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<<Kevin Grundy, Analyst, Jefferies Group LLC>>

All right, thanks everyone for joining us, why don’t we get started right away. Kevin Grundy, Jefferies Household Products and Beverage Analyst and Cott’s management team here, Tom Harrington, CEO and Jay Wells, the CFO. We’re going to do a fireside chat format. I have a number of questions here, I'll probably try to go till about, five after so maybe one o'clock and then I can turn over, expecting you guys have any questions.

So, why don't we start down with the overall sort of business update on how the water business has performed year-to-date, how the coffee business has performed year-to-date, then some margin worries, I think amongst some investors in the first quarter.

Maybe talk about some of those issues you've had to deal with and maybe talk about the three or four key areas that you as a management team are really focused on to deliver on the guidance for the year.

<<Tom Harrington, Chief Executive Officer>>

All right Kevin. Thank you, can you hear me, okay. It's good. We're actually pleased with the RBS business. We've maintained 2% to 3% organic growth in four to five as a result of our tuck-ins and that business has performed pretty well.

We have experienced some headwinds and will continue to experience some headwinds in our coffee business and for those of you that follow the story, we subject to some pretty significant pricing challenges in our coffee business at the end of 2018 that created some challenges for us in 2019.

The coffee team however is doing a good job, there’s obviously some cost down initiatives inside the coffee business and some good coffee growth, but it'll take us another quarter or two until we cycle through that. We think the RBS story holds for the next several years, we sell bottled water as forecast and continue to have robust growth, healthy hydration, chipped away from sugary soft drinks, so we'll maintain our expectation of 2% to 3% topline growth.

People often ask me about the pipeline. We have a robust pipeline of HOD Water targets on both sides of the Atlantic. And per our previous guidance of $40 million to $60 million of deals in 2019 we'll likely end on the higher-end of that range.

We have been challenged with both FX headwinds and that's accelerated a bit in recent days. And of course wage inflation. You may recall last year we took some aggressive pricing at Q3 and Q4, covered some of our 2018 issues and some coverage in 2019. And in the first quarter we discussed our challenges with production and warehousing, think general labor and the impact of unplanned and excessive temporary labor and overtime cost.

And that's really the pressure of this unskilled workforce seeking opportunities. As average wages for that work moves closer to $15 then $13. So as those people change positions that created some challenges for us for a couple of million dollars in the quarter. We've worked hard through that. While there'll still be some of those challenges in Q2, we expect to mitigate those by the time the quarter is over. And eliminate that on a go-forward basis.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Higher level question, just from the broader portfolio. So, about 85% of profits are levered to the Home Office Delivery water, the other 15% coffee. You talk a little bit about the strategic fit of those two businesses, how you're able to leverage the combined scale and resources of those two. Alternatively, maybe the other side, are you still as positive on the coffee business is there a point in time maybe where that's no longer part of the portfolio?

<<Tom Harrington, Chief Executive Officer>>

Yes, so we acquired, S&D Coffee roughly two years ago is in a category with good top line growth. And that business had historically enjoyed 4% or 5% growth over a long period of time. What we didn't anticipate, well actually on very aggressive competitive pricing environment, which challenged us and still challenges us today.

We do believe the S&D Coffee business is the king maker in the category, high-quality, consistent delivery, premier customers and benefit from an extract business which most – no other roasting ground coffee producer in North America does both. So, while still a small percentage of our revenue at S&D, it does grow at 30% and we would expect that to continue in the future as consumers shift from roasting ground into cold brew coffee in the like.

In terms of synergies, we captured a number of synergies as our water business in North America actually sources it's coffee for our office coffee service business from S&D Coffee. So that's been a good marriage in terms of quality and cost that we implemented about a year ago.

In terms of which stays and which goes, our focus right now on both RBS and Coffee is to keep to our knitting. So focus on the base business, ensure we deliver the organic revenue, cycle through the headwinds with the appropriate efforts at S&D and of course do tuck-ins on that pipeline I referenced.

And our tuck-ins are focused today on the water side of the equation as opposed to coffee. If we did something in coffee, we would likely do it more around CapEx avoidance and building roasting capacity as opposed to the typical tuck-in you might see us do in HOD.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Great that's helpful. Let's pivot to the Route Based Service business and Tom you have been running the business for a long time. Is there anything you see with consumer shifting online that makes you sort of incrementally more positive or negative about this business? And maybe you can sort of tie into your ability to continue to deliver the 2% to 3% organic sales growth for the business?

<<Tom Harrington, Chief Executive Officer>>

Yes, I'm more excited about the – where the business is today. So we've consistently, and I had been here a long time, we won't suggest how long, but the business consistently delivered two to three, it ultimately leverages into EBITDA margin. We're down making wise investments in customer experience, so I won't call this the last mile, I'll call it the next mile.

And that really is to attract and become very easy to do business with as millennials and Gen Z has become a bigger piece of the equation. So very excited about where we can take that. We expect our mobile app to be executed sometime during the fourth quarter and then once we perfect that solution, which gives people the ability to pay their bill, order product, find their driver will then exploit that technology to Europe.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Okay. And you want to touch on some of the, as we look at the dashboard and sort of elements that drive shareholder value, talk about some of those KPIs, customer service levels, penetration rates of products, minimizing churn rates. Maybe discuss a little bit about how the Company is progressing against those.

<<Tom Harrington, Chief Executive Officer>>

Yes, so when we executed the pricing last year, you may remember that we were cautious about how much price we'd get because we didn't know what would ultimately happen with the churn rate. And we have reported that we continue to incrementally improve or reduce the number of customers that quit, which means we'll have a longer lived base in the U.S. So we're pretty confident that we'll continue to make incremental gains reducing the quit rate evidenced by some of our internal KPIs that says our ability, our execution rates – deliver right the first time and in fall a higher than they've ever been.

So that is translating into the ability to take pricing, the ability to drive retention rate. We're quite pleased with that progress.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Good. And then you guys recently announced you're doing some testing with Amazon, maybe you want to talk about that a little bit, maybe talk about some of the pricing, through your sale of product on Amazon versus your traditional delivery.

<<Tom Harrington, Chief Executive Officer>>

At a recent conference, I suggested that Amazon would be turned on that day. I was mistaken. It might be turned on today actually. We will have, they will offer bottled service on their home services portal similar to what they do with other services for the homes where they would broker a third party service to provide that to their shoppers. We built a model that is significantly higher priced than our current web price.

Or if you ordered on water.com, you'd see a price for a single bottle plus you'd pay deposit. We don't have a deposit solution today in the Amazon model. So, we've accounted for that in the pricing. So it would be significantly higher than what you'd see. It's a test in Georgia, we'll go slowly here to understand the opportunity before we roll it out. It is not exclusive, we would expect based on our market share, our national footprint that we'd get equal to or greater than our share of the market and we really view it as, well another way for us to source new customers.

We don't think an Amazon shopper, a Prime member is really going to look water.com but frankly remain loyal to Amazon. So for us we view it as an opportunity to access incremental customers and incremental revenue from the sales of those bottles. Excellent.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

I want to touch on M&A because it's a big focus for investors in certainly an area where you guys are focused from a capital deployment perspective. Tom you mentioned before that the pipeline is relatively full, you haven't done more recently there hasn't been as much perhaps M&A activity maybe touch on the pipeline in terms of what you see. I think it'd probably be helpful for people just to remind them of the financial criteria that you use for acquisitions.

<<Tom Harrington, Chief Executive Officer>>

Yes, I think it's important to note that in the U.S., the average size deal has been $2.5 million in revenue. So they're really very small deals and I'm not sure I'd call them M&A I'd actually refer to them as a customer acquisition list. So it's a way for us to drive the density on our Route, take customers from what was formerly a competitor and then plop them on to our existing Route base.

And last year or so we've done a couple of larger ones, Mountain Valley would be the largest and that was more about entering a premium sparkling category. So it's not really HOD. And now we're back focused on those smaller tuck-ins and they would be, a million, half a million, a million or two and half million in size. Typically, we would synergize in the U.S. 3 times to 3.5 times. So they're highly accretive and they happen almost overnight and in Europe it is a little bit higher. So if we're at 3, 3.5 there it would be 4, 4.5 in Europe.

And we've spread them frankly around country by country, so that we have the capability to do the execution on a timely basis. We've begun to look at, we recently did a deal in Poland. And Poland now is a good volume by water business and we have significant share. So we're also building share in countries. For an example, we'd be a strong number one in Poland and have begun to look at Eastern Europe to adjacent countries where bottled water is heavily consumed in a general consumer distrust about tap water in some of those countries.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

A point of clarity, I think loosely your market share and Nestle's is about 35% each roughly. Is there a sense that the other 30% is, would be willing sellers over a period of time? Do you have a good sense whether the prices is appropriate now or not, but just over time is there a sense that what percentage of that remaining 30% can be consolidated?

<<Tom Harrington, Chief Executive Officer>>

Yeah. Without being argument, I have introduced myself on a couple of times as someone's exit strategy. So think of it as largely in many cases family businesses and as the legacy ownership ages, we find opportunities to acquire across Frank Wood both sides of the Atlantic. And because there's so many – we remain very disciplined in terms of what we will spend because ultimately someone may say not interested, today your price is too low. We find over time they come back to us and because we have a robustness. We have optionality about where we go.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Talk about how you're weighing those opportunities, which seems to be the highest return for the company versus potentially buying the stock back, which I know you've done but the stock has pulled back. How do you weigh the potential pipeline versus accelerated share repurchases?

<<Tom Harrington, Chief Executive Officer>>

It's a grand debate. So we spent in the last 14 months roughly 100 million of stock buybacks and when the stock got below 14, we thought it was a good use of our cash, balanced against the highly accretive nature of the M&A. And we'll spend that 60 million this year and we're about out of cash in terms of that 100 million. So we're going to turn our eyes to getting those returns in the business strategically market by market over the next year or so.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Great. Pivoting to margins in that business so historically, I think you've targeted about 10 to 20 basis points in the HOD business. Why is that the right number? Just to kind of push a little bit, is there anything beyond operating leverage, whether this is supply chain, anything else that you can do in the business to potentially accelerate that rate of margin growth longer term?

<<Tom Harrington, Chief Executive Officer>>

Yeah, it's historically been the performance for conversion through the income statement, challenged a bit this year by the wage inflation. And frankly some investments we've made in CX. So in the customer experience we think that's a good use of our cash to build out the future. And we're very focused on our list of where we do the acquisitions and frankly where we drive organic growth. So we're very focused on the markets. We're more focused on markets where we have high density.

So you've heard us reference high density areas. It's a particular focus in Europe, but also has application in the U.S. In California, we have a very dense long lived brand in Sparkletts so that business when we had customers there, they're highly accretive so we focus that way.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

All right. That's helpful. You talk about the cyclicality of your business. Sometimes this comes up and there's worry if when we sort of hit a speed bump here with the macro that this is a more cyclical business, is there any sort of data – historical empirical data you can provide to investors on that front?

<<Tom Harrington, Chief Executive Officer>>

I'm going to pass it to Jay.

<<Jay Wells, Chief Financial Officer>>

I'm going to give him a little bit of break he is getting hard. So when we looked at both DS, when we bought them back at the end of 2014 and Eden after that, we did spend a lot of time. We just came out of a significant recession, due diligence we looked at it. So you look at DS, what we find is we really don't lose a lot of customers, yes there were heightened foreclosures during the last recession. So those increased our loss of customers but really what you see is lower consumption on a per unit basis.

So there's less people at the office using the cooler, less people at the businesses that have our cooler that provides healthy hydration to their customers. So we did see a decline in consumption, which really gave us about 10% headwind to EBITDA during that period of time. Of course, we get a little bit more bad debts but we've also tightened our credit metrics, tighter and we've also have a quicker cut off the supply. So we feel we can mitigate that. So how I view it as a very big recession that 10% hit to EBITDA was not bad for the type of recession we were in. And that's really over three year period, cumulative is what that 10% provided.

Now you look at Eden over in Europe, they took a different approach. You weren't getting a lot of benefit from marketing spend. So they actually cut their marketing spend, invested more behind tuck-in acquisitions where all these small mom and dad shops are under even more significant economic pressures and was willing to sell at even better price. And by redeploying marketing spend against tuck-ins, they were able to hold their top line and bottom line flat through the recession.

So looking at that, we really see that we might have a blueprint even to mitigate that 10% EBITDA headwind in the U.S. for any future recessions by maybe following that same footprint, reducing marketing spend that isn't that effective during a recession and really focusing more on tuck-ins when those smaller companies are under increased pressure.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Can we talk about pricing, which has been very topical broadly in consumer package goods well received and demand elasticity generally coming in lower, outside the scope of your business. But maybe talk about how you view pricing, the success of putting in pricing. Was there – given some of the cost pressure, was there even more ability to take pricing, maybe to offset some of what you're contending with labor, just broadly on that, on how you view it?

<<Tom Harrington, Chief Executive Officer>>

Yeah, if you think about the two to three revenue growth, very simplistically you'd say 1% customers, 1% price, 1% volume growth. We are close to over 2% on pricing. So based on the inflationary environment last year, we pushed the envelope harder on the pricing last August and September. We enjoyed the lowest – highest retention and lowest quit rate in the history of the company. So it confirms that there is a great deal of price elasticity in our market and we'd take price every day.

So as our customer base comes up, we take it every day and based on the wage inflation today we obviously going to look at what's the appropriate mix of pricing as we seek to further mitigate any challenges we experienced with wage inflation, particularly in that production warehousing issue that we've articulated.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

I have two more and then I'll open up to Q&A here. So business risks, what do you see, this is the sort of typical sell side. What keeps you up at night? What are the two or three sort of biggest sell side FX is controlling what the dollar is going to do but what are sort of the two or three biggest risks facing the business as you see it?

<<Tom Harrington, Chief Executive Officer>>

Well, Jay discussed it. So if there is a downturn, we believe we can mitigate what happened in the U.S., but that remains an unknown. So we'd worry about the impact on consumption. But we think we have a solution for that. So we might only lose a week or two. In the coffee business obviously, we've experienced some pretty aggressive competitive pricing. So I would do sleepover that business settling out into a more rational environment. It appears to have done that. But one quarter does not yet a full year make.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Okay. Fair enough. Actually I'll ask one more and then open it up. So messaging to the investment community, what do you think is not well understood, I'm sure you guys are bit frustrated with where the stock price is at this point and perhaps there's some ambiguity in the marketplace around certain aspects of the business. What do you think is not well understood right now, not appropriately reflected in your stock?

<<Tom Harrington, Chief Executive Officer>>

I think there was some expectations of catalysts that we clearly aren't going to – aren't contemplating lots of catalysts. So we buy some larger company in either water or coffee. We remain very disciplined and I think there may be some shareholders or investors that would disappointed that we haven't done one of those larger deals. And Jay and I remain very disciplined about the returns required for us to do that.

And what we think remains a pretty profit market, it doesn't mean we don't look. And we can set a lot of options but we've got to look at the long-term options and returns for these businesses. Should we do that? Clearly we missed consensus, albeit by, I don't know, cumulatively $2 million or $3 million. So we've got to deliver our numbers within those $2 million or $3 million and we think that will settle the market a bit. Well, although I think the consensus is something like $325 million of EBITDA you shared with me, $1 million or $2 million a quarter doesn't amount to much, but that's the market and the vagaries of the market. So we've got to be responsive frankly to how do we better perform quarter-over-quarter.

<<Jay Wells, Chief Financial Officer>>

And I'll add one more thing to that. I mean, you look at our company, we have transformed the company. It's just been a year and a half since we sold our traditional soda and juice business. I would say the transformation still isn't fully appreciated by the market in two different ways. One, I will still go on non-deal road shows, sit down from somebody I haven't seen before and they're like, so how's the soda market doing? How is the juice market doing? So we still have a good part of the market that doesn't understand how we've changed the company.

And then on the other side, I'd say those who do understand it, we treat it a little bit like a brand new company. So any little wobble, I think there's an overreaction because people view us as not even a two year old company. So it's a combination of we are not a soda company anymore, but also we're not a new company either. But I think those are two things we deal with in volatility in our stock price.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Fantastic. Any questions in the room? I'll finish up. We have about a minute and a half, as you look out over five years and you guys have expressed an appetite for potentially larger – to the extent that it makes sense for your shareholders to do it. You think Nestlé's deal does make sense. And if the answer to that is yes, what gives you confidence that there would not be any antitrust concerns?

<<Tom Harrington, Chief Executive Officer>>

So it clearly makes sense. It takes two willing parties and people may chuckle because tap water is available everywhere. We believe that we'll pass a HSR. And back when I started at DS, we cleared and we put the number two and the number three company together back in 2000 and date myself four when we did that. So we think it clears.

<<Jay Wells, Chief Financial Officer>>

Tom always goes to tap water. I'll do a little bit more practical of approach. If you look at just the bottled water category, HOD water makes up 12% of that category. So if we're combining us to – you're down to 8% of the bottled water category and that might be how they look at it. And then if you look at competition, you also have filtration that the consumer can opt out of it. So in addition to just tap, there is a lot of other competition out there, but as Tom says, there's not a willing seller there. So I would not get too carried away with that question.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

We can wrap up with this one just on the coffee business, which is the lower margin, arguably less attractive part of the portfolio with the Farmer Brothers discussion doesn't seem to go away? So talk about your appetite to potentially get bigger in coffee through M&A relative to the HOD water side?

<<Tom Harrington, Chief Executive Officer>>

Yeah. Look, right now our fire power would be focused on the water side of the equation. And the only place we might deviate, frankly, is if there is a capital avoidance investment we could make. So we can pick up some roasting capacity to avoid to some of the capital and then obviously get revenue and EBITDA from that, that's what we would consider. We need to fix our base business today. And that frankly has to be our focus.

<<Kevin Grundy, Analyst, Jefferies Group LLC>>

Fantastic. Tom, Jay, we'll leave it there. Thank you guys very much. Appreciate it.

<<Tom Harrington, Chief Executive Officer>>

Thanks.