FINAL TRANSCRIPT

Cott Corporation

Investor and Analyst Day

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PRESENTATION

Jerry Fowden — Chief Executive Officer, Cott Corporation

Thank you, everyone, for making it. Those that came down for Raymond James and are just staying on, excellent travel planning.

Those that managed to get out of the northeast and make it here, congratulations. We have lost about 10 people in total: three yesterday morning and then seven more that couldn't get out of New York last night. But they will be joining us on the phone.

And today is being webcast, and the Q&A will be webcast as well.

But really with that said, good morning. And thank you all for coming to our Investor and Analyst Day, which is primarily focused on our North American Route Based Services business.

With me today and also presenting is Tom Harrington down here on the front; Jay Wells that most of you know, our CFO; and in addition, I'd like to thank Jarrod, our VP of Investor Relations, for pulling all of this together, as well as many members of Tom Harrington's North American management team who have prepared elements of our trip, and who will be hosting us today both at the plant and the national Customer Care Centre.

So before we begin, could everyone have a quick look at the safe harbor statement on the screen, something I'm sure you're very familiar with. And please bear this in mind as we cover various of our materials during the day.

So as you know I'm Jerry Fowden, and I'm going to kick things off with a picture of what we've accomplished over the last few years, as well as our new business profile now that we've become a focused growth-oriented pure-play, water, coffee, tea and filtration services business.

I'll then hand the presentation over to Tom, who will spend a few minutes on our overall global Route Based Service business before he provides more detail and an overview of our North American Route Based business, including a profile for those that can't join us of our Customer Care Centre, which is the last part of our tour today.

After Tom, Jay will close our presentation with an explanation of our current balance sheet and leverage, now that we've applied the funds from the sale of our traditional business to meaningfully reduce our debt. And Jay will also provide more details on our plan to accelerate the level of overlapping and complementary tuck-in acquisitions that we undertake over the next two to three years.

So on to the presentation. I'll refer to the slide numbers so that those that are following on the web can keep in touch with which slide we're on.

So turning to Slide 4. Over the last few years, Cott as you know, has undergone a significant transition from a mature low-margin private label CSD, or soft drink business, with a high big box customer concentration to a growth-oriented higher-margin business with much lower customer, product, and channel concentrations. This diversification strategy was focused on building leadership positions and platforms on which we can grow further in the categories of water, coffee, tea, and filtration services.

Moving to Slide 5, you can see Cott today has leading positions in water delivery services in 20 countries, a leadership position in the custom coffee roasting and tea blending within the US foodservice channel, as well as strong positions in office coffee services and water filtration in multiple countries.

These positions, or this business platform, supplies over 2.4 million customers via more than 3,600 of our own routes. This diverse customer base on the water side is predominantly made up of small to medium enterprises alongside residences and small home office setups, with our Coffee, Tea and Extract Solutions segment predominantly supplying the US foodservice channel.

Thus, we no longer have exposure to any form of significant customer concentration, and have very, very little indeed in the way of big box retail exposure.

In fact, our largest customer, which is actually a foodservice coffee customer, accounts for less than 5 percent of our consolidated revenues.

In addition, our scale and leadership positions, coupled with the fragmented nature of the 20 countries and markets we're in, provides good opportunities to add customers, both organically through our marketing programs and our partnerships, as well as through small complementary tuck-in acquisitions.

These tuck-in acquisitions provide the ability to not only strengthen our base business, but also to fuel additional top-line growth and synergies from the many cost savings that arise from increased scale, procurement, and route density, thereby providing very attractive post-synergy EBITDA multiples.

As a result, New Cott's growth outlook over the next couple of years is for 2 to 3 percent underlying growth, a further 1 percent additional growth in 2018 from foreign exchange favourability, and then further potential for additional growth that we can accelerate from tuck-in acquisitions, but we'll cover more on that later.

So on Slide 6, let's take a quick look at our three business segments. We have two large segments and a smaller third segment we call our All Other segment.

The largest of these reporting segments with about $1.5 billion in revenue is the Route Based Services segment. This segment includes DS Services, Aquaterra, and Eden Springs, and focuses on water, office coffee services, and filtration services across 20 countries.

Our second-largest segment is our Coffee and Tea and Extract Solutions segment, with about $600 million in revenue coming from S&D Coffee & Tea, which focuses on the provision of premium custom coffee roasting, tea blending, as well as extract solutions predominantly for the US foodservice industry.

These two large segments, plus our All Other segment, generated in excess of $2.2 billion of revenue and $296 million of adjusted EBITDA in 2017, and we would expect them to generate in excess of $2.3 billion of revenue in 2018.

The segments we're in, along with our market-leading positions and the extensive route density and route based infrastructure we have, provide attractive barriers to entry. Along with our scale, innovation, reputation for quality, and ability to further roll up a fragmented industry, it provides an attractive outlook for our investors and share owners.

Slide 7 to some degree highlights this potential, as it shows our most recent fourth quarter 2017 financial performance. On a comparable and FX-neutral basis, we generated 5 percent top-line growth, an 8 percent improvement in gross profit, and a 27 percent increase in adjusted EBITDA.

In addition, we believe the economic backdrop for our service-oriented business, which benefits from low unemployment levels—simply put, the more people in the office, the more water consumed—is the best it's been in a number of years, both here in the US and across Europe.

In addition, as you can see on Slide 8, numerous other factors also support the positive outlook for New Cott. Just to give a few examples, positive top line momentum across all of our business units; increased market share in US coffee roasting; increased customer penetration in US and European water services; the successful integration of multiple companies; a history of synergy capture with further synergies to come; reduced debt levels and a strengthened balance sheet, and Jay will cover more on that later; and the fact that all of our outstanding debt is long term with fixed coupons, so no exposure at present to rising interest rates; plus, as mentioned, significant further value-creating opportunities from synergistic tuck-ins.

So let me end with Slide 9, which outlines our focus over the next two to three years. This focus should support good top-line growth as we look to 2018 and beyond generated from better-for-you product offerings, innovation, cross-selling, some favourable foreign exchange, and rolling up the various markets in which we operate.

I would like to remind people, of course, that quarter one will have three less trading days in S&D Coffee & Tea, which will slow first quarter consolidated revenue growth by about $5 million, and that quarter two should benefit from the closing of Crystal Rock.

In addition, we see modest margin expansion of around 10 basis points per year supported by increased customer route density, route logistics, synergies, and other technology savings. And this 10 bps margin expansion per year can be further accelerated if we increase our level of tuck-in acquisition activity that I've said Jay will cover later.

And then of course last, but by no means least, significant growth in free cash flow to $150 million in 2019 and then a 10 percent compound growth per annum thereafter.

So on that note, let me pass over to Tom.

Tom Harrington — Chief Executive Officer, DS Services, Cott Corporation

Thanks, Jerry. Good morning, everyone, and thank you for attending our Investor Day.

Over the next few slides, I'm going to focus on our Route Based Services segment, which is by far the largest segment of Cott. I will review what we believe are the characteristics that align our service businesses with the overall business service sector, and I'll then provide a more detailed overview of our North American-based services business and how its characteristics line up with the overall sector.

With that said, let's turn to Slide 11. On Slide 11, you will see a number of characteristics that define both our business and the business service sector, including recurring revenue streams, which in turn are tied to the ability to deliver customer service and customer satisfaction.

Scalable businesses that can be leveraged with minimal additional cost. In our case, we're able to leverage our route and customer density to drive margin expansion and profitability.

Barriers to entry. 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're not exposed to the high capital investment, the start-up cost, and losses that would be incurred by any new entrant as they seek to build customer density and establish the needed infrastructure.

From a financial perspective, the growth of our business is driven by consistent and recurring revenue streams; volume growth from our existing customer base, as consumers continue to increase consumption of better-for-you products, as well as through the ongoing business expansion occurring in our customers; our ability to pass through price increases; higher margins through operating leverage, driven by procurement scale, route, and customer density; continued efforts to cross-sell products, such as our AquaCafé and on-the-go water products.

In addition to these key drivers, we also operate in highly fragmented markets where we're able to grow our business through highly accretive customer lists or tuck-in acquisitions.

With that as background on our service businesses, let's take a look at Slide 12, which highlights the leading international platform we've built in water and coffee Solutions with operations in over 20 countries, and the number one or two market-leading position in almost all of them.

Here you can see our size and scale as we operate a $1.5 billion business serving over 2.4 million customers through the utilization of over 3,600 routes and around 16 manufacturing plants.

What's more, as seen on Slide 13, these markets are still highly fragmented after the top one or two players, so ample opportunity exists for highly value-accretive overlapping bolt-on or tuck-in acquisitions that offer significant synergy potential, and can assist in providing outsized growth, as well as margin expansion beyond our recurring 2 to 3 percent annually.

In effect, we are simply adding customers that if it is a small acquisition or a tuck-in can to a large degree be absorbed into existing distribution centres and on to existing routes, thus providing significant and immediate route density and infrastructure synergies.

Obviously, larger transactions and in transactions where our existing infrastructure is less developed, do not offer quite as many synergies. However, it's safe to say they are still highly value accretive and financially still attractive. Jay and I will say more on that later.

You can see in the pie charts that 39 percent of the US home and office water market and over 60 percent of Europe are still in the hands of small independents. So there's ample opportunity for ongoing small tuck-in acquisitions.

In addition, we also have opportunities to acquire coffee companies and roasters, as well as filtration businesses as part of our tuck-in strategy, as we hold top positions within those sectors as well.

Let's now take a deeper look on our North American Based Route Service business, as shown on Slide 15. This business will be on display this afternoon as we visit our Orlando bottling plant, as well as our national Customer Care Centre.

In North America, we're a market leader in home and office water delivery and office coffee services direct-to-consumer business providing bottled water, coffee, and filtration products and services to over 1.5 million customer locations. With annual revenues of over $1.1 billion, we have 14 lines of business, with our water delivery service being our largest revenue generator at over 70 percent.

We're also a leading player in office and filtration services, and operate a retail division that acts as an offset to fixed costs and assists with capacity utilization within our plants.

Moving to Slide 16. Here you can see the three main sectors in which we operate, all of which have and are expected to display revenue growth in the coming years.

Within water services, our growth will come from new customer additions, increased consumption, pricing, and the ability to sell ancillary products. On the slide, you can see we are expecting the market to demonstrate a CAGR of around 1 percent for cooler replacements, or increased customers.

In addition to increased customers, we would expect to drive growth through increased consumptions as consumers move away from sugary-sweetened beverages toward healthier sources of hydration, as well as through ongoing economic growth, and in turn, expansion at our customers' offices. Pricing and cross-selling would complete the growth profile.

As it relates to coffee, we are seeing growth in the single-serve and premium-based coffee offerings with offices, while the old brewed basket services are in decline. I'll speak to some innovation we are planning on utilizing in relation to office coffee shortly to accelerate our growth in the single-serve and premium-based offerings.

Although a much smaller component of our business, water filtration is a growing category that we will focus on in the coming years. As many of you know, we purchased a filtration business in 2017 called Remington Pure.

It included some very good filtration technology that we will be rolling out to our current customer base and utilizing as we look to grow through our new customer growth activities. But where possible, we will also make acquisitions in order to expand our presence in that area.

Slide 17 provides some additional data points on where the growth in the water services businesses has come from over the last eight years, and how it ties into our roughly 2 to 3 percent growth profile in North America.

As you can see, when you look at the total bottled water volume, which encompasses both increased customers and increased consumption, the market has grown at a 2-plus percent CAGR over the last seven years. When you add pricing to the volume growth, the category has grown at just under 3 percent.

We would anticipate a similar dynamic moving forward where we're able to utilize customer growth, consumption, and pricing in order to drive our top-line growth with, of course, the opportunity to add in tuck-ins, as well as cross-selling opportunities.

So let's take a look at a few characteristics on the upcoming slides focused on customer satisfaction and customer service, and some of the latest technology utilized to keep our business and service standards running effectively and efficiently.

On Slide 19, our investments to date in the development of a digital business technology platform are focused on the top-left area specifically related to the customer experience. Those of you joining us in the national Customer Care Centre in Lakeland will see how these investments have translated into actions and real enhancements to the customer experience.

These investments and the focus are intended to support our efforts to increase the average life of our customers from its current tenure of 4.6 years.

Turning to Slide 20. We strive to provide top-notch customer service to our customers, but at the same time we are realistic and understand there will be times that our service standards fall short of expectations: fires, hurricanes, accidents, and traffic jams, to name just a few. With that said, improving our technology platforms and service standards is an ongoing process, and is key to assisting our teams in reducing the amount of times that we do not meet customer standards.

Recent advancement in our customer service platform include building a state-of-the-art Customer Care Centre with advanced information systems and telephony tools in order to drive our Customer 4 Life initiatives. In 2017, we completed the rollout of new modernized handhelds that are capable of providing real-time data, such as delivery locations, on-truck inventory, as well as a real-time link to the drivers between the distribution centre and the Customer Care Centre.

We are currently implementing improved logistics software that will further improve our operation through route optimization to ensure the lowest cost to operate on any given day while maximizing customer satisfaction.

Through the utilization of these tools, we will continue to improve our customer service levels, which have consistently improved over the last few years. Our ability to continue to drive improved customer service will be key to our future growth, as the extension of our customers' lives support top-line growth, margin expansion, and other operational efficiencies.

On that note, let's move to Slide 21 and spend a few minutes discussing our national Customer Care Centre. With a project that began with a field of grass, we were able to consolidate three call centres in three geographies into one state-of-the-art Customer Care Centre, which in turn has resulted in the usage of improved technology, as well as cost savings associated with centralizing their customer care function.

We've laid out some data points on Slide 22, as well as a chart of our recent activity. Our call centre handled over 4.5 million calls in 2017, and we're currently staffed with 426 agents.

As the call centre has come on board and we've steadily staffed up the centre, we've seen very good progress in our ability to take calls in a timely manner and resolve customer issues. As you can see, we greatly increased our efficiency, being able to answer calls within 20 seconds or less and having an abandon rate of less than 2 percent.

And looking at the chart on the right side of the slide, you will see we did have a spike around the September time frame, which coincided with the hurricane activity in Texas and Florida.

Overall, we're very pleased with the progress that we have made, and we look forward to continuing to improve service levels and advance further in 2018.

On Slide 23, we've provided a breakdown of the most common reasons for inbound calls, which are typically questions around deliveries and billing. This is a good place to discuss the common reasons for customers discontinuing our service, as that is a common question from new investors.

The most frequent reason for discontinuing service is that our customers forget to pay their bill, and we've made the decision to discontinue service with them. Other common reasons for cancelling service are, of course, not meeting the service standards that our customers expect, or some kind of life event, such as going out of business, losing your job, or moving.

Although not a significant component of the quits, we are often asked about cost, which accounts for less than 10 percent of our quits, and about filtration, which accounts for 2 to 3 percent of total quits.

Moving to Slide 24. You can see we've progressively increased our retention over the last eight years. This will remain a key focus of ours as we continue to implement new technology and tools. The opportunity to progressively increase our retention over time is beneficial to all parties, and will help us become a more profitable business.

Slide 25. Let's now move to a discussion on our scaled platforms that give us the ability to leverage our operations and drive customer satisfaction, which provides us with a competitive advantage versus the hundreds or thousands of independent operators throughout North America.

On Slide 26, you can see we have very strong positions west of the Mississippi, where we typically hold the number one position within the market. We also hold top position throughout the East Coast, although our customer density is not as strong in that area. Upon closing the Crystal Rock transaction, which is expected at the end of the month, we would hold the number two position in the northeast.

As you can see on the map, especially in the areas that we are the leading water service provider, we're able to utilize a very high route and customer density to not only drive profits, but also to provide our customers with a premium service offering.

And looking at the left side of the slide, you will see that over the years we've gradually gained market share, except for 2016 where we saw a record growth in residential customers that impacted our overall mix, whereby our residential customer base expanded to the detriment of our commercial customer base.

As a reminder, our commercial customers generate higher levels of revenue on a month-to-month basis, and have higher retention rates as a customer. With this in mind, as well as a need to refine some of our operations as a result of the historic growth we experienced, we developed a three-point profitability improvement plan that we successfully implemented in 2017.

During 2017, we returned to 3 percent top-line growth and expanded our EBITDA margins by around 90 basis points. In 2018, we will continue the expansion of our sales force with a focus on small commercial businesses in selected high-density areas, as these customers generate higher monthly revenues and have longer average lives.

This is a good time to now look at our recurring growing revenue streams, driven by our leading category innovation, as well as volume growth and cross- and up-selling opportunities.

Moving to Slide 28. In addition to the reallocation of new customer marketing spend, we will be rolling out our Storm water cooler during 2018, which is a bottom-loading water cooler and is pictured as the second water cooler from the top on the left side of the slide.

Historically, we focused this product within our in-store marketing program. We've had significant positive customer feedback, and have thus decided to expand its availability across North America in 2018. We believe it will provide our team with another advantage when soliciting new customers.

As an update to our AquaCafé rollout, that being our bottom-loading water cooler with an integrated K-Cup brewer shown top left, we ended 2017 placing just under 8,000 units, and see a good opportunity for additional placements in 2018. We will 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 single-serve office market—office coffee market.

We're often asked about certain technologies, such as longer life filtration units, ultraviolet light systems to prevent contamination within units, as well as a variety of other product offerings. If you look at the bottom left of this slide, you will see one of the latest filtration units that encompasses many of the latest technologies associated with these types of units.

In addition, in line with our strategy of expanding in 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. This technology, which offers the potential for attractive synergies across much of our existing filtration customer base, is being rolled out over the coming years.

In addition to the opportunity we see with our AquaCafé, we also have a number of initiatives within our office coffee service program. For instance, we've partnered with Lavazza, top right, which will allow us to increase our presence within the premium coffee segment of the office coffee market. We will be rolling out a variety of Lavazza machines that can meet a variety of customer preferences within the premium sector.

We've also aligned with our S&D Coffee business to provide us with our house-branded products, whereby they are performing the roasting, grinding, and tea blending of our products, thus increasing the quality of product, but also reducing the cost at the same time.

Turning to Slide 29. Let's take a look at our 2018 plan in regard to customer growth. As you can see, we plan on sourcing our new customer growth from four key areas. Our route sales representatives driver account for over one-quarter of our annual customer adds. As our drivers are primarily commission-based drivers, they're incentivized to add new customers on their routes in order to increase their wages.

In addition to obtaining referrals and enquiring with local residents or businesses, we also use a variety of other methods to assist our RSRs in obtaining customers, including flyers and discount coupons. This method is our largest and most cost-effective approach to customer growth.

Our second-largest customer generation program is our in-store marketing booths that tend to attract more residential customers. Here, we set up a number of booths each week in specifically defined regions. We also utilize the web and other media campaigns to generate over 20 percent of our new customers, and we benefit by owning the website water.com.

A key focus for us in 2018, as well as in 2019, will be our area sales representatives or ASRs. Here, we will more than double the ASR headcount in 2018, as we look to increase the mix of our small commercial customer base.

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 services 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.

As you can see on Slide 31, the markets in which we operate are highly fragmented, with over 39 percent of the market made up of small independent operators throughout the US, and around 80 percent of the US office coffee services market also in the hands of multiple small independent operators.

Slide 32. We provide some history of our smaller complementary and overlapping tuck-in activity. We've executed over 80 of these smaller overlapping acquisitions in the last decade. For these small tuck-ins that averaged just over $2 million in revenue, the post-synergy multiple has averaged around 3 times synergized EBITDA.

As a result of our existing route density, we're generally able to integrate these customers onto our existing route infrastructure. This reduces headcount from pre-acquisition to post-acquisition, and also generates greater route and customer density post-acquisition.

As we have centralized call centres, credit and collections, and finance, we're generally able to leverage the work associated with the new customers across our existing headcount with little incremental recruitment, and in turn, provide additional synergies.

Now in addition to these small tuck-in acquisitions, we also have seen good success in acquiring larger tuck-ins in the 10 million to $60 million range, such as Aquaterra in Canada, or our most recent announcement to acquire Crystal Rock that we anticipate closing at the end of March.

In these larger tuck-ins, we often acquire greater amounts 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 and distribution centres. And the post-synergy multiples tend to be in the 5 to 7 times range, dependent on the specific circumstances and location of each transaction.

Turning to Slide 33. We can take a closer look at the Crystal Rock Holdings, Incorporated, where we announced a few weeks ago we'd signed an agreement to acquire it for $35 million. As mentioned, we hope this acquisition closes at the end of March.

Crystal Rock is a 100-year-old direct-to-consumer home and office water, coffee, filtration, and office supply business serving customers throughout New York and the northeast. It is a business we're very familiar with, having worked with them as a production and distribution partner for many years.

Crystal Rock currently generates around $59 million of revenue and roughly $5 million of EBITDA. Given that Crystal Rock has been deemphasizing various low-margin noncore products, we're modelling revenue of 50 million.

We also expect synergies of 2 million to $3 million from a combination of the elimination of Crystal Rock's public company costs and from our scale and procurement advantages over the next couple of years, creating a post-synergy EBITDA multiple of around 5 times.

We will provide more information on Crystal Rock and our synergy plans once the transaction has closed.

With that said, I'm going to hand the presentation over to Jay.

Jay Wells — Chief Financial Officer, Cott Corporation

Thank you, Tom, and good morning, everyone. One question that we've been asked many times over the past week is, what exactly is your leverage?

So the slide we're showing on Slide 34, in the first column it shows our total outstanding debt as of our 2017 fiscal year-end. And in the second column, we show our leverage profile after closing the sale of our traditional business.

As you can see, the proceeds from the sale of our traditional business were used to remove around $1 billion of debt and pay for transaction costs, with around $130 million of additional cash being added to our balance sheet. The end result is a net leverage of 3.6 times our 2017 adjusted EBITDA.

With reduced leverage, a good free cash flow growth profile, and excess cash, we're in a good position to move to Slide 35, where we have outlined a number of metrics around our international tuck-in program.

As you can see, small HOD water tuck-ins deliver post-synergy EBITDA multiples of approximately 3 times in the US and approximately 4 times in Europe, while office coffee services tuck-ins generate post-synergy EBITDA multiples of approximately 4 times in the US and 5 times in Europe.

As Tom noted a few minutes ago, we also have a number of opportunities in acquiring larger tuck-ins that typically generate post-synergy EBITDA multiples in the 5 to 7 times range, with these acquisitions providing enhancements to our platforms and density, operational assets such as manufacturing plants and depots, as well as the ability to build upon these transactions through marketing programs and additional smaller follow-on tuck-in opportunities, and in turn provide further layering and further density.

Turning to Slide 36. We're providing an illustration of the art of the possible on this slide. Said another way, this is an example, guys. Please don't build it into your models because you can never judge the timing or the scale of these tuck-ins.

In this example, we increase our annual tuck-in activity to $60 million. Assuming an average purchase price of 1.3 times annual revenue, this would generate an additional 2 percent of revenue growth, increased EBITDA, and could expand EBITDA margins by 10, 20, or even 30 basis points per year.

Since we are using free cash flow to pay for these tuck-ins, we'd be creating additional top-line growth and expanding EBITDA margins while not increasing our outstanding debt. This would assist in deleveraging our business, whereby over the next three years we'd see our net leverage move to the mid-2 times. We see this as a great opportunity to utilize our free cash flow to increase revenue growth and drive margin expansion. In addition, these tuck-ins should also fuel stock appreciation.

If you turn to Slide 36, you'll see an example of what the EBITDA multiple arbitrage alone could provide to shareholder value. We all know that markets are volatile and don't always operate on a simple calculation, but just for illustration purposes, on this slide we look at the three-year benefit of doing $60 million of annual tuck-ins at a 5 times post-synergy EBITDA multiple. In this example, we're assuming our stock is valued at 11 times.

But again, this is for illustration purposes. Please don't take this as our multiple expectation. And we hope and expect to be trading in line with the multiples of our peers within the next three years.

At the end of the three years, the difference between acquiring companies at a 5 times post-synergy EBITDA multiple and Cott trading at 11 times EBITDA multiple, we'd create around $1.50 per share of additional shareholder value.

So on that note, I'll ask Jerry to come up, Tom, and we'll open up for questions.

Jerry Fowden

Thank you, Jay, for covering that. And the plan now is to move on to questions. If anyone wishes to ask them, I'll then repeat them for the benefit with the mic of clarity of the people that have dialled in. And certainly, we know four of our analysts that were intending to come couldn't get their flights last night, so that will give them more of an opportunity to share in all the questions being asked here.

So on that, let's open the floor to questions from anyone.

Q&A

Audience Member

(Question Inaudible)

Jerry Fowden

So the question was really Nestlé's HOD water business, do we believe their position has changed from a hold-and-defend to anything that might be more aggressive over the last year or so?

And our view is no, we still see them consider that business as a hold-and-defend. We believe they have a view that as it shares the same famous brands that are much bigger brands, like Poland Springs (sic) [Spring], they do view their North American business differently to their European business which they exited, which was half a dozen different countries that collectively only generated just over €100 million of revenue, whereas in the US it's a bigger business sharing brands that are more important to their retail portfolio.

We still believe their view is that they like the water category in total, and that their HOD water business is a hold-and-defend. And they're not likely to be selling it any time particularly soon, although of course we recognize the tremendous synergies that would come from a combined operation.

Judy?

Judy Hong — Goldman Sachs

(Question Inaudible)

Jerry Fowden

And can you repeat the question first, Tom?

Tom Harrington

Yeah. So the question really is what is the potential impact of a downturn in the economy on the home and office business? And what actions have you taken to insulate yourself from that?

[unintelligible] (phon) on a number of things. So as a result of the last recession, we implemented an energy surcharge, and that insulated us from the significant change in diesel price. So in 2008, the number—I won't have this exactly right—but it went from something in the order of $2.50 a gallon to over 4.50. So we've insulated ourselves from the spike up and down.

We also took actions to reduce our risk in terms of bad debt. So we've implemented—and part of it is an outcome of some of the technology investment. So we limit the amount of debt any particular customer can incur, so since 2010 we've cut our bad debt as a percent of revenue on a dollar basis in half. So we think as things tighten, those are two things we've implemented that will insulate us from that.

The other thing that we've done and we believe is things like cross-sell and up-sell. So we've entered the coffee business in 2012 when we acquired Standard Coffee at DS. We think that two services are stickier than one. So as we continue to expand with things like connections of water and coffee customers, it also insulates us from customers that might exit a particular service in a downturn.

Jerry Fowden

And just on that, I'd like Jay to add to that because Jay did a lot of work around our acquisition of Eden Springs, and there we really studied in a lot of detail the different approach they took during the last significant recession.

Jay?

Jay Wells

Yeah. So during the recession, understandably so, your marketing spend don't get the return on customer adds that it would during a well-performing economy. So what Eden did, they greatly cut the organic marketing spend. And they took those dollars and went out and bought the small tuck-in type acquisitions and greatly increased the volume they did because those companies were also under significant pressure and they were cheaper than normal. And really what they were able to do was really keep their top line stable by really just redeploying their marketing program from true organic standard programs to focusing on increasing the tuck-ins, so.

And when we diligenced DS, we saw that same possibility and it was confirmed when we did—took a look at Eden. So that'd be another thing we could do to maintain the top line and the amount of revenue and volume we have during a recession.

Judy Hong

And then my second question for Jay just in terms of the leverage that's obviously come down and you have a pretty high confidence of free cash flow generation to get to 2 times even as you're making tuck-in acquisitions. So in terms of other use of cash, whether it's dividends or buyback, how do you think about that, including the timing of when you could see that going forward?

Jay Wells

Sure. I mean, the question really relates to capital deployment strategy with our excess cash flow after we pay our dividend and we do our tuck-in. And we are still in the process of transforming this company. We still see opportunities to do more strategic adds in the area of water, coffee, tea, filtration in the geographies we are. And so as part of our strategic planning process that we're just rolling into this year, we're talking to the board about what other options are out there.

Now to be honest, the valuations of our company are pretty frothy right now, and we're going to stick to our same financial metrics that we always have because the best way to have an acquisition fail is to overpay for it, and we all agree for that. So there is other opportunities out there that we're considering. If they are available we want to save that cash in order to do it, but we will not overpay at the same time.

And as we get through the year if we don't see any of those opportunities coming forth, we will talk about looking at share buyback and increase in dividend. But we just got done with selling the traditional business a month ago. All we're asking for is some time to really see what other things are out there. But then we will look later on in this year as we get through our strategic planning process to update our capital deployment strategy.

Audience Member

(Question Inaudible)

Jerry Fowden

Yeah. So the question is, are there limitations and what are they around the pace and scale of tuck-in acquisitions that we can do? Jay gave an illustrative example of $60 million a year, and we do believe that's something that we can do. Will it be $60 million each January the 1st to December the 31st for the next three years? I can guarantee you, it won't.

Could it be 30 million one year, 90 million the next? Yes, it could be. Do we feel comfortable that something like $60 million a year each year for the next three years is doable from a pipeline, from a capacity, from an integration point of view? Yes, we do.

What are the limiting factors? There's a kind of tough point here and then there's a very good point here. The tough point is, we don't want to do two or three overlapping synergistic tuck-ins in the same geography in the same year because Tom's highlighted the importance of service and service continuity to the length of customer lives. And when you do an overlapping tuck-in acquisition, the reason they're so financially attractive is you consolidate the routes, which means lots of people's drivers and RSRs change, and if they had a good relationship and liked the guy that's been calling for the last few years, forcing them through two or three of those changes in a 12-month period is a good way to increase your customer churn or your quit rate.

So multiple overlapping transactions within a short period of time, while superficially very value creating, actually have some value destruction through pressure on the quit rate. So that's one limiting factor.

Now the good point about building up platforms in home office water and in coffee in 20 different countries is the likelihood of us needing to do overlapping transactions to hit that 60 million a year is pretty slim. When you look at two to three markets with filtration in 20 countries, that's 60 different areas where we can do things without overlap. And that's even considering the US as one, which of course it isn't; something East Coast, West Coast, middle of the country.

So we think $60 million a year is eminently doable, and as Jay highlighted, that drives our top-line growth such that we'd be potentially looking between these tuck-ins and our organic growth about 4 to 6 percent top-line growth per annum as you look out over the next three years, which we think propels us into the upper end of that ongoing per annum growth that our peers in the service industry would have being about 4 to 5 percent for that group.

So we think it will raise our profile and further add to the Company being seen as a solid, steady reoccurring revenue growth-oriented business.

Audience Member

And as it relates to the 10 basis points that we've guided for in the margin expansion, just wondering how much of that is based on that kind of 2 to 3 percent organic growth? And how much of it is us kind of zoning into specific routes and we're using (phon) I guess either the technology of specific initiatives and (unintelligible) (phon)?

Jay Wells

Easy answer is the base guidance we give from organic growth is really just getting leverage down to P&L as that growth. So that's the base. The other thing I talked about is when you add tuck-ins on top of it, you get even more leverage on that. So that's why I said on the 60 million of example of tuck-ins, depending on what multiple we're doing it at, you can get 10, 20, or even 30 basis points improvement a year, depending on the type of tuck-in. But the 10 that I believe it was Jerry talked about was really just leverage on the P&L with the organic growth.

Oh, sorry, I forgot to repeat the question. Jarrod called me out. So the question was, the 10 bps of annual improvement in our margin as related to organic growth, how did that work? Thank you, Jarrod.

Audience Member

Just looking at the industry growth that you guys posted from 2010 to 2017, the gap between the volume growth and the revenue growth wasn't that wide. So the pricing was, I guess, fairly limited in terms of what happened in the industry over that time frame. Did DS sort of outperform the industry in terms of price increases? And it seems like obviously you're not talking about big price increases, but it would be an acceleration versus what's seen here in terms of quarter over quarter. So—

Jerry Fowden

Yeah. I mean—

Audience Member

—can you help us understand that?

Jerry Fowden

The question really is about looking at pricing over the last 10 years as shown in the presentation, and the pricing appeared to be limited, given it only made the difference between the 2.7 percent volume growth and the 2.9 percent revenue growth.

I think the first thing against that is 10-year compound averages are 10-year compound averages. If you start to do some of your own individual maths on those individual years—and I did some earlier on—if you look at the last year, it was less that 0.7 percent instead of 2.7 percent on the volume. And if you look at the year before when there was that big spike in residential customers, it was 3.2. So individual years and circumstances do change.

We believe the simplest way on average to look at this industry is 0.5 to 1 percent new machines on location, 0.5 to 1 percent price, and 0.5 to 1 percent higher consumption per machine as consumers move to healthier hydration. Within any individual year, ourselves, others in the industry, based on the macro environment or your own micro circumstances, can adjust those levers.

So if you look at last year with our profitability improvement program, we pulled the pricing lever a little bit harder because we wanted to slow some of that rapid residential growth and enhance its margin through price. We did that selectively by type of customer, by segment, by geography, but on average we drove price harder, which softened the volume. But if you use 0.5 to 1 percent for each of those three drivers, that's a sensible way to look at the market with individual years changing according to circumstances.

Audience Member

Do you see anything in the next year or two that would amp up any of those drivers one way or the other?

Jerry Fowden

So do we see anything as we look out over the next few years that can change that?

I personally believe, but we still have a long way to go, that the infrastructure-related opportunity of the AquaCafé and some of our other new innovations are an attractive opportunity. If you think that if you buy our AquaCafé bundle at 39.99, that gets you 48 K-Cups and the machine and then you have to buy the water on top of that, and four jugs of water is another $28, you've just increased your average customer spend from 40 to $45 to 70 to $75, which is a pretty attractive dynamic. And you're doing it with a piece of equipment at the moment where we're the only people with it.

So there's a great opportunity for both up-selling an existing customer or getting a brand-new customer that didn't want a water cooler on their own, but if you're a small hairdressing salon and you can see the opportunity of offering your customers some water, a cup of tea, a coffee, a hot chocolate from one appliance, then that's something that's very attractive.

So I do think there are some things that can change the average mix of price by customer. What you've got to remember in infrastructure-led businesses where it's about getting the penetration of that equipment, this won't all happen in one year. It's a cumulative build over time. So if we place 10,000 to 15,000 AquaCafés per year, the benefit is in five years' time when you look back and there's 70,000 to 100,000 of them out there all driving a growth in revenue from 40, 45 to 70, 75.

But if you add that to the extension of our filter technology—Tom showed an espresso machine from Lavazza—most of the existing coffee machines around in people's homes and offices don't do an espresso. So driving those opportunities to better meet customer needs and wants I think drive revenue opportunity.

But cumulative build over time as you place that equipment.

Audience Member

(unintelligible), Tom, on the customer retention slide there's big improvement from 2009 to 2012. Was that just a reflection of the economy improving and sort of households and businesses being more stable?

Tom Harrington

Yeah. So the question is, stability and change of the retention rate post-recession of 2007 to '10, if you will.

Yes. So the customer base would have certainly settled out in a two- or three-year period. And then we had customers that actually could pay their bill, wanted to be in the service, and it was really a reset from that point forward.

Audience Member

And I guess I'm just curious when it comes to sort of balancing that rate, like I'm assuming there's ways to make that rate higher that are unhealthy for the business and vice versa. Like how do you sort of feel about how you're striking that balance with the numbers—

Tom Harrington

Yeah.

Audience Member

—you see today?

Tom Harrington

So the question is, is the improvement in retention rates a slow-and-steady versus a mile race, right?

So we like to see slow incremental gains because that means that we're dependent on several thousand people to execute properly with the customer. So if we see a big spike, I would worry that it's not sustainable, right? So this is about incremental improvements, frankly, on a daily basis to say did we answer the call? Did we deliver to the customer what they wanted? Right? And we spend a lot of time working on that with a little bit of improvements on a day-to-day basis.

So that number won't go from 4.6 to 5.6 in a short period of time. We like to add if we can add a couple of months every period of time, it's meaningful, obviously, in terms of the average life of the customer and the economic return.

Jerry Fowden

Just to build on that, if you think average cost of acquiring a customer circa $250; therefore, if you can move a life over time from four years to five years, you've reduced from $62.50 to $50 that cost of acquisition. So economically it plays in in a very attractive manner.

Audience Member

Maybe for coffee sort of outside the product itself in QSR, is there an opportunity to either buy or license brands that would help your margin up there, given you're grinding, roasting, and processing that yourself? Is there room to increase your margin there (unintelligible)?

Jerry Fowden

I think yes and no, and I'll ask Tom to expand on the range of brands in our office coffee service that we sell because we are distributor of most famous brands, and that choice makes you more accessible to more customers. And that's where the plus and the minus comes in. If we set out to be the brand in coffee to the detriment of all other brands, then you're unlikely to be a favoured distributor getting good terms from those other brands because they're going to see you as trying to compete against them.

On the other hand, we do have brands and the opportunity to introduce brands that have some unique points of their own where you're not trying to be the category-dominant brand is certainly something that's available to us. We have house brands today that I'll have Tom expand on. And we're currently looking at a small, let's call it, craft coffee roasting business in Europe that we think could add to our portfolio, provide roasting and grounding capacity, vertical integration inside, and the ability to offer this niche brand that's not threatening to anyone else because it's a hand-roasted craft proposition. So it's about the size and scale and what you're trying to do with those brands.

But, Tom, do you want to expand on our brands today?

Tom Harrington

If you think about OCS business narrowly, roughly half of our revenue is on house brands. So we get obviously a higher margin because it's lower cost. That's recently enhanced because we'll get two benefits from S&D. We're going to have higher quality and then we'll have a lower cost because it's the sister company. So we like that business.

But we're also happy and have a full portfolio of every K-Cup in every brand, as an example, so we want to make those available to customers who prefer to have Starbucks versus my Javarama. And then you think about our comments about Lavazza in our OCS business and the consumer is saying we're moving to premiumization, we had a big gap in our portfolio because we didn't have an espresso alternative in our portfolio. So we're happy to expand Lavazza in North America, as an example.

Jerry Fowden

So let's just kind of remind—and Tom'll have the details because we do carry too many and we've got Mark here as well—I think our bundle on the AquaCafé is 39.99 a month.

Tom Harrington

Correct.

Jerry Fowden

And for that you get the AquaCafé and 48 K-Cups.

Tom Harrington

Correct.

Jerry Fowden

And you can choose which brand—they're in boxes of 24, so you can have 48 or two lots of 24; we're not cutting down boxes for anyone—so you can choose which brand you want, but the brands you can get in that, Tom or Mark?

Tom Harrington

Any one of 63. So it would be Starbucks, Peet's, so we carry the full array of K-Cup-branded products. And frankly, as Keurig begins to expand some of the brands, we're quite happy with that because brands react differently in-market. And because we're national, brands in the southeast are different brands than the West Coast. So we'll tailor that portfolio to what the consumer wants. So it's up to 63, I think, right now.

Jerry Fowden

And that makes the AquaCafé more attractive to more customers because they can have whichever brand they prefer within that, including our house brands as well.

Derek Dley — Canaccord

Yeah. Thanks. Just in terms of some of the growth that we're talking about and acceleration of (unintelligible), if we go back to 2016, the end of 2016 there was (attention) in terms of supporting this new growth. Just wondering if you have the infrastructure in place to support that kind of growth that we were just talking about?

Jerry Fowden

Yeah. I mean, I think one of the things Tom highlighted—and the question is about do we have the infrastructure and the capability to accelerate our customer growth through tuck-ins, given the pressure we had on the business when we accelerated our organic customer growth in 2016—and I think the answer is, as Tom highlighted, when you do a tuck-in acquisition, predominantly if it's an area of high overlap, you're buying the customer list. The cooler's already installed, so we no longer have that pressure on our driver to go off-route to install a cooler. If it takes 45 minutes to tell a customer how to work a cooler and you have to go off-route, it might take you an hour to get there, 45 minutes to install it, an hour to get back. That's a lot of disruption to your route.

If you've got a service standard that says we'll install a new cooler customer within seven days of signing up, but most of our routes are on a two-week cycle, by definition that's causing you to go off-route to do that installation within a seven-day sign-up period. So when you do a tuck-in acquisition, you get the customers with the cooler already installed, they understand the service, there's less customer churn and less quits, and what you do have is the potential risk of a change of service day once. And that's why we don't want to do two or three overlapping acquisitions in the same geography.

So a blend of growth through the 2 to 3 percent underlying organic growth, which includes 1-ish of new customers, plus the 2 percent additional opportunity from accelerating tuck-ins actually accelerates our growth and relieves that pressure that you're asking about, Derek. So it's really favourable on that.

Jay Wells

And what I'd add is Tom's team normally gets the customer list of these tuck-ins well before closing, so we have the time to do the mapping, the gaps. What do we need to do to fix the problem? When we do it through marketing programs, it's at the end of the weekend we're handled just new customers that we have to get the placement, the routes in place. But with these deals and timing go more (phon), we get the customer list well above close before closing. We do the routes so we're ready day one without the disruptions you have by more the organic-type adds.

Tom Harrington

I think the only thing I'd add is really back to the service question. So as we look at service levels by route, by town, we're clearly going to—because we have optionalities on our pipeline—we're going to steer and make sure that when we decide to execute a tuck-in that it's in a market where we're satisfied that we're already meeting acceptable levels of service, so we wouldn't buy a tuck-in and put it on what I'd call a wobbly plate, right? So we're very thoughtful about that.

To Jerry's point, we have 20 countries times 3, so we have lots of optionality in terms of making sure we do it where we can do the conversion and get it right day one.

Derek Dley

And then how about on the capital expenditure side? (unintelligible)

Jerry Fowden

Yeah. We laid out on our results call last week our expected level of CapEx that's pretty consistent with the year prior, and we see it being pretty consistent with the following year. So no big change there.

I think the area that drives the largest difference in CapEx is approximately every 24 months, could it occasionally be 18 months, we will add new roasting capacity in our S&D Coffee & Tea business, and each new roaster should allow us to add about 20 million pounds of coffee. You obviously could add smaller ones if you want, but certainly the most recent roaster we've added, which is operational as of now being bought up over the last two, three months, adds 20-plus million pounds of capacity.

We'll likely expand in a phase one expenditure some of our liquid and extract capability toward the end of this year. And there the idea is we do the building works, the utilities and infrastructure works that allows us to get through the next nine months and further refine our forecast of growth in that area. But having done that preparatory work, it literally is just the time then to order the equipment and install it into a building with utilities and everything ready.

So we're cutting down the go-decision to it being up and running to less than six months. So we'll spend the advance money for the back end of this year, and then we'll decide at the back end of this year are we saying go now? Or do we say go one in quarter one of next year? They're two things on the horizon. And then it would likely be back end of 2019, or could it be early 2020 before we add the next scale roaster within that business.

But anything else, Jay?

Jay Wells

On the smaller side looking at DS and Eden, Tom mentioned we're rolling out the AquaCafé here. We're rolling out the Storm cooler to a broader base here and looking to do it in Eden, too. Depending on the demand, the customer adds we get from that, we're not going to slow down those adds by not incurring more CapEx to place more AquaCafé or more Storm coolers.

So that'd be much where we're going to fund as much inventory of those items as growth demand, so that could give us some incremental but not a huge amount.

Audience Member

What are the terms like for your QSR customers Coffee Time? Like the contracts and (unintelligible)?

Jerry Fowden

So the question is, what are the terms for our different QSR-type customers on the coffee side? And the real answer for that is it's very, very customer-specific. The first general principle across the board is the coffee commodity cost exposure is one that belongs to the customer. They can either make the commitment themselves so it's directly their liability, they can ask us to cover it for them with a binding back-up contract so it's still their liability, or we or they can take hedges against that price. Where we take it it's with a back-up requirement that they take the coffee against whatever the outcome of that hedge is. So the commodity cost item is our customers'.

Our customers in that segment would buy forward and do those advance commitments anywhere from 6 months up to 24 months. That's the typical window of advance commitment that those customers request with each customer having a different philosophy and occasionally based on their view because we don't speculate. If they foresee the opportunity for changes in the marketplace, a customer that has been doing six- or nine-month coverage might choose to take it up to 12 months or 24 months, or vice versa.

But something like 90-ish percent of all the coffee we buy is on that direct customer commitment. The other 10 percent is the 10 percent of our business that's our own small mama-papa route delivery where we can change the price within a week to that that reflects the latest commodity price. So even that last 10 percent is not an exposure.

For the vast majority of our customers, we would be known as a kind of reference holder. So coffee is a fresh goods item; it’s best consumed within or used within one month of being roast and ground. That means you are endlessly remaking a product as the reference spec to the individual specification of that QSR restaurant. And in the vast majority of cases, because normally they would have two or three suppliers based on disaster recovery, geography footprint, normally we would be that company producing the reference specification that any other suppliers have to match, which is a reflection of the trades value of our quality and service image. By and large, S&D is viewed as the company to better manage your coffee program from a quality, sustainability, and category development point of view.

So very unique per customer, 6 to 24 months, and the coffee exposure is that of our customers’ through one mechanism or another.

Audience Member

Just a couple questions. Can you speak to the difference in the economics for your filtration option versus your traditional model for the customer and for you guys?

Jarrod Langhans — Vice President, Investor Relations, Cott Corporation

We’re forgetting to repeat the questions.

Jerry Fowden

Okay.

Audience Member

For the customer and for you guys? And then also what you guys think of as (unintelligible)?

Tom Harrington

So I'll take the first question. The first question is, how do you think about the economics or what are the economic difference between a 5-gallon customer compared to a filtration customer? The capital for the equipment is lower for a bottled water customer than the filtration. The cost to serve is higher for a bottled water customer.

So if you think that we serve roughly 60 or 65 percent of the bottled water customer every two weeks, so we send the truck 26 times a year to your home or office, on the filtration customer today we would send a service technician once a year.

Now the economics are going to change for us, and we reference it a bit in the presentation about the longer-live filter. So that was ultimately what drove us to acquire the small company last year in California because we think we can meaningfully change the economics for filtration, which is lower cost to service because of a meaningfully longer life of the filter, which will require us not to visit with a technician as often. So those are really the two big drivers.

And then the revenue per customer is lower on filtration. We love it because it is recurring, but it's lower than you would get averagely from a water customer and you don't generate the energy surcharge, so you don't get that offset because you don't go as often. So there's—

Jerry Fowden

Let me expand on that, and then Tom can correct me because he'll know the right numbers. But if you think of $45 a month average bill for our water cooler customer with 5 gallon versus maybe 25 to $30 for a filtration customer calling every two weeks versus calling once or twice a year, the free cash flow to us per year from either customer is pretty similar. We're pretty neutral as to which way it goes.

The filtration customer will often sign a three- or five-year binding agreement because you have more up-front cost with installing and plumbing in the equipment for which you need greater protection over the life of the customer. So there is even greater reoccurring revenue there. But

fiscally, they're broadly neutral.

Now we're in 20 different countries. As you roll around those 20 different countries—and those aren't for Tom and mine; we're both for the US here (phon)—individual countries have grown up a different way. So there are some countries in Europe where filtration is very low cost, and it means our economics of a water cooler is better. There's a very few, not many countries where its price is high enough that it makes it an attractive alternative towards HOD water from our perspective. So it's quite country-specific across Europe.

Tom Harrington

And then, Bob (phon), your second question—

Jay Wells

I was going to take that.

Tom Harrington

I was going to give it to Jay.

Jay Wells

Oh, thank you very much, Tom. So on the CapEx question, one, you got to look at our Route Based Services and our S&D business separate. And within our Route Based Services, I'd say probably a third of the CapEx is easily identifiable maintenance CapEx. It's our plants, it's our depots, it's things like that. The other two-thirds is a little bit harder to break out because it's trucks, it's coolers, it's brewers, it's bottles. And that type of CapEx is related to the growth we're having, but also every so often we have to replace a truck; we have to replace a bottle. So the other two-thirds, would you say another third might be maintenance, the other two-thirds growth. But we really don't track it that specific to break that part of the CapEx out.

When you look at S&D, a portion of their CapEx is taking care of their plants. And you're seeing much more larger CapEx built in within their numbers for the new roaster that Jerry talked about, or expanding their capacity on extracts. Again, each year it goes up and down a little bit where we might focus on growth more one year, maintenance another, but I would say a little under 50/50 is probably the right way to look at that.

Audience Member

And can you help me out with the—as far as the numbers break down—

Jay Wells

Yeah. I mean, it's about 20 million related to S&D. Pretty much almost the rest is related to the route bases a little bit in our other segment, but not material. And Jarrod's telling me one more question, but we can continue through the day on questions.

But yes, sir?

Audience Member

Maybe with regard to the '18 and '19 free cash flow target, how much is related to—or what are the working capital assumptions that go into that, particularly given in '17 how it was from accounts receivable, so how that 50 million or so may move back over the next sort of two years?

Jay Wells

I mean, you look at the—to answer the question, within our guidance we have 1 million or 2 million movement, give or take, in working capital, but nothing material. So mostly just considering working capital flattish, maybe a couple million of working capital used to fund the growth, but there's no material benefits in working capital.

Our traditional business that had a lot more inventory, a lot more payables, a lot more receivables, there was a lot more work we could do on working capital for that. For this business, which is much less inventory-based, not carrying big inventory, big payables, there's not as many levers you can pull on working capital.

So the safest bet is maybe a couple million a year of increased working capital as we grow the business.

Okay. One last, last question.

Audience Member

Just on the 2019 free cash flow target, the 150 million, if you take the 150 million minus roughly 30-ish million of dividends based on the current dividend, even if we take out 60 million of tuck-ins, there's still another 60 million of extra free cash flow. So even if I assume that, how do you—not even considering you're going to have extra leverage capacity with higher EBITDA—can you talk about is that math generally correct? And then what are the—

Jay Wells

Okay. I knew I should have made the last question the actual last question. That's what I get for one more. But the question basically is, you look at our free cash flow generation, you take the dividends out of it, you even take the increased tuck-ins out of it, we're still generating excess free cash flow after that. And I think the question was basically, what are we going to do with it?

Audience Member

Yeah.

Jerry Fowden

I think it was, is that correct?

Jay Wells

Is that correct?

Jerry Fowden

And we could answer very shortly, yes.

Jay Wells

Yeah. I mean, that's the general concept. People often forget our dividend. Never forget our dividend. That is a use of free cash flow. Tuck-ins is the other significant use of free cash flow. But then there is within the guidance we're given, we are generating excess free cash flow that I do not—and we've talked about it—I don't have it baked into any of the guidance we're giving. So with that excess free cash flow, are we building up cash to do another strategic acquisition or have the cash to pay down debt from a strategic acquisition? Can we use that cash to do a share buyback program? Can we increase our dividend?

All of them are possible, and that's—I think Judy asked me this question maybe earlier where I said give us … through our strategic planning process, let us get through this year really to see what bigger opportunities are out there. And as we get through this year and work through with our board, we will come out with an updated capital deployment with what we're going to do with this excess cash.

But I think what you're calling out as that is opportunity that's not really being allocated to any benefit right now, and I think that's what you and I have talked about previously. So yes, there is additional opportunity to deploy that cash.

Jerry Fowden

So we'll treat that as the last question. And I think Jay was trying to be very polite, but very clear for a period of time we will assess the landscape for whether there are further larger transactions that we believe are complementary, overlapping, will enhance our base, will increase our moat and defensibility, and provide value through overlapping synergies.

And we'll do that by continuing the work that we've done rigorously every year for the last seven, eight, nine, ten years of analyzing those appropriate targets, going to meet them, understanding their motivations. The reality is we have a strict set of financial disciplines, and then you need right time, right place, willing buyer, willing seller, et cetera on top.

But we'll take a piece of time to do that, but we'll hope we'd clarify that within the next 12 months or by the end of the year, something like there we'll have a much clearer view of that landscape.

Jay Wells

Great. And on that note, why don't we end the broadcasted part of the call?

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