FINAL TRANSCRIPT

Cott Corporation

Third Quarter 2017 Earnings Conference Call

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PRESENTATION

Operator

Welcome to Cott Corporation's third quarter 2017 earnings conference call. All participants are currently in a listen-only mode.

This call will end no later than 11:00 a.m. The call is being webcast live on Cott's website at www.cott.com, and will be available for playback there until November 23, 2017.

This conference call contains forward-looking statements, including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with cautionary statements and disclaimers contained in the safe harbor statements in this morning's earnings press release and the Company's annual report on Form 10-K and quarterly reports on Form 10-Q and other filings with US and Canadian security regulators.

The Company's actual performance could differ materially from these statements, and the Company undertakes no duty to update these forward-looking statements, except as expressly required by applicable law.

A reconciliation of any non-GAAP financial measures discussed during the call with the most comparable measures in accordance with GAAP is available in the Company's third quarter 2017 earnings announcement released earlier this morning, or on the Investor Relations section of the Company's website at www.cott.com.

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I'll now turn the call over to Jarrod Langhans, Cott's VP of Investor Relations. Please go ahead.

Jarrod Langhans — Vice President of Investor Relations, Cott Corporation

Good morning, and thank you for joining our call today. Today I'm accompanied by Jerry Fowden, our Chief Executive Officer; Jay Wells, our Chief Financial Officer; and Tom Harrington, who oversees our oversees our Route Based Services segment.

Jerry will start this morning's call with an update on the progress of the sale of our traditional beverage manufacturing business, followed by a discussion on our latest strategic review, as well as our operations thus far in 2017 relative to the expectations before turning the call over to Jay for a discussion of our third quarter consolidated financial performance, as well as our Coffee, Tea and Extract segment. Tom will then cover our Route Based Services segment before handing the call back to Jerry to provide some additional thoughts before moving to Q&A.

With that, let me now turn the call over to Jerry.

Jerry Fowden — Chief Executive Officer, Cott Corporation

Thank you, Jerrod, and good morning, everyone. Let's start with a quick update on the sale of our traditional beverage manufacturing business before I move on to discuss our continuing water, coffee, tea, and filtrations operations.

Although our traditional beverage manufacturing businesses are now grouped into discontinued operations and they only show up as a single line on our P&L, I believe it's still important

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to mention our performance, and to thank our traditional business management teams for their continued focus and dedication during the transaction process.

As we previously mentioned, our approach would be business as usual during the sale process, and I'm delighted to report our best quarterly volume and revenue performance in quite a long time.

Our traditional beverage manufacturing business grew revenues by 2 percent, driven by continued execution of the strategy and action plans we have discussed in the past. This revenue growth was primarily driven by 14 percent volume growth in US sparkling unflavoured water; over 50 percent volume growth in US contract manufacturing; and the UK's full implementation of its Brexit-related pricing actions, such that UK revenues also grew.

Please note that we also released a $27 million valuation allowance against our North American tax assets as part of the sale of our traditional business, which increased net income from discontinued operations.

Since announcing the sale of our traditional beverage manufacturing business, we have been working on multiple work streams essential to the closing of the transaction. I'm pleased to say we've made good progress in this regard during the quarter.

On September the 5th, Refresco's shareholders gave their overwhelming support for the transaction, with 99.5 percent of votes cast being in favour of the transaction. On September the 8th, we received Canadian regulatory approval. On September the 29th, we received US regulatory

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approval. And the request for UK regulatory approval is on schedule, with a draft of the merger notice submitted in August, and following the customary period of prenotification, the final merger notice was submitted on October the 30th. This moves us into the Authority's 40-business- day formal review period.

As we previously noted, the UK process of refining an initial draft in consultation with the CMA prior to submission is a more lengthy process.

With these steps done and with significant progress in many other more detailed and technical areas, we believe we're well on our way to the successful closing of the transaction.

In addition, it's worth mentioning that PAI, the French private equity firm who earlier in the year made an approach to acquire Refresco, reapproached them a few weeks ago with an increased offer, which after some further discussion has led to them reaching agreement to sell Refresco to PAI for €20 per share subject to and conditional on Refresco successfully closing its transaction to buy our traditional business.

We do not believe PAI's announced agreement to acquire Refresco will impact the closing of our transaction. In fact, Refresco's CEO has publicly stated even this morning his desire to complete the transaction to acquire our traditional beverage manufacturing business as soon as possible.

So with good progress made towards the closing of the transaction and a good quarter's performance behind us for our traditional beverage business or discontinued operations, it's time to

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turn our attention and focus to the strategy, direction, and performance of our continuing operations on new Cott.

As many of you know, we have an extensive strategic planning process that we use to develop our thinking and strategy. The process is refreshed annually to ensure it remains relevant and on point, but importantly, it looks out over the next several years to ensure we capture current and longer-term trends and changes in the environment so that we can best position ourselves to prosper.

As you would expect, this process involves our senior leadership team, and not only reviews our current business, but also looks at the markets and consumer dynamics within the segments we operate in, assesses the competitive environment, the potential for market expansion or disruption, opportunities in adjacent categories, as well as multiple other drivers.

This process was the catalyst to the diversification and transformation that we've undertaken over the last few years, a process that's seen our business reposition itself towards growing higher-margin categories with lower customer concentration and lower commercial risk. This business repositioning, along with the announced sale of our traditional beverage manufacturing business, will position Cott as a company with substantially lower leverage alongside increased optionality to grow our leadership positions in water, coffee, tea, and filtration services.

This year as part of this strategic planning process, we focused solely on new Cott and the elements of our go-forward strategy. While now is not the time to go into detail on the output of new Cott's strategic priorities, I am pleased to say that the initial output confirms we have strong market

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positions in growing categories where we see top- and bottom-line organic growth for all of our business segments, plus an attractive pipeline of complementary, overlapping, and synergistic tuck-ins.

Our focus will be on organic, tuck-in, and transactional growth in our existing categories and our existing geographies. We believe the greatest value we can drive will be an activity that strengthens and expands our existing operations, builds and leverages the infrastructure we already have, fully utilizes the management knowledge and experience in place, thereby providing the highest synergies, lowest risk, and highest return for our investors and owners.

Our strategy for the next few years will allocate additional funds to organic growth and innovation, whether that be behind new roasting capacity, our AquaCafé rollout, expansion of our patented Remington Pure long-life filters, enhancements to customer service and routing technology, or accelerated expenditure behind liquid and extract capacity and innovation.

As mentioned, we will continue with our tuck-in activity, but we will seek to accelerate this HOD tuck-in activity, especially in major urban areas or high population density areas—we call them HDAs—in order to strengthen our operations and build scale in those areas that provide the greatest long-term benefit from increased route density.

In addition to this, we will continue to evaluate larger transactions. But again, all such opportunities we evaluate will be focused on building our scale and market position in the existing

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segments or categories we operate in, and primarily in geographies where we know the market and are already present, thereby providing the highest synergies and greatest value creation.

So let’s talk about the structure and outlook for new Cott in a little more detail. As Jay recently noted on our September 25th modelling call, new Cott will have leverage in the low 3 times and offer the potential for 2 plus percent top-line growth per annum and strong free cash flow growth, such that we expect to deliver $150 million of free cash flow in 2019, and then continue to grow free cash flow at a compound rate of 10 percent thereafter.

New Cott is made up of three reporting segments: Route Based Services, Coffee, Tea and Extract Solutions, as well as an All Other segment, which while much smaller incorporates our RCI concentrate business and its concentrate facility, as well as our powdered hot beverage business at Aimia Foods in the UK; thus today, our focus on the performance in our two largest segments of Route Based Services and Coffee, Tea and Extract Solutions, which together make up over 90 percent of our revenue and EBITDA.

For the quarter, I was pleased with the top-line growth, as well as the operational results of these segments. And I believe they set the tone, a positive tone, for new Cott as we look to the future.

While I could highlight that new Cott revenues were up 22 percent, a much fairer and better way to look at things is on a true pro forma basis, i.e. as if we had S&D and Eden Springs for the full quarter last year.

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On this basis, our pro forma new Cott revenue was up around 4 percent. This revenue growth was nice to see, given our new Cott guidance of 2 plus percent revenue growth per year. Within Route Based Services specifically, despite disruption to our routes and customers due to the hurricanes, our US operations saw revenue growth of around 4 percent and continued to improve profitability and EBITDA in line with our full year growth target.

In DS Services, the quarter also good progress on the US rollout of the new and improved AquaCafé, where we placed over 6,000 units. For those not familiar with the AquaCafé, it's a unique bottom-loading water cooler with an integrated K-Cup single-serve unit, where our customers can make single-serve coffee in addition to the ability to drink spring or purified water or dispense hot water.

Moving to Eden. We continued to see good results within Eden Springs, where we saw just under 3 percent revenue growth and good synergy capture in line with the higher $7 million 2017 synergy goal recently announced. In addition, the quarter saw Eden Springs launch a UK test based on our successful US booth program, albeit with some modifications to reflect the UK marketplace. This test will run for the next 6 to 12 months to provide learnings, and allow us to make modifications prior to determining any rollout.

Within Coffee, Tea and Extract Solutions, we saw 7 percent pro forma revenue growth and 9 percent coffee and tea volume growth, driven by an exceptionally strong performance across new and existing quick service restaurant national accounts. With this strong performance in mind and a

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positive outlook for growth across our Coffee, Tea and Extract Solutions business, we're in the process of studying a number of expansion projects, including the potential to bring forward our next roasting capacity expansion from 2019 to the back end of 2018.

Before I turn the call over to Jay, I want to take a moment to thank and recognize the tremendous efforts our teams have put in to support and assist businesses, communities, and individuals in the areas impacted by the hurricanes, and more recently, the fires in California. Like many companies, we've had employees lose their homes, or be impacted in some way or another through these disasters.

I'm proud of how our teams have risen to the challenge and responded during these difficult times. Our team members have not only assisted their customers, but also assisted many communities, families, and individuals with their need for water in areas affected by the disasters.

On that note, I'll turn the call over to Jay to cover our financial results in more detail and the performance of our Coffee, Tea and Extract Solutions segment.

Jay Wells — Chief Financial Officer, Cott Corporation

Thank you, Jerry, and good morning, everyone. The quarter's financial results have been complicated by the US GAAP requirement that we report the businesses that we've agreed to sell to Refresco as discontinued operations.

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I will try to provide as much as clarity and transparency as possible, but my discussion of this quarter's financial results and future results will focus on our continuing operations, and we have aligned prior periods to be comparable year over year.

That said, overall we saw good top-line performance across our key segments, with revenue from continuing operations increasing by 22 percent to $581 million. Revenue increased primarily as a result of the additions of S&D and Eden, as well as good top-line growth from DS Services.

As Jerry mentioned, on a pro forma basis revenues were up roughly 4 percent, driven by 7 percent pro forma revenue growth within our Coffee, Tea and Extract Solutions business, as well as good top-line growth within our Route Based Services segment, driven primarily by 4 percent growth in the US.

As I look back at our September 25th modelling call, I am pleased to say that we are tracking somewhat ahead of our model in relation to revenue and should meet our $2.2 billion-plus revenue target for the year.

As we look out to 2018 and given the performance achieved this quarter, we are confident in our organic consolidated top-line growth target of 2 plus percent per year.

Gross profit from continuing operations increased 18 percent to $293 million, driven by the additions of Eden and S&D, as well as improved operations at DS Services, as we saw good operational leverage associated with organic growth and our profit improvement plan. This is in line with our goal

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to grow DS Services revenue by 3 to 4 percent during the second half of 2017, up from 2 to 3 percent growth in the first half of the year.

Gross margin as a percentage of revenue from continuing operations was lower at 50.4 percent compared to 52.0 percent, due to the reporting … due to reporting a full quarter of S&D's operations in this quarter compared to reporting only a partial quarter of operations last year, as S&D was acquired during the third quarter last year.

Interest expense from continuing operations was $23 million compared to 15 million. Interest expense from continuing operations include interest associated with our €415 million and $750 million senior unsecured notes and our $250 million senior secured notes, with the interest associated with our ADL, $525 million senior unsecured notes, and $650 million senior unsecured notes that we refinanced earlier this year included in discontinued operations.

This creates a year-over-year comparison issue, but the important thing to remember is that after closing on the sale of our traditional business and redeeming our $250 million senior secured notes with a portion of the proceeds from the sale, our quarterly interest expense should be approximately $18 million.

Adjusted EBITDA from continuing operations increased 22 percent to $84 million, due to contributions from our two key reporting segments. With this good EBITDA performance in the quarter, we now expect to be at the mid to high end of our 285 million to $295 million adjusted EBITDA target for the full year, driven by continued success with our profitability improvement plan

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and organic growth at DS Services, continued operational leverage within our European operating position, and ongoing growth within our Coffee, Tea and Extract Solutions segment.

Adjusted free cash flow from continuing operations was $13 million. Free cash flow in the quarter was reduced by higher growth-related CapEx, as well as $13 million of cash interest paid in the quarter associated with the 10 percent senior secured notes that are going to be redeemed with a portion of the proceeds from the sale of our traditional business.

If you factor this interest expense out of our free cash flow, our adjusted free cash flow would have been $26 million, which has us on track to deliver $150 million of adjusted free cash flow by 2019, driven by steady top-line organic growth, marketing consolidation within our key platforms, synergy capture, and a continuation of our low cash taxes.

As with interest, free cash flow has year-over-year comparison issues, as an interest payment on our €450 million senior unsecured notes was included within free cash flow from continuing operations in the current quarter. The prior-year quarter does not include a comparable interest payment, as these notes were not in existence in the prior year.

Let me now cover the operating performance of our Coffee, Tea and Extract Solutions segment. For the quarter, we continued to see strong volume performance, with a 9 percent increase in combined coffee and tea pounds on a pro forma basis, with pro forma revenues growing by 7 percent to $143 million.

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As we have previously discussed, the key drivers of growth are new SKUs, additional customer locations, and business wins primarily within the national account side of the quick serve restaurant and convenience channels. With the buildup of these new contracts in the first half of the year and the ongoing growth from this new business, we have seen total volumes and revenues comfortably exceed our 3 plus percent growth target for the year, and we remain confident in delivering 3 plus percent top-line growth from this segment over the coming years.

That is assuming constant coffee prices.

Our gross profit grew 50 percent to $37 million, but we did see some margin contraction due to the mix shift of our volume and business coming from larger national accounts.

For those of you who were present at our Investment Day at S&D, I'm pleased to say that our new roaster remains on track to be fully operational by the end of the year, which is good given the strong volume performance this year. And we are currently evaluating whether to accelerate the installation of our next roaster in addition to other CapEx projects that will assist in future growth and capacity.

In stepping back and reviewing the progress on our integration and synergy capture over the first year of S&D operating under the Cott umbrella, we are very pleased with the cultural fit between S&D and the rest of our business, as well as the strength of the management team. And we can confidently say that the S&D team has delivered on all of our expectations for 2017.

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In regards to synergy capture, S&D is tracking slightly ahead of their year-one goal, and overall they are delivering well on their acquisition model targets.

I will now hand the call over to Tom to cover our Route Based Services segment.

Tom Harrington — Chief Executive Officer, DSS, Cott Corporation

Thank you, Jay, and good morning, everyone. In order to provide some additional flavour, I'm going to discuss our US and European operations separately, as I know that many of you track them that way.

Let's start with the US, where the business continues to track in line with our 2017 improvement plan. Revenue was up 4 percent, even with a $1 million noncash reduction in revenue due to a change in the way we are calculating our bottle deposit liability.

Key drivers of the revenue growth during the quarter were 5 gallon volume growth driven by organic customer growth, growth resulting from tuck-in acquisitions, and the continued success of our partnerships; pricing within our profitability improvement plan, as well as the general price increases associated with operations; and growth within our water filtration and retail divisions.

As an update for the hurricanes, a couple of our production plants incurred hurricane-related wind damage and flooding, and a number of depots, such as Key West, took several weeks to get back up and running. With that said, in general we came through the storms better than we might have expected.

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The main impact to our business was in our ability to effectively and efficiently service our customers, both before and after the disasters in certain geographies, and certainly the repair work in the affected production plant and depots. While some companies have referred to commodity spikes and severe shortages of certain commodities or items, this did not impact us in any material way, although I do think a few 5 gallon bottles may have floated away.

Turning to performance again, our EBITDA increased during Q3 in line with expectations, with approximately 5 million of profitability improvement. And again, if you were to exclude the change in the way we compute our bottle deposit liability that I just mentioned, it would have been up approximately $6 million even with the hurricane disruption to our operations.

On that note, let me give you an update on our program with regard to our three-point improvement plan.

First, customer profitability and pricing. With our more controlled customer growth plan for 2017, we are not seeing the efficiencies that we experienced in 2016. In addition to the regular customer anniversary pricing that we take, we have fully implemented the other pricing actions we identified as part of the improvement plan. We continue to bring on new commercial sales associates to focus on small commercial office customer growth in key high-density areas, with a focus on customer service, route density, and profitability.

Second, sales, marketing, and logistics. As a reminder, with our pre-mapped targeted sales and marketing initiatives we have new routes and route sales representatives in place in advance of

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a marketing event in each region. This has enabled our current routes in these areas to not be negatively impacted as the new customers come onboard.

With the learnings that we see from this new routing, as well through the utilization of some additional logistics software that we are implementing, we believe we've made good progress, and we should be properly positioned to better manage future customer growth.

As Jerry mentioned, we're now rolling out the AquaCafé with good customer reception, and we anticipate accelerating this rollout in 2018 with some 10 or even 20,000 plus installations.

And third, further executing Cott's four Cs. We have taken actions to further implement Cott's four Cs, which has driven more efficient production and operations throughout the year, and are contributing to meeting our profit growth target for the year. As we look over the next quarter, we remain confident in delivering good top-line growth and reaching our profitability target.

Now turning to Eden Springs in Europe. We were again pleased with the results seen in Europe, and we remain excited about the platform we are building in HOD water, coffee, and filtration. During the quarter, our European operations grew revenue just under 3 percent on a pro forma basis to $109 million. This came from a combination of organic performance, a couple of small tuck-ins, two less trading days, and some favourable FX.

We're confident in growing our European market share in the areas of HOD water, OCS coffee, and filtration. In fact, we've developed a focused urban city or high-density area program where we're going to focus our efforts on both organic and tuck-in acquisitions in ten specific high-

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population areas in order to draw a more profitable route density, and increase operational leverage within our European footprint.

Thus far we've seen solid results, and we believe that this will assist us in serving good, focused profitable growth going forward.

As an update on our European headquarter relocation, we've officially completed the move from Switzerland to our regional office in Spain. This move, as well as other integration and synergy capture efforts, have gone well thus far and we are confident in exceeding our original year-one synergy target.

One year after acquiring Eden Springs we can say that the integration and fit with our organization is good, and we've seen excellent collaboration exchange of best practices across our Route Based leadership team. With that said, we still have some work to do in regards to SOX implementation, as we're working on implementing SOX this year in 18 different countries all at once. It would be an understatement to say such a large project has not been complex and has its challenges.

With that, I'll now turn the call back to Jerry.

Jerry Fowden

Thank you, Tom. Your Q3 update clearly shows the good performance achieved year to date, and the attractive outlook for our Route Based Services segment. This, combined with the strong performance we've seen in our Coffee, Tea and Extract solution segment, puts us in a good position

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to achieve the revenue and performance guidance Jay laid out on our modelling call just a few weeks ago.

As I look out over the next few quarters, I believe the market's understanding of the potential new Cott offers investors should improve as we deliver against or beat the 2 plus percent revenue growth outlined in addition to our free cash flow expectation of $150 million in 2019.

This strong free cash flow should put us in a position not just to execute against our tuck-ins consolidations, but also rapidly delever to below 3 times.

Against this backdrop and our transformation, alongside the reporting complexities that arise from classifying a large part of our business as discontinued operations, it's not surprising that some investors have found understanding and modelling Cott to be difficult, given the amount of activity undertaken as we transition towards the higher margin, higher growth new Cott.

I hope today's focus on our continuing operations and their potential for ongoing organic growth, further tuck-in consolidation, as well as the optionality for us to evaluate larger complementary transactions is the first step in allowing our shareholders and prospective investors the chance to really understand the shape and investment thesis new Cott offers. And that as our results come in and we deliver against the guidance provided, our valuation rises to reflect the valuation seen in our route based service peers.

I understand this will take time, and we need to first close the transaction to sell our traditional beverage business, show the expected top-line growth, deliver on the free cash flow goals

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laid out, and allow new Cott's opportunity and optionality to shine through, such that over the next few quarters knowledge and understanding improves, which I believe will lead to a great opportunity for us all.

So let me just close with a few short highlights on new Cott's forward-looking goals, which are: strong market positions in growing categories delivering over 2 percent revenue growth; increased expenditure behind organic expansion, innovation, and growth; an accelerated focus on small synergistic acquisitions and home office delivery tuck-ins in high-density areas; increased customer density, improved operational efficiency, and margin expansion; capturing the remaining synergies over the next 36 months; and delivering $150 million of free cash flow in 2019, and 10 percent compound growth thereafter.

So on that note, thank you, and I'll now turn the call back over to Jarrod.

Jarrod Langhans

Thank you, gentlemen. During the call so that we can hear from as many of you as possible, we would ask for a limit of one question and one follow-up per person.

Thank you for your time. Operator, please open up the line for questions.

Q&A

Operator

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Okay. If anybody would like to ask a question, please press *, 1 on your telephone keypad. Again, that would be *, 1 on your telephone keypad.

Your first question comes from Clay Crumbliss from Credit Suisse. Your line is open.

Jarrod Langhans

Good morning, Clay.

Clay Crumbliss — Credit Suisse

Hey. Good morning, guys. How are you?

Jerry Fowden

Good morning, Clay.

Clay Crumbliss

Good morning. Thanks for the question. Just wanted to maybe in light of kind of the strategic review that you've just done, and I appreciate that you addressed some of this in your scripted remarks, but just wanted to get into some of the growth drivers for the different businesses. So with the Route Based stuff, I understand Q4 is kind of typically a net outflow of customers. But where are you on customer acquisitions this year?

And then specifically I guess the question I often get from investors is how do you really grow that business organically when it comes to can you actually increase people's consumption of water? Can you take them from getting one 5-gallon jug this week to getting—how do you get them to two jugs?

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Jerry Fowden

Yeah.

Clay Crumbliss

And then within the existing routes, what are your route representatives doing to if you deliver water to me but not my neighbour, what are they doing to get my neighbour to sign up?

Jerry Fowden

Yup. Okay. There's a lot there, and I'll kind of pick up a bit on the latter two, and then ask Tom to give you some specific numbers on our net customer additions so far this year.

On the last question, RSRs getting people nearby to sign up, that's pretty much spot on exactly what we aim for them to do, and we incentivize with some additional new customer incentive programs to do. And somewhere in the region of 20 to 25 percent of all new customer sign-ups are those that come from our RSRs, or route service representatives, that are also the delivery drivers of the truck. And they come mainly by one of two things.

Either they knock on the houses next door to their existing customers or the shops next door to them on the strip mall, but more importantly, they leave literature and information with existing customers to say, look, we've been giving you great service. As long as you're happy, I'd love you to give this to the people living over the street and next door. And that drives this 20 to 25 percent of our new customer sign-ups. So it's a very attractive and important part of our new customer acquisition strategy.

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I think the second part of your question was about consumption. And if you looked back over a five-ish-year period, so a decent average of things can vary in any single year, we roughly see about one-third of our growth coming from new customers, about one-third coming from price, and about one-third coming from higher consumption per customer as the whole shift in kind of daytime hydration moves towards water from other beverages, as well as moves towards premium coffee from everyday coffee. And we see ongoing growth, a higher consumption per cooler coming through in our model as we look back over the last five years, and we expect that to continue. And we believe the Aqua Café, which is an integrated single-serve K-Cup coffee machine that's all part of one apparatus that also is a bottom-loading water cooler, really does expand consumption because what you're now capturing is the 400 to $600 coffee revenue opportunity from a customer, as well as their base water cooler opportunity.

And what's more, the best way to make a nice cup of coffee is to start with great water. And it uses the water from the water cooler jug to supply that integrated coffee machine. So the water consumption tends to rise just above 35 percent in those customers that have an Aqua Café as opposed to a normal water cooler.

So I think that gives you a bit of colour there, Clay. As we mentioned, we put 6,000 of these AquaCafés in over the last quarter. Roughly one-third of those were completely new placements—we didn't have a cooler there before—and about two-third of those placed were upgrades from a

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water customer into a water and coffee customer. So both of those, I think, play to your growth question.

But in terms of customers year to date and the more specifics, Tom?

Tom Harrington

Yeah. Clay, we're approximately 20,000 coolers ahead of prior year, year to date. And as you mentioned, we've referenced before we expect that number to decline a bit in Q4, but also in the context of a more disciplined measured approach in '17 to cooler customer growth to make sure that we eliminated some of the inefficiency and ineffectiveness we experienced last year. So we're pleased with where we are. Those are the specifics.

The other piece of our growth is obviously continued execution of those small tuck-ins, which we'll focus now in high-density areas, the HDAs that Jerry referenced, which not only gives us revenue opportunities, but also improves our profitability as a result of further route densities.

Jerry Fowden

So you've got a fair bit of stuff there, Clay. I hope it covered off enough of the bases of the three different parts of your question.

Clay Crumbliss

Yes. Thank you very much. I appreciate it. That's very helpful.

Jerry Fowden

No, thank you.

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Operator

Your next question comes from Amit Sharma from BMO. Your line is open.

Amit Sharma — BMO

Hi. Good morning, everyone.

Jarrod Langhans

Good morning.

Jerry Fowden

Good morning, Amit.

Amit Sharma

Jay, a couple of quick questions, and then maybe a little bit a bigger one. When you talk about additional investment in growth and also talking about maybe pushing/pulling forward the capacity expansion of S&D, that's already included in your CapEx guidance for 2019, right?

Jay Wells

You look at the CapEx guidance. I mean some of it is in … I would say some of it might be on top of it. I mean what we're looking at is as we close the transaction, as we get a little bit more room in our balance sheet we're looking to see how we want to deploy our capital in order to continue to solidify the Company, invest behind growth, and improve our growth and margin.

So we are evaluating some projects that would be additive to the guidance we have given.

Amit Sharma

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But you will expect a commiserate or higher increase in underlying cash flows as well, so your free cash flow number should—

Jay Wells

Yes. Yes—

Jerry Fowden

Yeah. We're very comfortable, Amit, with 150 million in 2019 and a 10 percent CAGR after that. And obviously as a management team that's counted the pennies every year for the last five years, we're not going to change our spots. So when we spend money, we want to spend it wisely and see a return for that.

Amit Sharma

Got it. A quick one for Tom. Tom, hurricane impact, thanks for the clarification there, but for some of the other things that sort of in topic of (unintelligible) is freight costs, especially around the availability of trucks and drivers. Are you facing any such headwinds in the US?

Tom Harrington

There was a serious issue during the hurricanes that was a meaningful spike, but very short term. And in some markets we do and some markets we don't. We have a team that's looking at what's the best transportation solution for principally our retail business because if you think of our 5- gallon businesses, they're very short lanes from our production facility out to the distribution.

Amit Sharma

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Got it. And then just two quick ones for me; Jay, really good commentary on S&D. Just a clarification, so if we look at the numbers that you tabled, you provided, coffee and tea services within the Route Based Services was up 13 percent. How much of that is Eden? And how much of that is organic growth? Do you have that number?

Jay Wells

Yeah. I would say a predominant amount of it is Eden-related.

Amit Sharma

Okay.

Jay Wells

Don't have the—sorry, Amit, don't have the exact number, but it's predominantly Eden-related.

Amit Sharma

No, that's fine. The way I'm going with that is, look, AquaCafé, and Jerry outlined pretty large revenue opportunities, right, on a per customer basis, and Tom said we're looking to add substantially more next year. And yet we are saying 2 percent growth for that business. How should we think about that? I mean, it looks like there is some upside there.

Jerry Fowden

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I'm not exactly sure where you're getting the 2 percent from, Amit, but if you remember our original goal was about 1 percent revenue growth for Eden, 2 to 3 for DS Services, and 3-plus for S&D coffee and tea that blended into an overall company in the 2-plus percent sort of area—

Amit Sharma

So let's talk about—

Jerry Fowden

Help me kind of pin down the exact piece you're asking about, Amit?

Amit Sharma

Oh, I was talking about DS. So is 2 to 3 somewhat conservative, achievable, easily given?

Jerry Fowden

Okay.

Jay Wells

Now we understand your question, Amit.

Jerry Fowden

Got it. But we've just gotten DS, and if you remember, this year we said our DS goal was 3 percent made up of 2 to 3 in the first half of the year and 3 to 4 in the second half of the year. We think we're tracking pretty much in line with that. I think if I take it down a decimal place, we were 3.7 percent up in this quarter in the US for DS, which is in one of the schedules in the back. So that's

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pretty spot on that 3 to 4 percent. But we said we were very confident that we should be in the 2-plus percent. Things seem to be running pretty well at the moment.

The AquaCafé is something that provides us an opportunity as we look forward, both for new customer capture and up-trading our existing customers. We'll be very happy as the quarters unfold to update that guidance if we think on a multiyear basis it warrants it.

But as you know—we've said this in the past on many topics, Amit—we don't like to lift or lower the goals that we set out on a kind of weekly, monthly, or quarterly base. We like to set them as the long-term goal. I think the only thing I would highlight—and it's not DS, it's on S&D—as you know from your own factory tour and you successfully spotted some of the customer names on the packaging that were going through the plant that day, we did win a very big national QSR customer this year. So we are not saying to people they should take our current 7, 8, 9 percent revenue growth we've had in the last three quarters and extrapolate that forward for next year. We should continue to use the 3-plus percent that we mentioned, and that's because you don't win a brand-new national major QSR chain every year. We hope to win one every few years, but not every single year.

Amit Sharma

Got it. That's all I have. Thanks so much.

Jay Wells

Thanks, Amit.

Jerry Fowden

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Thank you, Amit.

Operator

Your next question comes from Derek Dley from Canaccord Genuity. Your line is open.

Derek Dley — Canaccord Genuity

Hi. Good morning, guys.

Jerry Fowden

Good morning, Derek.

Jarrod Langhans

Good morning.

Derek Dley

Just following up a little bit on S&D, so appreciate the comments there on the new large QSR that you signed up, but organically can you just give a comment on how S&D is performing organically? Are you gaining market share or new SKUs within some of your existing customer base? And give maybe a little commentary on the extract business and how that continues to trend?

Jerry Fowden

Yes, yes, and yes. So yes, we believe we're gaining market share. I think another large public company's issued their results within the last 48 hours and that was roughly flat, which when you compare it to plus 9 in volume and plus 7 in revenue, I think indicates a good performance.

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We are increasing SKU count in our customers, particularly driven by areas in hot tea with our launch of pyramid tea bags in certain customers and in using our extracts to flavour the increasing variety of cold and frozen-based beverages.

And your last part was on extracts, which continues to run very high double-digit growth performances.

Derek Dley

Okay. And then in terms of the capacity within that business, appreciate you've got a new roaster coming on by the end of the year. What is your capacity today? And how much would this new roaster add to that?

Jerry Fowden

Yeah. And I won't get these numbers exactly right because I've not got the sheet in front of me, Derek, but they're not going to be miles out either. Let's talk about maybe we do on coffee now, excluding tea, 120 million pounds out of 140 million pound of capacity, and we'll be adding 20 million pounds of capacity with the new roaster. But don't say 120 versus 140 means you've got 20 million spare because there is seasonality.

It is a product that is a food product, so although we've probably all got a vacuum-packed bag of coffee in the back of a kitchen cupboard that's been there for a year, really you should be shipping coffee within a week or two of roasting and grinding it. And you and me as the consumer should be using it within a month or two of having bought it if you want the best-quality coffee. So

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seasonality plays into the fact that you do need some headroom in theoretical capacity above actual shipments.

So 120 versus 140, and we'll add about 20 million at the end of year. And our year-to-date growth is somewhere around 8 or 9 percent.

Jay Wells

I mean, Derek, I mentioned in my prepared remarks we had in our acquisition model another roaster coming online in 2019. With the growth this year, we are looking at the Christmas cooler seasons at the end of 2018 and saying, do we have to pull that forward and have it up and running by the end of 2018? So that's something we're looking at and evaluating, but it would just be pulling it ahead a year.

And with the extract business, it is growing very well, and we are evaluating the need on whether or not we want to expand that next year or the following year.

Derek Dley

And just quickly, a new roaster's about, what, 6 million to 8 million in CapEx incrementally?

Jerry Fowden

Yeah. It can vary on the time, but that's a reasonable order of magnitude, Derek. Well done.

Derek Dley

Okay. Thank you very much.

Operator

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Your next question comes from Mark Petrie from CIBC. Your line is open.

Mark Petrie — CIBC

Good morning, guys.

Jay Wells

Good morning.

Jarrod Langhans

Good morning.

Mark Petrie

Sorry, can I just follow up, I guess, a little bit on S&D. And I think I recall hearing a plan that it was going to be supplying coffee into DS during Q4. Is that still the plan?

Jerry Fowden

Tom?

Tom Harrington

That's on schedule. So we're on the final agreements on the packaging, but we expect to begin a soft conversion in the fourth quarter.

Mark Petrie

Okay. Great. Thanks.

Jerry Fowden

And, Mark, we're doing tea as well, I think, Tom, aren't we?

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Tom Harrington

That's correct.

Jerry Fowden

Yeah.

Tom Harrington

So the whole portfolio of our branded products will shift to S&D; soft rollout over the next few months.

Mark Petrie

Okay. Great. Thanks. And then my other follow-up was just around sort of heard about a strategy to focus more attention on high-density areas, I guess, both the US and Europe. And is that a reflection of a realization on your part that you were sort of under-penetrated in those markets? Or have the dynamics shifted in sort of more urban markets to be more attractive to you?

Jerry Fowden

I mean, let me make a comment, and then pass over to Tom because I know Tom has got a big chunk of this in his strategic plan for his operations. But I would say it's more when you analyze where and how you spend money and what you get back for that, the value of a customer in urban versus nonurban is not really any different. But if you can get greater route density and greater efficiency, we can get a greater reward from adding a customer in high density versus low density.

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So it's really a way of us taking—imagine if it was a fixed marketing pool of dollars—of taking that fixed marketing pool of dollars and robbing Peter to pay Paul, but net we end up better off in that through the improved route density if we spend that money in HDAs.

But Tom's got this mapped down by country, by city, by available population, and all sorts of stuff that I kind of call in the Boston, Bain, McKinsey sort of world.

Tom?

tom Harrington

Yeah. I think Jerry captured it pretty well. It's important to note, it's not that we won't grow or maintain our base outside of those HDAs, but we'll really focus the investment where there's a high concentration of commercial offices because we know that the commercial offices produces the best return for us on top of greater route density, more customers that naturally become higher-population markets.

So it's very detailed in Europe. The US is a little bit different because we have greater route density and more cities, but you'd see us in London, as an example, spending more energy that we would in Manchester because the returns are there. The early effort says we're on the right track, so we're going to refine this as we move into 2018, and we're quite bullish about where we're going to wind up in Europe. And it helps us drive our expectations on the Eden performance.

Mark Petrie

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Okay. That's helpful. And maybe it's not related to that strategy or maybe it is, but could you just update us on where you're at in terms of filtration, the ramp-up with Remington Pure? And where you are at from a capacity perspective with that business?

Tom Harrington

Sure. We are building capacity in terms of the filter itself, so I think we referenced last time we chatted that that was leg one of the stool was to make sure that we could have a low-cost steady supply of the longer-life filter. That is in place. And we would expect as we move into 2018 towards the beginning of the year we'll begin a meaningful effort on the installation or replacement, if you will, of that filter technology in our installed base. That'll start in the US, and then migrate to north of—and it's going to take two or three years to get to all of these customers. And it includes, of course, all the certifications about the quality of the water. US is one body. But when you go to Europe we have to do it 18 times, so there's a detailed plan in place to take advantage of that over the next two or three years.

Mark Petrie

Okay. Thank you very much.

Jay Wells

Thanks, Mark.

Jerry Fowden

Thanks, Mark.

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Operator

And your next question comes from Judy Hong from Goldman Sachs. Your line is open.

Judy Hong — Goldman Sachs

Thank you—

Jerry Fowden

Good morning, Judy.

Judy Hong

Good morning. So one is just a follow-up to the earlier question about focusing on the high-density area. And I'm just wondering if there is any difference in terms of the purchase price or the incremental EBITDA relative to kind of your projections of the 20 million to 30 million, 4 million to 6 million numbers? Is that pretty similar even in the high-density areas that you're focused on?

Jerry Fowden

Yeah. Let me kind of comment on the background to this piece of work because while we've summed it up in a lovely, I think, simple to remember couple of lines for this call, what we did, especially in Eden where there's 18 different markets, is we looked at our marketing spend as a share of company revenue, we looked at our average cost of acquisition for a new customer, and broke that down by coffee, water cooler, or filtration. And we looked at our average return, both lifetime value and short-term return from that marketing spend.

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And as you would expect, vast differences between a Poland and a Spain and a Portugal; differences between a water cooler and a coffee customer; differences between urban areas and rural areas. The outcome of all of that was really that we did not see that we wished to fundamentally change the amount of marketing dollars we wanted to spend as a percentage of our revenue, but we could see that if we spent less in certain countries and more in others, and less in certain geographies where our route density's not as great because we're a 20 share in Europe on average—and that's an average; there's countries where we're lower and countries where we're higher—that we were better off spending the money in certain countries and in certain cities in certain countries where after installation we had better route density as a result of that.

And that route density also drives better service to the customer and everything else. So we piloted this in a couple of geographies over the past six months. Early day feedback is it's making sense, but I'd say that's very early because a couple of cities is not the whole project. The whole project revolves around ten core cities we've identified.

And I think the time for giving you more concrete feedback in terms of differences on service, route density efficiencies is probably about a year from now, Judy. But that gives you the analytical work we've done and a scale of the testing that we've done over the last six months to feel comfortable that this becomes our strategy.

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And we have finished the discussions with the business units. And the business units that get a lower budget know it, and the business units that get a higher budget know it, too, and they know which cities they've got to focus on.

Judy Hong

Got it. Yes. Okay. That makes sense. And then just shifting gears just thinking about your EBITDA margin performance, so I guess you're raising the 2017 guidance to the high end. So a little bit more colour just in terms of what's driving that improvement? And then by segment, is there any colour you can give us how the EBITDA margins are kind of progressing against, I think, your 2017 pro forma—or numbers that you've given us at the modelling call?

Jay Wells

You want me to take that one?

Jerry Fowden

Yeah.

Jay Wells

Okay. Really where the growth is, I mean, I think what you're seeing is that we're having very good top-line growth, and we're seeing that in the back half of the year. So with the good top-line performance we get better EBITDA performance. So I would say our comfort at being in the mid to the higher end of our guidance for this year is really driven by our top-line performance more than our margin expansion.

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With regards to just where we see the overall EBITDA margins of the two main segments going, I mean what we've said with our S&D company and our—really being—that's more of a synergy-type number driving that. So when we bought them they were around a 7 percent EBITDA margin. We do see it growing to a 9 percent EBITDA margin, but really on the back of synergies. But not—you really don't see much leverage on the volume to expand your margin there, but it's really synergies growing the EBITDA margin on that one.

On a Route Based Services side, it really—as you go down the P&L, as you have growth in higher-dense routes, we said we should be able to see … be at a 10 bp, maybe 15 bp improvement each year on our overall EBITDA margin from growth, but really on the Route Based Services that's where see more just purely by getting route density you do get leverage going down the P&L by growing the revenue. So we would see that EBITDA margin grow, as I said, 10, 15 bps a year just on better footprint.

Jerry Fowden

And I think, Judy, the other comment we made probably two to three months ago now—I can't remember exactly when—our year-one S&D and Eden synergy goal was about 4 million. We believe it will be more like 7 million, as we mentioned in the prepared remarks. That's mainly from Eden doing a bit better on the execution of the Swiss office closure and a few other projects. So that's a positive element towards Jay's comment of being at the mid to the upper end of that 285, 295 range.

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Judy Hong

Okay. And within—so for 2017, the 17 to 18 percent margin for Route Based and then 7, 8 percent for Coffee and Tea is sort of still kind of the numbers that we should be using as we think about the base for '17?

Jerry Fowden

Yes.

Judy Hong

Got it. Okay. All right. Thank you.

Jerry Fowden

Thank you.

Operator

That brings us to a close for our Q&A session today. I turn the call back over to Mr. Langhans for closing remarks.

Jarrod Langhans

Thank you very much for joining our call today. This will conclude Cott Corporation's third quarter 2017 call.

Thank you for attending.

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.

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