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Cott Corporation

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PRESENTATION

Operator

Good morning. Welcome to the Cott Corporation Announcement. I will now turn the conference over to Jarrod Langhans. Please go ahead.

Jarrod Langhans — Vice President, Investor Relations, Cott Corporation

Good morning, and thank you all for joining us on such short notice to discuss the agreement we have entered into with Refresco to sell our traditional beverage manufacturing business. This call will end no later than 9:00 a.m. Eastern Time.

We would like to remind everyone that during this call management will make certain forward-looking statements. Please refer to the important information and Safe Harbor language regarding these statements in our press release issued this morning and on Slide 1 in our investor presentation, which is posted on our website at www.cott.com.

I'm joined here today by Jerry Fowden, our CEO, and Jay Wells, our CFO. As we are currently in our quiet period, we will limit our discussion to this transaction and its impact on our business, and we'll discuss our second quarter results on August 3rd.

Turning to Slide 3 and our agenda. Jay will discuss the transaction overview and rationale as well as next steps in completing the transaction and will then hand the call over to Jerry to discuss what our new company will look like as well as associated investment highlights for the new-look Cott. We will then move to a Q&A session.

With that, I will hand the call over to Jay.

Jay Wells — Chief Financial Officer, Cott Corporation

Thank you, Jarrod, and good morning, everyone. As you may have read in our press release, we have agreed to sell our traditional beverage manufacturing business to Refresco for US$1.25 billion in an all-cash transaction. This transaction includes our Cott North America operating segment, exclusive of our Columbus concentrate facility; our Cott UK reporting segment, exclusive of Aimia; and our Cott Mexico operating segment. The transaction also includes the sale of the finished goods export business that currently falls under RCI's reporting segment, but we will be retaining the RC brand and RCI's concentrate business.

The businesses being sold total roughly $1.7 billion in annual revenue. Our traditional business has strong and experienced management teams with longstanding customer relationships in North America, United Kingdom, and Mexico. These teams will remain with each business and drive future growth through organic and buy-and-build activities while reporting to the executive board of Refresco following the close of the transaction.

The acquisition is expected to close in the second half of 2017 and is subject to certain closing conditions, including regulatory approval and working capital adjustments as well as Refresco shareholder approval under Dutch law. Between now and closing, we will continue to operate our traditional manufacturing business under the Cott umbrella, and we'll provide the same topnotch customer service that our stakeholders are accustomed to.

There will be minimal cash taxes imposed upon this transaction, and the proceeds will be used to repay roughly $1 billion of debt, including paying off any amounts drawn on our ABL and redeeming the entire $525 million of our 5 3/8 senior notes and the remaining $250 million of our 10-percent senior secured notes. This is expected to result in leverage of less than 3.5 times net debt to adjusted pro forma EBITDA.

As a result of the redemption of our 5 3/8 notes, the indentures governing our then remaining unsecured notes will require us to commence at the sales proceeds offers on or about the closing date of the transaction in which we will offer to repurchase the remaining notes at 100 percent of the principal amount. In essence, we have to offer to purchase the two remaining unsecured notes at par, meaning that we pay no premium or make whole payment upon redemption.

Based upon current trading of these unsecured notes and the market conditions, we would expect to refinance at similar or more favourable rates if necessary, and we would, therefore, not anticipate that this offer will result in much, if any, of the unsecured notes being redeemed.

Turning to Slide 5. This transaction is 100 percent in line with our company's vision of transitioning Cott from a private-label soft drink company to a company focused on better-for-you beverages and growing higher margin categories with a more diverse customer base. Subsequent to this transaction, we will have a business generating roughly $2.2 billion in revenue and growing better-for-you beverage categories in a company with a very diverse customer base.

The focus of our retained business will be on gaining market share and expanding our margins to improve customer density from a mix of organic and overlapping and complementary acquisitions.

With over 2.3 million fragmented customers, we will have very low customer concentration and, in turn, reduced revenue volatility. This, along with lower exposure to commodities, should result in Cott having more predictable and dependable revenue and earnings growth in the future.

With our leverage reduced below 3.5 times, we will have increased balance sheet flexibility to continue with our tuck-in acquisitions, while also targeting a three times leverage goal within a short period of time or have the ability to look at larger synergistic and accretive transactions to add to our leading water, coffee, tea, and filtration platforms.

Finally, post this transaction, we'll be able to focus our attention solely on water, coffee, tea, and filtration solutions and expanding our many better-for-you beverage platforms. This, along with a less complicated and easier-to-communicate vision and financial results, should improve our multiple and further drive increased value creation for our stakeholders.

With that, let me turn the call over to Jerry to provide an overview on what our company will look like as well as the investment highlights around this newly shaped company.

Jerry Fowden — Chief Executive Officer, Cott Corporation

Thanks, Jay, and good morning, everyone. Thank you again for joining us with such short notice.

Over the last few years, Cott, as you know, has been undergoing a transition from what many investors would historically call a private-label CSD, or soda pop company, to a higher margin business with much lower customer, product, and channel concentration alongside an improved growth outlook centred around better-for-you products and solutions across water, coffee, tea, and filtration services where we see growth and the ability to build strong leadership positions.

Today, Cott has leading home and office water delivery platforms in 20 countries and a strong presence in the US custom coffee roasting business and foodservice tea business as well as positions of scale in office coffee services and water filtration in multiple countries. Recent acquisitions in support of this strategy not only provide multiple platforms onto which small, highly accretive tuck-in acquisitions can be made, but they also provide the potential for synergies and cost savings within and across these complementary businesses.

This combination of higher margin, better-for-you businesses in growth categories has the potential for both top and bottom line expansion and also demonstrates an attractive free cash flow profile and free cash flow growth potential.

With all that said, today is somewhat of a bittersweet day for me and our senior management team as while we now have the opportunity to accelerate our growth with a more focused water, coffee, tea, and filtration services business, we are also selling the highly free-cash-flow-generative traditional business that has funded and supported our transition over the past few years.

As you know, we have publicly stated that we would not sell our traditional business unless we were able to receive fair value for the strong free cash flow generation we would be giving up, and we believe that this transaction achieves this for Cott and for our shareholders, while also offering Refresco the ability to fundamentally transform its business. This really is a good example of one plus one equals three.

With that said, I want to thank very much the excellent management teams and associates throughout our traditional business for their tremendous service and dedication.

So moving on. Let's take a quick look at what I'll call the new Cott post- closing. We will be a business that can be described in three ways. That being a leading home and office delivery company for water, coffee, tea, and filtration services; a company with a foodservice focus, including the roasting and grinding of coffee and blending of tea; and a company with a strong ingredients, extracts, and powdered beverage portfolio.

As Jay mentioned, we will have around 2.2 billion in sales, just under $300 million in EBITDA, and an EBITDA margin some 100 basis points higher than today at over 13 percent, and gross margins of just under 50 percent.

Turning to Slide 7. As you can see on the charts, this new business is expected to drive some 2 to 3 percent top line growth per annum and over two times higher growth rate than we would achieve with today's business mix. In addition, as mentioned, it expands our EBITDA margin by around

100 basis points and lifts our gross margin to just under 50 percent and sets us up well to accelerate our top and bottom line performance.

On Slide 8, we have shown what our category channel and geographic mix will look like on a pro forma basis, in order to give everyone a better picture of the new Cott. As you can see, our business will be strongly weighted towards the categories of HOD water, foodservice coffee, tea, and filtration.

On Slide 9, we sum up the value creation that new Cott will deliver over the next three-plus years. That being 2 to 3 percent top line growth; a stronger balance sheet that supports accelerated, organic, and acquisition-based investment; a continuation of our value-creating tuck-in strategy; further synergy capture within and across our multiple platforms; and the potential for a re-rating or multiple lift from being a much more focused business with a strong balance sheet. All with the ultimate goal of driving further growth in shareholder value as we build the leading North American and European water, coffee, tea, and filtration service provider.

Moving to Slide 10. Although we still have some work to do in order to close the transaction, we have put together the investment highlights of our new business. You'll notice that many of the highlights are consistent with prior presentations to the market over the last few years, but now we'll be driving these items with a clearer focus on water, coffee, tea, and filtration services alongside a growing high-margin ingredient business.

The largest component of our business is HOD water where we have the leading positions in the United States, Canada, and Europe. This market is projected to grow for many years to come, and we plan to grow organically with the market as well as through accretive tuck-in acquisitions. In addition, we have a leading coffee roasting and grinding as well as tea-blending operation in the US that also demonstrates attractive growth characteristics.

Overall, we expect our business to grow revenue 2 to 3 percent per year supported by our market-leading positions that provide scale and route density. These features, in conjunction with further synergy capture, should improve margins and drive attractive compound annual growth in free cash flow of around 10 percent over the coming years. In addition, with a strengthened balance sheet, we will have the ability to look at further scale acquisitions when the appropriate, value-creating opportunities arise.

Turning to Slide 11 and our leading positions within water, coffee, and tea. This picture shows our market-leading international platforms and our market shares across the 20 countries in which we operate HOD water services as well as our office coffee services market positions and our strength in foodservice coffee and tea.

In addition, as can be seen on the chart, the HOD water market offers significant opportunity for further, highly synergistic tuck-in acquisitions of smaller, often family-operated businesses. In the US, 39 percent of the market is still in the hands of smaller, fragmented operators, and in Europe, the opportunity is even greater, with smaller businesses representing over 60 percent of the HOD market.

In support of our organic growth objectives, Slide 12 highlights the expected growth characteristics across our various better-for-you product categories. And you can see our expected US home office water growth is around 3 percent, our European office water growth is over 1 percent, our water filtration growth is over 4 percent, and our foodservice coffee and tea growth is some 3-plus percent.

Moving to Slide 13. A key driver of our future growth and cash generation is our HOD water business with its scale and market density. It is this scale that provides us with a competitive advantage and also acts as a barrier to entry. With our national scale across North America and Europe, we can add small, medium, and national account customers to our operation and strengthen our customer density even more.

In addition, we can add further value through overlapping, tuck-in acquisitions, which, in effect, is another way of adding customers. We are also working on new initiatives and ways to increase profitability, such as through filtered water machines that provide both still and sparkling water, installation of integrated, single-serve coffee and HOD water machines all in one appliance, as well as the extension of some of our existing partnerships to new geographies.

Turning to Slide 14. We have a number of cost synergy opportunities available from the combination of DS Services, Eden Springs, and S&D Coffee & Tea. We see savings from the combination of common systems, procurement savings associated with our scale, in terms of cooler, brewer, bottle, and other purchases, as well as back office SG&A savings, alongside eventual depot and route combination savings. These synergies are well in progress in 2017 and running a little ahead of schedule, as shown on the chart, with a balance of synergies scheduled to be phased in over the next three years.

On Slide 15, we outline the free cash flow expectations for new Cott in 2018. With the sale of our traditional beverage manufacturing business, we will more than halve our outstanding net debt and become a much more focused business. With the sale, as would be expected, our annual free cash flow generation will change to reflect the EBITDA sold.

With that said, we believe we will continue to see attractive free cash flow generation and significant compound free cash flow growth, driven by our organic top line growth, synergy capture, margin expansion, and tuck-ins. We expect to generate some 110 million to $115 million of adjusted free cash flow in 2018 and deliver a circa 10 percent compound annual growth in free cash flow over the coming years.

This transaction not only allows us to reduce our leverage at a quicker pace than we would’ve been able to by simply utilizing free cash flow over the coming years, but with our reduced leverage and projected compound annual growth in free cash flow, we’re now well positioned to look towards further synergistic and accretive M&A as we focus on building out our HOD water, coffee, tea, and filtration platforms.

Now to finish the presentation, I’ll turn to the topic of shareholder valuation. As you can see in the chart on Slide 17, we would expect to receive an EBITDA multiple re-rating for our new focused business. Whether you choose to look at our business in terms of an EBITDA multiple or free cash flow yield, we would expect that a focused, growth-oriented, water, coffee, tea, and filtration business with a strong balance sheet, we should receive a valuation that is at least consistent with or at par with our peers.

These valuation metrics are shown here, and when you overlay Cott's EBITDA on free cash flow, should drive a multiple improvement of at least two turns. With that said, as Jay mentioned, the transaction is subject to various customary closing conditions including regulatory approval and Refresco shareholder approval. So for now, the focus for all of Cott is business as usual.

On that note, I hope this call has provided you with a good overview of the transaction and our new company and its value creation opportunities over the coming years.

I'll now turn the call back to Jarrod to move on to Q&A.

Jarrod Langhans

Thank you, gentlemen. During the Q&A, so that we can hear from as many of you as possible, we would ask for a limit of one question and one follow-up per person. Please keep in mind that we will only be answering questions in relation to this transaction and will not be discussing our Q2 operations. Thank you for your time.

Operator, please open up the line for questions.

Q&A

Operator

At this time, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Derek Dley from Canaccord Genuity. Please go ahead.

Derek Dley — Canaccord

Yeah. Hi, guys. Congrats on the transaction.

Jerry Fowden

Good morning, Derek.

Derek Dley

Good morning. I was just wondering—okay. Going forward with the new free cash flow profile and appreciating your commentary on less commodity exposure and more visible cash flow stream, where is your new comfort leverage range as it relates to potential larger transactions? I know you want to—the target is to be in the low threes or below three in the near term, but what would the top end of that be?

Jerry Fowden

Yeah. And I'll start, Derek, and then I'll ask Jay to add on. I'll really cover where our immediate focus is, which is still to continue a focus on deleveraging until we get to three times. At the moment, this transaction, when it closes, will take us below three-and-a-half times. And our goal will stay consistent with that, that we've stated in the past, and you've often written about, Derek, of getting down to three times. But when it comes, then to doing additional tuck-in M&A, which we'll carry on with, and potential larger M&A, if we can find the right opportunity. Jay?

Jay Wells

I mean, yeah. Derek, we've talked about there is still some very good opportunities to add to our platform with some highly synergistic acquisitions. So we will look to use our balance sheet to do so on a go-forward basis, with really the hope would be not to exceed four times leverage on a go-forward basis and then delever again quickly after the acquisition. But I would say if certain very value-creative opportunities do come up, we may exceed that. But I would go with the assumption of four times.

Derek Dley

Okay. That's great. That's very helpful. In terms of the EBITDA, so just going through combinations of your guys' press releases and Refresco, Refresco, in their press release, commented that they acquired about $137 million in EBITDA in 2016 EBITDA from the traditional business. It looks like there's some synergies in there based on your guys' guidance of about maybe 15 million to 20 million. Is that correct? And what would those sort of synergies have been?

Jerry Fowden

Now I'm not so sure I understand your question there, Derek, because Refresco have highlighted that they would get €47 million of synergies. And I think …

Derek Dley

Sorry. What I—yeah, I know and …

Jay Wells

I think, Derek, I think what you're not factoring in is we are retaining Aimia, and we are retaining RCI, and the number you're saying is very close to those two companies. So that might be the disconnect, where there's no real synergies for us on this transaction.

Derek Dley

No …

Jerry Fowden

And what we will be getting …

Derek Dley

Maybe synergy …

Jerry Fowden

Go ahead, Derek.

Derek Dley

Sorry, guys. Maybe synergy was the wrong word there. Corporate costs, perhaps, that were being split between …

Jay Wells

Yes. Yeah. There were certain—there you go, Derek. Yeah. There were certain corporate costs that, when we reported our results, we didn't fully allocate the corporate cost to the business units where, when you look at Refresco reported, they really reported a full, standalone, fully allocated cost in their release.

Derek Dley

Okay. So that's the difference there. Okay. Perfect. Thank you.

Jerry Fowden

Yeah. We'll have transitionary service agreements in both directions for some 18 months that are potentially extendable. And as we mentioned in some of the foot notes on Chart 6 in the investor presentation, we have highlighted those TSAs and that there will be certain corporate costs retained for a while that we'll be able to revisit as the TSAs work their way through.

Jay Wells

Yeah. Yeah. Basic thing is I think the best example; we used to carry all of our IT cost at the corporate level. For purposes going forward and Refresco's purposes, we correctly allocated those costs down because they would be their standalone costs going forward.

Derek Dley

Okay. That's perfect. That's what I was looking for. Great. Thanks. And then just one more. Just appreciate you said there's no real tax implications with the transaction in the near term, but does this change any of your guys' tax NOLs or potential to pay cash tax? Would you guys be paying cash taxes now sooner than, I think, 2020 was the previous guidance?

Jay Wells

No. I mean, you look at the transaction, and partly what makes it a minimal cash tax transaction for us is as we are using some NOLs and converting those NOLs into tax basis for Refresco. But post transaction, you need to look at two things. We're still a Canadian holding company. We still have the same tax plan and structures in place as we had prior to the transaction. And we will have some retained NOLs both at DS and at S&D, which were built up as part of that transaction cost.

So we have significant NOLs and tax plan and opportunities going forward, and I would continue to model our cash taxes for this foreseeable future at about 10 million.

Derek Dley

Okay. Thank you very much.

Jerry Fowden

Thanks, Derek.

Operator

Our next question comes from the line of Mark Petrie from CIBC. Please go ahead.

Mark Petrie — CIBC

Hi. Good morning guys.

Jerry Fowden

Good morning, Mark.

Mark Petrie

Just a couple of follow-ups actually. I'm hoping you could just help us sort of quantify, maybe even just a range, in terms of what the contribution from Aimia and RCI is in terms of EBITDA. And then also what that sort of corporate cost number is and how you expect that to—what sort of trajectory you see that on over the next 18 months as those TSAs roll off?

Jay Wells

Yeah. Do you want me to handle that or you, Jerry?

Jerry Fowden

Yeah. Go ahead, Jay.

Jay Wells

For EBITDA, doing carve-out financial statements is quite the endeavour. So I'm going to give you a range on that. I'd say probably 10 million to 15 million would be the EBITDA associated with Aimia and RCI going forward.

On corporate cost, again, we've got to do the carve out process. We will have some TSA in TSA agreements, as Jerry mentioned, but would say corporate cost on a go-forward basis probably would be about 35 million.

Mark Petrie

Okay. And so I'm just trying to square up a little bit with the 285 to 295 guidance for pro forma 2017. It sounds like the corporate costs are maybe part of a disconnect versus where consensus was or something like that. But broad buckets, could you just talk about sort of each of those businesses and how they're contributing to that number? And I'm thinking sort of DS, S&D, and then corporate.

Jerry Fowden

Well, Mark, we see the overall Water & Coffee Solutions segment going forward as one kind of business unit rather than breaking it down individually.

Mark Petrie

Right.

Jerry Fowden

I do think the point you've highlighted with the retention at current exchange rates of 10 million to $15 million of EBITDA from Aimia and RCI, which of course is reflecting for Aimia the lower current exchange rate of sterling plus the retention of, from the next 18 months or so, some level of corporate costs as we go through the TSA period, that probably accounts for the situation. But Jay can maybe give you a little bit of a guide towards a buildup.

Jay Wells

Yeah. No. I mean very rough numbers as we really haven't talked. But you can probably get these numbers if you look at what we've talked about before. If you look at DS, you're probably looking, give or take 5 million, 195 million in EBITDA; S&D, give or take the same, about 45 million. You have Eden at about $70 million. You minus the 35 million of corporate costs and you add back the Aimia and RCI that I had mentioned, it gets you to around the number we're talking about. So very rough buildup.

Mark Petrie

Okay. That's helpful. Thank you very much.

Jerry Fowden

Thanks, Mark.

Operator

Your next question comes from the line of Amit Sharma from BMO. Please go ahead.

Amit Sharma — BMO

Hi. Good morning. everyone.

Jerry Fowden

Good morning, Amit.

Amit Sharma

Jay, a quick one. So $35 million corporate cost, how much of that is TSA related that goes away in the next 18 months? Or is there just a standalone?

Jay Wells

Yeah. No. I would say, if anything, it's a little bit more. I mean, how we're separating the business, there's more than our TSA where they're going to be providing us some transitionary type services. Where for us, I would probably say that's a pretty good go-forward number.

Amit Sharma

Okay. Perfect. And then as we think about—you talked about the acquisition pipeline going forward, and the tuck-ins are certainly part of the equation here. I also want to hear, Jerry, your views on the coffee business.

That analysts day at S&D was very impressive; the quality of the asset, and how much potential they have expanding on the west coast or even internationally. Can you talk about some of the acquisition opportunities for that business?

Jerry Fowden

Well, I think there's two categories of acquisitions. And let's first say the ongoing tuck-in acquisitions that build onto our existing platform, where we've highlighted around $20 million a year or up to $20 million a year in North America and around €10 million in Europe, we see that very much as carrying on day in, day out, month in, month out, as we go forward. When it comes to larger, more scale-oriented M&A, while we'll continue to stick to our very kind of strict discipline of cash-on-cash IRRs to ensure they're value creating, you first got to remember that it's going to take some time for this transaction to close. And we're identifying in here that, hopefully, that will be somewhere in the second half of 2017. So really what it allows us to do during our next strategic planning cycle is look ahead to ’18, ’19, and ’20 to see the potential of doing some of that more scale-oriented M&A. And I would say that potential is present for the HOD water business, as well as for the coffee roasting and grinding business. And as I’ve said in the past, we’re still keen to build our filtration services business.

So one of the benefits of our current business model with 20-odd platforms and having HOD water, coffee, and filtration, is that we have a lot of optionality, and we do see an attractive enough potential pipeline that to a degree, based on the economic attractiveness, we can do some picking and choosing as to where we go.

So I would say it’s across all three areas, Amit, rather than focusing on coffee; HOD water, on any of our platforms, complementary synergistic transactions, coffee roasting, grinding, and tea in the US, and then filtration across the board.

Amit Sharma

Just to clear up on that. So when you talk about scale acquisition, what’s the typical size or range of size for that scale acquisition?

Jerry Fowden

Well, as Jay said, everything really depends on leverage. And our goal would be to keep our leverage within the four times EBITDA range, even if we found a larger scale acquisition. So then if you just consider the max (phon) profile on that, it depends on the synergies. It depends on the acquisition multiple. But you can work out what that is. And it probably allows us the opportunity to look at businesses that have revenue in the 300 million to $500 million sort of range.

Amit Sharma

Perfect. And then, Jerry, you just talked about filtration. Can you just explain a little bit more? When you or when some of your customers transition from HOD to filtration, especially in the office environment, what's the revenue and margin impact of that?

Jerry Fowden

Yes. But it does vary somewhat from country to country. So I'll give you an example for the US, Amit, given the US is approximately three-quarters of our go-forward revenue profile. And within the US, an HOD water customer would have, on average, revenues around 40 to $45 a month, and a filtration customer would have revenues of just under $30 a month.

That said, we only visit the filtration customer on average a couple of times or so a year, but we visit the average HOD water customer every two weeks. So when you look at the net free cash flow we get, the net free cash flow is the same on an annual basis from that filtration customer with just under $30 revenue a month, as it is from that HOD water customer at 40 to $45 revenue per month because the cost to serve the HOD water customer is higher.

So free cash flow is the same. Revenue's a bit lower, but as we highlighted in the materials, we're looking at the filtration category offering over 4 percent growth per annum versus the 3 percent in HOD water.

So if, over time, we can shift to more filtration at the same free cash flow per customer but a higher growth rate and build up intellectual properties in unique filtration devices, we believe that will lead, over time, to a business where the multiple should be even greater than that of our standard service peers today.

Amit Sharma

That's really helpful, Jerry. Just one more for Jay. Jay, when you talk about 10 percent FCF or free cash flow, CAGR going forward, how much of that is operational versus savings on the net working capital or efficiencies?

Jay Wells

Yeah. And I am going to hold you. This is your last one, Amit.

Amit Sharma

Yeah. Absolutely.

Jay Wells

Yeah. I mean, all of our forecasts is basically, along with the growth, small increases in working capital. So actually working capital is more of an offset than a means of growing. So working capital is really not a factor. It's all top line growth and cost efficiencies, density, synergies, things like that.

Amit Sharma

Absolutely. Thanks so much.

Jay Wells

Thank you, Amit.

Operator

Your next question comes from the line of Clay Crumbliss from Credit Suisse. Please go ahead.

Clay Crumbliss — Credit Suisse

Hi.

Jerry Fowden

Morning, Clay.

Clay Crumbliss

How are you? Just a quick one here. So can you just talk about any of the dis-synergies that might exist? Unless I'm mistaken, I think that within the traditional lines, you were manufacturing things that were being cross-sold at DS. Can you talk about the impact of that?

And then secondly, now that the focus will kind of be squarely on water and coffee, putting M&A aside, just any organic opportunities that might exist, to be cross-selling more between DS or S&D, those sorts of things?

Jerry Fowden

Okay. And on the first one, products that we might cross supply at the moment, we don't see anything really changing there. We have already agreed a concentrate supply agreement from the RCI concentrate plant in Columbus from us to Refresco post the closing. So customer service, quality, and concentrates would all stay the same there. And there'll also be the continued purchasing of finished products in sparkling water and areas like that in the traditional plants under Refresco's ownership for our own cross-selling opportunities. So no change there.

As Jay mentioned earlier on, we will be carrying slightly higher level of corporate costs when you compare it to the reduced EBITDA as we go forward, and there will be transitionary service agreements that are notionally pegged in at 18 months with the opportunity to extend if required. So you won't actually get to a position of allowing our true corporate cost profile to show through until you get to around 2020 or so.

On the organic opportunities for growth, I did mention two or three areas. I agree at a high level, so in the midst of the script, they might have zoomed past you, Clay. We are now in the position that we are rolling out our Aqua Cafe, which is our single-serve, combined bottom-loading water cooler and Keurig coffee machine. I think over the last few weeks alone we've placed almost 2,000 of those, and we believe they do offer an attractive opportunity for incremental coffee sales to water customers.

We're in the process of selecting the equipment for a combined sparkling water and still water roll-out program, which adds additional functionality. We will be adding some glass water products in Europe, manufactured by a retained glass water business to our Eden Springs portfolio.

And we're also just about to undertake an extension via a test of our retail booth program that we run in the US within a country in Europe to see what the opportunity is there.

So a number of actions in the pipeline, and all of those contribute towards those growth profiles that we outlined of 3 percent for HOD water, above 1 percent for HOD in Europe, over 4 percent for filtration, and over 3 percent for coffee roasting and grinding.

Clay Crumbliss

Okay. Thanks, Jay.

Jerry Fowden

Thanks, Clay.

Jay Wells

Thank you.

Operator

Your next question comes from the line of Kevin Grundy from Jefferies. Please go ahead

Kevin Grundy — Jefferies

Thanks, guys. Good morning.

Jerry Fowden

Hi, Kevin

Jay Wells

Hi, Kevin.

Kevin Grundy

And congratulations—yeah. And congratulations on the deal. Just a cleanup on the NOLs. I just want to make sure that I'm clear with this. What specifically remains post the deal, and over what period of time do you expect that to be utilized?

Jay Wells

You know, basically—don't hold me exact to the number because the transaction isn't fully completed, and there is some customary adjustments for working capital and other things. But I think it's safe to say we'll probably have a couple of 100 million of NOLs remaining after the transaction, just because they relate to our retained businesses. That on top of the continued beneficial tax planning structure we have in place, again, within the model that I'm doing and assuming tax laws and everything stay the same, I see about a 10 million cash taxes for the foreseeable future in my pro forma model that I did.

Kevin Grundy

Okay. But a couple of 100 million. Okay. So that's helpful. And then where can margins go for this business, understanding there's going to be this period that you guys just spoke to through 2020 with transition costs, agreements, et cetera? But what's the right margin structure for this business? EBITDA margin's now about 13 percent. Where can they go and over what period of time? And then talk about some of the key drivers, sort of ex some of the near-term transitory kind of stuff.

Jerry Fowden

Yeah. I mean as you've mentioned, Kevin, we've got 13-plus percent EBITDA margins and probably gross margins close to 50-odd percent. So that's what I would peg in for a post-closing profile. And probably that's a sensible profile as you look out over the next couple of years, while we have those TSAs and other things in place.

I think the largest determinant towards the longer-term margin, where we would still expect to see, through route density and efficiency, that 20 to 30 bps improvement in margin per annum is what the mix of the business will be. Obviously, the greater the growth within HOD water and filtration, which are areas that have gross margins in the mid-60s, versus the growth in QSR coffee roasting and grinding that has gross margins that are more in the 30, 30-plus sort of range. The blend of those two business streams will really be the biggest determinant on our gross margin going forward. So not perfectly answering your question, but above 13 for EBITDA; close to 50 on gross margin; that for the next couple of years; 20 to 30 bps kind of ongoing route density improvement; and then really the shape of the business between those two different gross margin streams driving the greatest potential for variability as we look out two, three years.

Kevin Grundy

But it's really just operating leverage as you see it, sort of ex items. Is that fair? There's not a lot of low hanging fruit from a productivity perspective?

Jerry Fowden

No. We've got the synergies that we've seen and we reconfirmed them laid out in the chart, where this year we were expecting to achieve 7 million rather than the original 4 million. Still aiming for the full 23 million of synergies by the time we get three years out from today.

Kevin Grundy

Okay. One more, if I may. And I guess it's sort of a bit off the path, but obviously, a lot of discussion in the consumer space talking with respect to competitive mode erosion and what's going on. And obviously, your business is much different and arguably sort of far less sort of risk than what we're seeing elsewhere in the consumer space with respect to some of the channel dynamics. Are you guys seeing anything different?

It would not seem to be the case based on how you're guiding the Street here, but anything different with sort of consumer-end demand for how your products are being consumed in the office? Is that something you sort of continually watch? Are you looking like sort of more closely at panel data and things of that nature?

And then along those lines, you guys have done a fantastic job and I congratulate you for how quickly you've sort of gone through this transformation to your credit. What worries you most? So sort of a two-part question. Are you seeing anything that is at all concerning with respect to the mode of this business? And then as sort of like the corollary to that, Jerry, what sort of worries you most now with this new business that you have? That's it for me. Thank you.

Jerry Fowden

Okay. I'll try and do me best and then you correct me where I miss some things because you've managed to do a wonderful bundle of questions there, Kevin.

But if we look at the areas of the business today where we see that consumer profile change going on, and I think we have mentioned this in the past, it's within the office coffee services area. And you got to remember coffee for quick service restaurants, convenience, gas, and hospitality for us is 20 times bigger than office coffee services.

But within the office coffee services area, not only are we seeing this shift from brew basket to single serve, we're also seeing a shift from single serve towards premium coffee offerings, which include the bean-to-cup, lattes, espressos, et cetera. And we have a business plan that we've built up for our coffee business that's designed to shift our offering upscale and improve the portfolio of machines, equipment, and service that we can offer in that premium area. So that is an area of real consumer change that's going on.

The other one is the growth in cold brew coffee, which we see reflected in our ingredients and extract business within S&D, whereas we mentioned on the analyst day, we're running about a 38 percent compound annual growth over the last several years in that area, and where current performance, last year, et cetera, it's been above that as we've mentioned in the past. So those would be the areas of customer change.

For the categories we're now in, water, coffee and tea, we see those as all ongoing growth categories as we look out over the next many years, which, subject to closing, will be the first time we'll be able to say that Cotts had a portfolio made up of a 100 percent focus on growth categories in a long, long time. So very pleased at that.

Now there were some—if we take the worries, it's the same one we identified at the time of announcing the DS Services transaction. Services businesses do tend to move more in line with overall economic performance, particularly employment levels. So a large recession is an area that is not good for this portfolio of businesses, purely because if our average office customer today has 20 members of staff and in a recession, they cut back to 15, our cost to serve visiting every two weeks to that customer stays the same. But they're probably buying 25 percent less jugs of water from us. So you get some fixed cost deleveraging in that service environment in a recession.

That said, at the moment, our outlook for the next few years is that we're not expecting a recession, and we are building in, as you know, as much variable cost structure into the way we're looking at these service businesses to get ourselves in the best possible position. But that would be the area we would look out for a recession.

Jay Wells

And I'm going to add another question, Kevin, and then you can have a follow-up. Jerry's getting pinged with a couple of questions on, we've mentioned TSAs and the reverse TSAs. And I don't want to overcomplicate people or make this a bigger issue than it is.

Basically, the biggest part of the TSA is we are transferring our IT systems that are part of our traditional business as part of the transaction, while our corporate office has historically and our concentrate facility has historically used those same systems. So post close, we have a transition services agreement, or actually reverse transition services agreement, where we will be allowed to continue to use their software platforms until we migrate over to our own system. And we will pay a fee for that service. So all we're going to do at some point in time is replace that RTSA fee that we're paying to Refresco with our own cost of having our own system.

Other than that, it's very minor services as they're going to pay some payroll for us. They're going to pay some accounts payable for us at no cost. So there might be some small incremental corporate cost as we hire a person to do payroll or accounts payable, but overall, we're not talking large cost other than the concentrate agreement that we've entered into to provide them with continued concentrate. So don't factor too many costs into the TSA or the RTSA.

Kevin Grundy

Thank you very much for the time guys. Good luck.

Jerry Fowden

Thanks, Kevin.

Operator

Your next question comes from the line of Brian Hunt from Wells Fargo. Please go ahead.

Unknown Speaker — Jerry Fowden

Good morning, Brian.

Brian Hunt — Wells Fargo

Good morning, Jerry. This deep into the call, almost everything's been answered except for one of my questions. When you look at the new scale of your free cash flow, you talked a lot about M&A and you'll have excess proceeds. Kind of using our back of the envelope over and above all your debt pay down.

Jerry Fowden

Yeah.

Brian Hunt

Call it $150 million. So one, you're going to have excess cash after this transaction because I don't think it's likely your bondholders are going to—the long-dated bondholders are give up their bonds of (unintelligible) accrued. Would you, one, consider…

Jay Wells

(unintelligible) that part of my script by the way.

Brian Hunt

I'm sorry?

Jay Wells

I said I'm glad you understand that part of my script, so thank you for confirming …

Brian Hunt

Right. Well, if anybody else didn't understand it, now they do. So one, would you consider a onetime dividend? And then two, looking at your ongoing elevated free cash flow, kind of rank your priorities for your elevated free cash flow profile. It sounds like you’re very focused on M&A, but I mean, it doesn’t seem like there’s any debt to repay. And would you consider buying back stock at a more accelerated pace and/or beginning to do that or pay a larger dividend?

Thanks. That’s my only question.

Jerry Fowden

Good question, Brian. And I think, as most people on the call will recall, we’ve been pretty clear that until we get down to three times leverage, we would not revisit our capital deployment strategy until then. So our kind of priorities at the moment get it closed. So that’ll be somewhere in the second half of ’17. Let’s not count our chickens kind of thing. So we’ll get it closed. We’ll pay off about 1 billion of debt. I think your rough calculation, Brian, somewhere around 150 million of cash left, there or thereabouts, not too bad. Continue to delever the three times. Continue with the tuck-in acquisitions across Europe and across North America. Look across ’18, ’19, and ’20 at appropriate M&A, making sure that if we do anything, it’s synergistic and immediately cash accretive to us. But until this transaction’s closed and we get to three times leverage or below, we don’t see changing the dividend, reintroducing stock buybacks, or other elements.

Jay Wells

Yeah. I mean we’re not planning to sit with large amounts of cash on our balance sheet for long periods of time. But I think Jerry said it correctly. Let us get this transaction completed, see where we end up with net cash on the balance sheet, see what opportunities we have on a go-forward basis, and then reevaluate our capital payment strategy at that point in time.

Jerry Fowden

What I will promise, Brian, just like we had done in the past, when we get to that three times, we'll be very clear. We'll lay out what our plan is. We did it for several years prior to the DS transaction. We were very clear at the closing of the DS transaction where our priorities would be, deleveraging until we get the three times, hold the dividend, no stock buybacks. And when we get to that three times, we'll come up with our new capital deployment strategy, and we'll be very clear and lay that out to everyone. I think it's important that the owners of our company know what to expect.

Brian Hunt

And then one quick follow-up. You're talking about paying down the ABL. Can you talk about what your financial partners have told you regarding resizing the ABL and then maybe what your peak-to-trough borrowings might be seasonally on the ABL going forward?

Jay Wells

You are actually maybe one step ahead of us because part of this deal, a lot of our ABL base is going to be going away. So it really is between now and close, we're going to really have to evaluate what type of working capital facility we want post-close. So that's a good question. One that me and my treasurer are talking about right now. And between now and close, we'll evaluate what type of liquidity facility we want to have going forward.

Brian Hunt

Great job of what someone else said of transforming the business. Amazing what you've done, Jerry and all, in the last five years. And best of luck going forward.

Jay Wells

Thank you.

Jerry Fowden

Thanks a lot, Brian.

Operator

Your next question comes from the line of Mark Swartzberg from Stifel Nicolaus. Please go ahead.

Mark Swartzberg — Stifel Nicolaus

Yeah, thanks.

Jay Wells

Good morning, Mark.

Mark Swartzberg

And congratulations, gentlemen.

Jerry Fowden

Good morning, Mark.

Mark Swartzberg

Yeah. It's just as Brian said. It's impressive what's been accomplished, and it really is historic. So I also had a free cash flow question, and it's really a follow-on. And it's twofold really. Firstly, now that you're going to have some breathing room with your balance sheet, I wonder if you consider there to be some sizeable, high-return investment opportunities in your existing business, whether it's HOD or S&D.

And then secondly, as we think about these criteria you have for M&A, I heard a nuance just there that maybe I'm over-interpreting, but certainly Europe, the consumer seems to be in better shape than he or she was a year ago, and arguably even improving at a better rate than we here in North America. So do you have a preference for Europe as an area of acquisition?

And then also as we think about M&A, how open are you to doing something beyond HOD and foodservice if it fits certain financial criteria?

Jerry Fowden

So two questions there. No, we do not have a geographic preference or dis-preference. It will purely be about the financial, economic attractiveness of the transactions and how well they overlay and build on our existing platform. So the priority, Mark, is complementary, overlapping transactions.

So let's take Europe for example. We're not in Italy today. The return we can get by adding a transaction in Spain or France is greater because it overlays and will drive synergies with our existing business than Italy. So there's no particular desire to rush out and add new geographies. So overlapping transactions on where we already have positions and platforms, with really focus on HOD, kind of roasting and grinding of coffee and blending of tea for foodservice, and filtration.

Filtration will be smaller, and we would like to build up filtration. There is no obvious market leader in filtration throughout most of the countries in which we are present. So we see that as open space where our focus ought be over time on building that leadership position.

So complementary to geographies we're already in and complementary to businesses that we're already in is the priority, Mark.

Mark Swartzberg

Great. Great. And if you think about what you already own, whether it's HOD or the S&D business, are there any opportunities that you've been putting on the side, so to speak, because of the balance sheet, in terms of high-return investment in the existing footprint that you can now bring to the front of the line, so to speak? Or have those opportunities simply not been there?

Jerry Fowden

As I think everyone knows and you know, Mark, we've been getting on with what I call these tuck-ins, the up to 20 million North America and 10 million Europe. And we see that carrying on week in and week out from now on.

Of the larger transactions, because we go back a long time, Mark, you know we do this rigorous strategic planning exercise. They are some larger transactions that we think have very complementary fit with our business. We don't think any of those are particularly pressing or available within the immediate next 12, 24 months. But we do believe, as we look out over the next three or four years, some of those opportunities might come to bear.

So nothing that's immediate, other than carrying on with the tuck-ins, but if you were to fast forward three or four years, likely that we would've done something.

Jay Wells

And I'll just add I mean there is nothing currently come to market, but also at the same time, we've been focused on deleveraging. We really haven't been pursuing any other opportunities. And as our balance sheet improves, we're actually—start looking for opportunities, versus focusing on deleveraging.

Mark Swartzberg

Great. Well, best of luck, gentlemen. Congratulations.

Jerry Fowden

Thanks, Mark.

Jay Wells

Thank you.

Operator

I would now like to turn the call back over to Mr. Langhans for closing remarks.

Jarrod Langhans

This will conclude our transaction update call. Thank you very much for joining our call today. Goodbye.

Operator

This concludes today's conference call. You may now disconnect.

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