

FINAL TRANSCRIPT

Cott Corporation

S&D Coffee & Tea / Cott Investor Day

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PRESENTATION

Jerry Fowden — Chief Executive Officer, Cott Corporation

Well, good morning, and thank you all for coming to this special investor day and analyst day, which is very much focused, as you can already see, on S&D Coffee & Tea.

So at this point, I'd like to introduce and thank Ron Hinson, S&D's CEO, along with the members of his management team today that will be hosting us not just for the presentation, but also some coffee tasting and our tours later on.

So before we begin, I'd just like to ask that you take a quick glance at the safe harbor statement on the screen—something I'm sure you're all very familiar with—and please keep this in mind as we speak with you all today.

So as you know, I'm Jerry Fowden, Cott's CEO, and I'm going to kick things off with a short overview on Cott's overall strategy and transformation before I hand the presentation over to Ron and his team to focus on the S&D Coffee & Tea business.

Ron and members of his senior leadership team will present an overview of S&D Coffee & Tea, covering different sections amongst them, and then we'll visit a couple of the sites later on during today.

So over the past few years, Cott, as you know, has been undergoing a transition from a low-margin, private-label CSD and soft drink company in mature markets with a high customer concentration to a higher-margin business with much lower customer, product, and channel

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concentration and an improved growth outlook. This diversification strategy has been focused on building leadership positions and platforms in water, coffee, tea, and filtration services.

Today, Cott has leading home office water delivery platforms in 20 countries with a strong position in US custom coffee roasting, as well as foodservice tea, and positions in office coffee services and water filtration in multiple countries.

Recent acquisitions in support of this strategy, such as S&D Coffee & Tea, that we'll learn a lot more about today, not only provide strong platforms on to which small, highly accretive tuck-in acquisitions can be made, but they also provide the potential to extract cost savings and top-line synergies both within and across these complementary businesses.

This combination of higher-margin Better-for-You businesses in modestly growing categories with the potential for top-line expansion and cost-saving synergies also provide strong free cash flow generation, which should lead to a mid-teen growth in adjusted free cash flow over the next three years for Cott as a whole.

With that said, let's take a quick look at Cott's history. And while I'll begin in 1955 when Cott started to sell soda in Canada, I'll concentrate on our more recent developments over the last three years.

So as I mentioned, while this slide goes right back to our initial formation as a Canadian company in 1955, which explains why we're a Canadian-registered business and both dual-traded on the TSX and the New York Stock Exchange, I'll spend my time just on the last three years.

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Some of you may recall that despite Cott's business improvements and strong free cash flow generation across the earlier 2009 to 2013 time period, Cott failed to achieve an appropriate valuation multiple for this business improvement and free cash flow. So in late 2013 and early 2014, we undertook an extensive, deep-dive strategic review as part of our annual strategic planning process.

On completion of this strategic review in May of 2014, we announced our accelerated diversification strategy. Our goal was to progressively transition our business through a combination of organic actions and synergistic transactions in order to shift towards a higher-margin and/or higher-growth business, while keeping a strong focus on our four Cs of customers, low cost, tight CapEx control, and especially free cash flow generation.

Our focus was on building a more predictable, more diversified, lower-risk business with less dependence on any single customer, product, or channel; a business that would provide strong compound growth and adjusted free cash flow, and achieve over time a fairer valuation or valuation multiple for its shareholders.

Since announcing this strategy, we've undertaken a significant amount of both organic and transactional activity. In 2014, we acquired DS Services, a market leader in the growing US home office water delivery segment, as well as a top-five position in US office coffee services and a smaller, but faster growing position in water filtration.

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In addition to such transactional activity, we also focused on growing our contract manufacturing business and our value-added and sparkling water business within traditional Cott in order to offset the ongoing market and private label decline in CSDs and shelf-stable juices.

Since the beginning of 2014, we won over 50 million serving equivalent cases of contract manufacturing business and grew our sparkling and value-added water business significantly, allowing our traditional business plants to maintain high asset utilization, and hence continue their strong free cash flow generation.

After integrating the DS Services acquisition we acquired Aquaterra in January of 2016, a leading home office water business in Canada, creating North America's largest platform for home and office water delivery. Then in June of 2016, we announced the acquisition of Eden Springs in Europe, which is Europe's equivalent to DS Services, and in August of 2016 the acquisition of S&D Coffee & Tea.

So S&D Coffee & Tea—that we'll learn a lot about today—is a leading US-based manufacturer, distributor, and service provider of custom coffee roasting and tea blending with a focus on the foodservice industry with a growing liquid ingredient and extract portfolio.

The combination of these actions that Cott undertook, both the organic ones and the transactional ones over the last three years, provided an improved business profile with meaningfully lower customer concentration, reduced exposure to the mature categories, and a decreased

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proportion of our business in large-format or big box retailers, plus—and most importantly—an attractive outlook for free cash flow generation.

This diversification can clearly be seen in the charts shown here, which show how the profile of Cott has changed over time. Here you can see the dramatic shift in business mix over recent years from a product, channel, and what we call Better-For-You portfolio perspective. You can see we're much less dependent on any single product category, such as CSDs, and that we've grown our direct-to-customer business and channel penetration while significantly reducing our private label or large-format retail business exposure.

Specifically you can see in the pie charts that our largest product and channel category is now home and office water services, and that our carbonated soft drink business only accounts for around 11 percent of the business mix. Alongside this you can see the segment that we refer to as Better-For-You beverages now accounts for over two-thirds of the business mix.

In total, you have a business that's more diverse, lower risk, and higher margin. And while we still believe we have a lot to do and a long way to go, we believe we are much better positioned for the future than we were just a few years ago.

Slide 7 highlights in a simple side-by-side comparison the significant changes that Cott has undergone. The business is larger in scale, generates higher free cash flow, and holds a much stronger gross margin.

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Alongside this, the private label mix has dropped from over 70 percent to under 30 percent, and the top-10 customer concentration has reduced from around 60 percent to approximately 20 percent. All these changes demonstrate that not only has the financial profile of Cott changed, but the business in and of itself is a lower-risk business better positioned for the future.

This diversification of the business today into water, coffee, tea, and filtration solutions can be seen on Slide 8. This picture shows our market-leading international platforms and our market shares across each of the 20 countries in which we operate HOD water services, as well as our office coffee services market position.

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 players. 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.

As we look out over the next few years we not only see the opportunity for organic growth within HOD water and filtration, but we also see the opportunity to undertake multiple small highly synergistic tuck-in HOD acquisitions as we look to strengthen our market position and improve our route density.

This combination of organic and tuck-in growth will drive our improved profitability and free cash flow generation, with a focus on delivering our targets of over \$225 million of adjusted free cash flow by the end of 2019.

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In support of our organic growth objective, this slide highlights the US market growth characteristics of the various Better-For-You product categories we operate in. And you can see the US home office water category growth is around 3 percent, water filtration around 4, out-of-home coffee consumption around 7 percent, and foodservice or hospitality tea revenue growth of around 4 percent. Overall, an attractive market backdrop for our various water and coffee solutions businesses.

So to bring my section to a close, I've been the CEO of Cott now for almost nine years. And every single year seems to have been hard work, with one step backwards for every two steps forward.

That said, as you can see in the chart attached, despite the bumps in the road we have managed to slowly improve the multiple we trade at, and drive a meaningful improvement in shareholder valuation and market capitalization over this period of time.

I also believe that we still have lots of opportunity as we look to the future and the further transformation of Cott over the next several years.

That said, as you're all aware, we still have a difficult quarter ahead of us in Q2 in our traditional business where a combination of factors, including adverse foreign exchange, along with its embedded impact on our cost of goods and margins, continues to pressure our traditional segment's performance.

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This foreign exchange headwind, where two-thirds of its adverse impact shows up in higher local currency commodity costs, should largely be addressed with agreed pricing to be phased in across Q3 and Q4 in the UK. This pricing, in the absence of any further sterling devaluation, so let's hope for no political surprises today from the UK in this regard, alongside a better second half volume performance as we start to lap some lost customer volume, should see our traditional business performance improve in Q3, and show further improvement in Q4.

As things stand today, we continue to expect our UK traditional business to be back in positive territory by the end of the year.

It's worth noting, however, that while these actions will address the local traditional business challenges and margins, they will not remove the translational impact of foreign exchange on our dollar-reported results.

These actions, along with the progressive and transformational change in the shape and mix of our business over the coming years, should continue to support higher margins, a better growth profile, and a lower-risk business overall.

All these actions support our goal of a mid-teen compound growth in adjusted free cash flow to over \$225 million by the end of 2019, and should help achieve a further multiple and valuation lift as we look to the future.

As you can see at our current 8 plus times EBITDA valuation multiple, we're still some 2 turns below the valuation multiple of many of our peers.

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Over the last several years we've taken a private-label soda manufacturing company and managed that business tightly while organically diversifying into contract manufacturing and building our sparkling and value-added water business. These actions, alongside strategic transactions, have allowed us to build a leading international water, coffee, tea, and filtration services business at the same time.

I and all of Cott's leadership team thank you all very much for your support as we've executed this strategy, and we look forward to continuing to build Cott into a stronger, more profitable, more valuable growth-oriented company over the coming years.

So on that note, let me pass over to Ron, who with his S&D Coffee & Tea leadership team are an integral part of this future growth.

Ron?

Ron Hinson — President and Chief Executive Officer, S&D Coffee & Tea

Thanks, Jerry. Appreciate that very much, and thank you to the Cott team. Appreciate everything you all have done.

Also, I want to thank the S&D team that's here—some that you have already seen, some that you will see later today—for getting this together. This is what we do every day. We entertain customers and do customer tours, and we're very proud of our facilities, externally and internally. So hopefully you'll get a good glimpse at who we are today, and why we are so proud of what we do.

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Also, I want to talk just a little bit about our model, why it is that we are different. Why it is that I hope to think that Cott was so interested in S&D, because they saw the future, which is very, very bright for us.

We were the first to implement a route sales organization with a nationwide chain organization. The two support each other and it's helped establish our model, which is so successful today.

Now what do I mean from that? What we do at S&D is we strategically partner ourselves with our customers through consumer insights, category management, and risk management.

Now to summarize that, category management pretty much captures all that. Now we go out and we meet with our customers, and we understand what their needs are. We try to understand what their future needs are even before they may know, and bring those issues or opportunities to the table. Most of them are all opportunities.

And we bring that to the table, we discuss that; then we go and we develop products and services for them, and it's all customized. So no one has ever been able until now to sell in the foodservice industry many, many major chains because ... we can because it's their product. It's their coffee, it's their teas, it's their product, it's their recipes, and it's very confidential.

So we work with them, build a product, build a program, and help get it implemented. And it works extremely well.

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We also are very aware of making profits for them. We work with them to help build their business in a manner where they're very profitable. If they're profitable, we're profitable. It works hand-in-hand.

Innovation is so big. As I said earlier, we try to put in place things for them that maybe they don't even realize yet.

So innovation, we'll bring recipes of different products, different service programs, all these opportunities we keep layering them in so that when we go to a foodservice customer we don't want to just sell one product. We want to sell the second product, the third product, the fourth, the fifth, the sixth. I can go on because that's where the power is at for them and us. That's where the partnership exists is that we bring these opportunities so they can grow their business and grow their profits, and at the same time we're able to grow our business and our profits.

So we want to invest more with each customer. We want to make sure that we work with quality customers that care about us and we care about them. The partnership word is way, way overused. At S&D, we take a partnership to a different level.

Sustainability is very important to us. We have put in place a customized sustainability program that will be spoken to a little later by Tracy Ging, and that we have taken sustainability to a different level.

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We've gone into far-reaching countries and help educate families and provided expertise on how to grow their coffee trees better and how they can support their families better. And I can't wait for her to share a little bit about how important sustainability is for S&D.

Delivering on our promises. Do we ever. We don't nationally advertise. Our word of mouth is what gets us to the next customer and the next customer. So we have to deliver on our promises.

So many of our competitors don't do that. We may lose some business, but we'll pick it up later on. Eventually as we keep calling on customers and talking to them about the advantages of doing business with S&D, eventually they'll understand that we mean what we say. We're very passionate at what we do, and what we're going to do. So our promises are extremely important to us to keep those promises.

Quality of scale. We've ... You will see today we have a scale here that is maybe unmatched in the foodservice industry and getting larger. Okay. What if a customer wants a small batch of a certain product at a high, high quality? Well, we can handle that too. We are so flexible, so fluid that we want anyone who needs a coffee or related product, such as a cold brew or whatever it may be, to understand that we have the highest of qualities here at S&D. We can provide it at scale; we can provide as much volume as you want.

We can also provide you as much quality as you want. For those out there who don't want, say, quality is in the eye of the beholder; if they want a less than certain quality on paper, we can provide that as well. We're here to work with the customer and what the customer's needs are.

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The service that we provide is consistent with the promises. It's not just equipment service; it's all-around service. But it's also equipment service when we provide equipment to our customers or they have their own equipment. And we provide 24-hour seven-day-a-week service that we manage, that we own at S&D. That support for the equipment is so paramount to our customers' growth.

So that is our model and I promise you, I could go on for the next many hours about our model and how proud we are of that. But what I want to do at this time, I'd like to introduce our core senior management team sitting to my left. And I do want to read to you what they're responsible for. Each of these people are very ... they're so dedicated to our company and have so many responsibilities, and they're so passionate about what we do and how we do it.

And I'll start with Tracy Ging. Tracy Ging has previously served as the vice president of sustainability and strategic initiatives from 2012 to 2016. With nearly 20 years of coffee experience, Tracy leads the marketing and product innovation organizations, as well as strategic initiatives while working with myself. She is a Senior Vice President and Chief Commercial Officer.

Recently we decided to make a couple changes at S&D and bring sales and marketing and product innovation together, working together even more fluidly than they have been working in the past. And so Tracy is heading that up, and we're very proud of the work she is doing and the work that she will do in future.

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Carlos Lopez joined the company in 2010, and has led the national sales and corporate planning and strategy efforts. What we've done with Carlos is we want him to maintain oversight of all the sales divisions and marketing, and also get him involved with product innovation departments. So Tracy will report to Carlos on marketing and product innovations so that she can be ... her group can being very closely aligned with the sales opportunities that may exist before us in the future.

Jack Robinson is our Executive Vice President and Chief Financial Officer. I don't know if I did say this, but I will say Carlos is Executive Vice President of Sales and Marketing. Jack Robinson is Executive Vice President and Chief Financial Officer. He has been with the company over 15 years, having joined us as a controller in 2011 (sic) [2001]. Jack is responsible for accounting, contract management, fleet, beverage, beverage equipment, global sourcing, and sustainability functions of the organization.

Brian Bradley has been with S&D for 29 years, beginning as a plant engineer and a manufacturing supervisor. Brian is responsible for all plant operations, manufacturing, engineering, maintenance, facilities, quality assurance, over-the-road drivers, logistics, warehousing, and inventory control, and also we'll throw in IT.

So these folks, as you can tell, have a lot of responsibilities. They oversee a lot going on at S&D. They all report to me, and so I'm ... it keeps me very close to the business. I did not mention me, but I am the President and CEO of the company. I hate to date myself, but I have been here now

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almost 39 years. Hope you'll all agree I don't look it, but I am; hopefully as you can tell, even though it's been that long which is hard to believe, it's been my one and only job.

I'm very involved in the coffee industry. I serve on several boards. I've been involved and will stay involved in our industry. And tea as well. And I can honestly say after all these years I feel like I am more passionate and more excited today about where S&D is at and where S&D is going in the future.

And so much of that is because of all the people—and I'll speak to the people a little later in closing—but also to the fact that this core senior management team I believe really in my heart is the best core senior management team that we've ever had. And are certainly geared towards the future and can take us where we need to go, which is a great place here in the future.

It's going to be exciting and can represent lots of growth and lots of partnerships with many, many foodservice countries across the entire country of America, and with some surprises here in the future about partnering with some of our customers abroad as well.

With that said, I'll turn it over to Tracy.

Tracy Ging — Senior Vice President and Chief Commercial Officer, S&D Coffee & Tea

Thanks, Ron. So what we've done on Slide 5 is laid out a pretty extensive time line of our 90-year history of sustained growth. And what you can see here is how we've continued to evolve the business.

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So we started as a supplier of fresh roasted coffee to local grocery stores, and then in the 1960s we expanded that to a broader route-based delivery system servicing independent restaurants and offices. And in the 1990s, we really reinvented the business. We became a national player. We started serving national restaurants, national convenience stores.

And along the way we've continued to invest in capacity, not only in coffee that you'll see how significant our coffee operations are, but in tea blending and our liquid extracts and ingredients division. And a lot of that—most of that that evolution can be attributed really to the management team that is constantly watching the market, how it's shifting, what trends are affecting our customers, and then we adapt really quickly. And you can see that in our speed to market with some of our product lines.

So as specialty coffee came up in the coffee industry as a hot segment in the 1990s, we were very fast to build our product portfolio behind that; same thing with single-cup options, very fast to follow those trends. And today most recently, the fast-growing liquid extracts business is allowing us to fuel our new product innovations also being an ingredient supplier to other manufacturers, and really is poising us for significant amount of future growth.

So on that note of growth, I'm going to turn it over to Carlos, who's going to talk about that model, and then I'll come back and talk more about the product portfolio and the new product initiatives.

Carlos Lopez — Executive Vice President – Sales & Marketing, S&D Coffee & Tea

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Great. Thank you, Tracy. Good morning. Over the next couple slides I'm going to be giving you a better idea of what our national presence looks like. We'll talk about some of the segments and the channels that we compete in, and then we'll talk about our growth process, what's our strategic process for growth in the future.

If you take a look at the map here, our ability to serve and provide products to customers is truly a national footprint, and we utilize three key distribution models to do this. The first of those models, and as you can see down on the bottom left-hand corner our largest by far, is our national accounts or commissary model.

And this is the model that we use really to serve customers that are national in nature, that are across the country, and we utilize distribution centres across the country to be able to get product to those customers. And what that typically looks like is these larger national accounts they show up at our dock with full truckloads, and we load coffee, tea extract products that they in turn take and send out to their distribution partners across the country. Once it gets to those distribution centres, then from there they go out locally to service the individual stores, restaurants that are in that particular area. So again, our largest group by far, and you can see the revenues there that were generated last year through this delivery method.

This is probably a good place to pause to talk about what we see as a future expansion opportunity for us, and that would really be through the acquisition of a coffee manufacturer further west for us from where our current facilities are. And this does a couple things.

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Obviously it increases our operational capability, but in addition to that it gives us some advantages from a freight standpoint, from a competitive standpoint. It also helps open up some channels that we may not have access to today, so just wanted to point that out that is an area that we're looking to add and an area of focus for us.

The second delivery method we call our direct store delivery or really our route system. Ron and Tracy both alluded to that. And that's pretty much that's the darker green on the map there, and that is where we actually utilize our own fleet, our own operations, our own resource to provide products directly to the back door of these customers.

And these customers are typically going to be more regional in nature. Could be like a local convenience store chain. It may be a regional hospital. It could be the local neighbourhood restaurant that's there. But those are the people that we directly deliver product utilizing our resources the whole time back to their back door.

And then the last, which is by far the smallest, is our fulfillment process. This is ... These are customers that maybe just because of their size or how small they are and maybe they just order product infrequently, but these are customers that it just doesn't make sense economically to try to use one of these other two models. So we partner with the large delivery guys out there, the UPS, the FedEx and we partner with them and that's how we get product to those customers, and that's been very effective for us over the years.

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This next slide really hits at the core component of where not only we've experienced success in the past, but really is a key piece of our success going forward as well. And Ron talked about this in our model, but it is truly the centrepiece of our success, particularly with our larger national accounts. And that's this partnership that we have with these blue-chip or these key national accounts.

Oddly enough, these larger customers they typically look to their suppliers to provide expertise in areas that whether they don't have that expertise, or it could be areas that they don't want to develop that expertise, but they look to their suppliers to do that. So we over the years have been able to build and develop core competencies in these areas. And Ron mentioned some of these, whether it be consumer insights, product innovation, risk management, sustainability, all the things that Ron talked about in his discussion, these are competencies that we've developed over time that we've been able to bring to these customers that quite honestly has not been able to be replicated in the industry.

Now we've got competitors out there and they can do bits and pieces of all of this, but nobody has been able to bring the holistic approach that we bring to these larger customers in all these different areas. And, you know, the thing with that as well is that—that it's been able to do for us—is that we have brought—and I'm running through the list of large national accounts and I can just—the examples just running through my head—where we have brought innovative solutions to our customers in all these different areas that quite honestly have never been done out there.

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So that when we can walk into a customer, one of these large national accounts and we can bring that, all of a sudden our ability to be involved and for them to be dependent on us on many parts of their business just increases. So that stickiness factor just increases tenfold when we do that.

So that's been the key for us with these customers and from a retention standpoint is to do that with these customers, and that's really reflected on that last bullet there. I mean our average tenure with our largest customers is 11 years. And that is purely a reflection of that integration that we have with these large organizations throughout the organization, and the dependency that they develop on us over time to bring that value to those guys.

This is a snapshot of our business diversification from a segment standpoint or from a channel standpoint. Obviously the two big ones that jump out are our QSR and fast casual and in our C-store or convenience store divisions. These have just been the core base of our business over the years.

We are by and large the leaders in these channels. These customers have been with us a long time. And also it gives us an opportunity for growth in a couple different ways. One is through the organic growth of these customers over time, and we have seen growth in our businesses just by these large national accounts growing organically. And then the other piece is it gives us a platform to help them grow their business, so we gain growth through those existing customers as well.

I want to point out a couple of channels here that, relatively speaking, are not huge pieces of our business today, but the food and beverage manufacturers in noncommercial—I'll speak just a

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moment about those—food and beverage manufacturers, those are, and Tracy pointed that out, these are extract customers, or customers that we sell coffee and tea extracts to. They in turn take that and put that into a product that they serve or sell into the retail space. So although it's a small percentage of our overall business—you'll see a slide later on—it is growing tremendously for us, so very excited about this channel.

And then the other one I want to speak to is noncommercial. And that really consists of hospitality and GPOs, group purchasing organizations. Again, not a huge part of our business, but it's an area that we have just because of the growth in those areas. And really the market space there that they occupy, those are areas that over the last couple years we have put a lot of emphasis, focus, strategic attention to, and we're beginning to see the benefits of that. So very bullish on both these channels, and we are allocating resources accordingly to continue to grow these two areas.

So how will we continue to grow in the future? What we've got here is really a summary of those ... that strategic process to continue to grow our business. So I'll just touch on some of these as we go through here.

The first is to capitalize on our current pipeline. It seems fairly obvious, but that's a huge opportunity. It's an area that we have continued to focus on. We, over the last couple of years with our sales teams, have put an increased emphasis on doing that. Again, it seems intuitive, but more in and more out.

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So through training, through tools that we put in their hands, just through an increased focus on that over the last couple years we have put a lot more into the pipeline and have gotten a lot more out of that and continue to do that. And that can be with customers that we currently don't do business with. It can be with customers that we do business with, and we're just growing their existing beverage platforms.

The second area is around product innovation, to continue providing innovative, market-responsive products to our customers. Tracy and her marketing and product innovation team, they're obviously critical to this. They've done a wonderful job and continue to—I know will continue to do an even better job to make sure that we get to our sales teams the right product for the right customers for the right reasons. And that really is a key component of our growth going forward and has been a key part of our growth in the past.

The other one I spoke to, which was really around the beverage manufacturers and also the non-commercial, I mentioned the GPO space, group purchasing organization. That is probably one of the fastest-growing segments in foodservice, and that group alone represents about 20 percent of the spend in foodservice. So you can start running the numbers. It's an area that we have increased our focus on and will continue to focus on going forward.

And then the fourth area is to continue, as we talked about, expanding these strategic partnerships with our customers. We will continue to do that. It's been just, again, just a core part of our business, and it's important for a couple different reasons.

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One is is that it's such a core part of our business that the retention factor there is critical. We've had success retaining that business over the years, as you were able to see in that previous slide and the tenure that we have with those customers. So we will continue to focus on that, continue to work with that, continue to get those tentacles everywhere we can in those organizations, and do that.

We'll also focus on growing that business as well. Beverages to a lot of these customers, that's the most profitable product that they send out the door. So they're always interested in talking to us about how we can grow their beverage sales. So we'll continue that focus as we go forward.

And then lastly is the pursuing strategic acquisitions. I referenced this earlier about the possibility of coffee manufacturing out west, but we're also looking and working on other strategic opportunities that really fit well with our growth initiatives. So that's just a picture of where we're focusing our attention going forward.

And with that, I will turn it back over to Tracy to give you a little bit more detail on some of our products and innovation and growth areas.

Tracy Ging

Thanks. So I will talk a lot about our opportunities and new products, but before I do that I want to make sure to emphasize that our core products, coffee and tea, still represent a lot of growth opportunity for us.

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So these are very dynamic categories, and I think that the best way to capture the movement within those categories is just to think about the premiumization that continues to happen.

So what we see in both coffee and tea is that there's increasing movement up towards higher qualities, what we call specialty coffees, increasing interest in sustainable coffees, and coffees and teas with stories. More and more our customers want to know where does this coffee come from? Who grows the tea? What can you tell us about it?

And as Ron mentioned, we've been a leader in that area of sustainable sourcing. And what that does is we're very deep in these origins where our raw material is grown. And we are working directly with farmers. We're working on things that that help them, help them improve their farm profitability, but translate back into benefit to our business because that's better-quality coffee for us, or tea for us, that's assured supply, that's predictable pricing, and as our major customers have made commitments to sustainable sourcing, they're using our platform to do so. So it's created some stickiness with our major accounts that's really valuable.

And if you look at our current product mix over the last five years, it's been relatively consistent in terms of all the mix between coffee and tea and the new products. But within coffee and tea, there's been a lot of innovation and new products launched, and that's what's kept the growth up. It's our ability to keep up with these trends of specialty and sustainable that allows us to continue to grow.

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But liquid extracts continues to accelerate. That seems—that's a new area of grow that's not only fuelling our new products, but as been mentioned a couple times, allowing us to sell ingredients to manufacturers of RTD beverages, ready-to-drink beverages, or we sell ingredients into ice cream variegates and other culinary applications. And it's driving a lot of our own innovation.

So again, within each of these product categories we offer a variety of blends, single origin, sustainable type, a whole array of packaging types, hundreds of SKUs. We can really service any kind of coffee and tea program. With our liquid and extracts program, again, we're servicing other manufacturers, as well as our own new beverage opportunities.

And the equipment side of our business is just as extensive. So whatever a company wants to do, a customer wants to do with their coffee and tea program, we can satisfy any of their operational requirements.

So for many of our customers we actually serve as the category captain for their coffee and tea programs. And so what that means is that we're working strategically with them on how do they position? How do we make their menu more competitive? How do we make their beverage program more profitable? How do we increase their check averages and their beverage sales? How do we keep them current with what's happening in coffee and tea?

And so we've guided our customers through darker roast coffees, higher-quality coffees, single origin, sustainable types. And we've also adapted our offerings and our packaging solutions to meet operational requirements.

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So everything from a liquid ... a cost-effective liquid coffee concentrate that can be brewed in bulk batches that can go into casinos and hospitality to single-cup solutions that can work with a customer who has a slower day part around coffee, or wants to maybe do something simpler around decaffeinated coffee. And so all of this track record of how we launch products, it really starts with our market insights, our knowledge of the market and the end consumer, and our intimacy with the customer.

So from those insights we drive ... we build strategies that drive the product pipeline in partnership with our customers. And so an example of that is our Toddy cold-brew coffee concentrate.

So this is a product that's being rolled out now through all of our major channels—through our route division, through our QSR accounts, national accounts, the convenience store division. And I want to spend some time talking about why we're so excited about this product and some of the details behind it.

So this cold-brew coffee concentrate allows our customers to take advantage of a new trend—the hot new coffee beverage—and it's allowing them to reach new coffee drinkers. So this is appealing to Millennial drinkers. This is appealing to people that never ... that didn't drink coffee before, and it's also allowing them to track different day parts. So cold brew is consumed in the afternoon just as much in the morning, and so they're expanding their ability to serve coffee consumers.

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And then the way that that ... what was done, what we've innovated in this category is right now a lot of the customers that are offering cold brew do what we cold back-of-the-house brewing. And so they're literally in the evening taking these buckets and putting ground coffee in, putting ambient water, brewing it overnight, and what they have the next day is what they have to serve. That is laborious, that does not lend to product consistency, and they run out. What they brewed overnight is what they have.

And we've created a major solve to that. So we do that work. So we've acquired the Toddy licence and the IP to do that at scale.

And so we provide them a concentrate; product is consistent; they don't run out; it tastes better. And that's an important part of cold brew to understand is that heat kind of works in opposition of flavour. So literally hot brewing starts to break down some of those pleasant aromas.

But with cold brew, we actually preserve all that sweetness and that flavour. So this is a product that tastes better. The consumers often say it's less acidic. And so between this more pleasant taste, a smoother coffee product, and the fact that they know that, hey, this is being brewed differently, that it takes a lot more care and a lot more time, it's earning a premium price position in the market. And we own the IP on this particular product.

And so also same kind of thing in teas, same trend of premiumization of the category. So we see a lot of growth in specialty teas. We've redesigned our Mangrove Bay line to offer new flavours,

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which you'll see in that is not typical flavours. We have a blueberry, but it has nectarine and citrus; more nuance; more taking advantage of the consumer interest in premium teas.

We launched a pyramid tea bag, hot tea program that not only tastes good, but it's visually very appealing. You can see the cut teas and the flowers and the ingredients going into that. And we've launched an equipment program to really highlight and upscale that particular line.

So the coffee and tea categories, the beverages are moving out of their traditional day part. Whereas coffee has always been kind of a morning start your day beverage, tea has always been kind of lunch, eat with foods, these are all moving into broader categories of beverage refreshment.

So with that, turn it over to Jack.

Jack Robinson — Executive Vice President and Chief Financial Officer, S&D Coffee & Tea

Thank you, Tracy. Good morning. As Tracy mentioned when she went through the time line, we've had the benefit of 90 years of sustained growth at S&D, and we've got a lot of opportunities for continued growth.

We eclipsed 500 million in sales in 2013, and last year just over 550 million with a 40-plus million of EBITDA. And that has been driven primarily by roasting ground coffee business, which is demonstrated on the chart here over the last five years with 2017 projected. We're very comfortable with our 3 percent growth target that we're projecting into the future based on the consistent, continued growth that we have in the coffee area.

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We also have a similar growth in tea, and our liquid product is very—as I’m going to show you—is very dynamic, and that’s also going to help.

We had 106 million pounds of coffee in 2013, and that grew to 117 million pounds in 2016, and right now we’re on a very strong growth trend so far in 2017 as well. We are also adding some capacity—Brian will speak about—to provide us an additional 20 million pounds of roasting capacity in the fourth quarter of this year.

This chart shows our five-year revenue trend. And as you can see, it demonstrates very consistent growth, but I want to point out the 2015 and 2016. As you notice on this chart, 2016’s revenue was a down a little bit from 2015. And this was caused by a 6 percent reduction in coffee pricing, which is based on the overall coffee market.

Since we are a commodity seller, our pricing is based upon the cost of that commodity and the coffee market fluctuates, although volume went up 3 percent from ’15 to ’16. And our coffee procurement process locks in a margin for us with our customers.

And so despite the fact that the top line went down, our coffee procurement process simply allowed the top line and cost of goods sold to go down, but our spread was consistent. And gross profit was not impacted because it grew with volume, which was about 3 percent up year over year, and EBITDA increased 17 percent year over year.

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So that is one reason why historically at S&D we have really downplayed the importance of the top line because of the commodity fluctuation, and the fact that our pricing gives us consistent gross margins even at higher or lower prices.

I'm going to show you this, too. If you notice the dark-brown line here, this represents the relative value of our DSD and route-delivered business to the overall revenue picture. And although in 2013 we had 28 percent of our revenue and in 2016 26 percent of our revenue from the DSD business, you can see that it's consistent in value across all the years to the overall picture.

The reason why it declined in percentage of the total is because the growth that we've experienced in the national account business, which is distributor delivered, as Carlos mentioned in the national distribution platform discussion earlier, is where our growth has been coming from, and we expect that to continue. But the route business is still very important and consistent over the years.

By comparison, if you look at our liquid business—so this is liquid concentrate sold to manufacturers; this is liquid coffee and liquid tea—we have a really outstanding liquid coffee product that's gaining tremendous traction. The growth that we've seen in that over the last five years is 38 percent compound annual growth rate, which is outstanding. Now that represents about 5 percent of sales in 2016, but with that growth rate we've got a tremendous amount of margin potential and a tremendous amount of market share that we can capture because this is a growing area.

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This is where the cold-brew coffee is going to help. And as you can see in 2017, we're projecting substantial growth there. We expect that this will continue to improve our profitability and drive our profitability for the near term and for years to come.

We expect over the next years to see consistent growth in coffee and tea, and with the liquid business we think we'll see double-digit growth year over year as we have seen; perhaps not 38 percent, but perhaps more with the cold-brew phenomenon if it really takes off. And so we're going to see that driving growth in the company based on our base of coffee and tea, plus the dramatic growth in the liquid business and other innovative products, and we're going to continue to grow both the top line and the bottom line.

With that, I'm going to turn it over to Brian, our Executive Vice President of Operations.

Brian Bradley — Executive Vice President – Corporate Operations, S&D Coffee & Tea

Thanks, Jack. If you look at this slide, our current footprint consists of four facilities all located here in Concord, North Carolina, two of which are dedicated to coffee manufacturing, and another which is dedicated to tea manufacturing and extracts manufacturing.

In terms of capacity, we have approximately 135 million to 145 million pounds of coffee roasting and packaging capability, also have 40 million to 45 million pounds of tea blending and packaging capability, and have 1.8 million to 2 million gallons of extraction capability. And this translates to 16 million to 19 million pounds of liquid extract.

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As you tour the facility today, you'll see that we have an extensive operation. You'll also see that we're in the process of installing a new roaster, which has been mentioned a couple of times. This new roaster will bring to us an incremental 20 million pounds of capacity that will add to our current baseline.

Also you heard Ron mention earlier today our commitment to quality. As you'll see on the top of this banner—my mistake—anyway, as you'll see on the top of the banner of that page if you have your presentation in front of you, we list that we are ISO 9001:2008 registered. We are the only coffee company in Central and North America to possess this certification, and we're very proud. It brings a level of quality and consistency to our products that are unmatched in the industry.

Also in terms of food-safe manufacturer we are SQF Level 3. Also this a distinction and a way to differentiate ourselves from our other competitors in the marketplace.

If we now move to the next slide, you'll see our trend in terms of expenditures undertaken over the past couple of years. In terms of growth CapEx, typically we run 20 to 30 percent. In 2017, however, you can see that that's grown to 50 percent due to the investment in growth capital related to the roaster, as well as cold-brew extraction expansion.

In terms of maintenance CapEx, this is consistently running at 8 million to \$10 million per year. And as we look forward to the next three to five years, we anticipate CapEx to be between 15 million and 20 million per year. Okay.

Having said this, I'll turn it back over to Ron to close. Thank you.

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**Ron Hinson**

Thank you all very much. I hope this has been a good learning experience. I think as you take the tours it will all come together even more for you and make more sense.

But to sort of summarize, we got it together, all right? We got it together, and we're excited about where this could take us.

We have the right model to continue to grow because we got it together. Our future is extremely exciting.

We don't just try to get past the next day; we look forward to the next day. We look forward to the next week, the next year because we know we got things in place or are putting things in place to really partner with our customers, as I spoke about earlier, that can carry us into great, dynamic things for the future.

I want to say one more thing about our people. Our people really establish our culture. We have a certain culture at S&D. We work hard; we respect one another; we communicate, communicate, communicate. And with that said, our people just continue to do a great job. We continue to attract skill sets that I did not even realize that once upon a time would think about coming to work for S&D. That is really cool to see these people want to come and join us, and make a career out of coffee and tea and other beverages.

I'm going to close with just a quick little note that I got yesterday that really speaks volumes to our people and what we're about, what this culture is about at S&D. And it's not corny; it's not

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artificial. It's real. Companies today that get away from this in my opinion are suffering. You have to have some sincerity; you have to have some compassion; you have to have some respect for one another to be able to grow and prosper.

We just recently brought in our—I forget how many we had—maybe 10 people or so that held key sales positions across the country that won what we call our Davis Cup Award. We bring them in, we honour them with gifts, financial gifts, and basically notoriety because they've been able to achieve a certain level of success in their positions, and it's different positions.

And my assistant, Pam, and all the administrative staff and others greeted them along the sidewalk with a red carpet, and they all stood and applauding them when they got off the buses to come into the plant for the tours.

Some of these people were route salespeople that get up and work 12, 14 hours a day; have to get up on Saturdays and go do service work; who sometimes may feel like, am I appreciated? Well, he and his wife came in and they were appreciated, and I saw tears in many eyes because of the way they were treated and the respect we gave them that they so deserved.

One of the people when they got back home they sent a note, and I want to—let me get my glasses here. Excuse me, Jerry. One of the—they were here for part of the three days, and one of the functions that we provided for them was my wife and I hosted a dinner for them at a restaurant in Charlotte. So we go out with them and their wives and we spend the whole evening with them, and we absolutely love it.

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So this note came and it says, “Mr. Hinson, in a time where few companies recognize their employees for a job well done, our company not only recognized, but celebrates the successes. What an honour it was to receive my first David Cup. My wife and I enjoyed the entire experience. I especially appreciate your personal participation in the program. Dinner was not only delicious, but dining with you and your wife was such a pleasure. The conversation was relaxed and informal; easily the favourite part of our trip. It truly felt like a family. Also, thank you for continuing to put back into this program the plant tour, the generous prizes. Even the clapping as we entered the main office made me feel honoured and valued. I am so grateful to work for S&D Coffee & Tea, and I am committed to exceeding my goals in the future so I can experience it all over again.”

That sums it up. Thank you.

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