So we see very little exposure in that area. The other 10% of our customers are within our own route base. Small customers, easy to take price one way or the other within that category.

Emmett: Got it. And then your own single (ph) capacity you've added internal capacity earlier this year. Where are we in terms of utilization?

Jay Wells: We have enough capacity to get through this winter season. That's where we see the spike in our capacity. With the growth we're seeing, we are evaluating to add another roaster which you saw the tour of our plant. We have plenty of room to add another roaster. We are looking to add another roaster next year to continue to fund our growth.

Emmett: Again it's good pipeline from a customer-demand perspective to justify adding more capacity.

Jay Wells: Without a doubt.

Emmett: Got it. And then just talk about your tuck in and that's been a lasting story for a while. What's the pipeline look like? What are the valuations from your perspective?

Jay Wells: Jarrod I think did a really good job setting forth the financial metrics. You know historically our target was to do $20 to $30 million worth of tuck ins a year. We have come out with now selling our traditional business, having the balance sheet to do so and having the pipeline to do so. We feel we can easily double that amount of tuck ins and be able to do these types of customer-less acquisitions at post-synergy EBITDA multiples of 3 or 4 times EBITDA, very value creating. And overall, cost is very comparable to an organic marketing program but you get clients who already have the product, know the product, so they're much stickier customers. So definitely a very good pipeline and really see the value creation of doing so.

Emmett: Got it. And then a question on that, can you talk about your cross selling opportunities between coffee and water? Where is it today? And how much more potential is there?

Jay Wells: Overall, the penetration of our water customers that we sell coffee to is very low. And I said earlier I mean it hasn't been easy to find the tool to penetrate those customers because if they're happy with their coffee guy, if they're not looking to change. That's why we're so excited about the Aqua Café. It is an innovation. It is a tool that we're really seeing to either get existing good customers to switch to also buy coffee off of us, or to capture both the water and a coffee customer. So we really see a lot better opportunity to do cross selling which we've seen the barrier to entry up to now. But feel the Aqua Café is a really good intellectual property tool to help assist us to get more cross selling.

Emmett: Got it. And then U.S. dollar being strengthened recently, and you talked about tailwind. Can you update us where we are and what the quarter indicated.

Jay Wells: Thanks, Emmett I was talking to Emmett right before we started talking. I mean we came out that we would see annually about a 1% benefit to revenue because of strengthening of the euro, weakening of the dollar. And we saw over a 2% benefit to revenue in Q1. But since then the dollar has significantly strengthened. So you really look at Q2 and where we see the U.S. dollar to our euro, U.K. pound, other revenue. We're really seeing minimal benefit in Q2 to the revenue. So you look at Q2 revenue, we have our 2% to 3% base topline growth. We see about $10 million net benefit from our Crystal Rock acquisition. But you're also going to see about a 1% headwind from coffee that I mentioned with very little offset of benefit from FX. So overall we were thinking 3% to 4% type revenue growth in the quarter. It's probably going to be at the lower end of the range because we're losing the benefit of FX that we're getting some benefit from on our top line in Q1.

Emmett: Got it. With that we'll wrap it up. Thank you so much Jay and Jarrod for presenting.

Jay Wells: Thank you.

Jarrod Langhans: Thank you very much.