

INSPIRING  
HEALTHIER  
LIVES  
THROUGH BETTER  
WATER



# Annual Report 2019



WATER CORPORATION



THE **WATER & COFFEE** COMPANY

# 2019 Financial Summary

As of and for the years ended

(in millions of U.S. dollars, except per share data)

**December 28, 2019**   **December 29, 2018**   **Change**

## Operating Results from Continuing Operations

Adjusted revenue <sup>(1)</sup>	\$2,387.3	\$2,292.2	4%
Net Income (Loss)	(0.1)	28.9	-
Adjusted EBITDA <sup>(2)</sup>	328.7	306.8	7%
Diluted Earnings Per Share	-	0.21	-

## Financial Position

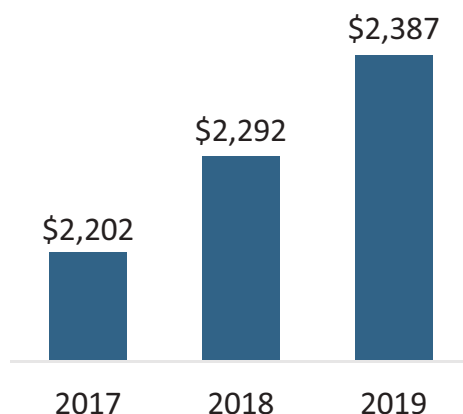
Total Assets	\$3,390.9	\$3,175.5
Total Liabilities	2,224.7	2,005.1
Shareowners' Equity	1,166.2	1,170.4

## Cash Flows from Continuing Operations

Cash provided by operating activities	\$250.0	\$244.3	2%
Adjusted Free Cash Flow <sup>(3)</sup>	152.7	149.8	2%

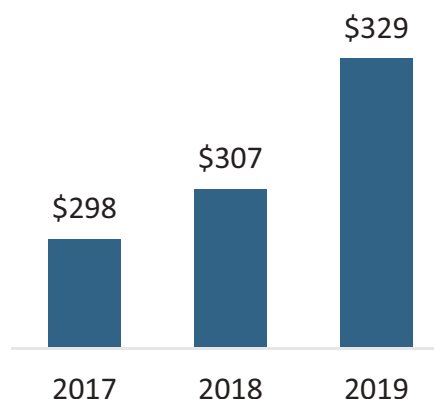
## Adjusted Revenue

(in millions)



## Adjusted EBITDA

(in millions)



<sup>(1)</sup>Reported net revenue adjusted to exclude the Cott Beverages LLC business which was sold on February 8, 2019. See Non-GAAP reconciliation included herein.

<sup>(2)</sup>Adjusted EBITDA is defined as net income from continuing operations before: depreciation and amortization expense; provision for income taxes; interest expense; acquisition and integration expenses; non-cash share-based compensation expense; net loss on disposal of property, plant and equipment; net foreign exchange gain or loss; gain on extinguishment of long-term debt; net commodity hedging instruments gain or loss; net loss or gain on sale of business; operations of Cott Beverages LLC; and other non-operating

expenses or gains. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K for non-GAAP reconciliation.

<sup>(3)</sup>Adjusted Free Cash Flow is defined as net cash provided by operating activities from continuing operations excluding additions to property, plant, and equipment; acquisition and integration cash costs; a working capital adjustment related to the Concentrate Supply Agreement with Refresco; and other cash inflows or outflows. See Non-GAAP reconciliation included herein.

# Dear Shareowners, Customers and Associates



Tom Harrington  
Chief Executive Officer

I am pleased to report another year of positive momentum for our company in 2019. We continued to see great successes within our businesses, and management and the Board are aligned on our new pure-play water strategy.

What is a pure-play water company? It is a team of dedicated associates that provides hydration solutions to consumers whenever, however and wherever they want them. We are transitioning into a pure-play water service provider across our 21-country footprint, with mid-single digit topline growth and a high teen EBITDA margin profile.

## Our Performance

Overall, we generated good topline, EBITDA and free cash flow growth, with revenue up 6% (excluding the impact of foreign exchange, the divested Cott Beverages LLC business and the change in average cost of coffee), adjusted EBITDA up 7%, and growth in adjusted free cash flow, which came in just above our expectations at \$153 million.

During 2019, amongst other initiatives, we focused on five key areas, including:

- ✓ organic growth in water solutions aligned with healthy hydration trends, including growth in key channels of home and office delivery water and water filtration;
- ✓ continuation of our value-creating tuck-in acquisition strategy and capture of associated synergies;
- ✓ the return of funds to shareowners through our quarterly dividend and opportunistic share buyback program;
- ✓ the deployment of new innovations with the roll out of PureFlo™ filtration technology and customer experience initiatives; and
- ✓ Board and management alignment on a strategy to transition to a pure-play water company.

# Key 2019 Highlights

Our Team excelled in 2019 and drove success in many areas, including:

- Our adjusted revenue increased 6% compared to 2018, including home and office water delivery organic growth of 3%.
- We exceeded our goal of tuck-in acquisitions of \$40 to \$60 million.
- We returned \$64 million to our shareowners, including the repurchase of \$32 million of shares and the distribution of \$32 million of dividends.
- In December, our Board approved a new annual share buyback program for up to \$50 million of purchases.
- We executed on several important technology and customer experience initiatives, including the launch of:
  - Our leading PureFlo™ filtration units with built in IOT (“Internet of Things”) technology and long-lasting filters, and
  - Our new mobile app designed to provide improved communications and the opportunity for increased sales of additional products and services.
- Board and management aligned on a pure-play water strategy: divesting our Coffee, Tea and Extract Solutions Segment and executing on further acquisitions within the water segment resulting in a company focused on water solutions.

## Environmental, Social and Governance

We made important progress on our sustainability journey in 2019, announcing the creation of an Environmental, Social and Governance (“**ESG**”) platform, with a strong focus on environmental sustainability, new environmental goals and continued progress on existing sustainability initiatives. We appointed Shayron Barnes-Selby to lead the company’s ESG platform and its cornerstone initiatives: **water stewardship and carbon neutrality**.

As part of our efforts, we announced related environmental sustainability goals that build on the company’s track record of sustainable practices and are intended to accelerate the company’s sustainable practices through:

- elevating our water stewardship practices through compliance by 2025 with the Alliance for Water Stewardship’s international standards for key spring water sources,
- reducing our carbon footprint through lower greenhouse gas emissions and becoming carbon neutral for our North American operations by 2022, and
- continuing sales and distribution of our returnable, refillable, and recyclable 3- and 5-gallon bottles.





# Key 2019 Highlights

## Some of our ESG accomplishments in 2019 include:

- setting the strategy for our ESG programs and related initiatives to support achievement of water stewardship and carbon neutrality goals;
- delegating oversight of our Environmental and Social initiatives to the Corporate Governance Committee, which now oversees all ESG efforts;
- enhancing disclosure on ESG topics in investor-focused communications vehicles;
- joining the Alliance for Water Stewardship, a multi-stakeholder international organization dedicated to enhancing water stewardship capacity and guiding, incentivizing and differentiating responsible water use;
- achieving carbon neutral certification for our European subsidiary, Eden Springs, for eight consecutive years;
- replacing older model diesel vehicles in our North American delivery fleet with propane-powered vehicles that deliver greater fuel efficiency and help lower the company's greenhouse gas emissions; and
- introducing the BioCup, a 100% biodegradable and compostable solution, across our European footprint.

We started 2020 with the transition into a pure-play water company with the sale of our S&D Coffee and Tea business and the acquisition of Primo Water Corporation. The combination of these transactions, and the decision to rename our company Primo Water Corporation, has positioned us for success in 2020, and we believe we will continue to benefit from the strong growth in the water category.

Sincerely,



Tom Harrington  
Chief Executive Officer





# HOME AND OFFICE WATER SOLUTIONS

Volume-based leader in the North American and European home and office bottled water delivery industry.

Every day, we work to satisfy the bottled water and filtration service needs of millions of residential, commercial and retail customers across our 21-country footprint.

In bottled water, we offer a portfolio of well-known brands with longstanding heritages, such as Mountain Valley, Crystal Rock, Vermont Pure, Hinckley Springs, Kentwood Springs, Canadian Springs, Alhambra, Sparkletts, Labrador, Eden Springs and Primo Water.



# Leading Water Solutions Provider

North America, Europe and Israel

**21** Countries

**57** Manufacturing sites

**312** Distribution sites



THE WATER & COFFEE COMPANY

**#1** U.S.  
Market  
Ranking

Volume-based Leader in HOD bottled water delivery

Bottled Water in the U.S., August 2019 report, Beverage Marketing Corporation



**10,000+**  
Employees



**2.5+ million**  
Customers



**950+ million**  
Gallons of water

## Revenue

**\$1.8**  
**billion**  
FY 2019

**\$1.7**  
**billion**  
FY 2018

## Operating Income

**\$116**  
**million**  
FY 2019

**\$90**  
**million**  
FY 2018



Brand in the Spotlight:

# The Mountain Valley Spring Water

PROUDLY NON-CRAFTED, ALL NATURAL AMERICAN GOODNESS, SINCE 1871



In a remote valley of Ouachita (WASH-ah-taw) Mountains, U.S.A., on 2,000 acres of protected forest sits a spring as old as our great land where pure, premium, American spring water rises naturally to the surface. The majestic water has been slowly filtering into granite-based aquifers for 3,500-years. Its refreshing taste and purifying power comes from the rich, unique blend of minerals it's flowed through. For over 145 years we have not added anything to it. We simply bottle it in glass to preserve quality and taste and label it 'natural,' and 'premium' because that is exactly what it is.



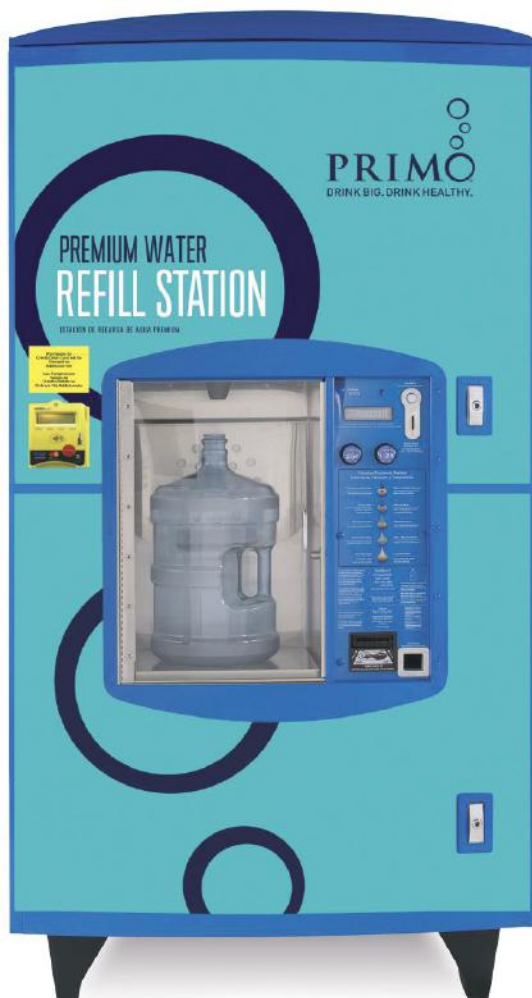
A look into 2020:

# Primo Brand Joins Our Family

INSPIRING HEALTHIER LIVES THROUGH BETTER WATER



The family of hydration solutions offered under the Primo brand include multi-gallon purified bottled water, self-service refill drinking water and water dispensers sold through major retailers in the United States and Canada.



**United States**  
**Securities and Exchange Commission**  
**Washington, D.C. 20549**

**Form 10-K**

- ☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 28, 2019
- ☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-31410

**COTT CORPORATION**  
(Exact name of registrant as specified in its charter)

**Canada**  
(State or Other Jurisdiction of  
Incorporation or Organization)  
**4221 West Boy Scout Boulevard Suite 400**  
**Tampa, Florida United States**  
(Address of principal executive offices)

**98-0154711**  
(IRS Employer  
Identification No.)

**33607**  
(Zip Code)

**Registrant's telephone number, including area code: (813) 313-1732**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
COMMON SHARES WITHOUT NOMINAL OR PAR VALUE	COT BCB	New York Stock Exchange Toronto Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒  
Non-accelerated filer ☐

Accelerated filer ☐  
Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 29, 2019 (based on the closing sale price of \$13.35 for the registrant's common shares as reported on the New York Stock Exchange on June 28, 2019) was \$1,759.1 million.

(Reference is made to Part II, Item 5 for a statement of assumptions upon which the calculation is made).

The number of the registrant's outstanding common shares as of February 20, 2020 was 135,359,506.

**Documents incorporated by reference**

Portions of our definitive proxy statement for the 2020 Annual Meeting of Shareowners, to be filed within 120 days of December 28, 2019, are incorporated by reference in Part III. Such proxy statement, except for the parts therein which have been specifically incorporated by reference, shall not be deemed "filed" for the purposes of this Annual Report on Form 10-K.





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Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (“GAAP”) in U.S. dollars. Unless otherwise indicated, all amounts in this Annual Report on Form 10-K are in U.S. dollars and U.S. GAAP.

Any reference to 2019, 2018 and 2017 corresponds to our fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017, respectively.

### **Forward-looking statements**

In addition to historical information, this Annual Report on Form 10-K, and the reports and documents incorporated by reference in this Annual Report on Form 10-K, may contain statements relating to future events and future results. These statements are “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation and involve known and unknown risks, uncertainties, future expectations and other factors that may cause actual results, performance or achievements of Cott Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements include, but are not limited to, statements that relate to projections of sales, cash flows, capital expenditures or other financial items, statements regarding our intentions to pay regular quarterly dividends on our common shares, statements related to shares repurchased under share repurchase programs in effect from time to time, and discussions of estimated future revenue enhancements and cost savings. These statements also relate to our business strategy, goals and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. Generally, words such as “anticipate,” “believe,” “continue,” “could,” “endeavor,” “estimate,” “expect,” “intend,” “may,” “will,” “plan,” “predict,” “project,” “should” and similar terms and phrases are used to identify forward-looking statements in this Annual Report on Form 10-K and in the documents incorporated in this Annual Report on Form 10-K by reference. These forward-looking statements reflect current expectations regarding future events and operating performance and are made only as of the date of this Annual Report on Form 10-K.

The forward-looking statements are not guarantees of future performance or events and, by their nature, are based on certain estimates and assumptions regarding interest and foreign exchange rates, expected growth, results of operations, performance, business prospects and opportunities and effective income tax rates, which are subject to inherent risks and uncertainties. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in forward-looking statements may include, but are not limited to, assumptions regarding management’s current plans and estimates. Although we believe the assumptions underlying these forward-looking statements are reasonable, any of these assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could prove to be incorrect. Our operations involve risks and uncertainties, many of which are outside of our control, and any one or any combination of these risks and uncertainties could also affect whether the forward-looking statements ultimately prove to be correct. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A. “Risk Factors” and elsewhere in this Annual Report on Form 10-K and those described from time to time in our future reports filed with the Securities and Exchange Commission and Canadian securities regulatory authorities.

We undertake no obligation to update any information contained in this Annual Report on Form 10-K or to publicly release the results of any revisions to forward-looking statements to reflect events or circumstances of which we may become aware of after the date of this Annual Report on Form 10-K. Undue reliance should not be placed on forward-looking statements.

All future written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing.

## PART I

### ITEM 1. BUSINESS

#### Our Company

When used in this report, the terms “Cott,” “the Company,” “our Company,” “Cott Corporation,” “we,” “us,” or “our” mean Cott Corporation and its consolidated subsidiaries, collectively.

We incorporated in 1955 and are governed by the Canada Business Corporations Act. Our principal executive office is located at 4221 W. Boy Scout Boulevard Suite 400, Tampa, Florida, United States 33607.

Cott is a water and filtration service company with a leading volume-based national presence in the North American and European home and office delivery industry for bottled water. Our platform reaches over 2.5 million customers or delivery points across North America and Europe and is supported by strategically located sales and distribution facilities and fleets, as well as wholesalers and distributors. This enables us to efficiently service residences, businesses, and small and large retailers.

In July 2017, we entered into a Share Purchase Agreement (the “Purchase Agreement”) with Refresco Group B.V., a Dutch company (“Refresco”), pursuant to which we sold to Refresco, on January 30, 2018, our carbonated soft drinks and juice businesses via the sale of our North America, United Kingdom and Mexico business units (including the Canadian business) and our Royal Crown International (“RCI”) finished goods export business (collectively, the “Traditional Business” and such transaction, the “Traditional Business Disposition”). The Traditional Business Disposition was structured as a sale of the assets of our Canadian business and a sale of the stock of the operating subsidiaries engaged in the Traditional Business in the other jurisdictions after we completed an internal reorganization. The aggregate deal consideration was \$1.25 billion, paid at closing in cash, with customary post-closing adjustments resolved in December 2018 by the payment of \$7.9 million from the Company to Refresco. The sale of the Traditional Business represented a strategic shift and had a major effect on our operations and, therefore, the Traditional Business is presented herein as discontinued operations. See Note 3 to the Consolidated Financial Statements for additional information on discontinued operations. The Traditional Business Disposition did not include our Route Based Services and Coffee, Tea and Extract Solutions reporting segments, or our soft drink concentrate production business and our RCI division (“Cott Beverages LLC”).

In February 2019, we sold all of the outstanding equity of Cott Beverages LLC to Refresco. The aggregate deal consideration paid at closing was \$50.0 million, subject to post-closing adjustments for working capital, indebtedness and other customary items. We used the proceeds of this transaction to repay a portion of the outstanding borrowings under our asset-based lending credit facility (the “ABL facility”).

On January 13, 2020, Cott entered into an Agreement and Plan of Merger with Cott Holdings Inc., a wholly-owned subsidiary of Cott (“Holdings”), Fore Merger LLC, a wholly-owned subsidiary of Holdings (“Merger Sub”), Fore Acquisition Corporation, a wholly-owned subsidiary of Merger Sub (the “Primo Purchaser”), and Primo Water Corporation (“Primo”), pursuant to which, on January 28, 2020, the Primo Purchaser commenced an exchange offer to purchase all of the outstanding shares of common stock of Primo, par value \$0.001 per share, in exchange for, at the election of the Primo’s stockholders, (i) \$14.00 in cash, (ii) 1.0229 Cott common shares, no par value per share, plus cash in lieu of any fractional Cott common shares, or (iii) \$5.04 in cash and 0.6549 Cott common shares (the “Offer”). As soon as practicable following the consummation of the Offer, the Primo Purchaser intends to acquire any remaining Primo shares by a merger of the Primo Purchaser with and into Primo (the “First Merger”), with Primo surviving the First Merger as a wholly-owned subsidiary of Merger Sub. Immediately following the First Merger, Primo intends to merge with and into Merger Sub, with Merger Sub being the surviving entity (the “Second Merger” and, together with the First Merger, the “Mergers”). Cott expects to issue an aggregate of up to 26,825,842 shares of our common stock in the Offer and the Mergers (collectively, the “Primo Acquisition”). The estimated aggregate consideration to be paid in the Primo

Acquisition is approximately \$775 million and includes approximately \$216 million to be paid in cash, \$367 million of Cott common shares and \$192 million of cash paid to retire outstanding indebtedness on behalf of Primo. The actual aggregate consideration will be calculated upon closing of the Primo Acquisition based on the closing price of Cott common shares as of that date and actual outstanding indebtedness. The Primo Acquisition is expected to close in the first quarter of 2020, subject to satisfaction of certain conditions to the Offer and the First Merger.

On January 30, 2020, Cott entered into a Stock Purchase Agreement with Holdings, S. & D. Coffee, Inc. (“S&D”), a wholly-owned subsidiary of Cott, and Westrock Coffee Company, LLC, a Delaware limited liability company (“Purchaser”), pursuant to which Purchaser will acquire all of the issued and outstanding equity of S&D from Holdings (the “S&D Disposition”). The aggregate deal consideration is \$405 million, payable at closing in cash, subject to adjustments for indebtedness, working capital, and cash. The S&D Disposition is expected to close in the first quarter of 2020 and is subject to satisfaction of certain conditions, including receipt of U.S. regulatory clearance. The Company intends to use the proceeds of the S&D Disposition to finance a portion of its acquisition of Primo, depending on the timing of closing, or otherwise to pay down indebtedness.

The Primo Acquisition, along with the S&D Disposition, will transition Cott into a pure-play water company.

## **Our Operations**

During the first quarter of 2019, we reviewed and realigned our reporting segments to reflect how the business will be managed and the results will be reviewed by the Chief Executive Officer, who is our chief operating decision maker. Following such review, we realigned our three reporting segments as follows: Route Based Services (which includes our DS Services of America, Inc. (“DSS”), Aquaterra Corporation (“Aquaterra”), Mountain Valley Spring Company (“Mountain Valley”), Eden Springs Europe B.V. (“Eden”) and Aimia Foods (“Aimia”) businesses); Coffee, Tea and Extract Solutions (which includes our S&D business); and All Other (which includes miscellaneous expenses and our Cott Beverages LLC business, which was sold in the first quarter of 2019). Our segment reporting results have been recast to reflect these changes for all periods presented. See Note 11 to the Consolidated Financial Statements for segment reporting.

### ***Route Based Services***

Our Route Based Services reporting segment provides bottled water, coffee and water filtration services to customers in North America, Europe, and Israel. Route Based Services products include bottled water, coffee, brewed tea, water dispensers, coffee and tea brewers and filtration equipment.

### ***Coffee, Tea and Extract Solutions***

Our Coffee, Tea and Extract Solutions reporting segment provides premium coffee roasting and customized coffee, tea and extract solutions to customers in the United States. Coffee, Tea and Extract Solutions products include fresh brewed coffee or tea, specialty coffee, liquid coffee or tea concentrate, single cup coffee, cold brewed coffee, iced blend coffee or tea beverages, tea, blended teas, hot tea, sparkling tea, and coffee or tea extract solutions.

### ***All Other***

Our All Other segment consists of miscellaneous expenses and our Cott Beverages LLC business, which serviced customers located primarily outside of North America and was sold in the first quarter of 2019. All Other products included primarily soft drink concentrates.

## **Competitive Strengths**

The combination of our scale and density of our routes in key markets, our industry-leading infrastructure, and our emphasis on superior customer service is intended to create significant competitive strengths. With respect to our Route Based Services reporting segment, we continually invest in our delivery infrastructure, call centers and service capabilities to maintain our established position as a leader in this segment. We believe these investments have positioned us to capitalize on a number of positive industry dynamics and new growth opportunities. First, we intend to capture new customers as we capitalize on favorable consumer trends across our addressable markets, including increased focus on health and wellness, and concerns about deteriorating municipal water quality. Second, we believe our ability to cross-sell complementary water and filtration products and services represents a significant untapped opportunity. Third, the highly fragmented market in which we operate affords us ample opportunity to make the most of our scale, systems and customer density to execute synergistic tuck-in acquisitions across all of our service areas. We believe these strengths, along with the strengths outlined below, will allow us to capitalize on growth opportunities to drive sustainable and profitable growth.

### ***Leading Position in Multiple Service Platforms***

We have a leading volume-based national presence in the North American and European home and office industry for bottled water. In bottled water, we offer a portfolio of well-known brands with longstanding heritages, such as Mountain Valley, Crystal Rock, Vermont Pure, Sparkletts, Hinckley Springs, Kentwood Springs, Canadian Springs, Labrador and Eden Springs, which have contributed to our leadership position in the home and office bottled water industry. In office coffee services, we offer a complete range of products under leading brands including Keurig®, Mars Alterra®, Starbucks® Coffee, Caribou Coffee®, Peet's Coffee & Tea®, Javarama® and Lavazza®. In water filtration, we offer a complete range of products including carbon filtration and reverse osmosis filtration.

We are one of the only direct-to-customer providers that can offer comprehensive services to residential customers and small and medium-sized businesses, as well as large regional and national corporations and retailers. Our broad direct-to-consumer network creates an advantage in marketing and customer reach, while our extensive range of products and capabilities allows us to offer customers a convenient, single solution for high quality drinking water. We believe our position will be further strengthened through our ongoing efforts to enhance and promote our full-service beverage offering to new and existing customers.

We also believe that opportunities exist to increase sales of our products in our core markets by optimizing existing customer relationships, capitalizing on cross-selling and up-selling opportunities, obtaining new customers, exploring new channels of distribution and introducing new products through our broad reaching distribution network.

### ***International Home and Office Water Delivery, Water Filtration or Point of Use and Office Coffee Service Platforms***

We believe that having one of the leading North American and European home and office water delivery production and distribution networks in the industry gives us the ability to reduce our purchasing, manufacturing and delivery costs relative to our competitors as well as drive customer density within the markets we serve. We have an extensive home and office water delivery, water filtration and office coffee services distribution network with a unique ability to service customers. We believe few companies have a comparable footprint or infrastructure to support local, regional and national accounts directly, which differentiates us in the industry. Our network has allowed us to secure strategic relationships, which have been successful in attracting new customers and leveraging our production and delivery infrastructure. We are able to provide multiple products to our home and office water delivery, water filtration and office coffee services customers at minimal additional cost and generate additional profits on those incremental sales.

The acquisition of Eden in 2016 further expanded our European capabilities. We believe that our large distribution footprint in the water-and-coffee solutions space in Europe differentiates us from our competitors, providing us with region wide coverage for our most significant businesses and allowing us to meet the water and coffee needs of our diversified customer base, including both small and medium sized businesses and larger European customer accounts.

### ***High Levels of Customer Service and Strong Customer Integration***

Customer service and customer retention are key indicators of success within our Route Based Services reporting segment. Route Sales Representatives or “RSRs”, who comprise the consumer-facing part of the business, are an important part of the customer relationship and not only drive customer service, but also generate new organic customer growth. Our Route Based Services reporting segment provides reliable deliveries and closely tracks call center and customer service metrics to continually improve customer satisfaction.

### **Business Strategy**

Our vision is to be the preeminent international route based direct to consumer and service provider across water and filtration solutions with dedicated focus on shareowner returns through continuous growth, expanding margins, and growing free cash flow. Our business services profile offers recurring and repeatable revenue streams and scalable platforms that uniquely position us to allow for operational leverage with growth and to capture synergies through tuck-in acquisition opportunities. We intend to drive value creation through growth from our “Better-for-You” product offerings (positioned in growing categories within water and filtration solutions), focused innovation with product development, route logistics and technology creating further growth, as well as cross selling and customer service opportunities, margin expansion driven by scaled platforms with increased customer and route density, highly synergistic customer list or tuck-in acquisition opportunities, and strong free cash flow generation.

### ***Focus on Water and Filtration Solutions Growth***

Our goal is to grow profitably as consumers move to healthier beverage options and increase free cash flow by expanding our customer density and consumption, focusing on customer service and reducing costs to serve, as well as price improvement.

We will remain focused on expanding our small and medium-sized business customer base, a market segment that we believe remains underpenetrated, by continuing to capitalize on our strong direct-to-consumer distribution network, international sales and marketing efforts as well as our strategic partnerships.

We believe our ability to cross-sell complementary water and filtration products and services represents a significant untapped opportunity as nearly all of our existing and target customers consume multiple products. We believe we are well-positioned to capitalize on this opportunity utilizing our strong relationships and frequent face-to-face interactions with our large installed customer base. RSRs are trained to sell across our product set and are highly incentivized through our commission structure to promote new products to existing customers, which increases sales and average revenue per customer.

We intend to proactively pursue accretive acquisitions to complement our organic growth. The highly fragmented market in which we operate affords us ample opportunities to execute synergistic home and office water and filtration tuck-in acquisitions. Our acquisition strategy is consistent with our objective to continually build customer density and reduce the overall cost of servicing our existing customer base. We have a proven track record of achieving significant synergies and integrating companies onto our platform, and we believe that our acquisition strategy will continue to improve our profitability and margins.

We have managed to pursue this acquisition strategy while reducing leverage levels from the time of the acquisition of DSS in 2014 by employing a combination of disciplined purchase pricing, successful integration and synergy realization, and divestiture of assets that are no longer instrumental to our mission and strategy.



### ***Evaluate Acquisition Opportunities***

We will continue to evaluate additional mid-to-larger scale opportunities to expand our positions in the home and office water and filtration service categories, as well as other higher margin or growth-oriented water categories where we believe our platform, operating strength and synergies can be leveraged.

### **Financial Information about Segments**

For financial information about reporting segments and geographic areas, see Note 11 to the Consolidated Financial Statements contained in this Annual Report on Form 10-K.

### **Ingredient and Packaging Supplies**

In addition to water, the principal raw materials required to produce our products are polyethylene terephthalate (“PET”) resin, high-density polyethylene (“HDPE”) and polycarbonate bottles, caps and preforms, labels and cartons and trays. The cost of these raw materials can fluctuate substantially over time. We have implemented a number of risk mitigation programs in order to reduce the risk of commodity fluctuations in key areas such as energy surcharges tied to certain energy indexes within North America and throughout our European footprint. Our core product of home and office bottled water utilizes a reusable bottle that allows for the overall cost to service to be spread out over a number of recurring trips to our customer base. We utilize a refill, reuse and recycle concept with our three gallon (“3G”) and five gallon (“5G”) bottled water packaging, which can be reused as many as fifty times per bottle. Where we have not established a risk mitigation program, it is often necessary to recover the increased cost of materials through price increases which we have historically had success in utilizing in order to reduce our overall exposure to rising ingredient and packaging costs.

Under many of our supply arrangements for these raw materials, the price we pay fluctuates along with certain changes in underlying commodity costs, such as resin in the case of PET, and HDPE. We believe that we will be able to either renegotiate contracts with these suppliers when they expire or find alternative sources for supply. We also believe there is adequate supply of the ingredient and packaging materials used to produce and package our products.

Generally, we bear the risk of increases in the costs of the ingredient and packaging materials used to produce our products, including the underlying costs of the commodities used to manufacture them and, to some extent, the costs of converting those commodities into the materials we purchase.

Resin for PET, HDPE and fuel are examples of underlying commodities for which we bear the risk of increases in costs. In addition, the contracts for certain of our ingredient and packaging materials permit our suppliers to increase the costs they charge us based on increases in their cost of converting the underlying commodities into the materials we purchase. In certain cases, those increases are subject to negotiated limits. Changes in the prices we pay for ingredient and packaging materials occur at times that vary by product and supplier, and take place on a monthly, quarterly or annual basis.

### **Trade Secrets, Copyrights, Trademarks and Licenses**

We sell a majority of our home and office 3G and 5G bottled water under our own brands while our office coffee services business sells both our branded products as well as products under which we have a distribution license. We own registrations, or applications to register, various trademarks that are important to our worldwide business, including Alhambra®, Crystal Rock®, Vermont Pure®, Mountain Valley®, Deep Rock®, Hinckley Springs®, Crystal Springs®, Kentwood Springs®, Mount Olympus®, Pureflo®, Standard Coffee®, Javarama®, Athena®, Nursery®, Relyant®, Sierra Springs® and Sparkletts® in the United States, Canadian Springs® and Labrador® in Canada, and Decantae®, Eden®, Eden Springs®, Chateaud’eau®, Edelviva®, Mey Eden®, Edenissimo®, Kafevend®, Pauza®, and Garraways® in Europe and Israel. The licenses to which we are a party are of varying terms, including some that are perpetual. Trademark ownership is generally of indefinite duration when marks are properly maintained in commercial use.

Our success depends in part on our intellectual property, which includes trademarks for the names of the beverages we sell. To protect this intellectual property, we rely principally on registration of trademarks, contractual responsibilities and restrictions in agreements (such as indemnification, nondisclosure and confidentiality agreements) with employees, consultants and customers, and on the common law and/or statutory protections afforded to trademarks, copyrights, trade secrets and proprietary “know-how.” We also closely monitor the use of our trademarks and, when necessary, vigorously pursue any party that infringes on our trademarks, using all available legal remedies.

## **Customers**

We have limited customer concentration, of which no customer accounts for more than 10% of our net revenues.

## **Competition**

Our principal competitor in the 3G and 5G home and office bottled water business in the United States is Nestlé, which competes with us directly in many of our markets. Within Canada and Europe, our principal competitors are local or regional home and office bottled water businesses. We face competition in our home and office business as distribution methods for residential and commercial bottled water products continue to change and evolve, including the increasing availability of 3G and 5G water bottles in retail stores. This could affect our business as some customers may choose to purchase water in returnable bottles through retailers rather than through our sales and distribution network. We have a strategic alliance with Primo to bottle and distribute Primo’s 3G and 5G water bottles through retail stores, but customers could choose to purchase Primo’s competitors’ retail products. Our home and office business also faces increased competition from filtration units in the residential and commercial market. Because homes and offices with installed filtration systems participate at a lower rate in the bottled water market, the installation of these systems poses a competitive threat to our business and reduces the number of potential customers for our bottled water products. In addition, consumers may choose to drink from municipal water sources instead of purchasing bottled water or using a filtration unit.

We seek to differentiate ourselves from our competitors by offering our customers high-quality products, category management strategies, packaging and marketing strategies, efficient distribution methods, and superior service.

## **Government Regulation and Environmental Matters**

The production, distribution and sale in the United States of many of our products are subject to the Federal Food, Drug, and Cosmetic Act, the Federal Trade Commission Act, the Lanham Act, state consumer protection laws, federal, state and local workplace health and safety laws, various federal, state and local environmental protection laws and various other federal, state and local statutes and regulations applicable to the production, transportation, import, sale, safety, advertising, labeling and ingredients of such products. Outside the United States, the production, distribution and sale of our many products and related operations are also subject to numerous similar and other statutes and regulations.

A number of states have passed laws setting forth warning or labeling requirements relating to products made for human consumption. For example, the California law known as “Proposition 65” requires that a specific warning appear on any product sold in California containing a substance listed by that state as having been found to cause cancer or reproductive toxicity. This law, and others like it, exposes all food and beverage producers to the possibility of having to provide warnings on their products. The detection of even a trace amount of a listed substance can subject an affected product to the requirement of a warning label, although products containing listed substances that occur naturally or that are contributed to such products solely by a municipal water supply are generally exempt from the warning requirement. From time to time over the past several years, certain of our customers have received notices alleging that the labeling requirements of the relevant state

regulation would apply to products manufactured by us and sold by them. There can be no assurance that we will not be adversely affected by actions against our customers or us relating to Proposition 65 or similar “failure to warn” laws.

We currently offer and use non-refillable recyclable containers in the United States and other countries around the world. We also offer and use refillable containers, which are also recyclable. Legal requirements apply in various jurisdictions in the United States and other countries requiring that deposits or certain taxes or fees be charged for the sale, marketing and use of certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other types of beverage container-related deposit, recycling, tax and/or product stewardship statutes and regulations also apply in various jurisdictions. We anticipate that additional, similar legal requirements may be proposed or enacted in the future at local, state and federal levels, both in the United States and elsewhere.

We are a member of the International Bottled Water Association (“IBWA”) and the Water Quality Association. These associations often set higher water quality standards than those set by governmental agencies. Members must comply with these standards, which are enforced by the members themselves. The IBWA requires submission to annual plant inspections administered by an independent third-party inspection agency, such as the National Sanitation Foundation. These inspections audit quality and testing records, review all areas of plant operations and the bottling process, and check compliance with relevant national standards, good manufacturing practices, and any other regulations set by the IBWA. If we fail to meet the standards set by the IBWA and the Water Quality Association, there could be an adverse impact on our reputation, which could have a material adverse effect on our business and results of operations.

All of our production facilities and other operations are subject to various environmental protection statutes and regulations, including those of the U.S. Environmental Protection Agency (“EPA”), which pertain to the use of water resources and the discharge of waste water. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect on our capital expenditures, net income or competitive position.

Subject to the terms and conditions of the applicable policies, we have coverage for product recalls and product liability claims that could result from the injury, illness or death of consumers using our products, contamination of our products, or damage to or mislabeling of our products.

## **Employees**

As of December 28, 2019, we had over 11,580 employees, of whom approximately 10,170 were in the Route Based Services reporting segment; 1,350 were in the Coffee, Tea and Extract Solutions reporting segment; and 60 were in All Other. We have entered into collective bargaining agreements covering approximately 1,250 of the employees in the Route Based Services reporting segment that contain terms that we believe are typical in our industry. As these agreements expire, we believe that they can be renegotiated on terms satisfactory to us. We consider our relations with employees to be generally good.

## **Availability of Information and Other Matters**

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the “SEC”) and Canadian securities regulatory authorities. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at [www.sec.gov](http://www.sec.gov). Information filed with the Canadian securities regulatory authorities is available at [www.sedar.com](http://www.sedar.com).

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of

1934, as amended, are also available free of charge on our website at [www.cott.com](http://www.cott.com), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information found on our website is not part of this or any other report that we file with, or furnish to, the SEC or to Canadian securities regulatory authorities.

We are responsible for establishing and maintaining adequate internal control over financial reporting as required by the SEC. See “Management’s Report on Internal Control over Financial Reporting” in Item 9A.

## **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may negatively affect our business, financial condition or results of operations.

### **We may be unable to compete successfully in the markets in which we operate.**

We face competition in our home and office water business as distribution methods for residential and commercial bottled water products continue to change and evolve. The increasing availability of 3G and 5G water bottles in retail stores could affect our business as some customers may choose to purchase water in returnable bottles through retailers rather than through our sales and distribution network. We have a strategic alliance with Primo to bottle and distribute Primo’s 3G and 5G water bottles through retail stores, but customers could choose to purchase Primo’s competitors’ retail products. Our home and office water business also faces increased competition from filtration units in the residential and commercial market. Because homes and offices with installed filtration systems participate at a lower rate in the bottled water market, the installation of these systems poses a competitive threat to our business and reduces the number of potential customers for our bottled water products. In addition, consumers may choose to drink from municipal water sources instead of purchasing bottled water or using a filtration unit. Additionally, retail and internet availability of these products could negatively affect demand for the direct distribution sources we offer.

### **Our ingredients, packaging supplies and other costs are subject to price increases, and we may be unable to effectively pass rising costs on to our customers.**

We typically bear the risk of changes in prices on the ingredient and packaging materials in our products. The majority of our ingredient and packaging supply contracts allow our suppliers to alter the prices they charge us based on changes in the costs of the underlying commodities that are used to produce them and, in some cases, changes in production costs. Resin for PET, HDPE and polycarbonate bottles are examples of these underlying commodities. These changes in the prices we pay for ingredient and packaging materials occur at times that vary by product and supplier, and take place, on a monthly, quarterly or annual basis.

Accordingly, we bear the risk of fluctuations in the costs of these ingredient and packaging materials, including the underlying costs of the commodities used to manufacture them and, to some extent, the costs of converting those commodities into the materials we purchase. If the cost of these ingredients or packaging materials increases, we may be unable to pass these costs along to our customers through adjustments to the prices we charge, which could have a negative effect on our results of operations. If we are able to pass these costs on to our customers through price increases, the impact those increased prices could have on our volumes is uncertain.

Our production facilities use a significant amount of electricity, natural gas and other energy sources to operate. Fluctuations in the price of fuel and other energy sources for which we have not locked in long-term pricing commitments or arrangements would affect our operating costs, which could negatively affect our results of operations.

**If we fail to manage our operations successfully, our business and results of operations may be negatively affected.**

In recent years, we have grown our business and beverage offerings primarily through the acquisition of other companies, development of new product lines and growth with key customers. We believe that opportunities exist to grow our business by leveraging existing customer relationships, obtaining new customers, exploring new channels of distribution, introducing new products or identifying appropriate acquisition or strategic alliance candidates. The success of this strategy with respect to acquisitions depends on our ability to manage and integrate acquisitions and alliances into our existing business. Furthermore, the businesses or product lines that we acquire or align with may not be integrated successfully into our business or prove profitable. In addition to the foregoing factors, our ability to expand our business in foreign countries is also dependent on, and may be limited by, our ability to comply with the laws of the various jurisdictions in which we may operate, as well as changes in local government regulations and policies in such jurisdictions. If we fail to successfully manage our operations, our business and results of operation could be adversely affected.

**We may devote a significant amount of our management's attention and resources to our ongoing review of strategic opportunities, and we may not be able to fully realize the potential benefit of any such alternatives that we pursue.**

As part of our overall strategic planning process, from time to time we evaluate whether there are alternatives available to complement our strategy of organic growth and growth through diversification. Accordingly, we may from time to time be engaged in evaluating potential transactions and other strategic alternatives, and we may engage in discussions that may result in one or more transactions, including the transition of Cott into a pure-play water company through the combination of Cott and Primo and the divestiture of the S&D business. Although there would be uncertainty that any of these discussions would result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management's attention and resources to evaluating and pursuing a transaction or opportunity, which could negatively affect our operations. In addition, we may incur significant costs in connection with evaluating and pursuing other strategic opportunities, regardless of whether any transaction is completed. We may not fully realize the potential benefits of any strategic alternatives or transactions that we pursue.

**We have completed the divestiture of our Traditional Business, and have ongoing obligations and potential liabilities associated with the Traditional Business Disposition.**

On January 30, 2018, we completed the divestiture of our Traditional Business. Under the Purchase Agreement, we remain liable for certain pre-closing liabilities associated with the divested business, such as taxes and certain litigation, and we remain liable for a period of time for breaches of representations, warranties and covenants made to the purchaser. We have also indemnified the purchaser in the event of such breaches and for other specific risks. Even though the Purchase Agreement contains what we believe to be customary liability caps, and we have established reserves for any expected ongoing liability associated with the divested business, unexpected liabilities may arise for which we could be responsible. If that occurs, or if established reserves are not sufficient, it could negatively affect our financial condition and future results of operations.

**We may not realize the expected revenue and cost synergies related to our acquisitions.**

The success of our acquisitions, including the Primo Acquisition, will depend, in part, on our ability to realize all or some of the anticipated benefits from integrating with our existing businesses. The integration process may be complex, costly, time-consuming and subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and are beyond our control. The difficulties of integrating the operations and realizing revenue and cost synergies include, among others:

- failure to implement our business plan for the combined business;



- unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;
- possible inconsistencies in standards, controls, procedures and policies, and compensation structures between acquired structures and our structure;
- failure to retain key customers and suppliers;
- unanticipated changes in applicable laws and regulations;
- failure to retain key employees;
- additional exposure to risks of new markets and geographies;
- inherent operating risks; and
- other unanticipated issues, expenses and liabilities.

We may not be able to maintain the levels of revenue, earnings or operating efficiency that each of Cott, on the one hand, and the acquired businesses, on the other hand, had achieved or might achieve separately. Even if we realize the expected benefits, this may not be achieved within the anticipated time frame. Furthermore, the synergies from acquisitions may be offset by costs incurred in consummating such acquisitions or in integrating the acquired businesses, increases in other expenses, operating losses or unrelated adverse results in the business. As a result, there can be no assurance that such synergies will be achieved.

In addition, actual results may differ from pro forma financial information of the combined companies due to changes in the fair value of assets acquired and liabilities assumed, changes in assumptions used to form estimates, difference in accounting policies between the companies, and completion of purchase accounting.

#### **We have limited indemnification rights in connection with the Primo Acquisition.**

In connection with the Primo Acquisition, we will be subject to all of the liabilities of the acquired business that have not been satisfied on or prior to the closing date of the transaction. There may be liabilities that we underestimated or did not discover in the course of performing our due diligence investigation. Under the merger agreement, we have been provided with a limited set of warranties in relation to identified risks, none of which will survive the closing date. We have secured insurance to cover losses arising in respect of the breach by Primo of those warranties, but our recovery may be insufficient to fully reimburse us for those losses. Damages resulting from a breach of warranty could have a material and adverse effect on our financial condition and results of operations.

#### **Changes in future business conditions could cause business investments and/or recorded goodwill, indefinite life intangible assets or other intangible assets to become impaired, resulting in substantial losses and write-downs that would negatively affect our results of operations.**

As part of our overall strategy, we will, from time to time, make investments in other businesses. These investments are made upon target analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining investment amount or acquisition price. After consummation of an acquisition or investment, unforeseen issues could arise that adversely affect anticipated returns or that are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounted for approximately \$1,175.7 million of our recorded total assets as of December 28, 2019. We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment and certain underlying assumptions. Our other intangible assets with indefinite lives as of December 28, 2019 relate to the trademarks acquired in the acquisitions of DSS, Aquaterra, Eden, Mountain Valley and Crystal Rock Holdings, Inc. (“Crystal Rock”). These assets have an aggregate net book value of \$287.1 million, and are more fully described in Note 1 to the Consolidated Financial Statements.

As of December 28, 2019, our intangible assets subject to amortization, net of accumulated amortization for continuing operations were \$414.3 million, which consisted principally of \$367.6 million of customer relationships that arose from acquisitions, \$25.6 million of software, and \$11.2 million of patents. Customer relationships are typically amortized on an accelerated basis for the period over which we expect to receive the economic benefits. The customer relationships acquired in connection with the acquisitions of DSS, Aquaterra, Eden, S&D, Mountain Valley and Crystal Rock are amortized over the expected remaining useful life of those relationships on a basis that reflects the pattern of realization of the estimated undiscounted after-tax cash flows. We review the estimated useful life of these intangible assets annually, taking into consideration the specific net cash flows related to the intangible asset, unless a review is required more frequently due to a triggering event such as the loss of a significant customer. The permanent loss of, or significant decline in sales to customers included in the intangible asset would result in either an impairment in the value of the intangible asset or an accelerated amortization of any remaining value and could lead to an impairment of the fixed assets that were used to service that customer. Principally, a decrease in expected reporting segment cash flows, changes in market conditions, loss of key customers and a change in our imputed cost of capital may indicate potential impairment of recorded goodwill, trademarks or tradenames. For additional information on accounting policies we have in place for goodwill impairment, see our discussion under “Critical Accounting Policies” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K and Note 1 to the Consolidated Financial Statements.

**Our geographic diversity subjects us to the risk of currency fluctuations.**

Although our sales predominately come from the United States, we conduct operations in many areas of the world, involving transactions denominated in a variety of currencies. We are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations. While we may enter into financial transactions to address these risks, there can be no assurance that currency exchange rate fluctuations will not negatively affect our financial condition, results of operations and cash flows. In addition, while the use of currency hedging instruments may provide us with protection from adverse fluctuations in currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in currency exchange rates.

**If we are unable to maintain relationships with our raw material suppliers, we may incur higher supply costs or be unable to deliver products to our customers.**

In addition to water, the principal raw materials required to produce our products are PET resin, HDPE and polycarbonate bottles, caps and preforms, labels and cartons and trays. We rely upon our ongoing relationships with our key suppliers to support our operations.

We typically enter into annual or multi-year supply arrangements with our key suppliers, meaning that our suppliers are obligated to continue to supply us with materials for one-year or multi-year periods, at the end of which we must either renegotiate the contracts with those suppliers or find alternative sources for supply. There can be no assurance that we will be able to either renegotiate contracts (with similar or more favorable terms) with these suppliers when they expire or, alternatively, if we are unable to renegotiate contracts with our key suppliers, there can be no assurance that we could replace them. We could also incur higher ingredient and packaging supply costs in renegotiating contracts with existing suppliers or replacing those suppliers, or we could experience temporary disruptions in our ability to deliver products to our customers, either of which could negatively affect our results of operations.

With respect to some of our key ingredients, we have entered into long-term supply agreements, the remaining terms of which range up to 12 months. In addition, the supply of specific ingredient and packaging materials could be adversely affected by many factors, including industry consolidation, energy shortages,

governmental controls, labor disputes, natural disasters, transportation interruption, political instability, acts of war or terrorism and other factors.

**We have a significant amount of outstanding indebtedness, which could adversely affect our financial health, and future cash flows may not be sufficient to meet our obligations.**

As of December 28, 2019, our total indebtedness was \$1,360.0 million. Our present indebtedness and any future borrowings could have important adverse consequences to us and our investors, including:

- requiring a substantial portion of our cash flow from operations to make interest payments on this indebtedness;
- making it more difficult to satisfy debt service and other obligations;
- increasing the risk of a future credit ratings downgrade of our indebtedness, which would increase future debt costs;
- increasing our vulnerability to general adverse economic and industry conditions;
- reducing the cash flow available or limiting our ability to borrow additional funds for share repurchases, to pay dividends, to fund capital expenditures and other corporate purposes and to grow our business;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and
- placing us at a competitive disadvantage to our competitors that may not be as highly leveraged as we are.

To the extent we become more leveraged, we face an increased likelihood that one or more of the risks described above would materialize. In addition, our actual cash requirements in the future may be greater than expected. We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

If we fail to generate sufficient cash flow from future operations to meet our debt service obligations, we may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on attractive terms, commercially reasonable terms or at all. If we cannot service or refinance our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy, prevent us from entering into transactions that would otherwise benefit our business and/or have a material adverse effect on our financial condition and results of operations. Our future operating performance and our ability to service or refinance our indebtedness will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

**Our ABL facility and the indenture governing our outstanding notes each contain various covenants limiting the discretion of our management in operating our business, which could prevent us from capitalizing on business opportunities and taking some corporate actions.**

Our ABL facility and the indenture governing our outstanding notes each impose significant operating and financial restrictions on us. These restrictions will limit or restrict, among other things, our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness;

- make restricted payments (including paying dividends on, redeeming, repurchasing or retiring our capital stock);
- make investments;
- create liens;
- sell assets;
- enter into agreements restricting our subsidiaries' ability to pay dividends, make loans or transfer assets to us;
- engage in transactions with affiliates; and
- consolidate, merge or sell all or substantially all of our assets.

These covenants are subject to important exceptions and qualifications. In addition, our ABL facility also requires us, under certain circumstances, to maintain compliance with certain financial covenants as described in the "Covenant Compliance" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations". Our ability to comply with these covenants may be affected by events beyond our control, including those described in this "Risk Factors" section. A breach of any of the covenants contained in our ABL facility, or the indentures governing our outstanding notes could result in an event of default under one or more of the documents governing such obligations, which would allow the lenders under our ABL facility to declare all borrowings outstanding, or in the case of the noteholders of our outstanding notes, all principal amounts outstanding on such notes, to be due and payable. Any such acceleration would trigger cross-default provisions under the ABL facility, and the indentures governing our outstanding notes and, potentially, our other indebtedness. In the event of an acceleration of payment obligations, we would likely be unable to pay our outstanding indebtedness with our cash and cash equivalents then on hand. We would, therefore, be required to seek alternative sources of funding, which may not be available on commercially reasonable terms, terms as favorable as our current agreements or at all. If we are unable to refinance our indebtedness or find alternative means of financing our operations, we may be required to curtail our operations, face bankruptcy, or take other actions that are inconsistent with our current business practices or strategy. For additional information about our ABL facility, see our discussion under "Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K and Note 17 to the Consolidated Financial Statements.

**A portion of our debt may be variable rate debt, and changes in interest rates could adversely affect us by causing us to incur higher interest costs with respect to such variable rate debt.**

Our ABL facility subjects us to interest rate risk. The rate at which we pay interest on amounts borrowed under such facility fluctuates with changes in interest rates and our debt leverage. Accordingly, with respect to any amounts from time to time outstanding under our ABL facility, we are and will be exposed to changes in interest rates. If we are unable to adequately manage our debt structure in response to changes in the market, our interest expense could increase, which would negatively affect our financial condition and results of operations. The outstanding borrowings under the ABL facility as of December 28, 2019 were \$92.0 million.

**We have incurred, and may incur, substantial indebtedness in order to finance acquisitions, including the Primo Acquisition, which could adversely affect our business and limit our ability to plan for or respond to changes in our business.**

Our strategy of growth by acquisitions has been financed by the incurrence of substantial indebtedness. There can be no assurance that we will be successful in obtaining any future debt financing on favorable terms or at all.

Further, we intend to use the proceeds from the S&D Disposition, along with cash on hand, to pay the cash consideration for the Primo Acquisition, repay Primo's existing credit facility and settle certain fees and expenses

incurred in connection with the Primo Acquisition. If the S&D Disposition is not consummated prior to the Primo Acquisition, however, we have arranged for a committed financing of up to \$400 million from Deutsche Bank AG, New York Branch to finance the Primo Acquisition.

Our ability to make payments on our debt obligations and to fund planned capital expenditures depends on our ability to generate cash from our future operations. This, to a certain extent, is subject to financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, if we cannot service our indebtedness, we may have to take actions such as selling assets, raising additional equity financing or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy, prevent us from entering into transactions that would otherwise benefit our business and/or negatively affect our financial condition and results of operations. We may not be able to refinance our indebtedness or take such other actions, if necessary, on commercially reasonable terms, or at all.

**Uncertainty in the financial markets and other adverse changes in general economic conditions in the countries in which we do business could adversely affect our industry, business and results of operations.**

Periods of uncertainty in the financial markets and adverse economic conditions in the countries in which we do business could have a number of different effects on our business, including:

- a reduction in consumer spending, which could result in a reduction in our sales volume;
- a negative impact on the ability of our customers to timely pay their obligations to us or our vendors to timely supply materials, thus reducing our cash flow;
- an increase in counterparty risk;
- an increased likelihood that one or more members of our banking syndicate may be unable to honor its commitments under our ABL facility; and
- restricted access to capital markets that may limit our ability to take advantage of business opportunities.

If economic conditions deteriorate, our industry, business and results of operations could be materially and adversely affected.

**Substantial disruption to production at our production facilities could occur.**

A disruption in production at our production facilities or those of our suppliers, distribution channels or service networks could have a material adverse effect on our business. The disruption could occur for many reasons, including fire, natural disasters, weather, manufacturing problems, diseases, strikes, transportation interruption, government regulation or terrorism. Alternative facilities with sufficient capacity or capabilities may not be available, may cost substantially more or may take a significant time to start production, each of which could negatively impact our business and results of operations.

**Our business is dependent on our ability to maintain access to our water sources; water scarcity and poor quality could negatively affect our long-term financial performance.**

A disruption in the water flow at any one of our water sources, a dispute over water rights, increased legal restrictions on water use or access at our water sources or the failure to maintain access to our water sources could cause an increase in the cost of our products or shortages that would likely not allow us to meet market demand. The potential delivery and price disruptions due to the loss of any one water source or a decline in the volume of water available could significantly disrupt our business, result in the loss of customer confidence and have an adverse effect on our business, financial condition and results of operations. Further, if any of our



municipal water sources were curtailed or eliminated as a result of, for example, a natural disaster, work stoppage or other significant event that disrupted water flow from such municipal source, we may have to purchase water from other sources, which could increase water and transportation costs and could result in supply shortages and price increases. Any one of these events could have a negative impact on our business, financial condition, reputation and results of operations.

Water is a limited resource facing significant challenges from population growth, environmental contamination and poor management. As demand for water continues to increase and if water becomes more scarce and the quality of water available deteriorates, our business may incur increasing costs or face capacity constraints, which could adversely affect our profitability or net sales in the long run.

**Our success depends, in part, on our intellectual property, which we may be unable to protect.**

While we own certain of the trademarks used to identify our beverages, other trademarks are used through licenses from third-parties or by permission from our customers. Our success depends, in part, on our ability to protect our intellectual property.

To protect this intellectual property, we rely principally on registration of trademarks, contractual responsibilities and restrictions in agreements (such as indemnification, nondisclosure and confidentiality agreements) with employees, consultants and customers, and on common law and statutory protections afforded to trademarks, trade secrets and proprietary “know-how.” In addition, we vigorously protect our intellectual property against infringements using any and all legal remedies available. Notwithstanding our efforts, we may not be successful in protecting our intellectual property for a number of reasons, including:

- our competitors may independently develop intellectual property that is similar to or better than ours;
- employees, consultants or customers may not abide by their contractual agreements and the cost of enforcing those agreements may be prohibitive, or those agreements may prove to be unenforceable or more limited than anticipated;
- foreign intellectual property laws may not adequately protect our intellectual property rights; and
- our intellectual property rights may be successfully challenged, invalidated or circumvented.

If we are unable to protect our intellectual property, our competitive position would weaken and we could face significant expense to protect or enforce our intellectual property rights.

Occasionally, third-parties may assert that we are, or may be, infringing on or misappropriating their intellectual property rights. In these cases, we intend to defend against claims or negotiate licenses when we consider these actions appropriate. Intellectual property cases are uncertain and involve complex legal and factual questions. If we become involved in this type of litigation, it could consume significant resources and divert our attention from business operations.

If we are found to infringe on the intellectual property rights of others, we could incur significant damages, be enjoined from continuing to manufacture, market or use the affected product, or be required to obtain a license to continue manufacturing or using the affected product. A license could be very expensive to obtain or may not be available at all. Similarly, changing products or processes to avoid infringing the rights of others may be costly or impracticable.

**Our products may not meet health and safety standards or could become contaminated and we could be liable for injury, illness or death caused by consumption of our products.**

We have adopted various quality, environmental, health and safety standards. However, our products may still not meet these standards or could otherwise become contaminated. A failure to meet these standards or

contamination could occur in our operations or those of our bottlers, distributors or suppliers. This could result in expensive production interruptions, recalls and liability claims. We may be liable to our customers if the consumption of any of our products causes injury, illness or death. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business, results of operations or cash flows.

**Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.**

We are party to various litigation claims and legal proceedings. We evaluate these claims and proceedings to assess the likelihood of unfavorable outcomes, and, if possible, estimate the amount of potential losses. If our products are not safely and/or properly manufactured or designed, personal injuries or property damage could result, which could subject us to claims for damages. The costs associated with defending product liability and other claims, and the payment of damages, could be substantial. Our reputation could also be adversely affected by such claims, whether or not successful.

We may establish a reserve as appropriate based upon assessments and estimates in accordance with our accounting policies, and we have also asserted insurance claims where appropriate. We base our assessments, estimates and disclosures on the information available to us at the time and rely on legal and management judgment. Actual outcomes or losses or any recoveries we may receive from insurance may differ materially from assessments and estimates. Actual settlements, judgments or resolutions of these claims or proceedings may negatively affect our business and financial performance. A successful claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could negatively affect our business, financial condition and results of operations. For more information, see “Item 3. Legal Proceedings.”

**Changes in the legal and regulatory environment in the jurisdictions in which we operate could negatively affect our results of operations, adversely affect demand for our products and services or result in litigation.**

As a producer and distributor of foods and beverages, we must comply with various federal, state, provincial, local and foreign laws relating to production, packaging, quality, labeling and distribution, including, in the United States, those of the federal Food, Drug and Cosmetic Act, the Fair Packaging and Labeling Act, the Federal Trade Commission Act, the Nutrition Labeling and Education Act and California Proposition 65. We are also subject to various federal, state, provincial, local and foreign environmental laws and workplace regulations. These laws and regulations include, in the United States, the Occupational Safety and Health Act, the Unfair Labor Standards Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Federal Motor Carrier Safety Act, laws governing equal employment opportunity, customs and foreign trade laws and regulations, laws relating to the maintenance of fuel storage tanks, laws relating to mineral and chemical concentration and water quality, consumption and treatment, and various other federal statutes, laws and regulations. The Food and Drug Administration (“FDA”) regulates bottled water as a food. Our bottled water must meet FDA requirements of safety for human consumption, labeling, processing and distribution under sanitary conditions and production in accordance with FDA “Current Good Manufacturing Practices.” We import certain of our equipment, and we must comply with import laws and regulations. Outside the United States, the production and distribution of our products are also subject to various laws and regulations. These laws and regulations may change as a result of political, economic, or social events. Such regulatory changes may include changes in food and drug laws, laws related to advertising, accounting standards, taxation requirements, competition laws and environmental laws, including laws relating to the regulation of water rights and treatment. Changes in laws, regulations or government policy and related interpretations may alter the environment in which we do business, which may negatively affect our results of operations or increase our costs or liabilities.

### *Food/Beverage Production*

A number of states have passed laws setting forth warning or labeling requirements relating to products made for human consumption. For example, the California law known as Proposition 65 requires that a specific warning statement appear on any product sold in California containing a substance listed by that state as having been found to cause cancer or reproductive toxicity. This law, and others like it, exposes all food and beverage producers to the possibility of having to provide warnings on their products. The detection of even a trace amount of a listed substance can subject an affected product to the requirement of a warning label, although products containing listed substances that occur naturally or that are contributed to such products solely by a municipal water supply are generally exempt from the warning requirement. From time to time over the past several years, certain of our customers have received notices alleging that the labeling requirements of the relevant state regulation would apply to products manufactured by us and sold by them. There can be no assurance that we will not be adversely affected by actions against our customers or us relating to Proposition 65 or similar “failure to warn” laws. Were any such claim to be pursued or succeed, we might in some cases be required to indemnify our customers for damages and provide warnings on our products in order for them to be sold in certain states. Any negative media attention, adverse publicity or action arising from allegations of violations could adversely affect consumer perceptions of our products and harm our business.

### *Energy/Conservation Initiatives*

The EPA has oversight over the Energy Star certification program for appliances, including bottled water dispensers. Since February 1, 2014, the EPA has required appliances in the program to adhere to a lower energy consumption standard of 0.87 kilowatt hours per day. While we are working closely with our water cooler manufacturers to ensure we have continued access to Energy Star certified bottled water dispensers, there can be no assurances that we will continue to have such access. Our inability to utilize compliant dispensers could negatively affect our business, financial condition, reputation and results of operations.

Recent initiatives have taken place in several markets in which we operate regarding bottled water. Regulations have been proposed in some jurisdictions that would ban the use of public funds to purchase bottled water, enact local taxes on bottled water and water extraction and restrict the withdrawal of water from public and private sources. We believe that the adverse publicity associated with these initiatives is generally aimed at the retail, small bottle segment of the industry that is a minimal part of our business, and that our customers can readily distinguish our products from the retail bottles that are currently the basis for concern in some areas. Our customers typically buy their water in reusable 3G and 5G water bottles that are placed on coolers and reused many times. While we believe that to date we have not directly experienced any adverse effects from these concerns, and that our products are sufficiently different from those under scrutiny, there is no assurance that adverse publicity about any element of the bottled water industry will not affect public behavior by discouraging consumers from buying bottled water products generally. In that case, our sales and other financial results could be adversely affected.

The increasing concern over climate change also may result in more regional, federal and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is more aggressive than the sustainability measures that we are currently undertaking to monitor our emissions and improve our energy efficiency, we may experience significant increases in our costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the cost of energy, including fuel, required to operate our facilities or transport and distribute our products, particularly in our DSS business, thereby substantially increasing the distribution and supply chain costs associated with our products. As a result, climate change could negatively affect our business and results of operations.

### *Packaging Ingredients*

The manufacture and use of resins and Bisphenol A (“BPA”) used to make our 3G and 5G water bottles are subject to regulation by the FDA. These regulations relate to substances used in food packaging materials. BPA

is contained in substantially all of our 3G and 5G returnable polycarbonate plastic bottles. Negative media attention regarding BPA has generated concern in the bottled water market, although a January 2010 report by the FDA notes studies that suggest the low levels of BPA used in polycarbonate bottles are safe for human exposure and the FDA sustained this opinion in its March 2013 BPA consumer update. On December 5, 2014, the FDA updated its safety declaration on BPA, indicating that available information continues to support BPA's safety for currently approved uses in food containers and packaging. The FDA indicated that it will continue to evaluate these studies before issuing a final assessment on the safety of BPA and the FDA's current public health recommendations include taking reasonable steps to reduce exposure of infants and young children to BPA. The FDA and certain states, however, may in the future decide to regulate more aggressively the potential harmful effects of BPA. Although the FDA rejected a 2012 citizen petition from the Natural Resources Defense Council seeking the ban of BPA from all food and drink packaging, including plastic bottles and canned foods, our customers and potential new customers may share the concerns raised by the citizens petition and may reduce their exposure to BPA as a result. The FDA has also asserted the need for additional studies on the safety of BPA in food packaging materials and acknowledged recent studies regarding potential developmental and behavioral effects of BPA exposure on infants and young children. The EPA and certain states also may in the future study or regulate BPA. Additionally, a number of states have passed legislation banning the use of BPA in packaging intended for children three years of age and younger, such as in baby bottles and sippy cups. Extensive negative public perception regarding food packaging that uses BPA could cause consumers to stop purchasing our products manufactured in polycarbonate bottles. Further, the emergence of new scientific evidence or reports that suggests our polycarbonate water bottles are unsafe, or interpretations of existing evidence by regulatory agencies that lead to prohibitions on the use of polycarbonate plastic as packaging for food contact materials, could cause a serious disruption in our ability to package our bottled water products. If polycarbonate plastic becomes a banned substance, we may not be able to adopt alternative packaging, and conduct extensive and costly safety testing, in time to prevent adverse effects to our business, financial condition and results of operations. Further, if our competitors successfully integrate BPA-free packaging into their business and BPA is subsequently deemed undesirable or unsafe, our competitors may have a significant competitive advantage over us.

#### *Hazardous Materials*

We engage in or have in the past engaged in the handling, storage or use of hazardous substances, including for the maintenance and fueling of our vehicle fleet for our DSS business. We are also required to obtain environmental permits from governmental authorities for certain operations. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. We could also be held liable for any consequences arising out of human exposure to hazardous substances or other environmental damage.

Certain environmental laws impose liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. These laws often impose liability even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances and also impose liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities. In addition to actions brought by governmental agencies, private plaintiffs may also bring personal injury claims arising from the presence of hazardous substances on a property. From time to time, we have also been named a potentially responsible party at third-party waste disposal sites. There can be no assurances that we will not be required to make material expenditures in the future for these or other contamination-related concerns or that other responsible parties will conduct any required cleanup. Environmental laws and regulations are complex, change frequently and tend to become more stringent over time. We cannot assure you that our costs of complying with current and future environmental laws and regulations and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not negatively affect our business, financial condition or results of operations.

### *International Trade Regulations*

Currently, a large portion of our dispensers are assembled by independent manufacturers in, and imported from, China. These import operations are subject to international trade regulations, including import charges and other agreements among the United States and its trading partners, including China.

The current U.S. presidential administration has made significant changes to U.S. trade policy, including new or increased tariffs on a broad range of goods imported into the United States, particularly from China, with additional tariffs and other actions still under consideration. Further, these changes in U.S. trade policy have triggered retaliatory protectionist actions by affected countries. Given the uncertainty regarding the scope and duration of these trade actions by the United States and other countries, as well as the potential for additional trade actions, the impact on our operations and results remains uncertain and could be significant. To the extent that our supply chain, costs, sales or profitability are negatively affected by the existing tariffs or any other trade actions (including duties, import charges or other similar restrictions or other reductions in trade), our business, financial condition and results of operations may be materially adversely affected.

### **Our business is seasonal and adverse weather conditions could negatively affect our business, financial condition and results of operations.**

The sales of our products are influenced to some extent by weather conditions in the markets in which we operate. Unusually cold or rainy weather during the summer months may reduce the demand for our bottled water and other products and contribute to lower revenues, which could negatively affect our profitability.

### **Global or regional catastrophic events could affect our operations and results of operations.**

Our business can be affected by large-scale terrorist acts, especially those directed against the United States or other major industrialized countries in which we do business, major natural disasters, or widespread outbreaks of infectious diseases. Such events could impair our ability to manage our business, could disrupt our supply of raw materials, and could affect production, transportation and delivery of products. In addition, such events could cause disruption of regional or global economic activity, which can affect consumers' purchasing power in the affected areas and, therefore, reduce demand for our products.

### **Our success depends in part upon our ability to recruit, retain and prepare succession plans for our CEO, CFO, senior management and key employees.**

The performance of our Chief Executive Officer ("CEO"), Chief Financial and Administrative Officer ("CFO"), senior management and other key employees is critical to our success. We plan to continue to invest time and resources in developing our senior management and key employee teams. Our long-term success will depend on our ability to recruit and retain capable senior management and other key employees, and any failure to do so could have a material adverse effect on our future operating results and financial condition. Further, if we fail to adequately plan for the succession of our CEO, CFO, senior management and other key employees, our results of operations could be negatively affected.

### **We may not be able to renew collective bargaining agreements on satisfactory terms, or we could experience strikes.**

Some of our employees are covered by collective bargaining agreements expiring on various dates. We may not be able to renew our collective bargaining agreements on satisfactory terms or at all. This could result in strikes or work stoppages, which could impair our ability to manufacture and distribute our products and result in a substantial loss of sales. The terms of existing or renewed agreements could also significantly increase our costs or negatively affect our ability to increase operational efficiency.



**We depend on key information systems and third-party service providers.**

We depend on key information systems to accurately and efficiently transact our business, provide information to management and prepare financial reports. We rely on third-party providers for various networking, application hosting and related business process services which support our key information systems. Issues with performance by these third-parties may disrupt our operations and as a result, our operating expenses could increase, which could negatively affect our results of operations.

In addition, these systems and services are vulnerable to interruptions or other failures resulting from, among other things, natural disasters, terrorist attacks, software, equipment or telecommunications failures, processing errors, computer viruses, hackers, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Any disruption or failure of these systems or services could cause substantial errors, processing inefficiencies, security breaches, inability to use the systems or process transactions, loss of customers or other business disruptions, all of which could negatively affect our business and results of operations.

**If we are unable to securely maintain our customers' confidential or credit card information, or other private data relating to our employees or our Company, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and negatively affect our results of operations.**

The protection of our customer, employee and Company data is critical to us. We have procedures and technology in place to safeguard our customers' debit card, credit card and other personal information, our employees' private data and Company records and intellectual property. However, if we experience a data security breach of any kind, we could be exposed to negative publicity, government enforcement actions, private litigation or costly response measures. In addition, our reputation within the business community and with our customers may be affected, which could result in our customers discontinuing their purchases of our products and services or their use of the debit or credit card payment option. Any loss of our ability to securely offer our customers a credit card payment option would make our products less attractive to many small organizations by negatively affecting our customer experience and significantly increasing our administrative costs related to customer payment processing. This could cause us to lose market share to our competitors and could have a negative effect on our results of operations.

In addition, the regulatory environment surrounding information security and privacy is increasingly demanding, with frequent imposition of new and changing requirements. For example, the European Union's General Data Protection Regulation, which became effective in May 2018, and the California Consumer Privacy Act, which became effective on January 1, 2020, impose significant new requirements on how we collect, process and transfer personal data, as well as significant fines for non-compliance. Compliance with changes in privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

**We may not continue our quarterly dividend and shareowners may never obtain a return on their investment.**

We have paid quarterly cash dividends since 2012. Most recently, our Board of Directors declared a dividend of \$0.06 per common share to be paid in cash on March 25, 2020 to shareowners of record at the close of business on March 10, 2020. However, there can be no assurance that we will continue to declare quarterly dividends in the future. The declaration and payment of future dividends on our common shares is subject to, among other things, the best interests of our shareowners, our results of operations, cash balances and future cash requirements, financial condition, statutory regulations and covenants and other restrictions on payment set forth in the instruments governing our indebtedness in effect from time to time. Accordingly, shareowners must rely on sales of their common shares after price appreciation, which may never occur, as the only way to realize any return on their investment.

**We are subject to risks associated with our international operations, including compliance with applicable U.S. and foreign anti-corruption laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010 and other applicable anti-corruption laws, which may increase the cost of doing business in international jurisdictions.**

We currently operate internationally and we intend to continue expansion of our international operations. We now operate in 18 European countries and Israel. As a result, our business is exposed to risks inherent in foreign operations. If we fail to adequately address the challenges and risks associated with our international operations and acquisition strategy, we may encounter difficulties in our international operations and implementing our strategy, which could impede our growth or harm our operating results. These risks, which can vary substantially by jurisdiction, include the difficulties associated with managing an organization with operations in multiple countries, compliance with differing laws and regulations (including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010 and local laws prohibiting payments to government officials and other corrupt practices, tax laws, regulations and rates), enforcing agreements and collecting receivables through foreign legal systems. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors and agents will not take actions in violation of our policies, particularly as we expand our operations through organic growth and acquisitions. Any such violations could subject us to civil or criminal penalties, including material fines or prohibitions on our ability to offer our products in one or more countries, and could also materially damage our reputation, brand, international expansion efforts, business and operating results. Additional risks include the potential for restrictive actions by foreign governments, changes in economic conditions in each market, foreign customers who may have longer payment cycles than customers in the United States, the impact of economic, political and social instability of those countries in which we operate and acts of nature, such as typhoons, tsunamis, or earthquakes. The overall volatility of the economic environment has increased the risk of disruption and losses resulting from hyper-inflation, currency devaluation and tax or regulatory changes in certain countries in which we have operations.

**We are subject to the risk of increased taxes.**

We base our tax positions upon our understanding of the tax laws of the various countries in which we have assets or conduct business activities. However, our tax positions are subject to review and possible challenge by taxing authorities. This includes adverse changes to the manner in which Canada and other countries tax multinational companies and interpret or change their tax laws. We cannot determine in advance the extent to which some jurisdictions may assess additional tax or interest and penalties on such taxes. In addition, our effective tax rate may be increased by changes in the valuation of deferred tax assets and liabilities, changes in our cash management strategies, changes in local tax rates or countries adopting more aggressive interpretations of tax laws.

Our income tax expense includes tax benefits resulting from several reorganizations of our legal entity structure and refinancing of intercompany debt during the last three years. However, since the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations, our effective tax rate may ultimately be different than the amount we are currently reporting. In addition, several jurisdictions in which we operate have tax laws with detailed transfer pricing rules which require that all transactions with nonresident related parties be priced using arm's length pricing principles, and that contemporaneous documentation must exist to support such pricing. There is a risk that the taxing authorities may not deem our transfer pricing documentation acceptable. The Organization for Economic Cooperation and Development released guidance related to Base Erosion and Profit Shifting which may also result in legislative changes that could impact our effective tax rate.

The 2017 Tax Cuts and Jobs Act was enacted on December 22, 2017, and significantly affected U.S. tax law. The U.S. rule-making bodies have the authority to issue regulations and interpretative guidance that may significantly impact how we apply the law and impact our results of operations in the period issued.

**We also face other risks that could adversely affect our business, results of operations or financial condition, which include:**

- any requirement to restate financial results in the event of inappropriate application of accounting principles or otherwise;
- any event that could damage our reputation;
- failure to properly manage credit risk from customers;
- failure of our processes to prevent and detect unethical conduct of employees;
- any significant failure of internal controls over financial reporting;
- failure of our prevention and control systems related to employee compliance with internal policies and regulatory requirements;
- failure of corporate governance policies and procedures; and
- credit ratings changes.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our business is supported by our extensive manufacturing and distribution network. Our manufacturing footprint encompasses 62 strategically located beverage manufacturing and production facilities, including 57 facilities in our Route Based Services reporting segment, which includes 33 facilities in the United States, 10 facilities in Canada and 14 facilities in Europe; five facilities in our Coffee, Tea and Extract Solutions reporting segment, all in the United States. We also have 399 branch distribution and warehouse facilities across all of our reporting segments, which include 257 facilities in the United States, 127 facilities in Europe and 15 facilities in Canada, and one customer service call center for the DSS business in the United States.

The total square footage of our manufacturing and production facilities is approximately 2.5 million square feet in the United States; 0.4 million square feet in Canada; and 0.6 million square feet in Europe, inclusive of 0.2 million square feet in the United Kingdom. The total square footage of our branch distribution and warehouse facilities is approximately 2.7 million square feet in the United States; 0.2 million square feet in Canada; and 1.0 million square feet in Europe. This square footage does not include 31 leased office spaces that comprise 0.5 million square feet. Lease terms for non-owned beverage production facilities and offices expire between 2020 and 2035.

The production facilities and square footage amounts noted above do not include vacant or underutilized properties.

#### **ITEM 3. LEGAL PROCEEDINGS**

We are subject to various claims and legal proceedings with respect to matters such as governmental regulations, income taxes, and other actions arising out of the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on our financial position or results of operations.

The Israeli Ministry of Environmental Protection (the “Ministry”) has alleged that a non-profit recycling corporation, which collects and recycles bottles sold by manufacturers, including Eden, failed to meet recycling quotas in 2016, in violation of Israeli law. The law imposes liability directly on manufacturers, and the Ministry

has asserted that the manufacturers involved with the corporation owe a fine. Eden received a notice from the Ministry on June 21, 2018. Although we cannot predict the outcome of any potential proceedings at this stage, Eden may be subject to a fine in excess of \$0.1 million. Management believes, however, that the resolution of this matter will not be material to our financial position, results of operations, or cash flow.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## SUPPLEMENTAL ITEM PART I. INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following is a list of names, ages, offices and backgrounds of all of our executive officers as of February 26, 2020. Our officers do not serve for a set term.

	<u>Office</u>	<u>Age</u>
<b>Thomas Harrington</b> . . . . .	Chief Executive Officer	62
<b>Jerry Fowden</b> . . . . .	Executive Chairman of the Board	63
<b>Jay Wells</b> . . . . .	Chief Financial and Administrative Officer	57
<b>Ron Hinson</b> . . . . .	Chief Executive Officer - S&D Business Unit	64
<b>Marni Morgan Poe</b> . . . . .	Chief Legal Officer and Secretary	50
<b>William “Jamie” Jamieson</b>	Global Chief Information Officer	47
<b>Jason Ausher</b> . . . . .	Chief Accounting Officer	46
<b>Steven Kitching</b>	Executive Chair - Route Based Services	57

- Thomas Harrington was appointed as Cott’s Chief Executive Officer effective as of the beginning of fiscal 2019. Prior to his appointment, Mr. Harrington served as the Chief Executive Officer of Cott’s DS Services business unit since Cott’s acquisition of DS Services in December 2014 and was appointed President Route Based Services in July 2016. Prior to the acquisition, Mr. Harrington served in various roles with DS Services from 2004 to 2014, including Chief Executive Officer, President, Chief Operating Officer, West Division President, and Senior Vice President, Central Division. Prior to joining DS Services, Mr. Harrington served in various roles with Coca-Cola Enterprises, Inc. including Vice President and General Manager of Coca-Cola Enterprises New York and Chicago divisions. He also served in various sales and marketing roles with Pepperidge Farm from 1979 to 1985. Mr. Harrington previously served as a member of the board of directors of the National Automatic Merchandising Association, the International Bottled Water Association and the Water Quality Association. He has served on Cott’s Board since the beginning of fiscal 2019.
- Jerry Fowden was Cott’s Chief Executive Officer from 2009 until the end of 2018, at which point he became Cott’s Executive Chairman. Prior to his service as Cott’s Chief Executive Officer, he served as President of Cott’s international operating segment, Interim President North America and Interim President of Cott’s UK and European business from 2007 to 2009. Prior to joining Cott, Mr. Fowden served as Chief Executive Officer of Trader Media Group (now known as Autotrader plc) and was a member of the Guardian Media Group plc’s board of directors from 2005 to 2007. Prior to this time, Mr. Fowden served in a variety of roles at multiple companies, including global Chief Operating Officer of AB InBev S.A. Belgium, an alcoholic beverage company, Chief Executive Officer of Bass Brewers Ltd., a subsidiary of AB InBev S.A. Belgium, Managing Director of the Rank Group plc’s Hospitality and Holiday Division and member of the Rank Group plc’s board of directors, Chief Executive Officer of Hero AG’s European beverage operations and various roles within PepsiCo Inc.’s beverage operations and Mars, Incorporated’s pet food operations. Mr. Fowden currently serves on the board of directors of Constellation Brands Inc., a premium alcoholic beverage company, and is a member of its Corporate Governance Committee and Chair of its Human Resources Committee. Mr. Fowden also serves on the board of directors of British American Tobacco p.l.c., a leading consumer goods company, and is a member of its Audit Committee and its Nomination Committee. Mr. Fowden previously served as a member of the board of directors of the American Beverage Association and the British Soft Drinks Association. He has served on Cott’s Board since 2009.
- Jay Wells was appointed Chief Financial Officer in 2012 and was appointed Chief Financial and Administrative Officer on October 1, 2018. Prior to joining Cott, Mr. Wells held various senior finance positions with Molson Coors from 2005 to 2012, including Chief Financial Officer of Molson Coors Canada, a subsidiary of Molson Coors Brewing Company, and Global Vice



President, Treasury, Tax, and Strategic Finance of Molson Coors Brewing Company. From 1990 to 2005, Mr. Wells held several positions within Deloitte and Touche LLP, including partner.

- Ron Hinson has been Chief Executive Officer of S&D Coffee and Tea since 2000, and he continued in that role after the closing of the acquisition of S&D. Prior to the acquisition, Mr. Hinson served in various roles with S&D over a 40 year period, beginning his career in the sales organization and working his way up to Chief Executive Officer in 2000 and Chairman of the Board of Directors of S&D in 2010. Mr. Hinson currently serves on the board of directors of the National Coffee Association and the Tea Association.
- Marni Morgan Poe has served as Cott's Chief Legal Officer and Secretary since 2010. Prior to her appointment, Ms. Poe served as Cott's Corporate Counsel from 2008 to 2010. Prior to joining Cott, Ms. Poe was a partner at the law firm of Holland & Knight LLP from 2000 to 2006 and an associate of the law firm from 1995 to 2000.
- William "Jamie" Jamieson was appointed Global Chief Information Officer in April 2019. Prior to joining Cott, Mr. Jamieson served as senior vice president and chief information officer for GNC from 2015 to 2019, overseeing enterprise technology teams and platforms. From 2000 to 2015, he held various senior roles leading information technology service delivery for Charming Charlie and Chico's FAS, Inc., both fashion retailers.
- Jason Ausher was appointed Chief Accounting Officer in May 2015. Prior to his appointment, from 2011 to 2015, Mr. Ausher served as Cott's VP Treasurer, Corporate Development. From 2010 to 2011, Mr. Ausher served as Cott's Corporate Controller, and from 2008 to 2010, he held the position of Controller for Cott's U.S. Business Unit. From 2003 to 2008, Mr. Ausher held numerous positions with Walter Industries, Inc. and Mueller Water Products Inc. (a water infrastructure business and spin-off of Walter Industries, Inc.), including the position of Vice President of Finance. Prior to this, from 1996 to 2002, Mr. Ausher was with PricewaterhouseCoopers LLP.
- Steven Kitching was appointed Executive Chair for Route Based Services effective December 30, 2018. From 2008 to 2018, Mr. Kitching has served in various roles with Cott, including Executive Chairman of Aimia Foods/Decantae Mineral Water, President of Cott's North America Business Unit and President of Cott's United Kingdom/Europe Business Unit. From 2005 to 2008, Mr. Kitching held several positions with InBev UK, including Managing Director-On Trade Sales and Managing Director-Commercial and Field Operations. Prior to that, Mr. Kitching held several positions with Interbrew and Whitbread Beer Company from 1986 to 2005, including General Manager Netherlands of Interbrew from 2004 to 2005.

## **PART II**

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREOWNER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common shares are listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "BCB," and on the New York Stock Exchange ("NYSE") under the ticker symbol "COT."

As of February 20, 2020, we had 893 shareowners of record. This number was determined from records maintained by our transfer agent and does not include beneficial owners of securities whose securities are held in the names of various dealers or clearing agencies. The closing sale price of our common shares on February 20, 2020 was C\$20.95 on the TSX and \$15.78 on the NYSE.

Our Board of Directors has declared a quarterly cash dividend of \$0.06 per common share in each quarter during 2018 and 2019 for an aggregate yearly dividend payment of approximately \$33.7 million and \$32.6 million, respectively. We intend to pay a regular quarterly dividend on our common shares subject to, among other things, the best interests of our shareowners, our results of operations, cash balances and future cash requirements, financial condition, statutory regulations and covenants set forth in the ABL facility and indentures governing our outstanding notes as well as other factors that our Board of Directors may deem relevant from time to time.

Dividends to shareowners who are non-residents of Canada will generally be subject to Canadian withholding tax. Under current Canadian tax law, dividends paid by a Canadian corporation to a non-resident shareowner are generally subject to Canadian withholding tax at a 25% rate. Under the current tax treaty between Canada and the United States, U.S. residents who are entitled to treaty benefits are generally eligible for a reduction in this withholding tax rate to 15% (and to 5% for a shareowner that is a corporation and is the beneficial owner of at least 10% of our voting stock). Accordingly, under current tax law, our U.S. resident shareowners who are entitled to treaty benefits will generally be subject to a Canadian withholding tax at a 15% rate on dividends paid by us, provided that they have complied with applicable procedural requirements to claim the benefit of the reduced rate under the tax treaty. The fifth protocol to the tax treaty between Canada and the United States places additional restrictions on the ability of U.S. residents to claim these reduced rate benefits. U.S. residents generally will be entitled on their U.S. federal income tax returns to claim a foreign tax credit, or a deduction, for Canadian withholding tax that applies to them, subject to certain applicable limitations. U.S. investors should consult their tax advisors with respect to the tax consequences and requirements applicable to them, based on their individual circumstances.

There are certain restrictions on the payment of dividends under our ABL facility and the indentures governing our outstanding notes. The ABL facility and the indentures governing our outstanding notes are discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

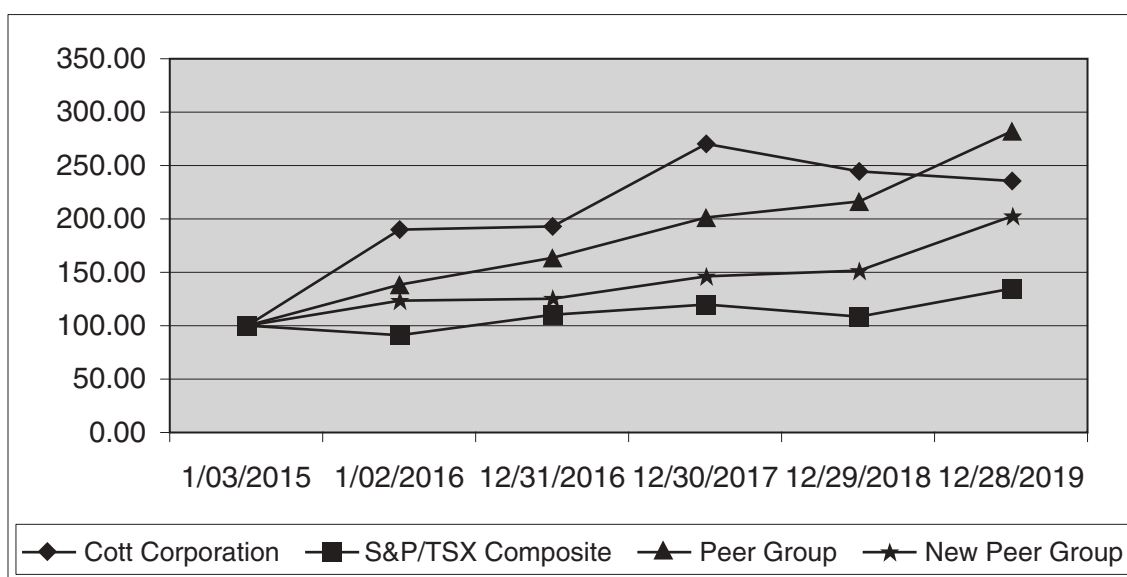
For information on securities authorized for issuance under our equity compensation plans, see "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters" in this Annual Report on Form 10-K.

#### **Calculation of aggregate market value of non-affiliate shares**

For purposes of calculating the aggregate market value of common shares held by non-affiliates as shown on the cover page of this Annual Report on Form 10-K, it was assumed that all of the outstanding shares were held by non-affiliates except for outstanding shares held or controlled by our directors and executive officers. For further information concerning shareholdings of officers, directors and principal shareowners, see "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters" in this Annual Report on Form 10-K.

## Shareowner return performance graph

The following graph shows changes over our past five fiscal years in the value of C\$100, assuming reinvestment of dividends, invested in: (i) our common shares; (ii) the Toronto Stock Exchange's S&P/TSX Composite Index; (iii) the peer group utilized in prior annual reports, which consists of publicly-traded companies in the route based service industry comprised of UniFirst Corp., ABM Industries Inc., Chemed Corp., ServiceMaster Global Holdings, Inc., Cintas Corp., Aramark Corporation, Primo Water Corporation, AquaVenture Holdings Limited, Farmer Bros. Co., Rollins, Inc., and The Brink's Company; and (iv) a new peer group utilized in this Annual Report on Form 10-K, which better reflects our business following our recent and anticipated divestitures and acquisitions, consisting of publicly-traded companies in the water and route based service industries comprised of UniFirst Corp., ABM Industries Inc., Chemed Corp., ServiceMaster Global Holdings, Inc., Cintas Corp., Aramark Corporation, Primo Water Corporation, AquaVenture Holdings Limited, The Brink's Company, Evoqua Water Technologies Corp., Pentair plc, Xylem Inc., and Nestle S.A. The closing price of Cott's common shares as of December 27, 2019, the last trading day of 2019, was C\$17.63 on the TSX and \$13.45 on the NYSE. The following table is in Canadian dollars.



ASSUMES \$100 (CANADIAN) INVESTED ON JANUARY 3, 2015  
 ASSUMES DIVIDENDS REINVESTED  
 FISCAL YEAR ENDING DECEMBER 28, 2019

<i>Company / Market / Peer Group</i>	<i>1/3/2015</i>	<i>1/2/2016</i>	<i>12/31/2016</i>	<i>12/30/2017</i>	<i>12/29/2018</i>	<i>12/28/2019</i>
Cott Corporation	\$100.00	\$189.87	\$192.72	\$270.51	\$244.40	\$235.33
S&P / TSX Composite	\$100.00	\$ 90.84	\$109.99	\$119.98	\$108.49	\$135.03
Peer Group	\$100.00	\$138.63	\$163.80	\$201.11	\$216.03	\$282.07
New Peer Group	\$100.00	\$123.50	\$125.02	\$146.28	\$151.78	\$202.79

## Issuer Purchases of Equity Securities

### Common Share Repurchase Programs

On December 11, 2018, our Board of Directors approved a share repurchase program for up to \$50.0 million of our outstanding common shares over a 12-month period commencing on December 14, 2018 (the "Repurchase Plan"). As of December 29, 2018, the maximum approximate dollar value of common shares available to be purchased under the Repurchase Plan was \$27.8 million. For the year ended December 28, 2019,

we repurchased 2,006,789 common shares for \$27.8 million through open market transactions under the Repurchase Plan. Shares purchased under the Repurchase Plan were subsequently canceled.

During the second quarter of 2019, we utilized all funds under the Repurchase Plan.

On December 11, 2019, our Board of Directors approved a new share repurchase program for up to \$50.0 million of Cott's outstanding common shares over a 12-month period (the "New Repurchase Plan"). We made no repurchases of our common shares under the New Repurchase Plan for the year ended December 28, 2019.

#### *Tax Withholdings*

The following table contains information about shares that we withheld from delivering to employees during 2019 to satisfy their tax obligations related to share-based awards:

	<b>Total Number of Common Shares Purchased</b>	<b>Average Price Paid per Common Share</b>	<b>Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Approximate Dollar Value of Common Shares that May Yet Be Purchased Under the Plans or Programs</b>
<b>December 30, 2018 - January 31, 2019 .....</b>	<b>5,307</b>	<b>\$14.74</b>	<b>N/A</b>	<b>N/A</b>
<b>February 1 - February 28, 2019 .....</b>	<b>195,002</b>	<b>\$15.50</b>	<b>N/A</b>	<b>N/A</b>
<b>April 1 - April 30, 2019 .....</b>	<b>3,252</b>	<b>\$14.78</b>	<b>N/A</b>	<b>N/A</b>
<b>May 1 - May 31, 2019 .....</b>	<b>580</b>	<b>\$13.63</b>	<b>N/A</b>	<b>N/A</b>
<b>June 30 - July 31, 2019 .....</b>	<b>352</b>	<b>\$13.35</b>	<b>N/A</b>	<b>N/A</b>
<b>August 1 - August 31, 2019 .....</b>	<b>3,603</b>	<b>\$12.67</b>	<b>N/A</b>	<b>N/A</b>
<b>September 1 - September 30, 2019 .....</b>	<b>228</b>	<b>\$13.13</b>	<b>N/A</b>	<b>N/A</b>
<b>December 1 - December 28, 2019 .....</b>	<b>55,160</b>	<b>\$13.74</b>	<b>N/A</b>	<b>N/A</b>
<b>Total .....</b>	<b><u>263,484</u></b>			

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data reflects our results of operations. This information should be read in conjunction with, and is qualified by reference to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K. The financial information presented may not be indicative of future performance.

The Company has accounted for the disposition of our Traditional Business as discontinued operations beginning in 2017. All data for prior periods have been recast.

	December 28, 2019	December 29, 2018	December 30, 2017	December 31, 2016 <sup>1</sup>	January 2, 2016
(in millions of U.S. dollars, except per share amounts)	(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
Revenue, net . . . . .	\$2,394.5	\$2,372.9	\$2,269.7	\$1,623.2	\$1,187.3
Net (loss) income from continuing operations . . . . .	(0.1)	28.9	(3.6)	\$ (60.3)	\$ 15.7
Net income (loss) from discontinued operations, net of income taxes . . . . .	3.0	354.6	10.7	\$ (11.2)	\$ 4.9
Net income (loss) . . . . .	2.9	383.5	7.1	\$ (71.5)	\$ 20.6
Net income (loss) attributable to Cott Corporation . . . . .	2.9	382.9	(1.4)	\$ (77.8)	\$ (3.4)
<b><u>Net income (loss) per common share attributable to Cott Corporation</u></b>					
Basic:					
Continuing operations . . . . .	\$ —	\$ 0.21	\$ (0.03)	\$ (0.47)	\$ (0.02)
Discontinued operations . . . . .	0.02	2.54	0.02	(0.14)	(0.01)
Net income (loss) . . . . .	0.02	2.75	(0.01)	(0.61)	(0.03)
Diluted:					
Continuing operations . . . . .	\$ —	\$ 0.21	\$ (0.03)	\$ (0.47)	\$ (0.02)
Discontinued operations . . . . .	0.02	2.50	0.02	(0.14)	(0.01)
Net income (loss) . . . . .	0.02	2.71	(0.01)	(0.61)	(0.03)
<b><u>Financial Condition</u></b>					
Total assets . . . . .	\$3,390.9	\$3,175.5	\$4,093.1	\$3,939.7	\$2,887.3
Short-term borrowings required to be repaid or extinguished from divestiture <sup>2</sup> . . . . .	—	—	220.3	207.0	122.0
Debt required to be repaid or extinguished from divestiture <sup>3</sup> . . . . .	—	—	519.0	1,135.4	1,133.6
Long-term debt, net of current maturities . . . . .	1,260.2	1,250.2	1,542.6	851.4	390.1
Dividends declared per common share . . . . .	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24

<sup>1</sup> In 2016, we completed the acquisitions of S&D, Eden, and Aquaterra for a combined \$973.9 million, financed by a combination of cash on hand, incremental borrowings under our ABL facility of \$270.0 million, proceeds from the issuance of €450.0 million (U.S. \$499.3 million at the exchange rate in effect on December 28, 2019) of 5.500% senior notes due July 1, 2024 (the “2024 Notes”), and net proceeds from the issuance of common shares in June 2016 having an aggregate value of \$219.8 million.

<sup>2</sup> The obligations under the ABL facility were required to be repaid in full at the closing of the sale of the Traditional Business. Accordingly, the ABL facility is presented as “Short-term borrowings required to be repaid or extinguished as part of divestiture.”

<sup>3</sup> All senior notes issued by Cott Beverages Inc., which was sold as part of the Traditional Business, were classified as “Debt required to be repaid or extinguished as part of divestiture” in prior periods.



## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

Cott is a water and filtration service company with a leading volume-based national presence in the North American and European home and office delivery industry for bottled water. Our platform reaches over 2.5 million customers or delivery points across North America and Europe and is supported by strategically located sales and distribution facilities and fleets, as well as wholesalers and distributors. This enables us to efficiently service residences, businesses, and small and large retailers.

The market in which we operate is subject to some seasonal variations. Our water delivery sales are generally higher during the warmer months, while sales of our coffee products are generally higher during cooler months, and may also be influenced by the timing of holidays and weather fluctuations. Our purchases of raw materials and related accounts payable fluctuate based upon the demand for our products. The seasonality of our sales volume causes our working capital needs to fluctuate throughout the year.

Ingredient and packaging costs represent a significant portion of our cost of sales. These costs are subject to global and regional commodity price trends. Our most significant commodities are polyethylene terephthalate (“PET”) resin, high-density polyethylene (“HDPE”) and polycarbonate bottles, caps and preforms, labels and cartons and trays. We attempt to manage our exposure to fluctuations in ingredient and packaging costs by entering into fixed price commitments for a portion of our ingredient and packaging requirements and implementing price increases as needed.

We conduct operations in countries involving transactions denominated in a variety of currencies. We are subject to currency exchange risks to the extent that our costs are denominated in currencies other than those in which we earn revenues. As our financial statements are denominated in U.S. dollars, fluctuations in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have an impact on our results of operations.

In 2019, our capital expenditures were devoted primarily to supporting growth in our business, maintaining existing facilities and making equipment upgrades.

During the first quarter of 2019, we reviewed and realigned our reporting segments to reflect how the business will be managed and the results will be reviewed by the Chief Executive Officer, who is our chief operating decision maker. Following such review, we realigned our three reporting segments as follows: Route Based Services (which includes our DS Services of America, Inc. (“DSS”), Aquaterra Corporation (“Aquaterra”), Mountain Valley Spring Company (“Mountain Valley”), Eden Springs Europe B.V. (“Eden”) and Aimia Foods (“Aimia”) businesses); Coffee, Tea and Extract Solutions (which includes our S. & D. Coffee, Inc. (“S&D”) business); and All Other (which includes miscellaneous expenses and our Cott Beverages LLC business, which was sold in the first quarter of 2019). Our segment reporting results have been recast to reflect these changes for all periods presented. See Note 11 to the Consolidated Financial Statements for segment reporting.

Our fiscal year is based on either a 52- or 53- week period ending on the Saturday closest to December 31. For the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017, we had 52- weeks of activity. One of our subsidiaries uses a Gregorian calendar year-end which differs from the Company’s 52- or 53-week fiscal year-end. Differences arising from the use of the different fiscal year-ends were not deemed material for the fiscal years ended December 28, 2019, December 29, 2018 or December 30, 2017.

## **Divestiture, Acquisition and Financing Transactions**

### ***Divestitures***

On January 30, 2020, Cott entered into a Stock Purchase Agreement with Cott Holdings Inc., a wholly-owned subsidiary of Cott (“Holdings”), S&D, a wholly-owned subsidiary of Cott, and Westrock Coffee Company, LLC, a Delaware limited liability company (“Purchaser”), pursuant to which Purchaser will acquire all of the issued and outstanding equity of S&D from Holdings (the “S&D Disposition”). The aggregate deal consideration is \$405 million, payable at closing in cash, subject to adjustments for indebtedness, working capital, and cash. The S&D Disposition is expected to close in the first quarter of 2020 and is subject to satisfaction of certain conditions, including receipt of U.S. regulatory clearance. We intend to use the proceeds of the S&D Disposition to finance a portion of our acquisition of Primo Water Corporation (“Primo”) described below, depending on the timing of closing, or otherwise to pay down indebtedness.

On February 8, 2019, we sold all of the outstanding equity of Cott Beverages LLC to Refresco Group B.V., a Dutch company (“Refresco”). The aggregate deal consideration paid at closing was \$50.0 million, subject to post-closing adjustments for working capital, indebtedness and other customary items. We used the proceeds of this transaction to repay a portion of the outstanding borrowings under our asset-based lending credit facility (the “ABL facility”).

In July 2017, we entered into a Share Repurchase Agreement with Refresco, pursuant to which we sold to Refresco, in January 2018, our carbonated soft drinks and juice businesses via the sale of our North America, United Kingdom and Mexico business units (including the Canadian business) and our RCI finished goods export business (collectively, the “Traditional Business” and such transaction, the “Traditional Business Disposition”). The Traditional Business Disposition was structured as a sale of the assets of our Canadian business and a sale of the stock of the operating subsidiaries engaged in the Traditional Business in the other jurisdictions after we completed an internal reorganization. The aggregate deal consideration was \$1.25 billion, paid at closing in cash, with customary post-closing adjustments resolved in December 2018 by the payment of \$7.9 million from us to Refresco. The sale of the Traditional Business represented a strategic shift and had a major effect on our operations and, therefore, the Traditional Business is presented herein as discontinued operations. See Note 3 to the Consolidated Financial Statements for additional information on discontinued operations. The Traditional Business Disposition did not include our Route Based Services and Coffee, Tea and Extract Solutions reporting segments, or our Cott Beverages LLC business.

The operating results associated with the Traditional Business have been reclassified into net income from discontinued operations, net of income taxes in the Consolidated Statements of Operations for all years presented. Cash flows from the Company’s discontinued operations are presented in the Consolidated Statements of Cash Flows for all years presented. The Notes to Consolidated Financial Statements are presented on a continuing operations basis unless otherwise noted.

### ***Acquisitions***

On January 13, 2020, Cott entered into an Agreement and Plan of Merger with Holdings, Fore Merger LLC, a wholly-owned subsidiary of Holdings (“Merger Sub”), Fore Acquisition Corporation, a wholly-owned subsidiary of Merger Sub (the “Primo Purchaser”), and Primo, pursuant to which, on January 28, 2020, the Primo Purchaser commenced an exchange offer to purchase all of the outstanding shares of common stock of Primo, par value \$0.001 per share, in exchange for, at the election of the Primo’s stockholders, (i) \$14.00 in cash, (ii) 1.0229 Cott common shares, no par value per share, plus cash in lieu of any fractional Cott common shares, or (iii) \$5.04 in cash and 0.6549 Cott common shares (the “Offer”). As soon as practicable following the consummation of the Offer, the Primo Purchaser intends to acquire any remaining Primo shares by a merger of the Primo Purchaser with and into Primo (the “First Merger”), with Primo surviving the First Merger as a wholly-owned subsidiary of Merger Sub. Immediately following the First Merger, Primo intends to merge with and into Merger Sub, with Merger Sub being the surviving entity (the “Second Merger” and, together with the First Merger, the “Mergers”). Cott expects to issue an aggregate of up to 26,825,842 shares of our common stock in the Offer and the Mergers (collectively, the “Primo Acquisition”). The estimated aggregate consideration to be paid in the Primo Acquisition is approximately \$775 million and includes approximately \$216 million to be paid in cash,

\$367 million of Cott common shares and \$192 million of cash paid to retire outstanding indebtedness on behalf of Primo. The actual aggregate consideration will be calculated upon closing of the Primo Acquisition based on the closing price of Cott common shares as of that date and actual outstanding indebtedness. The Primo Acquisition is expected to close in the first quarter of 2020, subject to satisfaction of certain conditions to the Offer and the First Merger.

In October 2018, DSS, a wholly-owned subsidiary of Cott, acquired Mountain Valley, a growing American brand of spring and sparkling bottled water delivered to homes and offices throughout the United States (the “Mountain Valley Acquisition”). The initial purchase price paid by DSS in the Mountain Valley Acquisition was \$80.4 million on a debt and cash free basis. The post-closing working capital adjustment was resolved in February 2019 by the payment of \$0.4 million by the former owners of Mountain Valley to DSS. The Mountain Valley Acquisition was funded through a combination of incremental borrowings under our ABL facility and cash on hand.

In March 2018, we completed the acquisition of Crystal Rock Holdings, Inc., a direct-to-consumer home and office water, coffee and filtration business serving customers throughout New York and New England (“Crystal Rock”). The transaction was structured as a merger following a cash tender offer for all outstanding shares of Crystal Rock, with Crystal Rock becoming our wholly-owned indirect subsidiary. The aggregate consideration paid was \$37.7 million and includes the purchase price paid to the Crystal Rock shareholders of \$20.7 million, \$0.8 million in costs paid on behalf of the sellers for the seller’s transaction costs and \$16.2 million of assumed debt and accrued interest obligations of the acquired company that was paid by us.

### ***Financing Activity***

In January 2018, in connection with the closing of the Traditional Business Disposition, we used a portion of the proceeds to retire \$525.0 million aggregate principal amount of 5.375% senior notes due 2022 (the “2022 Notes”) and retire the remaining \$250.0 million aggregate principal amount of 10.000% senior secured notes due 2021 (the “DSS Notes”). The redemption of our 2022 Notes included \$21.2 million in premium payments and accrued interest of \$2.2 million. The redemption of our DSS Notes included \$12.5 million in premium payments and accrued interest of \$10.3 million.

We also used a portion of the proceeds from the Traditional Business Disposition to repay in full our \$262.5 million outstanding balance on our ABL facility and repay \$1.9 million in aggregate principal outstanding on our capital lease finance arrangement with General Electric Capital Corporation. Additionally, we amended and restated our ABL facility in connection with the closing of the Traditional Business Disposition, as further discussed below.

In May 2017, we used a portion of the proceeds from the issuance of the 2025 Notes (as defined below) to redeem \$100.0 million in aggregate principal amount of the DSS Notes. The partial redemption of the DSS Notes included \$7.7 million in premium payments, accrued interest of \$1.8 million and the write-off of \$9.2 million of unamortized premium.

In March and April 2017, we used a portion of the proceeds from the issuance of the 2025 Notes (as defined below) to redeem all \$625.0 million of our 6.75% senior notes due January 1, 2020 (the “2020 Notes”). The redemption of our 2020 Notes included \$14.3 million and \$7.1 million in premium payments, accrued interest of \$7.4 million and \$3.1 million, the write-off of \$5.8 million and \$2.9 million in deferred financing fees, and other costs of \$0.1 million.

In March 2017, we issued \$750.0 million of 5.500% senior notes due April 1, 2025 (the “2025 Notes”) to qualified purchasers in a private placement offering under Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and outside the United States to non-U.S. purchasers pursuant to Regulation S

under the Securities Act and other applicable laws. The 2025 Notes were issued by Holdings, and most of our U.S., Canadian, U.K. and Dutch subsidiaries guarantee the 2025 Notes. The 2025 Notes will mature on April 1, 2025 and interest is payable semi-annually on April 1st and October 1st of each year commencing on October 1, 2017. We incurred \$11.7 million of financing fees in connection with the issuance of the 2025 Notes.

### Summary Financial Results

Net loss from continuing operations in 2019 was \$0.1 million or \$0.00 per diluted common share, compared with net income from continuing operations of \$28.9 million or \$0.21 per diluted common share in 2018.

*The following items of significance affected our 2019 financial results:*

- Net revenue increased \$21.6 million, or 0.9%, in 2019 compared to the prior year due primarily to the addition of revenues from the Mountain Valley and Crystal Rock businesses, pricing initiatives and growth within our home and office water delivery operations, as well as growth in other product sales in our Route Based Services reporting segment, growth in coffee volumes, change in customer mix and growth in liquid coffee and extracts in our Coffee, Tea and Extract Solutions reporting segment, partially offset by the unfavorable impact of foreign exchange rates in our Route Based Services reporting segment, lower green coffee commodity prices and a decrease in other product sales in our Coffee, Tea and Extract Solutions reporting segment, as well as a decrease in revenues contributed by our Cott Beverages LLC business that was sold during the first quarter of 2019;
- Gross profit increased to \$1,227.8 million from \$1,175.6 million in the prior year due primarily to the addition of the Mountain Valley and Crystal Rock businesses, pricing initiatives and growth within our home and office water delivery operations, as well as growth in other product sales in our Route Based Services reporting segment, growth in coffee volumes, change in customer mix and growth in liquid coffee and extracts in our Coffee, Tea and Extract Solutions reporting segment, partially offset by the unfavorable impact of foreign exchange rates in our Route Based Services reporting segment, as well as a decrease in gross profit contributed by our Cott Beverages LLC business that was sold during the first quarter of 2019. Gross profit as a percentage of net revenue increased to 51.3% in 2019 compared to 49.5% in the prior year;
- Selling, general and administrative (“SG&A”) expenses increased to \$1,113.0 million in 2019 compared to \$1,092.1 million in the prior year due primarily to the addition of the Mountain Valley and Crystal Rock businesses and an increase of incentive costs in our Route Based Services reporting segment, as well as an increase in selling and operating costs in our Coffee, Tea and Extract Solutions reporting segment, partially offset by lower SG&A expenses incurred by our Cott Beverages LLC business that was sold during the first quarter of 2019, and a decrease in professional fees and share-based compensation costs in the All Other category, as well as the favorable impact of foreign exchange rates and a decrease in amortization expense within our Route Based Services reporting segment. As a percentage of net revenue, SG&A expenses were 46.5% in 2019 compared to 46.0% in the prior year;
- Loss on disposal of property, plant and equipment, net was primarily related to the disposal of \$7.5 million of equipment that was either replaced or no longer being used in our reporting segments;
- Acquisition and integration expenses increased to \$16.9 million in 2019 compared to \$15.3 million in the prior year due primarily to the increase in integration costs within our existing businesses;
- Other expense, net was \$2.8 million in 2019 compared to other income, net of \$42.9 million in the prior year due primarily to the loss recognized on the sale of our Cott Beverages LLC business and an increase of net losses on foreign currency transactions, partially offset by gains recognized on the redemption of the DSS Notes and the sale of our PolyCycle Solutions (“PCS”) business, mark to market gains on warrant securities, and income recognized from favorable legal settlements in the prior year;

- Income tax expense was \$9.5 million on pre-tax income from continuing operations of \$9.4 million in 2019 compared to income tax benefit of \$4.8 million on pre-tax income from continuing operations of \$24.1 million in the prior year due primarily to increased income incurred in taxable jurisdictions in 2019 and a Canadian valuation allowance release and releases of various uncertain tax positions in 2018;
- Adjusted EBITDA increased to \$328.7 million in 2019 compared to \$306.8 million in the prior year due to the items listed above; and
- Cash flows provided by operating activities from continuing operations was \$250.0 million in 2019 compared to \$244.3 million in the prior year. The \$5.7 million increase was due primarily to the change in working capital balances relative to the prior year period, partially offset by the decrease in net income from continuing operations.

## **Critical Accounting Policies**

Our significant accounting policies and recently issued accounting pronouncements are described in Note 1 to the Consolidated Financial Statements included in this Annual Report on Form 10-K. We believe the following represent our critical accounting policies:

### ***Estimates***

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Consolidated Financial Statements include estimates and assumptions that, in the opinion of management, were significant to the underlying amounts representing the future valuation of intangible assets, long-lived assets and goodwill, realization of deferred income tax assets, the resolution of tax contingencies, and projected benefit plan obligations.

### ***Impairment testing of goodwill***

Cott operates through two operating segments: Route Based Services and Coffee, Tea and Extract Solutions. These two operating segments are also reportable segments. We test goodwill for impairment at least annually on the first day of the fourth quarter, based on our reporting unit carrying values, calculated as total assets less non-interest bearing liabilities, as of the end of the third quarter, or more frequently if we determine a triggering event has occurred during the year. Any impairment loss is recognized in our results of operations. We evaluate goodwill for impairment on a reporting unit basis, which is an operating segment or a level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component. However, two or more components of an operating segment can be aggregated and deemed a single reporting unit if the components have similar economic characteristics. Our Route Based Services operating segment was determined to have five components: DSS, Mountain Valley, Aquaterra, Eden and Aimia. We have determined that DSS and Aquaterra have similar economic characteristics and have aggregated them as a single reporting unit for the purpose of testing goodwill for impairment (“DSSAqua”). For the purpose of testing goodwill for impairment in 2019, we have determined our reporting units are DSSAqua, Mountain Valley, Eden, Aimia and S&D. DSSAqua, Mountain Valley, Eden and Aimia are components of the Route Based Services operating segment. S&D is a component of the Coffee, Tea and Extract Solutions operating segment.

We had goodwill of \$1,175.7 million on the Consolidated Balance Sheet at December 28, 2019, which represents amounts for the DSSAqua, Mountain Valley, Eden, Aimia and S&D reporting units.



For purposes of the 2019 annual test, we elected to perform a qualitative assessment for our DSSAqua, Mountain Valley, Aimia and S&D reporting units to assess whether it was more likely than not the fair value of these reporting units exceeded their respective carrying values. In performing these assessments, management relied on a number of factors including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant reporting unit events, the impact of which are all significant judgments and estimates. Based on these factors, management concluded that it was more likely than not that the fair values of the DSSAqua, Mountain Valley, Aimia and S&D reporting units were greater than their respective carrying amounts, including goodwill, indicating no impairment. Goodwill allocated to the DSSAqua, Mountain Valley, Aimia and S&D reporting units as of December 28, 2019 are \$657.0 million, \$16.0 million, \$53.4 million and \$128.2 million, respectively.

For the Eden reporting unit, we elected to bypass the qualitative assessment and performed a quantitative analysis due to a decline in 2019 actual versus projected operating results. We determined the fair value of the reporting unit being evaluated using a mix of the income approach (which is based on the discounted cash flows of the reporting unit) and the guideline public company approach. We weighted the income approach and the guideline public company approach at 50% each to determine the fair value of the reporting unit. We believe using a combination of these approaches provides a more accurate valuation because it incorporates the expected cash generation of the Company in addition to how a third-party market participant would value the reporting unit. As the business is assumed to continue in perpetuity, the discounted future cash flows includes a terminal value. Critical assumptions used in our 2019 valuation of the Eden reporting unit included the anticipated future cash flows, the weighted-average terminal growth rate of 1.5% and a discount rate of 8.5%. The anticipated future cash flows assumption reflects projected revenue growth rates, operating profit margins and capital expenditures. The terminal growth rate assumption incorporated into the discounted cash flow calculation reflects our long-term view of the market and industry, projected changes in the sale of our products, pricing of such products and operating profit margins. The discount rate was determined using various factors and sensitive assumptions, including bond yields, size premiums and tax rates. This rate was based on the weighted average cost of capital a market participant would use if evaluating the reporting unit as an investment. These assumptions are considered significant unobservable inputs and represent our best estimate of assumptions that market participants would use to determine the fair value of the respective reporting units. The key inputs into the discounted cash flow analysis were consistent with market data, where available, indicating that the assumptions used were in a reasonable range of observable market data.

Based on the quantitative assessment including consideration of the sensitivity of the assumptions made and methods used to determine fair value, industry trends and other relevant factors, we noted that the estimated fair value of the Eden reporting unit exceeded its carrying value by approximately 4.2%. Therefore no goodwill impairment charge was recorded in the fourth quarter ended December 28, 2019. The Company performed a sensitivity analysis that noted that an increase in the discount rate of 50 basis points would have an adverse impact on the impairment testing result. Goodwill allocated to the Eden reporting unit as of December 28, 2019 is \$321.1 million.

Each year during the fourth quarter, we re-evaluate the assumptions used in our assessments, such as revenue growth rates, operating profit margins and discount rates, to reflect any significant changes in the business environment that could materially affect the fair value of our reporting units. Based on the evaluations performed in 2019, we determined that the fair value of each of our reporting units exceeded their carrying amounts.

#### ***Impairment testing of intangible assets with an indefinite life***

Our intangible assets with indefinite lives relate to trademarks acquired in the acquisition of DSS (the “DSS Trademarks”); trademarks acquired in the acquisition of Eden (the “Eden Trademarks”), trademarks acquired in the acquisition of Aquaterra (the “Aquaterra Trademarks”), trademarks acquired in the acquisition of Mountain

Valley (the “Mountain Valley Trademarks”) and trademarks acquired in the acquisition of Crystal Rock (the “Crystal Rock Trademarks”). These assets have an aggregate net book value of \$287.1 million as of December 28, 2019. There are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of these intangible assets.

The life of the DSS Trademarks, Eden Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks are considered to be indefinite and therefore these intangible assets are not amortized. Rather, they are tested for impairment at least annually or more frequently if we determine a triggering event has occurred during the year. We compare the carrying amount of the intangible asset to its fair value and when the carrying amount is greater than the fair value, we recognize in income an impairment loss. During the fourth quarter of 2019, management concluded that it was more likely than not that the fair value of the DSS Trademarks, Eden Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks were greater than their respective carrying value, indicating no impairment.

We assessed qualitative factors to determine whether the existence of events or circumstances indicated that it was more likely than not that the fair value of the DSS Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks were less than their respective carrying value. The qualitative factors we assessed included macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant events, the impact of which are all significant judgments and estimates. We concluded that it was more likely than not that the fair value of the DSS Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks were more than its carrying value and therefore we were not required to perform any additional testing.

To determine the fair value of the Eden Trademarks, we use a relief from royalty method of the income approach, which calculates a fair value royalty rate that is applied to revenue forecasts associated with those trademarks. The resulting cash flows are discounted using a rate to reflect the risk of achieving the projected royalty savings attributable to the trademarks. The assumptions used to estimate the fair value of these trademarks are subjective and require significant management judgment, including estimated future revenues, the fair value royalty rate (which is estimated to be a reasonable market royalty charge that would be charged by a licensor of the trademarks) and the risk adjusted discount rate. Based on our impairment test, the estimated fair value of the Eden Trademarks exceeded the carrying value by approximately 42.0%. If actual revenues in future periods, are less than currently projected for the Eden Trademarks, these trademarks could be impaired.

#### *Other intangible assets*

As of December 28, 2019, our intangible assets subject to amortization, net of accumulated amortization for continuing operations were \$414.3 million, consisting principally of \$367.6 million of customer relationships that arose from acquisitions, \$25.6 million of software, and \$11.2 million of patents. Customer relationships are typically amortized on an accelerated basis for the period over which we expect to receive the economic benefits. The customer relationship intangible assets acquired in our acquisitions are amortized over the expected remaining useful life of those relationships on a basis that reflects the pattern of realization of the estimated undiscounted after-tax cash flows. We review the estimated useful life of these intangible assets annually, unless a review is required more frequently due to a triggering event, such as the loss of a significant customer. Our review of the estimated useful life takes into consideration the specific net cash flows related to the intangible asset. The permanent loss of, or significant decline in sales to customers included in the intangible asset would result in either an impairment in the value of the intangible asset or an accelerated amortization of any remaining value and could lead to an impairment of the fixed assets that were used to service that customer. We did not record impairment charges for intangible assets in 2019, 2018 or 2017.

### ***Impairment and disposal of long-lived assets***

When adverse events occur, we compare the carrying amount of long-lived assets to the estimated undiscounted future cash flows at the lowest level of independent cash flows for the group of long-lived assets and recognize any impairment loss based on discounted cash flows in the Consolidated Statements of Operations, taking into consideration the timing of testing and the asset's remaining useful life. The expected life and value of these long-lived assets is based on an evaluation of the competitive environment, history and future prospects as appropriate.

### ***Income taxes***

We are subject to income taxes in Canada as well as in numerous foreign jurisdictions. Significant judgments and estimates are required in determining the income tax expense in these jurisdictions. Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid in the jurisdictions in which we operate.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future Canadian and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, "Income Taxes" ("ASC 740") provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We recognize tax liabilities in accordance with ASC 740 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

### ***Pension costs***

We account for our defined benefit pension plans in accordance with ASC No. 715-20, "Compensation—Defined Benefit Plans—General" ("ASC 715-20"). The funded status is the difference between the fair value of plan assets and the benefit obligation. The adjustment to accumulated other comprehensive income represents the net unrecognized actuarial gains or losses and unrecognized prior service costs. Future actuarial gains or losses that are not recognized as net periodic benefits cost in the same periods will be recognized as a component of other comprehensive income.

We maintain several defined benefit plans that cover certain of our employees. We record the expenses associated with these plans based on calculations which include various actuarial assumptions such as discount rates and expected long-term rates of return on plan assets. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

We utilize a yield curve analysis to determine the discount rates for our defined benefit plans' obligations. The yield curve considers pricing and yield information for high quality corporate bonds with maturities matched to estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. The effects of the modifications to the actuarial assumptions which impact the projected benefit obligation are amortized over future periods.

In connection with certain other collective bargaining agreements to which we are a party, we are required to make contributions on behalf of certain union employees to multiemployer pension plans. The ongoing contributions and liabilities associated with these plans are not material.

### **Non-GAAP Measures**

In this Annual Report on Form 10-K, we supplement our reporting of financial measures determined in accordance with GAAP by utilizing certain non-GAAP financial measures that exclude certain items to make period-over-period comparisons for our underlying operations before material charges. We exclude these items to better understand trends in the business. We exclude the impact of foreign exchange to separate the impact of currency exchange rate changes from our results of operations.

We also utilize (loss) earnings before interest expense, taxes, depreciation and amortization ("EBITDA"), which is GAAP net (loss) income from continuing operations before interest expense, net, expense (benefit) for income taxes and depreciation and amortization. We consider EBITDA to be an indicator of operating performance. We also use EBITDA, as do analysts, lenders, investors and others, because it excludes certain items that can vary widely across different industries or among companies within the same industry. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. We also utilize adjusted EBITDA, which is EBITDA excluding acquisition and integration costs, share-based compensation costs, loss (gain) on commodity hedging instruments, net, foreign exchange and other losses (gains), net, loss on disposal of property, plant and equipment, net, gain on extinguishment of long-term debt, loss (gain) on sale of business, operations of Cott Beverages LLC, and other adjustments, net, as the case may be ("Adjusted EBITDA"). We consider Adjusted EBITDA to be an indicator of our operating performance. Adjusted EBITDA excludes certain items to make more meaningful period-over-period comparisons of our underlying operations before material changes.

Because we use these adjusted financial results in the management of our business and to understand underlying business performance, we believe this supplemental information is useful to investors for their independent evaluation and understanding of our business performance and the performance of our management. The non-GAAP financial measures described above are in addition to, and not meant to be considered superior to, or a substitute for, our financial statements prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this Annual Report on Form 10-K reflect our judgment of particular items, and may be different from, and therefore may not be comparable to, similarly titled measures reported by other companies.

The following table summarizes our Consolidated Statements of Operations as a percentage of net revenue for 2019, 2018 and 2017:

	2019		2018		2017	
(in millions of U.S. dollars)		Percentage of Revenue		Percentage of Revenue		Percentage of Revenue
Revenue, net	\$2,394.5	100.0%	\$2,372.9	100.0%	\$2,269.7	100.0%
Cost of sales	1,166.7	48.7%	1,197.3	50.5%	1,142.0	50.3%
Gross profit	1,227.8	51.3%	1,175.6	49.5%	1,127.7	49.7%
Selling, general and administrative expenses	1,113.0	46.5%	1,092.1	46.0%	1,043.2	46.0%
Loss on disposal of property, plant and equipment, net	7.5	0.3%	9.4	0.4%	10.2	0.4%
Acquisition and integration expenses	16.9	0.7%	15.3	0.6%	30.4	1.3%
Operating income	90.4	3.8%	58.8	2.5%	43.9	1.9%
Other expense (income), net	2.8	0.1%	(42.9)	(1.8)%	(8.0)	(0.4)%
Interest expense, net	78.2	3.3%	77.6	3.3%	85.5	3.8%
Income (loss) from continuing operations before income taxes	9.4	0.4%	24.1	1.0%	(33.6)	(1.5)%
Income tax expense (benefit)	9.5	0.4%	(4.8)	(0.2)%	(30.0)	(1.3)%
Net (loss) income from continuing operations	(0.1)	—%	28.9	1.2%	(3.6)	(0.2)%
Net income from discontinued operations, net of income taxes (Note 3)	3.0	0.1%	354.6	14.9%	10.7	0.5%
Net income	2.9	0.1%	383.5	16.2%	7.1	0.3%
Less: Net income attributable to non-controlling interests – discontinued operations	\$ —	—%	\$ 0.6	—%	\$ 8.5	0.4%
Net income (loss) attributable to Cott Corporation	\$ 2.9	0.1%	\$ 382.9	16.1%	\$ (1.4)	(0.1)%
Depreciation & amortization	\$ 192.8	8.1%	\$ 194.6	8.2%	\$ 188.6	8.3%

During the first quarter of 2019, we reviewed and realigned our reporting segments to reflect how the business will be managed and the results will be reviewed by the Chief Executive Officer, who is our chief operating decision maker. Following such review, we realigned our three reporting segments as follows: Route Based Services (which includes our DSS, Aquaterra, Mountain Valley, Eden and Aimia businesses); Coffee, Tea and Extract Solutions (which includes our S&D business); and All Other (which includes miscellaneous expenses and our Cott Beverages LLC business, which was sold in the first quarter of 2019). Our segment reporting results have been recast to reflect these changes for all periods presented.



The following table summarizes our net revenue, gross profit, SG&A expenses and operating income (loss) by reporting segment for 2019, 2018 and 2017:

<u>(in millions of U.S. dollars)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Revenue, net</i>			
Route Based Services .....	<b>\$1,788.2</b>	\$1,710.3	\$1,599.6
Coffee, Tea and Extract Solutions .....	<b>605.0</b>	587.6	602.2
All Other .....	<b>7.2</b>	80.7	67.9
Eliminations .....	<b>(5.9)</b>	(5.7)	—
Total .....	<b><u>\$2,394.5</u></b>	<u>\$2,372.9</u>	<u>\$2,269.7</u>
<i>Gross profit</i> .....			
Route Based Services .....	<b>\$1,060.9</b>	\$1,011.6	\$ 956.5
Coffee, Tea and Extract Solutions .....	<b>166.6</b>	152.0	161.4
All Other .....	<b>0.3</b>	12.0	9.8
Total .....	<b><u>\$1,227.8</u></b>	<u>\$1,175.6</u>	<u>\$1,127.7</u>
<i>Selling, general and administrative expenses</i>			
Route Based Services .....	<b>\$ 926.2</b>	\$ 902.3	\$ 848.6
Coffee, Tea and Extract Solutions .....	<b>150.8</b>	137.1	141.9
All Other .....	<b>36.0</b>	52.7	52.7
Total .....	<b><u>\$1,113.0</u></b>	<u>\$1,092.1</u>	<u>\$1,043.2</u>
<i>Operating income (loss)</i>			
Route Based Services .....	<b>\$ 115.8</b>	\$ 89.9	\$ 79.7
Coffee, Tea and Extract Solutions .....	<b>15.4</b>	16.1	15.9
All Other .....	<b>(40.8)</b>	(47.2)	(51.7)
Total .....	<b><u>\$ 90.4</u></b>	<u>\$ 58.8</u>	<u>\$ 43.9</u>

The following tables summarize revenue by channel for 2019, 2018 and 2017:

	<u>For the Year Ended December 28, 2019</u>				
<u>(in millions of U.S. dollars)</u>	<u>Route Based Services</u>	<u>Coffee, Tea and Extract Solutions</u>	<u>All Other</u>	<u>Eliminations</u>	<u>Total</u>
<i>Revenue, net</i>					
Home and office bottled water delivery .....	<b>\$1,136.0</b>	\$ —	\$—	\$—	<b>\$1,136.0</b>
Coffee and tea services .....	<b>184.0</b>	<b>483.6</b>	—	(5.9)	<b>661.7</b>
Retail .....	<b>297.6</b>	—	—	—	<b>297.6</b>
Other .....	<b>170.6</b>	<b>121.4</b>	<b>7.2</b>	—	<b>299.2</b>
Total .....	<b><u>\$1,788.2</u></b>	<b><u>\$605.0</u></b>	<b><u>\$ 7.2</u></b>	<b><u>\$(5.9)</u></b>	<b><u>\$2,394.5</u></b>

	For the Year Ended December 29, 2018				
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
<i>Revenue, net</i>					
Home and office bottled water delivery . . . . .	\$1,078.5	\$ —	\$ —	\$—	\$1,078.5
Coffee and tea services . . . . .	192.8	461.9	—	(5.7)	649.0
Retail . . . . .	286.0	—	—	—	286.0
Other . . . . .	153.0	125.7	80.7	—	359.4
Total . . . . .	<u>\$1,710.3</u>	<u>\$587.6</u>	<u>\$80.7</u>	<u>\$(5.7)</u>	<u>\$2,372.9</u>

	For the Year Ended December 30, 2017				
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
<i>Revenue, net</i>					
Home and office bottled water delivery . . . . .	\$ 990.6	\$ —	\$ —	\$—	\$ 990.6
Coffee and tea services . . . . .	186.8	501.7	—	—	688.5
Retail . . . . .	282.2	—	—	—	282.2
Other . . . . .	140.0	100.5	67.9	—	308.4
Total . . . . .	<u>\$1,599.6</u>	<u>\$602.2</u>	<u>\$67.9</u>	<u>\$—</u>	<u>\$2,269.7</u>

## Results of Operations

The following table summarizes the change in revenue by reporting segment for 2019:

	For the Year Ended December 28, 2019				
(in millions of U.S. dollars, except percentage amounts)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
Change in revenue . . . . .	\$ 77.9	\$17.4	\$(73.5)	\$(0.2)	\$21.6
Impact of foreign exchange <sup>1</sup> . . . . .	22.1	—	—	—	22.1
Change excluding foreign exchange . . . . .	<u>\$100.0</u>	<u>\$17.4</u>	<u>\$(73.5)</u>	<u>\$(0.2)</u>	<u>\$43.7</u>
Percentage change in revenue . . . . .	<u>4.6%</u>	<u>3.0%</u>	<u>(91.1)%</u>	<u>3.5%</u>	<u>0.9%</u>
Percentage change in revenue excluding foreign exchange . .	<u>5.8%</u>	<u>3.0%</u>	<u>(91.1)%</u>	<u>3.5%</u>	<u>1.8%</u>

<sup>1</sup> Impact of foreign exchange is the difference between the current year's revenue translated utilizing the current year's average foreign exchange rates less the current year's revenue translated utilizing the prior year's average foreign exchange rates.

The following table summarizes the change in revenue by reporting segment for 2018:

(in millions of U.S. dollars, except percentage amounts)	For the Year Ended December 29, 2018				
	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
Change in revenue	\$110.7	\$(14.6)	\$12.8	\$ (5.7)	\$103.2
Impact of foreign exchange <sup>1</sup>	(11.8)	—	—	—	(11.8)
Change excluding foreign exchange	\$ 98.9	\$(14.6)	\$12.8	\$ (5.7)	\$ 91.4
Percentage change in revenue	6.9%	(2.4)%	18.9%	100.0%	4.5%
Percentage change in revenue excluding foreign exchange	6.2%	(2.4)%	18.9%	100.0%	4.0%
Impact of fewer trading days <sup>2</sup>	\$ 1.5	\$ 4.9	\$ —	\$ —	\$ 6.4
Change excluding foreign exchange and impact of fewer trading days	\$100.4	\$ (9.7)	\$12.8	\$ (5.7)	\$ 97.8
Percentage change in revenue excluding foreign exchange and impact of fewer trading days	6.3%	(1.6)%	18.9%	100.0%	4.3%

<sup>1</sup> Impact of foreign exchange is the difference between the current year's revenue translated utilizing the current year's average foreign exchange rates less the current year's revenue translated utilizing the prior year's average foreign exchange rates.

<sup>2</sup> Our Eden business had two fewer trading days, our S&D business had three fewer trading days, and our Aimia business had one fewer trading day for the year ended December 29, 2018 as compared to the prior year.

The following table summarizes our EBITDA and Adjusted EBITDA for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017, respectively.

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<b>Net (loss) income from continuing operations</b>	<b>\$ (0.1)</b>	<b>\$ 28.9</b>	<b>\$ (3.6)</b>
Interest expense, net	78.2	77.6	85.5
Income tax expense (benefit)	9.5	(4.8)	(30.0)
Depreciation and amortization	192.8	194.6	188.6
<b>EBITDA</b>	<b>\$280.4</b>	<b>\$296.3</b>	<b>\$240.5</b>
Acquisition and integration costs <sup>1</sup>	16.9	15.3	30.4
Share-based compensation costs	10.6	18.4	14.0
Commodity hedging loss (gain), net	—	0.3	(0.3)
Foreign exchange and other losses (gains), net	0.9	(10.7)	(2.0)
Loss on disposal of property, plant and equipment, net	7.5	9.4	11.1
Gain on extinguishment of long-term debt	—	(7.1)	(1.5)
Loss (gain) on sale of business	6.0	(6.0)	—
Cott Beverages LLC <sup>2</sup>	0.4	(5.2)	2.8
Other adjustments, net	6.0	(3.9)	3.4
<b>Adjusted EBITDA</b>	<b>\$328.7</b>	<b>\$306.8</b>	<b>\$298.4</b>

<sup>1</sup> Includes an increase of \$1.8 million, a reduction of \$1.1 million, and an increase of \$3.5 million of share-based compensation costs for the years ended December 28, 2019, December 29, 2018 and December 30,

2017, respectively, related to awards granted in connection with the acquisitions of our S&D and Eden businesses.

- <sup>2</sup> Impact of our operations related to the Cott Beverages LLC business, which was sold on February 8, 2019.

## **Year Ended December 28, 2019 Compared to Year Ended December 29, 2018**

### ***Revenue, Net***

Net revenue increased \$21.6 million, or 0.9%, in 2019 from 2018.

Route Based Services net revenue increased \$77.9 million, or 4.6%, in 2019 from 2018, due primarily to the addition of revenues from the Mountain Valley and Crystal Rock businesses, pricing initiatives and growth within our home and office water delivery operations of \$71.3 million, growth in retail of \$28.7 million, partially offset by the unfavorable impact of foreign exchange rates of \$22.1 million.

Coffee, Tea and Extract Solutions net revenue increased \$17.4 million, or 3.0%, in 2019 from 2018, due primarily to the growth in coffee volumes, change in customer mix and growth in liquid coffee and extracts of \$36.9 million, partially offset by lower green coffee commodity prices of \$15.6 million and a decrease in other product sales of \$3.9 million.

All Other net revenue decreased \$73.5 million, or 91.1%, in 2019 from 2018, due primarily to less revenue being contributed by our Cott Beverages LLC business, which was sold in the first quarter of 2019.

### ***Gross Profit***

Gross profit increased to \$1,227.8 million in 2019 compared to \$1,175.6 million in 2018. Gross profit as a percentage of net revenue was 51.3% in 2019 compared to 49.5% in 2018.

Route Based Services gross profit increased to \$1,060.9 million in 2019 compared to \$1,011.6 million in 2018, due primarily to the addition of the Mountain Valley and Crystal Rock businesses, pricing initiatives and growth within our home and office water delivery operations, as well as growth in other product sales, partially offset by the unfavorable impact of foreign exchange rates.

Coffee, Tea and Extract Solutions gross profit increased to \$166.6 million in 2019 compared to \$152.0 million in 2018, due primarily to the growth in coffee volumes, change in customer mix and growth in liquid coffee and extracts.

All Other gross profit decreased to \$0.3 million in 2019 compared to \$12.0 million in 2018, due primarily to less gross profit contributed by our Cott Beverages LLC business, which was sold in the first quarter of 2019.

### ***Selling, General and Administrative Expenses***

SG&A expenses increased to \$1,113.0 million in 2019 compared to \$1,092.1 million in 2018. SG&A expenses as a percentage of net revenue was 46.5% in 2019 compared to 46.0% in 2018.

Route Based Services SG&A expenses increased to \$926.2 million in 2019 compared to \$902.3 million in 2018, due primarily to the addition of the Mountain Valley and Crystal Rock businesses, partially offset by the favorable impact of foreign exchange rates and a decrease in amortization expense.

Coffee, Tea and Extract Solutions SG&A expenses increased to \$150.8 million in 2019 compared to \$137.1 million in 2018, due primarily to increased selling and operating costs.

All Other SG&A expenses decreased to \$36.0 million in 2019 compared to \$52.7 million in 2018, due primarily to lower SG&A expenses contributed by our Cott Beverages LLC business, which was sold in the first quarter of 2019, and a decrease in professional fees.

### ***Acquisition and Integration Expenses***

Acquisition and integration expenses increased to \$16.9 million in 2019 compared to \$15.3 million in 2018. Acquisition and integration expenses as a percentage of net revenue was 0.7% in 2019 compared to 0.6% in 2018.

Route Based Services acquisition and integration expenses increased to \$11.3 million in 2019 compared to \$10.6 million in 2018, due primarily to the increase in costs with the integration of the Mountain Valley and Crystal Rock businesses.

Coffee, Tea and Extract Solutions acquisition and integration expense was \$0.5 million in 2019 compared to a benefit of \$1.9 million in 2018, due primarily to the increase in costs with the integration of our S&D business.

All Other acquisition and integration expenses decreased to \$5.1 million in 2019 compared to \$6.6 million in 2018, due primarily to the reduction in costs with the integration of the Mountain Valley and Crystal Rock businesses.

### ***Operating Income***

Operating income increased to \$90.4 million in 2019 compared to \$58.8 million in 2018.

Route Based Services operating income increased to \$115.8 million in 2019 compared to \$89.9 million in 2018, due to the items discussed above.

Coffee, Tea and Extract Solutions operating income decreased to \$15.4 million in 2019 compared to \$16.1 million in 2018, due to the items discussed above.

All Other operating loss decreased to \$40.8 million in 2019 compared to \$47.2 million in 2018, due to the items discussed above.

### ***Other Expense (Income), Net***

Other expense, net was \$2.8 million in 2019 compared to other income, net of \$42.9 million in 2018, due primarily to the loss recognized on the sale of our Cott Beverages LLC business and an increase of net losses on foreign currency transactions in the current year versus gains recognized on the redemption of the DSS Notes and the sale of our PCS business, mark to market gains on warrant securities, and income recognized from favorable legal settlements in the prior year.

### ***Income Taxes***

Income tax expense was \$9.5 million in 2019 compared to income tax benefit of \$4.8 million in 2018. The effective tax rate was 101.1% in 2019 compared to (20.0%) in 2018. The income tax expense in 2019 was due primarily to increased income incurred in taxable jurisdictions. The income tax benefit in 2018 was due primarily to a \$5.6 million release of a Canadian valuation allowance and releases of various uncertain tax positions. The 2019 effective tax rate differs from the Canadian statutory rate primarily due to: (a) significant permanent differences for which we have recognized a tax benefit; (b) income in tax jurisdictions with lower statutory tax rates than Canada; and (c) losses in tax jurisdictions with existing valuation allowances.



## **Year Ended December 29, 2018 Compared to Year Ended December 30, 2017**

### ***Revenue, Net***

Net revenue increased \$103.2 million, or 4.5%, in 2018 from 2017.

Route Based Services net revenue increased \$110.7 million, or 6.9%, in 2018 from 2017, due primarily to the addition of revenues from the Mountain Valley and Crystal Rock businesses of \$52.4 million, pricing initiatives, growth within our home and office water delivery operations, retail and other of \$39.9 million, and the favorable impact of foreign exchange rates of \$11.8 million.

Coffee, Tea and Extract Solutions net revenue decreased \$14.6 million, or 2.4%, in 2018 from 2017, due primarily to the reduction in volumes combined with lower green coffee commodity prices and a change in customer mix of \$25.3 million, as well as the impact of three fewer trading days compared to the prior year of \$4.9 million, partially offset by growth in liquid coffee, extracts, tea and other of \$15.6 million.

All Other net revenue increased \$12.8 million, or 18.9%, in 2018 from 2017, due primarily to increased volumes.

### ***Gross Profit***

Gross profit increased to \$1,175.6 million in 2018 compared to \$1,127.7 million in 2017. Gross profit as a percentage of net revenue was 49.5% in 2018 compared to 49.7% in 2017.

Route Based Services gross profit increased to \$1,011.6 million in 2018 compared to \$956.5 million in 2017, due primarily to the addition of the Mountain Valley and Crystal Rock businesses, pricing initiatives and growth within our home and office water delivery operations, and the favorable impact of foreign exchange rates, partially offset by increases in freight and transportation costs.

Coffee, Tea and Extract Solutions gross profit decreased to \$152.0 million in 2018 compared to \$161.4 million in 2017, due primarily to the reduction in coffee volumes and a change in customer mix, a reduction in juice and allied, as well as an increase in manufacturing expenses, partially offset by growth in liquid coffee, extracts, tea and other.

All Other gross profit increased to \$12.0 million in 2018 compared to \$9.8 million in 2017, due primarily to increased volumes.

### ***Selling, General and Administrative Expenses***

SG&A expenses increased to \$1,092.1 million in 2018 compared to \$1,043.2 million in 2017. SG&A expenses as a percentage of net revenue was 46.0% in each of 2018 and 2017.

Route Based Services SG&A expenses increased to \$902.3 million in 2018 compared to \$848.6 million in 2017, due primarily to the addition of the Mountain Valley and Crystal Rock businesses and the unfavorable impact of foreign exchange rates.

Coffee, Tea and Extract Solutions SG&A expenses decreased to \$137.1 million in 2018 compared to \$141.9 million in 2017, due primarily to the reductions in depreciation and amortization expense and operating expenses.

All Other SG&A expenses was \$52.7 million in 2018 and 2017.

### ***Acquisition and Integration Expenses***

Acquisition and integration expenses decreased to \$15.3 million in 2018 compared to \$30.4 million in 2017. Acquisition and integration expenses as a percentage of net revenue was 0.6% in 2018 compared to 1.3% in 2017.

Route Based Services acquisition and integration expenses decreased to \$10.6 million in 2018 compared to \$18.5 million in 2017, due primarily to the reduction in costs with the integration of the Eden business, partially offset by costs incurred with the integration of the Mountain Valley and Crystal Rock businesses.

Coffee, Tea and Extract Solutions acquisition and integration benefit was \$1.9 million in 2018 compared to an expense of \$3.1 million in 2017, due primarily to the reduction in costs with the integration of the S&D business.

All Other acquisition and integration expenses decreased to \$6.6 million in 2018 compared to \$8.8 million in 2017, due primarily to the reduction in costs with the integration of the S&D and Eden businesses, partially offset by costs incurred with the integration of the Mountain Valley and Crystal Rock businesses.

### ***Operating Income***

Operating income increased to \$58.8 million in 2018 compared to \$43.9 million in 2017.

Route Based Services operating income increased to \$89.9 million in 2018 compared to \$79.7 million in 2017, due to the items discussed above.

Coffee, Tea and Extract Solutions operating income increased to \$16.1 million in 2018 compared to \$15.9 million in 2017, due to the items discussed above.

All Other operating loss decreased to \$47.2 million in 2018 compared to \$51.7 million in 2017, due to the items discussed above.

### ***Other Income, Net***

Other income, net increased to \$42.9 million in 2018 compared to \$8.0 million in 2017, due primarily to income recognized from favorable legal settlements, gains recognized on the redemption of the DSS Notes and the sale of our PCS business, mark to market gains on warrant securities, and the increase of net gains on foreign currency transactions.

### ***Interest Expense, Net***

Interest expense, net was \$77.6 million in 2018 compared to \$85.5 million in 2017, due primarily to the redemption of our DSS Notes in January 2018.

### ***Income Taxes***

Income tax benefit was \$4.8 million in 2018 compared to \$30.0 million in 2017. The effective tax rate was (20.0%) in 2018 compared to 89.3% in 2017. The income tax benefit in 2018 was due primarily to a \$5.6 million release of Canadian valuation allowance and releases of various uncertain tax positions. The income tax benefit in 2017 was due primarily to a tax benefit of \$32.2 million associated with the change in the U.S. federal enacted tax rate. The 2018 effective tax rate differs from the Canadian statutory rate primarily due to: (a) changes in valuation allowances and tax reserves; (b) significant permanent differences for which we have recognized a tax benefit; (c) income in tax jurisdictions with lower statutory tax rates than Canada; and (d) losses in tax jurisdictions with existing valuation allowances.

## Liquidity and Capital Resources

The following table summarizes our cash flows for 2019, 2018 and 2017 as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Net cash provided by operating activities from continuing operations . . . . .	\$ 250.0	\$ 244.3	\$ 176.0
Net cash used in investing activities from continuing operations . . . . .	(147.8)	(282.7)	(153.6)
Net cash (used in) provided by financing activities from continuing operations . . . . .	(66.0)	(296.6)	596.5
<b>Cash flows from discontinued operations:</b>			
Net cash (used in) provided by operating activities from continuing operations . . . . .	(3.2)	(97.6)	102.7
Net cash provided by (used in) investing activities from continuing operations . . . . .	—	1,225.5	(44.7)
Net cash used in financing activities from continuing operations . . . . .	—	(769.7)	(643.4)
Effect of exchange rate changes on cash . . . . .	1.7	(10.3)	6.3
Net increase in cash, cash equivalents and restricted cash . . . . .	34.7	12.9	39.8
Cash and cash equivalents and restricted cash, beginning of year . . . . .	170.8	157.9	118.1
Cash and cash equivalents and restricted cash, end of year . . . . .	205.5	170.8	157.9
Cash and cash equivalents and restricted cash of discontinued operations, end of year . . . . .	—	—	66.0
Cash and cash equivalents and restricted cash from continuing operations, end of year . . . . .	\$ 205.5	\$ 170.8	\$ 91.9

## Operating Activities

Cash provided by operating activities from continuing operations was \$250.0 million in 2019 compared to \$244.3 million in 2018 and \$176.0 million in 2017. The \$5.7 million increase in 2019 compared to 2018 was due primarily to the change in working capital balances relative to the prior year period, partially offset by the decrease in net income from continuing operations.

The \$68.3 million increase in 2018 compared to 2017 was due primarily to the increase in net income from continuing operations and the change in working capital account balances relative to the prior year resulting primarily from timing of payments of interest on our 2024 Notes.

## Investing Activities

Cash used in investing activities from continuing operations was \$147.8 million in 2019 compared to \$282.7 million in 2018 and \$153.6 million in 2017. The \$134.9 million decrease in 2019 compared to 2018 was due primarily to the cash received from the sale of our Cott Beverages LLC business in the first quarter of 2019, as well as a decrease in cash used to finance acquisitions and a decrease in additions to property, plant and

equipment relative to the prior year, partially offset by the cash received from the sale of our PCS business and a sale of equity securities in the prior year.

The \$129.1 million increase in 2018 compared to 2017 was due primarily to the cash used to finance the acquisitions of the Mountain Valley and Crystal Rock businesses, an increase in additions to property, plant and equipment and intangible assets relative to the prior year, partially offset by the proceeds received from the sale of our PCS business and proceeds received from the sale of equity securities.

### **Financing Activities**

Cash used in financing activities from continuing operations was \$66.0 million in 2019 compared to cash used in financing activities from continuing operations of \$296.6 million in 2018 and cash provided by financing activities from continuing operations of \$596.5 million in 2017. The \$230.6 million decrease in 2019 compared to 2018 was due primarily to the redemption of the DSS Notes in the prior year and a decrease in common shares repurchased relative to the prior year, partially offset by a decrease in borrowings under our ABL facility net of payments relative to the prior year.

The \$893.1 million decrease in cash provided by financing activities from continuing operations in 2018 compared to 2017 was due primarily to the redemption of the DSS Notes in the current year, the increase in the number of common shares repurchased relative to the prior year, and the issuance of the 2025 Notes in the prior year, partially offset by an increase in borrowings under our ABL facility net of payments relative to the prior year and the partial redemption of the DSS Notes in the prior year.

### ***Financial Liquidity***

As of December 28, 2019, we had \$1,360.0 million of debt and \$205.5 million of cash and cash equivalents compared to \$1,342.2 million of debt and \$170.8 million of cash and cash equivalents as of December 29, 2018. Our cash and cash equivalents balance as of December 28, 2019 and December 29, 2018 includes \$12.4 million and \$12.5 million, respectively, of cash proceeds received from the Traditional Business Disposition that are being held in escrow by a third-party escrow agent to secure potential indemnification claims. Our cash and cash equivalents balance as of December 28, 2019 also includes \$0.5 million of cash proceeds received from the sale of our Cott Beverages LLC business that are being held in escrow by a third-party escrow agent to secure potential indemnification claims. In addition, our cash and cash equivalents balances as of December 28, 2019 and December 29, 2018 include margin account balances related to our coffee futures of \$6.4 million and \$12.9 million, respectively. We are required to maintain margin account balances in accordance with futures market and broker regulations.

We believe that our level of resources, which includes cash on hand, available borrowings under our ABL facility and funds provided by operations, will be adequate to meet our expenses, capital expenditures, and debt service obligations for the next twelve months. Our ability to generate cash to meet our current expenses and debt service obligations will depend on our future performance. If we do not have enough cash to pay our debt service obligations, or if the ABL facility or our outstanding notes were to become currently due, either at maturity or as a result of a breach, we may be required to take actions such as amending our ABL facility or the indentures governing our outstanding notes, refinancing all or part of our existing debt, selling assets, incurring additional indebtedness or raising equity. The ABL facility is secured by substantially all of our assets and those of the respective guarantor subsidiaries. If the ABL facility were to become currently due, the lenders may have the right to foreclose on such assets. If we need to seek additional financing, there is no assurance that this additional financing will be available on favorable terms or at all.

Our ABL facility and debt capital markets transactions are described under “Debt” below.

In 2019, we declared a dividend of \$0.06 per common share each quarter for an aggregate dividend payment of approximately \$32.6 million.

We may, from time to time, depending on market conditions, including without limitation whether our outstanding notes are then trading at a discount to their face amount, repurchase our outstanding notes for cash and/or in exchange for shares of our common shares, warrants, preferred shares, debt or other consideration, in each case in open market purchases and/or privately negotiated transactions. The amounts involved in any such transactions, individually or in aggregate, may be material. However, the covenants in our ABL facility subject such purchases to certain limitations and conditions.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined under Item 303(a)(4) of Regulation S-K as of December 28, 2019.

### Contractual Obligations

The following table shows the schedule of future payments under certain contracts, including debt agreements and guarantees, as of December 28, 2019:

(in millions of U.S. dollars)	Total	Payments due by period					Thereafter
		2020	2021	2022	2023	2024	
5.500% senior notes due in 2024 . . . . .	499.3	—	—	—	—	499.3	—
5.500% senior notes due in 2025 . . . . .	750.0	—	—	—	—	—	750.0
ABL facility <sup>1</sup> . . . . .	92.0	92.0	—	—	—	—	—
Interest expense <sup>2</sup> . . . . .	384.0	76.7	72.4	68.5	68.6	56.7	41.1
Operating lease obligations . . . . .	275.6	53.9	42.9	32.9	27.7	22.3	95.9
Finance leases <sup>3</sup> . . . . .	36.6	7.5	6.4	5.9	5.6	4.8	6.4
Pension obligations . . . . .	17.9	1.6	1.0	1.0	0.9	1.1	12.3
Purchase obligations <sup>4</sup> . . . . .	158.6	141.8	15.6	0.8	0.4	—	—
Other liabilities . . . . .	3.2	3.0	0.2	—	—	—	—
<b>Total <sup>5</sup> . . . . .</b>	<b>\$2,217.2</b>	<b>\$376.5</b>	<b>\$138.5</b>	<b>\$109.1</b>	<b>\$103.2</b>	<b>\$584.2</b>	<b>\$905.7</b>

<sup>1</sup> The ABL facility is considered a current liability. As of December 28, 2019, we had \$92.0 million of outstanding borrowings under the ABL facility.

<sup>2</sup> Interest expense includes fixed interest on the 2024 Notes, the 2025 Notes, the ABL facility and other long-term liabilities. Actual amounts will differ from estimates provided.

<sup>3</sup> Includes estimated interest payments using a weighted average discount rate of 6.0% as of December 28, 2019.

<sup>4</sup> Purchase obligations consist of commitments for the purchase of inventory, energy transactions, and payments related to professional fees and technology outsourcing agreements. These obligations represent the minimum contractual obligations expected under the normal course of business.

<sup>5</sup> The contractual obligations table excludes the Company's ASC 740 uncertain tax positions of \$17.3 million because the Company cannot make a reliable estimate as to when such amounts will be settled.

## Debt

Our total debt as of December 28, 2019 and December 29, 2018 was as follows:

(in millions of U.S. dollars)	December 28, 2019			December 29, 2018		
	Principal	Unamortized Debt Costs	Net	Principal	Unamortized Debt Costs	Net
5.500% senior notes due in 2024 . . . . .	499.3	5.8	493.5	513.1	7.2	505.9
5.500% senior notes due in 2025 . . . . .	750.0	8.2	741.8	750.0	9.8	740.2
ABL facility . . . . .	92.0	—	92.0	81.1	—	81.1
Short-term borrowings . . . . .	0.4	—	0.4	7.9	—	7.9
Finance leases . . . . .	30.9	—	30.9	5.0	—	5.0
Other debt financing . . . . .	1.4	—	1.4	2.1	—	2.1
<b>Total debt</b> . . . . .	<b>1,374.0</b>	<b>14.0</b>	<b>1,360.0</b>	1,359.2	17.0	1,342.2
Less: Short-term borrowings and current debt:						
ABL facility . . . . .	92.0	—	92.0	81.1	—	81.1
Short-term borrowings . . . . .	0.4	—	0.4	7.9	—	7.9
Finance leases - current maturities . . . . .	6.3	—	6.3	1.9	—	1.9
Other debt financing . . . . .	1.1	—	1.1	1.1	—	1.1
<b>Total current debt</b> . . . . .	<b>99.8</b>	<b>—</b>	<b>99.8</b>	92.0	—	92.0
<b>Total long-term debt</b> . . . . .	<b>\$1,274.2</b>	<b>\$14.0</b>	<b>\$1,260.2</b>	\$1,267.2	\$17.0	\$1,250.2

## Asset-Based Lending Facility

We have maintained an ABL facility with JPMorgan Chase Bank N.A. as Administrative Agent since 2008 to provide financing for our operations. We have amended and refinanced the ABL facility from time to time and incurred related financing fees, \$4.3 million of which have been capitalized and deferred and are being amortized using the straight-line method over the duration of the amended ABL facility.

As of December 28, 2019, our total availability under the ABL facility was \$216.4 million which was based on our borrowing base (accounts receivables, inventory, and fixed assets as of the December 2019 month-end under the terms of the credit agreement governing the ABL facility). As of December 28, 2019, we had \$92.0 million of outstanding borrowings under the ABL facility and \$47.4 million of outstanding letters of credit. As a result, our excess availability under the ABL facility was \$77.0 million as of December 28, 2019. The commitment fee was 0.25% per annum of the unused commitment, which was \$110.6 million as of December 28, 2019. The weighted average effective interest rate at December 28, 2019 on our outstanding borrowings was 3.4%. The effective interest rates are based on our aggregate availability.

The ABL facility, as amended and restated most recently on January 30, 2018, provides us with financing in the United States, Canada, the United Kingdom and the Netherlands. Cott and its subsidiaries, Holdings, DSS, S&D, Aimia and Aquaterra, are borrowers under the ABL facility. The ABL facility is a revolving facility of up to \$250.0 million with a maturity date of August 3, 2021. JPMorgan Chase Bank, N.A. serves as administrative agent and administrative collateral agent and JPMorgan Chase Bank, N.A., London Branch serves as U.K. security trustee. Availability under the ABL facility is dependent on a borrowing base calculated as a percentage of the value of eligible inventory, accounts receivable and property, plant and equipment in the manner set forth in the credit agreement. Subject to certain conditions, the ABL facility may be increased up to an additional \$100.0 million at our option if lenders agree to increase their commitments. The debt under the ABL facility is guaranteed by most of our U.S., Canadian and U.K. subsidiaries, certain of our Dutch subsidiaries and certain other subsidiaries. As disclosed previously on a Current Report on Form 8-K dated February 7, 2020 (the “ABL Amendment 8-K”), on February 7, 2020, the ABL facility was amended to, among other things, modify certain



negative covenants of the ABL facility to facilitate the sale of S&D (see Note 24 to the Consolidated Financial Statements) and to limit the conditions to be met for the acquisition of Primo Water Corporation (see Note 24 to the Consolidated Financial Statements) to be permitted under the ABL facility (the “ABL Amendment”). This reference to the ABL Amendment does not purport to be complete and is qualified in its entirety by reference to Exhibit 10.1 to the ABL Amendment 8-K.

#### ***5.500% Senior Notes due in 2025***

In March 2017, we issued \$750.0 million of our 2025 Notes to qualified purchasers in a private placement offering under Rule 144A under the Securities Act, and outside the United States to non-U.S. purchasers pursuant to Regulation S under the Securities Act and other applicable laws. The 2025 Notes were issued by our wholly-owned subsidiary Holdings, and most of our U.S., Canadian, U.K. and Dutch subsidiaries guarantee the 2025 Notes. The 2025 Notes will mature on April 1, 2025 and interest is payable semi-annually on April 1st and October 1st of each year commencing on October 1, 2017. The proceeds of the 2025 Notes were used to redeem in full the 2020 Notes, redeem \$100.0 million aggregate principal amount of our DSS Notes and to pay related fees and expenses.

We incurred \$11.7 million of financing fees in connection with the issuance of the 2025 Notes. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the term to maturity of the 2025 Notes.

#### ***5.500% Senior Notes due in 2024***

In June 2016, we issued €450.0 million (U.S. \$499.3 million at the exchange rate in effect on December 28, 2019) of our 2024 Notes to qualified purchasers in a private placement offering under Rule 144A and Regulation S under the Securities Act and other applicable laws. The 2024 Notes were initially issued by our wholly-owned subsidiary Cott Finance Corporation. In connection with the closing of the acquisition of Eden, we assumed all of the obligations of Cott Finance Corporation under the 2024 Notes, and most of our U.S., Canadian, U.K. and Dutch subsidiaries that were obligors under the 2022 Notes and the 2020 Notes entered into a supplemental indenture to guarantee the 2024 Notes. The 2024 Notes will mature on July 1, 2024 and interest is payable semi-annually on January 1st and July 1st of each year commencing on January 1, 2017. The proceeds of the 2024 Notes were used to fund a portion of the purchase price of the acquisition of Eden and to pay related fees and expenses.

We incurred approximately \$11.3 million of financing fees for the issuance of the 2024 Notes and \$11.0 million of bridge financing commitment fees and professional fees in connection with the acquisition of Eden. The financing fees are being amortized using the effective interest method over an eight-year period, which represents the term to maturity of the 2024 Notes. The bridge financing commitment fees and professional fees were expensed as incurred.

### **Credit Ratings and Covenant Compliance**

#### ***Credit Ratings***

Our objective is to maintain credit ratings that provide us with ready access to global capital and credit markets at favorable interest rates.

As of December 28, 2019, the Company's credit ratings were as follows:

	Credit Ratings	
	Moody's Rating	Standard and Poor's Rating
Corporate credit rating .....	B1	B
2024 Notes .....	B1	B
2025 Notes .....	B1	B
Outlook .....	Stable	Stable

Any downgrade of our credit ratings by either Moody's or S&P could increase our future borrowing costs or impair our ability to access capital markets on terms commercially acceptable to us or at all.

### ***Covenant Compliance***

#### ***Indentures governing our outstanding notes***

Under the indentures governing our outstanding notes, we are subject to a number of covenants, including covenants that limit our and certain of our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets. The covenants are substantially similar across the series of notes. As of December 28, 2019, we were in compliance with all of the covenants under each series of notes. There have been no amendments to any such covenants of our outstanding notes since the date of their issuance or assumption, as applicable.

#### ***ABL Facility***

Under the credit agreement governing the ABL facility, as amended and restated most recently on January 30, 2018, Cott and its restricted subsidiaries are subject to a number of business and financial covenants, including a minimum fixed charge coverage ratio, which measures our ability to cover financing expenses. The minimum fixed charge coverage ratio of 1.0 to 1.0 is effective if and when there exists an event of default or aggregate availability is less than the greater of 10% of the Line Cap under the ABL facility or \$22.5 million (which would be reduced to \$13.5 million upon the S&D Disposition, per the ABL Amendment). Line Cap is defined as an amount equal to the lesser of the lenders' commitments or the borrowing base at such time. If an event of default or certain defaults exist or the excess availability is less than the greater of 10% of the aggregate availability under the ABL facility or \$22.5 million (which would be reduced to \$13.5 million upon the S&D Disposition, per the ABL Amendment), the lenders will take dominion over the cash and will apply excess cash to reduce amounts owing under the facility. We were in compliance with all of the applicable covenants under the ABL facility as of December 28, 2019.

### ***Issuer Purchases of Equity Securities***

#### ***Common Share Repurchase Programs***

On December 11, 2018, our Board of Directors approved a share repurchase program for up to \$50.0 million of our outstanding common shares over a 12-month period commencing on December 14, 2018 (the "Repurchase Plan"). During 2019, we repurchased 2,006,789 common shares for approximately \$27.8 million through open market transactions under the Repurchase Plan. During the second quarter of 2019, we utilized all funds under the Repurchase Plan.

On December 11, 2019, our Board of Directors approved a new share repurchase program for up to \$50.0 million of our outstanding common shares over a 12-month period (the "New Repurchase Plan"). We made no repurchases of our common shares under the New Repurchase Plan during 2019.

### *Tax Withholding*

During 2019, 263,484 shares (2018—417,224; 2017—277,338) of our previously-issued common shares were withheld from delivery to our employees to satisfy their tax obligations related to share-based awards. Please refer to the table in Part II, Item 5 of this Annual Report on Form 10-K.

### **Capital Structure**

Since December 29, 2018, equity has decreased by \$4.2 million. The decrease was due primarily to common share dividend payments of \$32.6 million and common shares repurchased and subsequently canceled of \$31.8 million, partially offset by net income of \$2.9 million, other comprehensive income, net of tax of \$33.2 million, share-based compensation costs of \$12.4 million, and a cumulative-effect of changes in accounting principle, net of taxes of \$10.5 million recognized as a result of the adoption of Accounting Standards Update 2016-02 - Leases.

### **Dividend payments**

#### *Common Share Dividend*

Our Board of Directors declared a quarterly dividend of \$0.06 per common share in each quarter during 2019 and 2018 for an aggregate dividend payment of approximately \$32.6 million and \$33.7 million, respectively. We intend to pay a regular quarterly dividend on our common shares subject to, among other things, the best interests of our shareowners, our results of operations, cash balances and future cash requirements, financial condition, statutory regulations and covenants set forth in the ABL facility and indentures governing our outstanding notes as well as other factors that the Board of Directors may deem relevant from time to time.

### **Recent Accounting Pronouncements**

Refer to Note 1 in the Consolidated Financial Statements for a summary of recently adopted and recently issued accounting standards and their related effects or anticipated effects on our consolidated results of operations and financial condition.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not trade market risk sensitive instruments.

#### **Currency Exchange Rate Risk**

We are exposed to changes in foreign currency exchange rates. Operations outside of the United States accounted for 24.8% of 2019 revenue, net, and 24.7% of 2018 revenue, net, and are concentrated principally in the United Kingdom, Canada, and Europe. We translate the revenues and expenses of our foreign operations using average exchange rates prevailing during the period. The effect of a 10% change in the average foreign currency exchange rates among the U.S. dollar versus the Canadian dollar, pound sterling and Euro for the year ended December 28, 2019, would result in our revenue, net, in 2019 changing by \$58.8 million and our gross profit in 2019 changing by \$32.7 million. This change would be material to our cash flows and our results of operations.

#### **Debt Obligations and Interest Rates**

We have exposure to interest rate risk from the outstanding principal amounts of our short-term borrowings on our ABL facility. Interest rates on our long-term debt are fixed and not subject to interest rate volatility. Our ABL facility is vulnerable to fluctuations in the U.S. short-term base rate and the LIBOR rate. Because we had \$92.0 million of ABL borrowings outstanding as of December 28, 2019, a 100 basis point increase in the current

per annum interest rate for our ABL facility (excluding the \$47.4 million of outstanding letters of credit) would result in additional interest expense of approximately \$0.9 million. The weighted average interest rate of our outstanding ABL facility at December 28, 2019 was 3.4%.

We regularly review the structure of our indebtedness and consider changes to the proportion of variable versus fixed rate debt through refinancing, interest rate swaps or other measures in response to the changing economic environment. Historically, we have not used derivative instruments to manage interest rate risk. If we use and fail to manage these derivative instruments successfully, or if we are unable to refinance our indebtedness or otherwise increase our debt capacity in response to changes in the marketplace, the expense associated with debt service could increase. This would negatively affect our financial condition and profitability.

The information below summarizes our market risks associated with long-term debt obligations as of December 28, 2019. The table presents principal cash flows and related interest rates by year. Interest rates disclosed represent the actual weighted average rates as of December 28, 2019.

(in millions of U.S. dollars, except percentage amounts)	Debt Obligations	
	Outstanding debt balance	Weighted average interest rate
<b>Debt maturing in:</b>		
2020 .....	\$ 100.0	3.5%
2021 .....	5.6	5.9%
2022 .....	5.0	6.3%
2023 .....	4.8	6.3%
2024 .....	503.4	5.5%
Thereafter .....	755.2	5.5%
Total .....	<u>\$1,374.0</u>	

## Commodity Price Risk

The competitive marketplace in which we operate may limit our ability to recover increased costs through higher prices. As a result, we are subject to market risk with respect to commodity price fluctuations principally related to our purchases of resin for PET, HDPE and polycarbonate bottles, tea, green coffee and fuel. We manage some of our exposure to this risk through the use of supplier pricing agreements, which enable us to fix the purchase prices for certain commodities, as well as derivative financial instruments. We estimate that a 10% increase in the market prices of these commodities over the current market prices would cumulatively increase our cost of sales during the next 12 months by approximately \$32.0 million. This change would be material to our cash flows and our results of operations.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See “Index to Consolidated Financial Statements.”

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial and Administrative Officer, carried out an evaluation of the effectiveness of the design and operation of

our disclosure controls and procedures as of December 28, 2019 (the “Evaluation”). Based upon the Evaluation, our Chief Executive Officer and Chief Financial and Administrative Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) are effective.

### **Management’s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management evaluates the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial and Administrative Officer, assessed the effectiveness of our internal control over financial reporting as of December 28, 2019, and concluded that it was effective as of December 28, 2019.

The effectiveness of our internal control over financial reporting as of December 28, 2019 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, who also audited our Consolidated Financial Statements included in this Annual Report on Form 10-K, as stated in their report which appears herein.

### **Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended December 28, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item regarding directors is incorporated by reference to, and will be contained in, the “Election of Directors” section of our definitive proxy statement for the 2020 Annual Meeting of Shareowners, which is expected to be filed within 120 days after December 28, 2019 (the “2020 Proxy Statement”). The information required by this item regarding executive officers appears as the Supplemental Item in Part I. There have been no material changes to the procedures by which shareholders may recommend nominees to our Board of Directors.

The Audit Committee of our Board of Directors is an “audit committee” for the purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee charter is posted on our website at [www.cott.com](http://www.cott.com). The members of the Audit Committee are Graham Savage (Chairman), Gregory Monahan and Mario Pillozzi. As required by the NYSE rules, the Board of Directors has determined that each member of the Audit Committee is independent and financially literate and that Mr. Savage qualifies as an “audit committee financial expert” within the meaning of the rules of the U.S. Securities and Exchange Commission.

All of our directors, officers and employees must comply with our Code of Business Conduct and Ethics. In addition, our Chief Executive Officer, Chief Financial and Administrative Officer and principal accounting officer and certain other employees have a further obligation to comply with our Code of Ethics for Senior Officers. Our Code of Business Conduct and Ethics and our Code of Ethics for Senior Officers are posted on our website, [www.cott.com](http://www.cott.com), and we intend to comply with obligations to disclose any amendment to, or waiver of, provisions of these codes by posting such information on our website.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to, and will be contained in, the “Compensation of Executive Officers,” “The Human Resources and Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation” sections of our 2020 Proxy Statement.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREOWNER MATTERS**

The information required by this item is incorporated by reference to, and will be contained in, the “Principal Shareowners,” “Security Ownership of Directors and Management” and “Equity Compensation Plan Information” sections of our 2020 Proxy Statement.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated by reference to, and will be contained in, the “Certain Relationships and Related Transactions” section of our 2020 Proxy Statement.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to, and will be contained in, the “Independent Registered Public Accounting Firm” section of our 2020 Proxy Statement.



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The documents filed as part of this report are as follows:

#### 1. Financial Statements

The consolidated financial statements and accompanying report of a registered independent public accounting firm are listed in the Index to Consolidated Financial Statements and are filed as part of this report.

#### 2. Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts for the Years Ended December 28, 2019, December 29, 2018, and December 30, 2017.

#### 3. Exhibits

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
2.1	Share Purchase Agreement, dated as of July 24, 2017, by and among Cott Corporation, Refresco Group B.V., Refresco US Holdings Inc. and certain other parties thereto	8-K	2.1	7/26/2017	001-31410	
3.1	Articles of Amalgamation of Cott Corporation, as amended					*
3.2	By-laws of Cott Corporation, as amended	8-A	3.2	5/4/2018	001-31410	
4.1	Indenture, dated as of June 30, 2016, by and among Cott Finance Corporation, BNY Trust Company of Canada, as Canadian trustee, The Bank of New York Mellon, as U.S. trustee, paying agent, registrar, transfer agent and authenticating agent, and The Bank of New York Mellon, London Branch, as London paying agent, governing the 5.50% Senior Notes due 2024	8-K	4.1	6/30/2016	001-31410	
4.2	Form of 5.50% Senior Notes due 2024 (included as Exhibit A to Exhibit 4.1)	8-K	4.1	6/30/2016	001-31410	
4.3	Sixth Supplemental Indenture, dated as of April 16, 2018, governing the 5.50% Senior Notes due 2024, by and among Cott Corporation and certain of its subsidiaries, including Crystal Rock Holdings, Inc. and Crystal Rock LLC, and BNY Trust Company of Canada, as Canadian trustee, The Bank of New York Mellon, as U.S. trustee, paying agent, registrar, transfer agent and authenticating agent, and The Bank of New York Mellon, London Branch, as London paying agent	10-Q	4.1	5/10/2018	001-31410	

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
4.4	Seventh Supplemental Indenture, dated as of June 29, 2018, governing the 5.50% Senior Notes due 2024, by and among Cott Corporation and John Farrer & Company (Kendal) Limited, and BNY Trust Company of Canada, as Canadian trustee, The Bank of New York Mellon, as U.S. trustee, paying agent, registrar, transfer agent and authenticating agent, and The Bank of New York Mellon, London Branch, as London paying agent	10-Q	4.1	8/7/2018	001-31410	
4.5	Eighth Supplemental Indenture, dated as of November 16, 2018, governing the 5.50% Senior Notes due 2024, by and among Cott Corporation and John Farrer & Company (Kendal) Limited, and BNY Trust Company of Canada, as Canadian trustee, The Bank of New York Mellon, as U.S. trustee, paying agent, registrar, transfer agent and authenticating agent, and The Bank of New York Mellon, London Branch, as London paying agent	10-K	4.9	2/27/2019	001-31410	
4.6	Ninth Supplemental Indenture, dated as of January 15, 2019, governing the 5.50% Senior Notes due 2024, by and among Cott Corporation, Amazon Springs Water Co. Ltd., Mountain Valley Holdings LLC, Mountain Valley Spring Company, LLC and Mountain Valley Logistics, LLC, and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee	10-K	4.10	2/27/2019	001-31410	
4.7	Tenth Supplemental Indenture, dated as of April 1, 2019, governing the 5.50% Senior Notes due 2024, by and among Cott Corporation, Wallingford Holding, Inc. and Wallingford Coffee Mills Inc., and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee	10-Q	4.1	5/9/2019	001-31410	
4.8	Indenture, dated as of March 22, 2017, by and among Cott Holdings Inc., the guarantors party thereto, BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee, paying agent, registrar, transfer agent and authenticating agent, governing the 5.500% Senior Notes due 2025	8-K	4.1	3/22/2017	001-31410	

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
4.9	Form of 5.500% Senior Notes due 2025 (included as Exhibit A to Exhibit 4.8)	8-K	4.1	3/22/2017	001-31410	
4.10	Third Supplemental Indenture, dated as of April 16, 2018, governing the 5.50% Senior Notes due 2025, by and among Cott Holdings Inc. and certain of its subsidiaries, including Crystal Rock Holdings, Inc. and Crystal Rock LLC, and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee, paying agent, registrar, transfer agent and authenticating agent	10-Q	4.2	5/10/2018	001-31410	
4.11	Fourth Supplemental Indenture, dated as of June 29, 2018, governing the 5.50% Senior Notes due 2025, by and among Cott Holdings Inc. and John Farrer & Company (Kendal) Limited, and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee, paying agent, registrar, transfer agent and authenticating agent	10-Q	4.2	8/7/2018	001-31410	
4.12	Fifth Supplemental Indenture, dated as of November 16, 2018, governing the 5.50% Senior Notes due 2025, by and among Cott Holdings Inc., Amazon Springs Water Co. Ltd., Mountain Valley Holdings LLC, Mountain Valley Spring Company, LLC and Mountain Valley Logistics, LLC, and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee	10-K	4.15	2/27/2019	001-31410	
4.13	Sixth Supplemental Indenture, dated as of January 15, 2019, governing the 5.50% Senior Notes due 2025, by and among Cott Holdings Inc. and Cott Cayman, and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee	10-K	4.16	2/27/2019	001-31410	
4.14	Seventh Supplemental Indenture, dated as of April 1, 2019, governing the 5.50% Senior Notes due 2025, by and among Cott Holdings, Inc., Wallingford Holding, Inc. and Wallingford Coffee Mills Inc., and BNY Trust Company of Canada, as Canadian co-trustee, and The Bank of New York Mellon, as U.S. co-trustee	10-Q	4.2	5/19/2019	001-31410	

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
4.15	Shareholder Rights Plan Agreement, dated as of May 1, 2018, between Cott Corporation and Computershare Investor Services Inc., as Rights Agent	8-K	4.1	5/4/2018	001-31410	
4.16	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934					*
10.1	Second Amendment and Restatement Agreement, dated as of January 30, 2018, to the Credit Agreement dated as of August 17, 2010, as amended, among Cott Corporation, Cott Beverages Inc., Cott Beverages Limited, Cliffstar LLC, DS Services of America, Inc. and the other Loan Parties party thereto, the Lenders party thereto, JPMorgan Chase Bank, N.A., London Branch as UK security trustee, JPMorgan Chase Bank, N.A., as administrative agent and administrative collateral agent, and each of the other parties party thereto	8-K	10.1	2/2/2018	001-31410	
10.2 <sup>(2)</sup>	Offer Letter Agreement with Jerry Fowden dated August 1, 2018	8-K	10.1	8/3/2018	001-31410	
10.3 <sup>(2)</sup>	Extension of Offer Letter Agreement with Jerry Fowden dated December 10, 2019	8-K	10.1	12/11/2019	001-31410	
10.4 <sup>(2)</sup>	Employment Offer Letter to Jay Wells dated January 14, 2012	10-Q	10.1	5/7/2012	001-31410	
10.5 <sup>(2)</sup>	Offer Letter Agreement with Thomas Harrington dated August 1, 2018	8-K	10.2	8/3/2018	001-31410	
10.6 <sup>(2)</sup>	Employment Offer Letter to Ron Hinson dated November 6, 2017	10-Q	10.1	11/9/2017	001-31410	
10.7 <sup>(2)</sup>	Employment Offer Letter to Marni Morgan Poe dated January 14, 2010	10-Q	10.1	5/12/2010	001-31410	
10.8 <sup>(2)</sup>	Employment Offer Letter to Jason Ausher dated May 6, 2015	10-Q	10.2	8/5/2015	001-31410	
10.9 <sup>(2)</sup>	Contract of Employment between Aimia Foods Limited and Steven Kitching dated February 14, 2019					*
10.10 <sup>(2)</sup>	Employment Offer Letter to William Jamieson, dated January 15, 2019	10-Q	10.1	5/9/2019	001-31410	
10.11 <sup>(2)</sup>	Cott Corporation Severance and Non-Competition Plan, dated February 18, 2009	8-K	10.2	2/24/2009	001-31410	

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
10.12 <sup>(2)</sup>	First Amendment to the Cott Corporation Severance and Non-Competition Plan, dated August 1, 2018	8-K	10.3	8/3/2018	001-31410	
10.13 <sup>(2)</sup>	Amended and Restated Cott Corporation Equity Incentive Plan	DEF 14A	Appendix B	3/28/2013	001-31410	
10.14 <sup>(2)</sup>	Amendment to Amended and Restated Cott Corporation Equity Incentive Plan	DEF 14A	Appendix B	3/26/2015	001-31410	
10.15 <sup>(2)</sup>	Amendment to Amended and Restated Cott Corporation Equity Incentive Plan	10-Q	10.3	8/9/2016	001-31410	
10.16 <sup>(2)</sup>	Cott Corporation 2018 Equity Incentive Plan	DEF 14A	Appendix B	3/21/2018	001-31410	
10.17 <sup>(2)</sup>	Form of Restricted Share Unit Award Agreement with Time-Based Vesting under the Amended and Restated Cott Corporation Equity Incentive Plan	10-K	10.22	2/29/2016	001-31410	
10.18 <sup>(2)</sup>	Form of Restricted Share Unit Award Agreement with Performance-Based Vesting under the Amended and Restated Cott Corporation Equity Incentive Plan	10-K	10.23	2/29/2016	001-31410	
10.19 <sup>(2)</sup>	Form of Nonqualified Stock Option Agreement under the Amended and Restated Cott Corporation Equity Incentive Plan	10-K	10.24	2/29/2016	001-31410	
21.1	List of Subsidiaries of Cott Corporation					*
23.1	Consent of Independent Registered Public Accounting Firm					*
31.1	Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 for the year ended December 28, 2019.					*
31.2	Certification of the Chief Financial and Administrative Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 for the year ended December 28, 2019.					*
32.1	Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for the year ended December 28, 2019.					*
32.2	Certification of the Chief Financial and Administrative Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for the year ended December 28, 2019.					*

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
101	The following financial statements from Cott Corporation's Annual Report on Form 10-K for the fiscal year ended December 28, 2019, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Equity, and (vi) Notes to the Consolidated Financial Statements.					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					*

<sup>1</sup> Confidential treatment has been granted for portions of this exhibit.

<sup>2</sup> Indicates a management contract or compensatory plan.

All other schedules called for by the applicable SEC accounting regulations are not required under the related instructions or are inapplicable and, therefore, have been omitted.

#### ITEM 16. FORM 10-K SUMMARY

Not applicable.



## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cott Corporation

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/S/ THOMAS J HARRINGTON

**Thomas J. Harrington**  
**Chief Executive Officer**  
**Date: February 26, 2020**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

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/S/ THOMAS J HARRINGTON

**Thomas J. Harrington**  
**Chief Executive Officer, Director**  
**(Principal Executive Officer)**  
**Date: February 26, 2020**

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/S/ BETTY JANE HESS

**Betty Jane Hess**  
**Director**  
**Date: February 26, 2020**

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/S/ JAY WELLS

**Jay Wells**  
**Chief Financial and Administrative Officer**  
**(Principal Financial Officer)**  
**Date: February 26, 2020**

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/S/ GREGORY MONAHAN

**Gregory Monahan**  
**Director**  
**Date: February 26, 2020**

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/S/ JASON AUSER

**Jason Auser**  
**Chief Accounting Officer**  
**(Principal Accounting Officer)**  
**Date: February 26, 2020**

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/S/ MARIO PILOZZI

**Mario Pillozzi**  
**Director**  
**Date: February 26, 2020**

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/S/ JERRY FOWDEN

**Jerry Fowden**  
**Executive Chairman, Director**  
**Date: February 26, 2020**

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/S/ BRITTA BOMHARD

**Britta Bomhard**  
**Director**  
**Date: February 26, 2020**

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/S/ STEVEN STANBROOK

**Steven Stanbrook**  
**Director**  
**Date: February 26, 2020**

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/S/ GRAHAM SAVAGE

**Graham Savage**  
**Director**  
**Date: February 26, 2020**

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/S/ STEPHEN H. HALPERIN

**Stephen H. Halperin**  
**Director**  
**Date: February 26, 2020**

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/S/ ERIC ROSENFELD

**Eric Rosenfeld**  
**Director**  
**Date: February 26, 2020**

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**COTT CORPORATION**  
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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Cott Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Cott Corporation and its subsidiaries (the “Company”) as of December 28, 2019 and December 29, 2018, and the related consolidated statements of operations, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 28, 2019, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

### ***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Goodwill Impairment Analysis—Eden Reporting Unit***

As described in Note 1 to the consolidated financial statements, the Company's consolidated goodwill balance was \$1,175.7 million as of December 28, 2019, and the goodwill associated with the Eden reporting unit was \$321.1 million. Management tests goodwill for impairment at least annually on the first day of the fourth quarter, or more frequently if management determines a triggering event has occurred during the year. The fair value of the Eden reporting unit was estimated using a mix of the income approach (which is based on the discounted cash flows of the reporting unit) and the guideline public company approach. Critical assumptions used in management's valuation of the Eden reporting unit included the anticipated future cash flows, weighted-average terminal growth rate and discount rate. Anticipated future cash flows assumption reflects projected revenue growth rates, operating profit margins and capital expenditures.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the Eden reporting unit is a critical audit matter are there was significant judgment by management when developing the fair value measurement of the reporting unit. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's significant assumptions, including revenue growth rates, operating profit margins, the discount rate, and weighted-average terminal growth rate. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Company's reporting units. These procedures also included, among others, testing management's process for

developing the fair value measurement of the reporting unit; evaluating the appropriateness of the discounted cash flow model and the guideline public company approach; testing the completeness, accuracy, and relevance of underlying data used in the discounted cash flow model; and evaluating the reasonableness of significant assumptions used by management, including revenue growth rates, operating profit margins, the discount rate, and weighted-average terminal growth rate. Evaluating management's assumptions related to revenue growth rates and operating profit margins involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow model and certain significant assumptions, including the discount rate and the weighted-average terminal growth rate.

/s/PricewaterhouseCoopers LLP  
Tampa, Florida  
February 26, 2020

We have served as the Company's auditor since 2007.



# COTT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions of U.S. dollars, except share and per share amounts)

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<b>Revenue, net</b> .....	<b>\$ 2,394.5</b>	\$ 2,372.9	\$ 2,269.7
Cost of sales .....	<b>1,166.7</b>	1,197.3	1,142.0
<b>Gross profit</b> .....	<b>1,227.8</b>	1,175.6	1,127.7
Selling, general and administrative expenses .....	<b>1,113.0</b>	1,092.1	1,043.2
Loss on disposal of property, plant and equipment, net .....	<b>7.5</b>	9.4	10.2
Acquisition and integration expenses .....	<b>16.9</b>	15.3	30.4
<b>Operating income</b> .....	<b>90.4</b>	58.8	43.9
Other expense (income), net .....	<b>2.8</b>	(42.9)	(8.0)
Interest expense, net .....	<b>78.2</b>	77.6	85.5
<b>Income (loss) from continuing operations before income taxes</b> .....	<b>9.4</b>	24.1	(33.6)
Income tax expense (benefit) .....	<b>9.5</b>	(4.8)	(30.0)
<b>Net (loss) income from continuing operations</b> .....	<b>\$ (0.1)</b>	\$ 28.9	\$ (3.6)
Net income from discontinued operations, net of income taxes (Note 3) ...	<b>3.0</b>	354.6	10.7
<b>Net income</b> .....	<b>\$ 2.9</b>	\$ 383.5	\$ 7.1
Less: Net income attributable to non-controlling interests—discontinued operations .....	<b>—</b>	0.6	8.5
<b>Net income (loss) attributable to Cott Corporation</b> .....	<b>\$ 2.9</b>	\$ 382.9	\$ (1.4)
<b>Net income (loss) per common share attributable to Cott Corporation</b>			
<b>Basic:</b>			
Continuing operations .....	\$ —	\$ 0.21	\$ (0.03)
Discontinued operations .....	\$ <b>0.02</b>	\$ 2.54	\$ 0.02
Net income (loss) .....	\$ <b>0.02</b>	\$ 2.75	\$ (0.01)
<b>Diluted:</b>			
Continuing operations .....	\$ —	\$ 0.21	\$ (0.03)
Discontinued operations .....	\$ <b>0.02</b>	\$ 2.50	\$ 0.02
Net income (loss) .....	\$ <b>0.02</b>	\$ 2.71	\$ (0.01)
<b>Weighted average common shares outstanding (in thousands)</b>			
Basic .....	<b>135,224</b>	139,097	139,078
Diluted .....	<b>135,224</b>	141,436	139,078

The accompanying notes are an integral part of these consolidated financial statements.

# COTT CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of U.S. dollars)

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Net income .....	\$ 2.9	\$383.5	\$ 7.1
Other comprehensive income (loss):			
Currency translation adjustment .....	13.6	(16.1)	27.2
Pension benefit plan, net of tax <sup>1,2</sup> .....	(1.3)	17.1	(2.4)
Gain (loss) on derivative instruments, net of tax <sup>3</sup> .....	20.9	(8.3)	(1.3)
<b>Total other comprehensive income (loss)</b>	<b>33.2</b>	<b>(7.3)</b>	<b>23.5</b>
<b>Comprehensive income</b>	<b>\$36.1</b>	<b>\$376.2</b>	<b>\$30.6</b>
Less: Comprehensive income attributable to non-controlling interests .....	—	0.6	8.5
<b>Comprehensive income attributable to Cott Corporation</b> .....	<b>\$36.1</b>	<b>\$375.6</b>	<b>\$22.1</b>

<sup>1</sup> Net of \$3.6 million of associated tax impact that resulted in an increase to the gain on sale of discontinued operations for the year ended December 29, 2018.

<sup>2</sup> Net of the effect of a \$0.2 million tax benefit, \$0.1 million tax expense and \$0.6 million tax benefit for the years ended December 28, 2019, December 29, 2018 and December 30, 2017, respectively.

<sup>3</sup> Net of the effect of \$6.8 million tax expense and \$2.5 million tax benefit for the years ended December 28, 2019 and December 29, 2018, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

# COTT CORPORATION

## CONSOLIDATED BALANCE SHEETS (in millions of U.S. dollars, except share amounts)

	December 28, 2019	December 29, 2018
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents . . . . .	\$ 205.5	\$ 170.8
Accounts receivable, net of allowance of \$9.1 (\$9.6 as of December 29, 2018) . . . . .	279.3	308.3
Inventories . . . . .	122.5	129.6
Prepaid expenses and other current assets . . . . .	35.0	27.2
<b>Total current assets</b> . . . . .	<b>642.3</b>	<b>635.9</b>
Property, plant and equipment, net . . . . .	647.8	624.7
Operating lease right-of-use-assets . . . . .	203.1	—
Goodwill . . . . .	1,175.7	1,143.9
Intangible assets, net . . . . .	701.4	739.2
Deferred tax assets . . . . .	—	0.1
Other long-term assets, net . . . . .	20.6	31.7
<b>Total assets</b> . . . . .	<b>\$3,390.9</b>	<b>\$3,175.5</b>
<b>LIABILITIES AND EQUITY</b>		
<i>Current liabilities</i>		
Short-term borrowings . . . . .	\$ 92.4	\$ 89.0
Current maturities of long-term debt . . . . .	7.4	3.0
Accounts payable and accrued liabilities . . . . .	466.1	469.0
Current operating lease obligations . . . . .	41.7	—
<b>Total current liabilities</b> . . . . .	<b>607.6</b>	<b>561.0</b>
Long-term debt . . . . .	1,260.2	1,250.2
Operating lease obligations . . . . .	167.8	—
Deferred tax liabilities . . . . .	127.4	124.3
Other long-term liabilities . . . . .	61.7	69.6
<b>Total liabilities</b> . . . . .	<b>2,224.7</b>	<b>2,005.1</b>
Commitments and contingencies—Note 20		
<i>Equity</i>		
Common shares, no par value—134,803,211 shares issued (December 29, 2018— 136,195,108 shares issued) . . . . .	892.3	899.4
Additional paid-in-capital . . . . .	77.4	73.9
Retained earnings . . . . .	265.0	298.8
Accumulated other comprehensive loss . . . . .	(68.5)	(101.7)
<b>Total Cott Corporation equity</b> . . . . .	<b>1,166.2</b>	<b>1,170.4</b>
<b>Total liabilities and equity</b> . . . . .	<b>\$3,390.9</b>	<b>\$3,175.5</b>

Approved by the Board of Directors:

/s/ Graham Savage  
Director

The accompanying notes are an integral part of these consolidated financial statements.

# COTT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of U.S. dollars)

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<b>Cash flows from operating activities of continuing operations:</b>			
Net income	\$ 2.9	\$ 383.5	\$ 7.1
Net income from discontinued operations, net of income taxes	3.0	354.6	10.7
Net (loss) income from continuing operations	(0.1)	28.9	(3.6)
<b>Adjustments to reconcile net (loss) income from continuing operations to cash flows from operating activities:</b>			
Depreciation and amortization	192.8	194.6	188.6
Amortization of financing fees	3.5	3.5	1.9
Share-based compensation expense	12.4	17.3	17.5
Benefit for deferred income taxes	(2.1)	(6.7)	(33.9)
Gain on extinguishment of long-term debt	—	(7.1)	(1.5)
Loss (gain) on sale of business	6.0	(6.0)	—
Loss on disposal of property, plant and equipment, net	7.5	9.4	10.2
Other non-cash items	(2.2)	(3.0)	(3.5)
<b>Change in operating assets and liabilities, net of acquisitions:</b>			
Accounts receivable	15.1	(10.8)	(8.0)
Inventories	(7.5)	(0.5)	(2.0)
Prepaid expenses and other current assets	2.6	(4.0)	0.9
Other assets	1.7	(0.5)	2.1
Accounts payable and accrued liabilities and other liabilities	20.3	29.2	7.3
Net cash provided by operating activities from continuing operations	250.0	244.3	176.0
<b>Cash flows from investing activities of continuing operations:</b>			
Acquisitions, net of cash received	(76.3)	(164.0)	(35.5)
Additions to property, plant and equipment	(114.6)	(130.8)	(121.3)
Additions to intangible assets	(10.9)	(13.2)	(5.6)
Proceeds from sale of property, plant and equipment and sale-leaseback	2.9	4.1	7.8
Proceeds from sale of business, net of cash sold	50.5	12.8	—
Proceeds from sale of equity securities	—	7.9	—
Other investing activities	0.6	0.5	1.0
Net cash used in investing activities from continuing operations	(147.8)	(282.7)	(153.6)
<b>Cash flows from financing activities of continuing operations:</b>			
Payments of long-term debt	(5.6)	(264.5)	(101.5)
Issuance of long-term debt	—	2.7	750.0
Borrowings under ABL	75.1	98.4	—
Payments under ABL	(64.2)	(17.4)	—
Premiums and costs paid upon extinguishment of long-term debt	—	(12.5)	(7.7)
Issuance of common shares	1.2	6.4	3.5
Common shares repurchased and canceled	(31.8)	(74.9)	(3.8)
Financing fees	—	(1.5)	(11.1)
Dividends paid to common and preferred shareholders	(32.5)	(33.4)	(33.4)
Payment of contingent consideration for acquisitions	(0.3)	(2.8)	—
Other financing activities	(7.9)	2.9	0.5
Net cash (used in) provided by financing activities from continuing operations	(66.0)	(296.6)	596.5
<b>Cash flows from discontinued operations:</b>			
Operating activities of discontinued operations	(3.2)	(97.6)	102.7
Investing activities of discontinued operations	—	1,225.5	(44.7)
Financing activities of discontinued operations	—	(769.7)	(643.4)
Net cash (used in) provided by discontinued operations	(3.2)	358.2	(585.4)
Effect of exchange rate changes on cash	1.7	(10.3)	6.3
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>34.7</b>	<b>12.9</b>	<b>39.8</b>
Cash and cash equivalents and restricted cash, beginning of year	170.8	157.9	118.1
Cash and cash equivalents and restricted cash, end of year	205.5	170.8	157.9
Cash and cash equivalents and restricted cash of discontinued operations, end of year	—	—	66.0
Cash and cash equivalents and restricted cash from continuing operations, end of year	<u>\$ 205.5</u>	<u>\$ 170.8</u>	<u>\$ 91.9</u>
<b>Supplemental Non-cash Investing and Financing Activities:</b>			
Additions to property, plant and equipment through accounts payable and accrued liabilities and other liabilities	\$ 14.2	\$ 11.6	\$ 10.9
Accrued deferred financing fees	\$ —	\$ —	\$ 0.6
Dividends payable issued through accounts payable and other accrued liabilities	\$ 0.1	\$ 0.3	\$ 0.3
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid for interest	\$ 75.2	\$ 68.9	\$ 81.6
Cash paid for income taxes, net	\$ 6.9	\$ 9.6	\$ 1.9

The accompanying notes are an integral part of these consolidated financial statements.

# COTT CORPORATION

## CONSOLIDATED STATEMENTS OF EQUITY

(in millions of U.S. dollars, except share amounts)

	Cott Corporation Equity						
	Number of Common Shares (In thousands)	Common Shares	Additional Paid-in- Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total Equity
<b>Balance at December 31, 2016</b>	<b>138,591</b>	<b>\$909.3</b>	<b>\$ 54.2</b>	<b>\$ 22.9</b>	<b>\$(117.9)</b>	<b>\$ 5.3</b>	<b>\$ 873.8</b>
Net (loss) income	—	—	—	(1.4)	—	8.5	7.1
Other comprehensive income, net of tax	—	—	—	—	23.5	—	23.5
Common shares dividends (\$0.24 per common share)	—	—	—	(33.7)	—	—	(33.7)
Share-based compensation	—	—	22.9	—	—	—	22.9
Common shares repurchased and canceled	(277)	(3.8)	—	—	—	—	(3.8)
Common shares issued—Equity Incentive Plan	1,004	9.4	(7.7)	—	—	—	1.7
Common shares issued—Dividend Reinvestment Plan	34	0.5	—	—	—	—	0.5
Common shares issued—Employee Stock Purchase Plan	137	1.7	(0.3)	—	—	—	1.4
Distributions to non-controlling interests	—	—	—	—	—	(7.7)	(7.7)
<b>Balance at December 30, 2017</b>	<b>139,489</b>	<b>\$917.1</b>	<b>\$ 69.1</b>	<b>\$(12.2)</b>	<b>\$ (94.4)</b>	<b>\$ 6.1</b>	<b>\$ 885.7</b>
Net income	—	—	—	382.9	—	0.6	383.5
Other comprehensive loss, net of tax	—	—	—	—	(7.3)	—	(7.3)
Common shares dividends (\$0.24 per common share)	—	—	—	(33.7)	—	—	(33.7)
Share-based compensation	—	—	17.4	—	—	—	17.4
Common shares repurchased and canceled	(4,981)	(36.7)	—	(38.2)	—	—	(74.9)
Common shares issued—Equity Incentive Plan	1,581	17.4	(12.4)	—	—	—	5.0
Common shares issued—Dividend Reinvestment Plan	20	0.3	—	—	—	—	0.3
Common shares issued—Employee Stock Purchase Plan	86	1.3	(0.2)	—	—	—	1.1
Distributions to non-controlling interests	—	—	—	—	—	(0.9)	(0.9)
Sale of subsidiary shares of non-controlling interests	—	—	—	—	—	(5.8)	(5.8)
<b>Balance at December 29, 2018</b>	<b>136,195</b>	<b>\$899.4</b>	<b>\$ 73.9</b>	<b>\$298.8</b>	<b>\$(101.7)</b>	<b>\$—</b>	<b>\$1,170.4</b>
Cumulative effect of changes in accounting principle, net of taxes	—	—	—	10.5	—	—	10.5
Net income	—	—	—	2.9	—	—	2.9
Other comprehensive income, net of tax	—	—	—	—	33.2	—	33.2
Common shares dividends (\$0.24 per common share)	—	—	—	(32.6)	—	—	(32.6)
Share-based compensation	—	—	12.4	—	—	—	12.4
Common shares repurchased and canceled	(2,270)	(17.2)	—	(14.6)	—	—	(31.8)
Common shares issued—Equity Incentive Plan	781	8.8	(8.7)	—	—	—	0.1
Common shares issued—Dividend Reinvestment Plan	3	—	—	—	—	—	—
Common shares issued—Employee Stock Purchase Plan	94	1.3	(0.2)	—	—	—	1.1
<b>Balance at December 28, 2019</b>	<b>134,803</b>	<b>\$892.3</b>	<b>\$ 77.4</b>	<b>\$265.0</b>	<b>\$ (68.5)</b>	<b>\$—</b>	<b>\$1,166.2</b>

The accompanying notes are an integral part of these consolidated financial statements.

## **Notes to Consolidated Financial Statements**

### **Description of Business**

As used herein, “Cott,” “the Company,” “our Company,” “Cott Corporation,” “we,” “us,” or “our” refers to Cott Corporation, together with its consolidated subsidiaries. Cott is a water and filtration service company with a leading volume-based national presence in the North American and European home and office delivery industry for bottled water. Our platform reaches over 2.5 million customers or delivery points across North America and Europe and is supported by strategically located sales and distribution facilities and fleets, as well as wholesalers and distributors. This enables us to efficiently service residences, businesses, and small and large retailers.

### **Note 1—Summary of Significant Accounting Policies**

#### **Basis of presentation**

These Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) using the U.S. dollar as the reporting currency, as the majority of our business and the majority of our shareowners are in the United States.

Our fiscal year is based on either a 52- or 53- week period ending on the Saturday closest to December 31. For the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017, we had 52- weeks of activity. One of our subsidiaries uses a Gregorian calendar year-end which differs from the Company’s 52- or 53- week fiscal year-end. Differences arising from the use of the different fiscal year-ends were not deemed material for the fiscal years ended December 28, 2019, December 29, 2018 or December 30, 2017.

#### **Basis of consolidation**

The Consolidated Financial Statements include our accounts, our wholly-owned and majority-owned subsidiaries that we control. All intercompany transactions and accounts have been eliminated in consolidation.

#### **Changes in presentation**

Certain prior year amounts have been reclassified to conform to the current year presentation on the accompanying Consolidated Statements of Cash Flows. We reclassified amortization of senior notes premium and commodity hedging loss (gain), net to other non-cash items. These reclassifications had no effect on net cash provided by operating activities.

During the first quarter of 2019, we reviewed and realigned our reporting segments to reflect how the business will be managed and the results will be reviewed by the Chief Executive Officer, who is the Company’s chief operating decision maker. Following such review, we realigned our three reporting segments as follows: Route Based Services (which includes our DS Services of America, Inc. (“DSS”), Aquaterra Corporation (“Aquaterra”), Mountain Valley Spring Company (“Mountain Valley”), Eden Springs Europe B.V. (“Eden”) and Aimia Foods (“Aimia”) businesses); Coffee, Tea and Extract Solutions (which includes our S. & D. Coffee, Inc. (“S&D”) business); and All Other (which includes miscellaneous expenses and our Cott Beverages LLC business, which was sold in the first quarter of 2019). Our segment reporting results have been recast to reflect these changes for all periods presented.

#### **Discontinued operations**

In July 2017, we entered into a Share Purchase Agreement with Refresco Group B.V., a Dutch company (“Refresco”), pursuant to which we sold to Refresco, on January 30, 2018, our carbonated soft drinks and juice businesses via the sale of our North America, United Kingdom and Mexico business units (including the



Canadian business) and our Royal Crown International finished goods export business (collectively, the “Traditional Business” and such transaction, the “Traditional Business Disposition”). The Traditional Business Disposition was structured as a sale of the assets of our Canadian business and a sale of the stock of the operating subsidiaries engaged in the Traditional Business in the other jurisdictions after we completed an internal reorganization. The aggregate deal consideration was \$1.25 billion, paid at closing in cash, with customary post-closing adjustments resolved in December 2018 by the payment of \$7.9 million from the Company to Refresco. The sale of the Traditional Business represented a strategic shift and had a major effect on our operations and, therefore, the Traditional Business is presented herein as discontinued operations. The Traditional Business excludes our Route Based Services and Coffee, Tea and Extract Solutions reporting segments, and our Cott Beverages LLC business.

## **Estimates**

The preparation of these Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Consolidated Financial Statements include estimates and assumptions that, in the opinion of management, were significant to the underlying amounts representing the future valuation of intangible assets, long-lived assets and goodwill, realization of deferred income tax assets, the resolution of tax contingencies and projected benefit plan obligations.

## **Revenue recognition**

We recognize revenue, net of sales returns, when ownership passes to customers for products manufactured in our own plants and/or by third-parties on our behalf, and when prices to our customers are fixed or determinable and collection is reasonably assured. This may be upon shipment of goods or upon delivery to the customer, depending on contractual terms. Shipping and handling costs paid by the customer to us are included in revenue. Although we occasionally accept returns of products from our customers, historically returns have not been material.

We also recognize rental income on filtration, brewers and dispensing equipment at customer locations based on the terms of the related rental agreements, which are generally measured based on 28-day periods. Amounts billed to customers for rental in future periods are deferred and included in accounts payable and accrued liabilities on the Consolidated Balance Sheets.

## **Sales incentives**

We participate in various incentive programs with our customers, including volume-based incentives, contractual rebates and promotional allowances. Volume incentives are based on our customers achieving volume targets for a period of time. Volume incentives and contractual rebates are deducted from revenue and accrued as the incentives are earned and are based on management’s estimate of the total the customer is expected to earn and claim. Promotional allowances are accrued at the time of revenue recognition and are deducted from revenue based on either the volume shipped or the volume sold at the retailer location, depending on the terms of the allowance. We regularly review customer sales forecasts to ensure volume targets will be met and adjust incentive accruals and revenues accordingly.

## **Cost of sales**

We record costs associated with the manufacturing of our products in cost of sales. Shipping and handling costs incurred to store, prepare and move products between production facilities or from production facilities to branch locations or storage facilities are recorded in cost of sales. Shipping and handling costs incurred to deliver products from our Route Based Services and Coffee, Tea and Extract Solutions reporting segment branch

locations to the end-user consumer of those products are recorded in selling, general and administrative (“SG&A”) expenses. All other costs incurred in shipment of products from our production facilities to customer locations are reflected in cost of sales. Shipping and handling costs included in SG&A were \$492.9 million, \$473.8 million, and \$440.8 million for the years ended December 28, 2019, December 29, 2018, and December 30, 2017, respectively. Finished goods inventory costs include the cost of direct labor and materials and the applicable share of overhead expense chargeable to production.

### **Selling, general and administrative expenses**

We record all other expenses not charged to production as SG&A expenses. Advertising costs are expensed at the commencement of an advertising campaign and are recognized as a component of SG&A expenses. Advertising costs are not significant to any reporting segment other than Route Based Services. Advertising costs expensed were approximately \$23.8 million, \$24.0 million, and \$21.6 million for the years ended December 28, 2019, December 29, 2018, and December 30, 2017, respectively.

### **Share-based compensation**

We have in effect equity incentive plans under which Time-based RSUs, Performance-based RSUs, non-qualified stock options and director share awards have been granted (as such terms are defined in Note 9 of the Consolidated Financial Statements). Share-based compensation expense for all share-based compensation awards is based on the grant-date fair value. We recognized these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three years, and account for forfeitures when they occur. The fair value of the Company’s Time-based RSUs, Performance-based RSUs and director share awards are based on the closing market price of its common shares on the date of grant as stated on the NYSE. We estimate the fair value of non-qualified options as of the date of grant using the Black-Scholes option pricing model. This model considers, among other factors, the expected life of the award, the expected volatility of the Company’s share price, and expected dividends. The Company records share-based compensation expense in SG&A expenses.

All excess tax benefits and tax deficiencies related to share-based compensation are recognized in results of operations at settlement or expiration of the award. The excess tax benefit or deficiency is calculated as the difference between the grant date price and the price of our common shares on the vesting or exercise date.

### **Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments with original maturities not exceeding three months at the time of purchase. The fair values of our cash and cash equivalents approximate the amounts shown on our Consolidated Balance Sheets due to their short-term nature.

### **Allowance for doubtful accounts**

A portion of our accounts receivable is not expected to be collected due to non-payment, bankruptcies and deductions. Our accounting policy for the allowance for doubtful accounts requires us to reserve an amount based on the evaluation of the aging of accounts receivable, detailed analysis of high-risk customers’ accounts, and the overall market and economic conditions of our customers. This evaluation considers the customer demographic, such as large commercial customers as compared to small businesses or individual customers. We consider our accounts receivable delinquent or past due based on payment terms established with each customer. Accounts receivable are written off when the account is determined to be uncollectible.

### **Inventories**

Inventories are stated at the lower of cost, determined on the first-in, first-out method, or net realizable value. Finished goods and work-in-process include the inventory costs of raw materials, direct labor and

manufacturing overhead costs. As a result, we use an inventory reserve to adjust our inventory costs down to a net realizable value and to reserve for estimated obsolescence of both raw materials and finished goods.

### **Customer deposits**

The Company generally collects deposits on three- and five-gallon bottles used by our home and office water delivery customers. Such deposits are refunded only after customers return such bottles in satisfactory condition. The associated bottle deposit liability is estimated based on the number of water customers, average consumption and return rates and bottle deposit market rates. The Company analyzes these assumptions quarterly and adjusts the bottle deposit liability as necessary.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is allocated between cost of sales and SG&A expenses and is determined using the straight-line method over the estimated useful lives of the assets.

Leasehold improvements are amortized using the straight-line method over the remaining life of the lease or useful life of the asset, whichever is shorter. Maintenance and repairs are charged to operating expense when incurred.

### **Leases**

We have operating and finance leases for manufacturing and production facilities, branch distribution and warehouse facilities, vehicles and machinery and equipment. At inception, we determine whether an agreement represents a lease and, at commencement, we evaluate each lease agreement to determine whether the lease constitutes an operating or financing lease. Some of our lease agreements have renewal options, tenant improvement allowances, rent holidays and rent escalation clauses. As described below under “Recently adopted accounting pronouncements,” we adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02 - Leases as of December 30, 2018.

With the adoption of ASU 2016-02, we recorded operating lease right-of-use assets and operating lease obligations on our balance sheet. Right-of-use lease assets represent our right to use the underlying asset for the lease term, and the operating lease obligation represents our commitment to make the lease payments arising from the lease. We have elected not to recognize on the balance sheet leases with terms of one-year or less. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, we utilize the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received. The lease term may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectations regarding the terms.

### **Goodwill**

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but instead is tested for impairment at least annually.

The following table summarizes our goodwill on a reporting segment basis as of December 28, 2019 and December 29, 2018:

(in millions of U.S. dollars)	Reporting Segment			
	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Total
Balance December 30, 2017	\$ 982.4	\$117.8	\$ 4.5	\$1,104.7
Goodwill acquired during the year	63.3	—	—	63.3
Adjustments	(3.0)	—	—	(3.0)
Foreign exchange	\$ (21.1)	\$ —	\$ —	\$ (21.1)
Balance December 29, 2018	1,021.6	117.8	4.5	1,143.9
Goodwill acquired during the year	35.3	10.4	—	45.7
Adjustments	(3.1)	—	—	(3.1)
Divestitures	—	—	(4.5)	(4.5)
Foreign exchange	(6.3)	—	—	(6.3)
Balance December 28, 2019	<u>\$1,047.5</u>	<u>\$128.2</u>	<u>\$—</u>	<u>\$1,175.7</u>

Cott operates through two operating segments: Route Based Services and Coffee, Tea and Extract Solutions. These two operating segments are also reportable segments. We test goodwill for impairment at least annually on the first day of the fourth quarter, based on our reporting unit carrying values, calculated as total assets less non-interest bearing liabilities, as of the end of the third quarter, or more frequently if we determine a triggering event has occurred during the year. Any impairment loss is recognized in our results of operations. We evaluate goodwill for impairment on a reporting unit basis, which is an operating segment or a level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component. However, two or more components of an operating segment can be aggregated and deemed a single reporting unit if the components have similar economic characteristics. Our Route Based Services operating segment was determined to have five components: DSS, Mountain Valley, Aquaterra, Eden and Aimia. We have determined that DSS and Aquaterra have similar economic characteristics and have aggregated them as a single reporting unit for the purpose of testing goodwill for impairment (“DSSAqua”). For the purpose of testing goodwill for impairment in 2019, we have determined our reporting units are DSSAqua, Mountain Valley, Eden, Aimia and S&D. DSSAqua, Mountain Valley, Eden and Aimia are components of the Route Based Services operating segment. S&D is a component of the Coffee, Tea and Extract Solutions operating segment.

We had goodwill of \$1,175.7 million on our Consolidated Balance Sheet at December 28, 2019, which represents amounts for the DSSAqua, Mountain Valley, Eden, Aimia and S&D reporting units.

For purposes of the 2019 annual test, we elected to perform a qualitative assessment for our DSSAqua, Mountain Valley, Aimia and S&D reporting units to assess whether it was more likely than not that the fair value of these reporting units exceeded their respective carrying values. In performing these assessments, management relied on a number of factors including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant reporting unit events, the impact of which are all significant judgments and estimates. Based on these factors, management concluded that it was more likely than not that the fair values of the DSSAqua, Mountain Valley, Aimia and S&D reporting units were greater than their respective carrying amounts, including goodwill, indicating no impairment. Goodwill allocated to the DSSAqua, Mountain Valley, Aimia and S&D reporting units as of December 28, 2019 is \$657.0 million, \$16.0 million, \$53.4 million and \$128.2 million, respectively.

For the Eden reporting unit, we elected to bypass the qualitative assessment and performed a quantitative analysis due to a decline in 2019 actual versus projected operating results. We determined the fair value of the

reporting unit being evaluated using a mix of the income approach (which is based on the discounted cash flows of the reporting unit) and the guideline public company approach. We weighted the income approach and the guideline public company approach at 50% each to determine the fair value of the reporting unit. We believe using a combination of these approaches provides a more accurate valuation because it incorporates the expected cash generation of the Company in addition to how a third-party market participant would value the reporting unit. As the business is assumed to continue in perpetuity, the discounted future cash flows includes a terminal value. Critical assumptions used in our 2019 valuation of the Eden reporting unit included the anticipated future cash flows, weighted-average terminal growth rate of 1.5% and a discount rate of 8.5%. Anticipated future cash flows assumption reflects projected revenue growth rates, operating profit margins and capital expenditures. The terminal growth rate assumption incorporated into the discounted cash flow calculation reflects our long-term view of the market and industry, projected changes in the sale of our products, pricing of such products and operating profit margins. The discount rate was determined using various factors and sensitive assumptions, including bond yields, size premiums and tax rates. This rate was based on the weighted average cost of capital a market participant would use if evaluating the reporting unit as an investment. These assumptions are considered significant unobservable inputs and represent our best estimate of assumptions that market participants would use to determine the fair value of the respective reporting units. The key inputs into the discounted cash flow analysis were consistent with market data, where available, indicating that the assumptions used were in a reasonable range of observable market data.

Based on the quantitative assessment including consideration of the sensitivity of the assumptions made and methods used to determine fair value, industry trends and other relevant factors, we noted that the estimated fair value of the Eden reporting unit exceeded its carrying value by approximately 4.2%. Therefore no goodwill impairment charges were recorded in the fourth quarter ended December 28, 2019. The Company performed a sensitivity analysis that noted that an increase in the discount rate of 50 basis points would have an adverse impact on the impairment testing result. Goodwill allocated to the Eden reporting unit as of December 28, 2019 is \$321.1 million.

Each year during the fourth quarter, we re-evaluate the assumptions used in our assessments, such as revenue growth rates, operating profit margins and discount rates, to reflect any significant changes in the business environment that could materially affect the fair value of our reporting units. Based on the evaluations performed in 2019, we determined that the fair value of each of our reporting units exceeded their carrying amounts.

### **Intangible assets**

As of December 28, 2019, our intangible assets subject to amortization, net of accumulated amortization were \$414.3 million, consisting principally of \$367.6 million of customer relationships that arose from acquisitions, \$25.6 million of software, and \$11.2 million of patents. Customer relationships are typically amortized on an accelerated basis for the period over which we expect to receive the economic benefits. The customer relationship intangible assets acquired in our acquisitions are amortized over the expected remaining useful life of those relationships on a basis that reflects the pattern of realization of the estimated undiscounted after-tax cash flows. We review the estimated useful life of these intangible assets annually, unless a review is required more frequently due to a triggering event, such as a loss of a significant customer. Our review of the estimated useful life takes into consideration the specific net cash flows related to the intangible asset. The permanent loss of, or significant decline in sales to customers included in the intangible asset would result in either an impairment in the value of the intangible asset or an accelerated amortization of any remaining value and could lead to an impairment of the fixed assets that were used to service that customer. In 2018, we recorded \$10.0 million in customer relationships acquired with the Mountain Valley Acquisition (as defined in Note 5 to the Consolidated Financial Statements) and \$8.4 million in customer relationships acquired with the Crystal Rock Acquisition (as defined in Note 5 to the Consolidated Financial Statements). We did not record impairment charges for other intangible assets in 2019, 2018 or 2017.

Our intangible assets with indefinite lives relate to trademarks acquired in the acquisition of DSS (the “DSS Trademarks”); trademarks acquired in the acquisition of Eden (the “Eden Trademarks”), trademarks acquired in the acquisition of Aquaterra (the “Aquaterra Trademarks”), trademarks acquired in the Mountain Valley Acquisition (the “Mountain Valley Trademarks”) and trademarks acquired in the Crystal Rock Acquisition (the “Crystal Rock Trademarks”). These assets have an aggregate net book value of \$287.1 million as of December 28, 2019. There are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of these intangible assets.

The life of the DSS Trademarks, Eden Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks are considered to be indefinite and therefore these intangible assets are not amortized. Rather, they are tested for impairment at least annually or more frequently if we determine a triggering event has occurred during the year. We compare the carrying amount of the intangible asset to its fair value and when the carrying amount is greater than the fair value, we recognize in income an impairment loss. During the fourth quarter of 2019, management concluded that it was more likely than not that the fair value of the DSS Trademarks, Eden Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks were greater than their respective carrying value, indicating no impairment.

We assessed qualitative factors to determine whether the existence of events or circumstances indicated that it was more likely than not that the fair value of the DSS Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks were less than their respective carrying value. The qualitative factors we assessed included macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant events, the impact of which are all significant judgments and estimates. We concluded that it was more likely than not that the fair value of the DSS Trademarks, Aquaterra Trademarks, Mountain Valley Trademarks and Crystal Rock Trademarks were more than its carrying value and therefore we were not required to perform any additional testing.

To determine the fair value of the Eden Trademarks, we use a relief from royalty method of the income approach, which calculates a fair value royalty rate that is applied to revenue forecasts associated with those trademarks. The resulting cash flows are discounted using a rate to reflect the risk of achieving the projected royalty savings attributable to the trademarks. The assumptions used to estimate the fair value of these trademarks are subjective and require significant management judgment, including estimated future revenues, the fair value royalty rate (which is estimated to be a reasonable market royalty charge that would be charged by a licensor of the trademarks) and the risk adjusted discount rate. Based on our impairment test, the estimated fair value of the Eden Trademarks exceeded the carrying value by approximately 42.0%. If actual revenues in future periods are less than currently projected for the Eden Trademarks, these trademarks could be impaired.

### **Impairment and disposal of long-lived assets**

When adverse events occur, we compare the carrying amount of long-lived assets to the estimated undiscounted future cash flows at the lowest level of independent cash flows for the group of long-lived assets and recognize any impairment loss based on discounted cash flows in the Consolidated Statements of Operations, taking into consideration the timing of testing and the asset’s remaining useful life. The expected life and value of these long-lived assets is based on an evaluation of the competitive environment, history and future prospects as appropriate. We did not record impairments of long-lived assets in 2019 or 2018. As part of normal business operations, we identify long-lived assets that are no longer productive and dispose of them. Losses on disposals of assets are presented separately in our Consolidated Statements of Operations as part of operating income. We recognized losses on disposal of property, plant and equipment, net of \$7.5 million for the year ended December 28, 2019 (\$9.4 million—December 29, 2018; \$10.2 million—December 30, 2017).



**Derivative financial instruments**

We use derivative financial instruments to manage our exposure to movements in foreign currencies and certain commodity prices. All derivative instruments are recorded at fair value in the Consolidated Balance Sheets. We do not use derivative financial instruments for trading or speculative purposes. We manage credit risk related to the derivative financial instruments by requiring high credit standards for our counterparties and periodic settlements. Refer to Note 21 to the Consolidated Financial Statements for further information on our derivative financial instruments.

**Foreign currency translation**

The assets and liabilities of non-U.S. active operations, all of which are self-sustaining, are translated to U.S. dollars at the exchange rates in effect at the balance sheet dates. Revenues and expenses are translated using average monthly exchange rates prevailing during the period. The resulting gains or losses are recorded in accumulated other comprehensive loss.

**Income taxes**

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amount of assets and liabilities and their respective tax bases, using currently enacted income tax rates. A valuation allowance is established to reduce deferred income tax assets if, on the basis of available evidence, it is not more likely than not that all or a portion of any deferred tax assets will be realized. The consideration of available evidence requires significant management judgment including an assessment of the future periods in which the deferred tax assets and liabilities are expected to be realized and projections of future taxable income.

The ultimate realization of the deferred tax assets, including net operating losses, is dependent upon the generation of future taxable income during the periods prior to their expiration. If our estimates and assumptions about future taxable income are not appropriate, the value of our deferred tax assets may not be recoverable, which may result in an increase to our valuation allowance that will impact current earnings.

We account for uncertain tax positions using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, based on the technical merits. The second step requires management to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense (benefit) line in the accompanying Consolidated Statements of Operations, and we include accrued interest and penalties within the other long-term liabilities line in the accompanying Consolidated Balance Sheets.

**Pension costs**

We record annual amounts relating to defined benefit pension plans based on calculations, which include various actuarial assumptions such as discount rates and assumed rates of return on plan assets depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate

of return on plan assets, changes in the level of contributions to the plans and other factors. The funded status is the difference between the fair value of plan assets and the benefit obligation. Future actuarial gains or losses that are not recognized as net periodic benefits cost in the same periods will be recognized as a component of other comprehensive income.

### **Recently adopted accounting pronouncements**

*Update ASU 2016-02 – Leases (Topic 842), amended by Update ASU 2018-11 – Leases—Targeted Improvements (Topic 842) and Update ASU 2019-01 – Leases—Codification Improvements (Topic 842)*

In February 2016, the FASB issued an update to its guidance on lease accounting for lessees and lessors. This update revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the balance sheet. The distinction between finance and operating leases has not changed, and the update does not significantly change the effect of finance and operating leases on the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. Additionally, this update requires both qualitative and specific quantitative disclosures. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The update requires adoption using a modified retrospective transition approach, with certain practical expedients available, with either 1) periods prior to the adoption date being recast or 2) a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast.

The amended guidance also provides lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component, but instead to account for those components as a single component if the non-lease components otherwise would be accounted for under ASC Topic 606 and both of the following are met: 1) the timing and pattern of transfer of the non-lease component or components and associated lease component are the same; and 2) the lease component, if accounted for separately, would be classified as an operating lease. If the non-lease component or components associated with the lease component are the predominant component of the combined component, an entity is required to account for the combined component in accordance with ASC Topic 606. Otherwise, the entity must account for the combined component as an operating lease in accordance with ASC Topic 842.

Effective December 30, 2018, we adopted the guidance in this amendment using the cumulative-effect adjustment method and elected the package of practical expedients permitted in ASC Topic 842. Accordingly, we accounted for our existing leases as operating or finance leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 29, 2018) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. We also elected to not separate lease components from non-lease components for all fixed payments.

Adoption of the new standard resulted in total operating lease obligations of \$234.3 million and operating lease right-of-use assets of \$228.0 million as of December 30, 2018. The difference between the initial operating lease obligation and the right-of-use assets is related to previously existing lease liabilities. In addition, the cumulative-effect adjustment recognized to the opening balance of retained earnings was \$10.5 million related to unamortized deferred gains associated with sale-leaseback transactions that were previously being amortized over the leaseback term and deferred tax assets associated with these deferred gains. This standard did not have a material impact on the Company's cash flows from operations and had no impact on the Company's operating results. The most significant impact was the recognition of the right-of-use assets and right-of-use liabilities for operating leases. See Note 2 to the Consolidated Financial Statements for additional information on leases.

The standard also requires lessors to classify leases as sales-type, direct financing or operating leases, similar to existing guidance. We concluded that all of our lessor lease arrangements will continue to be classified as operating leases under the new standard.

*Update ASU 2017-08 – Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)*

In March 2017, the FASB amended its guidance on accounting for debt securities. The amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. We adopted the guidance in this amendment effective December 30, 2018. Adoption of the new standard did not have a material impact on our Consolidated Financial Statements.

*Update ASU 2018-02 – Income Statement—Reporting Comprehensive Income (Topic 220)*

In February 2018, the FASB amended its guidance that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the comprehensive tax legislation enacted by the U.S. government on December 22, 2017 commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) and requires certain disclosures about stranded tax effects. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted, and may be applied in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate tax rate in the Tax Act is recognized. We adopted the guidance in this amendment effective December 30, 2018. Adoption of the new standard did not have a material impact on our Consolidated Financial Statements.

*Update ASU 2018-07 – Compensation—Improvements to Nonemployee Share-Based Payment Accounting (Topic 718)*

In June 2018, the FASB amended its guidance to expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amended guidance also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC Topic 606. We adopted the guidance in this amendment effective December 30, 2018. Adoption of the new standard did not have a material impact on our Consolidated Financial Statements.

*Update ASU 2019-07 – Codification Updates to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates*

In July 2019, the FASB amended and aligned its guidance in various SEC sections of the Codification with the requirements of certain SEC final rules. The amendments in this update are effective immediately. Adoption of the new standard did not have a material impact on our Consolidated Financial Statements.

**Recently issued accounting pronouncements**

*Update ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326), Update ASU 2019-05 – Financial Instruments—Credit Losses—Targeted Transition Relief (Topic 326) and Update ASU 2019-11 – Codification Improvements to Financial Instruments—Credit Losses (Topic 326)*

In June 2016, the FASB amended its guidance to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. The amended

guidance also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. In May 2019, the FASB amended the original guidance by providing an option to irrevocably elect the fair value option for certain financial instruments previously measured at amortized cost basis. In November 2019, the FASB provided additional guidance around how to report expected recoveries. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption will be permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This guidance will be applied using a prospective or modified retrospective transition method, depending on the area covered in this update. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

*Update ASU 2018-13 – Fair Value Measurement (Topic 820)*

In August 2018, the FASB amended its guidance on disclosure requirements for fair value measurement. The update amends existing fair value measurement disclosure requirements by adding, changing, or removing certain disclosures. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this update while delaying adoption of the additional disclosures until their effective date. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

*Update ASU 2018-14 – Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)*

In August 2018, the FASB amended its guidance on disclosure requirements for defined benefit plans. The update amends existing annual disclosure requirements applicable to all employers that sponsor defined benefit pension and other postretirement plans by adding, removing, and clarifying certain disclosures. The amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted, and are to be applied on a retrospective basis to all periods presented. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

*Update ASU 2018-15 – Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*

In August 2018, the FASB amended its guidance on customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update also requires customers to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted, including adoption in any interim period. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

*Update ASU 2019-04 – Codification Improvements to Topic 326—Financial Instruments—Credit Losses, Topic 815—Derivative and Hedging, and Topic 825—Financial Instruments*

In April 2019, the FASB amended its guidance to clarify and provide narrow-scope amendments for these three recent standards related to financial instruments accounting. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This guidance will be applied using a prospective or modified retrospective transition method, depending on the area covered in this update. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

*Update ASU 2019-12 – Income Taxes—Simplifying the Accounting for Income Taxes (Topic 740)*

In December 2019, the FASB amended its guidance to remove certain exceptions to the general principles in Topic 740 and improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

**Note 2—Leases**

We have operating and finance leases for manufacturing and production facilities, branch distribution and warehouse facilities, vehicles and machinery and equipment. The remaining terms on our leases range from one year to 22 years, some of which may include options to extend the leases generally between one and 10 years, and some of which may include options to terminate the leases within one year.

The components of lease expense for the year ended December 28, 2019 were as follows:

<u>(in millions of U.S. dollars)</u>	<u>For the Year Ended December 28, 2019</u>
Operating lease cost . . . . .	<b>\$54.7</b>
Short-term lease cost . . . . .	<b>5.0</b>
Finance lease cost	
Amortization of right-of-use assets . . . . .	<b>\$ 5.0</b>
Interest on lease liabilities . . . . .	<b>1.3</b>
Total finance lease cost . . . . .	<b>\$ 6.3</b>
Sublease income . . . . .	<b>\$ 0.8</b>

Supplemental cash flow information related to leases for the year ended December 28, 2019 was as follows:

<u>(in millions of U.S. dollars)</u>	<u>For the Year Ended December 28, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases . . .	54.0
Operating cash flows from finance leases . . . .	1.2
Financing cash flows from finance leases . . . .	4.4
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases . . . . .	28.9
Finance leases . . . . .	30.6

Supplemental balance sheet information related to leases was as follows:

<u>(in millions of U.S. dollars, except lease term and discount rate)</u>	<u>December 28, 2019</u>
<b>Operating leases</b>	
Operating lease right-of-use assets .....	<u>\$ 203.1</u>
Current operating lease obligations .....	<u>41.7</u>
Operating lease obligations .....	<u>167.8</u>
Total operating lease obligations .....	<u>\$ 209.5</u>
<b>Financing leases</b>	
Property, plant and equipment, net .....	<u>\$ 31.9</u>
Current maturities of long-term debt .....	<u>6.3</u>
Long-term debt .....	<u>24.6</u>
Total finance lease obligations .....	<u>\$ 30.9</u>
<b>Weighted Average Remaining Lease Term</b>	
Operating leases .....	<b>7.8 years</b>
Finance leases .....	<b>5.9 years</b>
<b>Weighted Average Discount Rate</b>	
Operating leases .....	<b>6.1%</b>
Finance leases .....	<b>6.0%</b>

Maturities of lease obligations as of December 28, 2019 were as follows:

<u>(in millions of U.S. dollars)</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2020 .....	<u>\$ 53.9</u>	<u>\$ 7.5</u>
2021 .....	42.9	6.4
2022 .....	32.9	5.9
2023 .....	27.7	5.6
2024 .....	22.3	4.8
Thereafter .....	<u>95.9</u>	<u>6.4</u>
Total lease payments .....	<u>275.6</u>	<u>36.6</u>
Less imputed interest .....	<u>(66.1)</u>	<u>(5.7)</u>
Present value of lease obligations .....	<u>\$209.5</u>	<u>\$30.9</u>

## Leases (Topic 840) Disclosures

On December 30, 2018, we adopted the new lease standard using a modified-retrospective approach by recognizing and measuring leases at the adoption date with accumulative effect of initially applying the guidance recognized at the date of initial application and did not restate the prior periods presented in our Consolidated Financial Statements. As such, prior periods presented in our Consolidated Financial Statements continue to be in accordance with the former lease standard, Topic 840 Leases. See Note 1 to the Consolidated Financial Statements for additional information on our recently adopted accounting pronouncement.

### Operating Leases

Under the previous lease standard, we leased buildings, machinery and equipment, computer hardware and furniture and fixtures. All contractual increases and rent-free periods included in the lease contract were taken into account when calculating the minimum lease payment and were recognized on a straight-line basis over the



lease term. Certain leases had renewal periods and contingent rentals, which were not included in the table below. As of December 29, 2018, the minimum annual payments under operating leases were as follows:

<u>(in millions of U.S. dollars)</u>	<u>Operating Leases</u>
2019 .....	\$ 51.6
2020 .....	42.9
2021 .....	36.2
2022 .....	29.2
2023 .....	23.4
Thereafter .....	106.9

Total rent expense under operating leases was \$63.2 million and \$54.3 million for the year ended December 29, 2018 and December 30, 2017, respectively, which is net of sublease income of \$0.9 million for the year ended December 29, 2018.

### ***Capital Leases***

As of December 29, 2018, we had capital lease assets and accumulated depreciation of \$6.7 million and \$1.0 million, respectively, which were included in property, plant and equipment, net on the Consolidated Balance Sheet.

In addition, as of December 29, 2018, the future minimum payments required under capital leases over their remaining terms are summarized below:

<u>(in millions of U.S. dollars)</u>	<u>Capital Leases</u>
2019 .....	\$1.9
2020 .....	1.4
2021 .....	0.7
2022 .....	0.5
2023 .....	0.4
Thereafter .....	0.1

### **Note 3—Discontinued Operations**

On January 30, 2018, the Company completed the sale of the Traditional Business to Refresco. The Traditional Business Disposition was structured as a sale of the assets of the Canadian business and a sale of the stock of the operating subsidiaries engaged in the Traditional Business in the other jurisdictions after the Company completed an internal reorganization. The aggregate deal consideration was \$1.25 billion, paid at closing in cash, with customary post-closing adjustments, resolved in December 2018 by the payment of \$7.9 million from the Company to Refresco. As of December 28, 2019 and December 29, 2018, \$12.4 million and \$12.5 million of the total sale proceeds are being held in escrow by a third-party escrow agent to secure potential indemnification claims. These funds are included in cash and cash equivalents on the Consolidated Balance Sheets.

In connection with the Traditional Business Disposition, the Company and Refresco entered into a Transition Services Agreement pursuant to which the Company and Refresco provide certain services to each other for various service periods, with the longest service period being 18 months, including tax and accounting services, certain human resources services, communications systems and support, and insurance/risk management. Each party is compensated for services rendered as set forth in the Transition Services Agreement. Each service period may be extended as set forth in the Transition Services Agreement, up to a maximum extension of 180 days. All service periods under the Transition Services Agreement have expired.

In addition, the Company and Refresco entered into certain Co-pack Manufacturing Agreements pursuant to which the Company and Refresco manufacture and supply certain beverage products for each other and a Concentrate Supply Agreement pursuant to which the Company supplies concentrates to Refresco. Each party will be compensated for the products they supply as set forth in the applicable agreement. The Co-pack Manufacturing Agreements have a term of 36 months, and the Concentrate Supply Agreement had the same term as that of the Transition Services Agreement, which has since expired by its terms.

For the year ended December 28, 2019, the Company paid Refresco \$0.7 million for the contract manufacture of beverage products and reimbursed Refresco \$0.7 million for various operational expenses that were paid by Refresco on its behalf. For the year ended December 28, 2019, Refresco paid the Company \$7.2 million for the contract manufacture of beverage products.

The major components of net income (loss) from discontinued operations, net of income taxes in the accompanying Consolidated Statements of Operations include the following:

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<u>(in millions of U.S. dollars)</u>			
Revenue, net	\$—	\$111.2	\$1,637.1
Cost of sales	—	98.4	1,428.4
Operating income from discontinued operations	—	2.0	49.9
Gain on sale of discontinued operations	—	427.9	—
Income (loss) from discontinued operations, before income taxes	—	402.5	(20.5)
Income tax (benefit) expense <sup>1</sup>	(3.0)	47.9	(31.2)
Net income from discontinued operations, net of income taxes	3.0	354.6	10.7
Less: Net income attributable to non-controlling interests	—	0.6	8.5
Net income attributable to Cott Corporation – discontinued operations <sup>2</sup>	\$ 3.0	\$354.0	\$ 2.2

<sup>1</sup> The Traditional Business Disposition resulted in a taxable gain on sale in the U.S., which utilized a significant portion of the existing U.S. net operating loss carryforwards. As a result, the Company is in a net deferred tax liability position in the U.S. and thus a tax benefit of approximately \$35.1 million related to a release of the U.S. valuation allowance was recorded in 2018 and is offsetting the overall income tax expense related to discontinued operations. The Traditional Business Disposition resulted in a non-taxable gain on sale in the United Kingdom. No tax benefit resulted from the Traditional Business Disposition related to the taxable loss on sale in Canada due to the Company's valuation allowance position. During 2019, \$3.0 million of tax benefit was recorded related to the finalization of the U.S. tax gain calculation.

<sup>2</sup> Net income attributable to Cott Corporation—discontinued operations is inclusive of interest expense on short-term borrowings and debt required to be repaid or extinguished as part of divestiture of \$3.4 million for the year ended December 29, 2018 (December 30, 2017 - \$49.5 million).

Cash flows from discontinued operations included borrowings and payments under the ABL facility of \$262.4 million and \$482.8 million, respectively, for the year ended December 29, 2018, and \$3,004.1 million and \$2,990.7 million, respectively, for the year ended December 30, 2017.

#### Note 4—Revenue

Our principal source of revenue is from bottled water delivery to residential and business customers primarily in North America and Europe, and the manufacture and distribution of coffee, tea and extracts to

institutional and commercial customers in the United States for the years ended December 28, 2019, December 29, 2018 and December 30, 2017. Revenue is recognized, net of sales returns, when a customer obtains control of promised goods or services in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We measure revenue based on the consideration specified in the client arrangement, and revenue is recognized when the performance obligations in the client arrangement are satisfied. A performance obligation is a contractual promise to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when the customer receives the benefit of the performance obligation. Clients typically receive the benefit of our services as they are performed. Substantially all our client contracts require that we be compensated for services performed to date. This may be upon shipment of goods or upon delivery to the customer, depending on contractual terms. Shipping and handling costs paid by the customer to us are included in revenue and costs incurred by us for shipping and handling activities that are performed after a customer obtains control of the product are accounted for as fulfillment costs. In addition, we exclude from net revenue and cost of sales taxes assessed by governmental authorities on revenue-producing transactions. Although we occasionally accept returns of products from our customers, historically returns have not been material.

### **Contract Estimates**

The nature of certain of the Company's contracts give rise to variable consideration including cash discounts, volume-based rebates, point of sale promotions, and other promotional discounts to certain customers. For all promotional programs and discounts, the Company estimates the rebate or discount that will be granted to the customer and records an accrual upon invoicing. These estimated rebates or discounts are included in the transaction price of the Company's contracts with customers as a reduction to net revenues and are included as accrued sales incentives in accounts payable and accrued liabilities in the Consolidated Balance Sheets. This methodology is consistent with the manner in which the Company historically estimated and recorded promotional programs and discounts. Accrued sales incentives were \$10.0 million and \$10.5 million at December 28, 2019 and December 29, 2018, respectively.

We do not disclose the value of unsatisfied performance obligations for contracts (i) with an original expected length of one year or less or (ii) for which the Company recognizes revenue at the amount in which it has the right to invoice as the product is delivered.

### **Contract Balances**

Contract liabilities relate primarily to advances received from the Company's customers before revenue is recognized. These amounts are recorded as deferred revenue and are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. The advances are expected to be earned as revenue within one year of receipt. Deferred revenues at December 28, 2019 and December 29, 2018 were \$23.7 million and \$22.0 million, respectively. The amount of revenue recognized for the year ended December 28, 2019 that was included in the December 29, 2018 deferred revenue balance was \$21.7 million.

The Company does not have any material contract assets as of December 28, 2019.

### **Disaggregated Revenue**

In general, the Company's business segmentation is aligned according to the nature and economic characteristics of its products and customer relationships and provides meaningful disaggregation of each business segment's results of operations.

Further disaggregation of net revenue to external customers by geographic area based on customer location is as follows:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
United States .....	\$1,801.7	\$1,786.9	\$1,709.0
United Kingdom .....	172.0	173.2	160.0
Canada .....	67.4	64.1	61.8
All other countries .....	353.4	348.7	338.9
Total <sup>1</sup> .....	<u>\$2,394.5</u>	<u>\$2,372.9</u>	<u>\$2,269.7</u>

<sup>1</sup> Prior-period amounts are not adjusted under the modified-retrospective method of adoption.

## Note 5—Acquisitions

### *Mountain Valley Acquisition*

In October 2018, DSS, a wholly-owned subsidiary of Cott, acquired Mountain Valley, a growing American brand of spring and sparkling bottled water delivered to homes and offices throughout the United States (the “Mountain Valley Acquisition”). The initial purchase price paid by DSS in the Mountain Valley Acquisition was \$80.4 million on a debt and cash free basis. The post-closing working capital adjustment was resolved in February 2019 by the payment of \$0.4 million by the former owners of Mountain Valley to DSS. The Mountain Valley Acquisition was funded through a combination of incremental borrowings under the Company’s ABL facility and cash on hand.

The total consideration paid by DSS in the Mountain Valley Acquisition is summarized below:

(in millions of U.S. dollars)	
Cash paid to sellers .....	\$62.5
Cash paid on behalf of sellers for sellers’ transaction expenses .....	1.8
Cash paid to retire outstanding debt on behalf of sellers .....	16.1
Working capital settlement .....	(0.4)
Total consideration .....	<u>\$80.0</u>

The Mountain Valley Acquisition supported the Company’s strategy to expand the Company’s existing home and office bottled water category into premium spring, sparkling and flavored water. The Company has accounted for this transaction as a business combination which requires that assets acquired and liabilities assumed be measured at their acquisition date fair values.

The adjusted purchase price of \$80.0 million has been allocated to the assets acquired and liabilities assumed based on management’s estimates of their fair values as of the acquisition date. The excess of the adjusted purchase price over the aggregate fair values was recorded as goodwill. Measurement period adjustments recorded during the year ended December 28, 2019 included adjustments to property, plant and equipment and intangible assets based on final valuations of such assets, as well as the assumed customer bottle deposit liability based on a review by management. These measurement period adjustments did not have a material effect on our results of operations in prior periods.

The table below summarizes the originally reported estimated acquisition date fair values, measurement period adjustments recorded and the final purchase price allocation of the assets acquired and liabilities assumed:

<u>(in millions of U.S. dollars)</u>	<u>Originally Reported</u>	<u>Measurement Period Adjustments</u>	<u>Acquired Value</u>
Cash and cash equivalents .....	\$ 8.2	\$—	\$ 8.2
Accounts receivable .....	4.2	—	4.2
Inventory .....	2.3	—	2.3
Prepaid expenses and other assets .....	0.2	—	0.2
Property, plant and equipment .....	38.5	3.0	41.5
Goodwill .....	20.5	(4.5)	16.0
Intangible assets .....	25.8	2.6	28.4
Accounts payable and accrued liabilities .....	(19.3)	(1.5)	(20.8)
Total .....	<u>\$ 80.4</u>	<u>(0.4)</u>	<u>80.0</u>

The amount of revenues and net income related to the Mountain Valley Acquisition included in the Company's Consolidated Statement of Operations for the period from the acquisition date through December 29, 2018 were \$10.1 million and \$1.2 million, respectively. During the year ended December 29, 2018, the Company incurred \$1.0 million of acquisition-related costs associated with the Mountain Valley Acquisition, which are included in acquisition and integration expenses in the Consolidated Statement of Operations for the year ended December 29, 2018.

### ***Crystal Rock Acquisition***

In March 2018, the Company completed the acquisition of Crystal Rock Holdings, Inc., a direct-to-consumer home and office water, coffee and filtration business serving customers throughout New York and New England ("Crystal Rock"). The transaction was structured as a merger following a cash tender offer for all outstanding shares of Crystal Rock, with Crystal Rock becoming a wholly-owned indirect subsidiary of the Company (the "Crystal Rock Acquisition"). The aggregate consideration paid was \$37.7 million and includes the purchase price paid to the Crystal Rock shareholders of \$20.7 million, \$0.8 million in costs paid on behalf of the sellers for the seller's transaction costs and \$16.2 million of assumed debt and accrued interest obligations of Crystal Rock that was paid by the Company.

The total consideration paid by the Company in the Crystal Rock Acquisition is summarized below:

<u>(in millions of U.S. dollars)</u>	
Cash paid to sellers .....	\$20.7
Cash paid on behalf of sellers for sellers' transaction expenses .....	0.8
Total consideration .....	<u>\$21.5</u>

The Crystal Rock Acquisition strengthens the Company's presence in New York and New England. The Company has accounted for this transaction as a business combination which requires that assets acquired and liabilities assumed be measured at their acquisition date fair values.

The purchase price of \$21.5 million, net of debt, has been allocated to the assets acquired and liabilities assumed based on management's estimates of their fair values as of the acquisition date. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The measurement period adjustment recorded during the year ended December 28, 2019 was an adjustment to deferred taxes based on analysis of certain tax positions. This measurement period adjustment did not have a material effect on our results of operations in prior periods.

The table below summarizes the originally reported estimated acquisition date fair values, measurement period adjustment recorded and the final purchase price allocation of the assets acquired and liabilities assumed:

<u>(in millions of U.S. dollars)</u>	<u>Originally Reported</u>	<u>Measurement Period Adjustments</u>	<u>Acquired Value</u>
Cash and cash equivalents .....	\$ 1.6	\$—	\$ 1.6
Accounts receivable .....	6.4	—	6.4
Inventory .....	2.2	—	2.2
Prepaid expenses and other current assets .....	2.2	—	2.2
Property, plant and equipment .....	8.9	—	8.9
Goodwill .....	13.7	0.5	14.2
Intangible assets .....	12.6	—	12.6
Other assets .....	0.1	—	0.1
Short-term borrowings .....	(4.1)	—	(4.1)
Current maturities of long-term debt ....	(1.6)	—	(1.6)
Accounts payable and accrued liabilities .....	(6.7)	—	(6.7)
Long-term debt .....	(10.4)	—	(10.4)
Deferred tax liabilities .....	(2.5)	(0.5)	(3.0)
Other long-term liabilities .....	(0.9)	—	(0.9)
Total .....	<u>\$ 21.5</u>	<u>\$—</u>	<u>\$ 21.5</u>

The amount of revenues related to the Crystal Rock Acquisition included in the Company's Consolidated Statement of Operations for the period from the acquisition date through December 29, 2018 was \$42.3 million. During the year ended December 29, 2018, the Company incurred \$3.6 million of acquisition-related costs associated with the Crystal Rock Acquisition, which are included in acquisition and integration expenses in the Consolidated Statement of Operations for the year ended December 29, 2018. During the second quarter of 2018, Crystal Rock was integrated within our DSS business, therefore it is impracticable to determine the amount of net income related to the Crystal Rock Acquisition included in the Company's Statement of Operations for the period from the acquisition date through December 29, 2018.

### **Intangible Assets**

In our determination of the estimated fair value of intangible assets, we consider, among other factors, the best use of acquired assets, analysis of historical financial performance and estimates of future performance of the acquired business' products. The estimated fair values of identified intangible assets are calculated considering both market participant assumptions, using an income approach as well as estimates and assumptions provided by Cott management and management of the acquired business. Assumptions include, but are not limited to, expected revenue growth, weighted-average terminal growth rate, risk adjusted discount rate and fair value royalty rate.

The estimated fair value of customer relationships represent future after-tax discounted cash flows that will be derived from sales to existing customers of the acquired business as of the date of acquisition.

The estimated fair value of trademarks and trade names represent the future projected cost savings associated with the premium and brand image obtained as a result of owning the trademark or trade name as opposed to obtaining the benefit of the trademark or trade name through a royalty or rental fee.



### ***Mountain Valley Acquisition***

The following table sets forth the components of identified intangible assets associated with the Mountain Valley Acquisition and their estimated weighted average useful lives:

<u>(in millions of U.S. dollars)</u>	<u>Estimated Fair Market Value</u>	<u>Weighted Average Estimated Useful Life</u>
Customer relationships .....	\$10.0	20 years
Trademarks and trade names .....	18.4	Indefinite
Total .....	<u>\$28.4</u>	

### ***Crystal Rock Acquisition***

The following table sets forth the components of identified intangible assets associated with the Crystal Rock Acquisition and their estimated weighted average useful lives:

<u>(in millions of U.S. dollars)</u>	<u>Estimated Fair Market Value</u>	<u>Weighted Average Estimated Useful Life</u>
Customer relationships .....	\$ 8.4	11 years
Trademarks and trade names .....	4.2	Indefinite
Total .....	<u>\$12.6</u>	

## **Goodwill**

### ***Mountain Valley Acquisition***

The principal factor that resulted in recognition of goodwill in the Mountain Valley Acquisition was that the purchase price was based in part on cash flow projections assuming the reduction of administration costs and the integration of acquired customers and products into our operations, which is of greater value than on a standalone basis. The goodwill recognized as part of the Mountain Valley Acquisition was allocated to the Route Based Services reporting segment and is expected to be tax deductible.

### ***Crystal Rock Acquisition***

The principal factor that resulted in recognition of goodwill in the Crystal Rock Acquisition was that the purchase price was based in part on cash flow projections assuming the reduction of administration costs and the integration of acquired customers and products into our operations, which is of greater value than on a standalone basis. The goodwill recognized as part of the Crystal Rock Acquisition was allocated to the Route Based Services reporting segment, none of which is expected to be tax deductible.

**Note 6—Other Expense (Income), Net**

The following table summarizes other expense (income), net for the years ended December 28, 2019, December 29, 2018 and December 30, 2017:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Foreign exchange losses (gains), net . . . . .	\$ 0.9	\$ (7.1)	\$(1.7)
Proceeds from legal settlements . . . . .	—	(14.9)	—
Loss (gain) on sale of business . . . . .	6.0	(6.0)	—
Transition services agreement service income . . . . .	(0.3)	(2.6)	—
Pension curtailment gain . . . . .	—	—	(4.5)
Gain on extinguishment of long-term debt . . . .	—	(7.1)	(1.5)
Other gains, net . . . . .	(3.8)	(5.2)	(0.3)
Total . . . . .	<u>\$ 2.8</u>	<u>\$(42.9)</u>	<u>\$(8.0)</u>

**Note 7—Interest Expense, Net**

The following table summarizes interest expense, net for the years ended December 28, 2019, December 29, 2018 and December 30, 2017:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Interest on long-term debt . . . . .	\$69.5	\$72.2	\$83.1
Interest on short-term debt . . . . .	4.8	—	—
Other interest expense, net . . . . .	3.9	5.4	2.4
Total . . . . .	<u>\$78.2</u>	<u>\$77.6</u>	<u>\$85.5</u>

**Note 8—Income Taxes*****Provision (Benefit) for Income Taxes***

Income (loss) from continuing operations, before income taxes consisted of the following:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Canada . . . . .	\$(57.0)	\$(26.1)	\$(29.1)
Outside Canada . . . . .	66.4	50.2	(4.5)
Income (loss) from continuing operations, before income taxes . . . . .	<u>\$ 9.4</u>	<u>\$ 24.1</u>	<u>\$(33.6)</u>

Income tax expense (benefit) consisted of the following:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<b>Current</b>			
Canada . . . . .	\$ (0.2)	—	\$ —
Outside Canada . . . . .	12.6	2.3	3.9
	<u>\$12.4</u>	<u>\$ 2.3</u>	<u>\$ 3.9</u>
<b>Deferred</b>			
Canada . . . . .	\$ (1.0)	\$(5.6)	\$ —
Outside Canada . . . . .	(1.9)	(1.5)	(33.9)
	<u>\$ (2.9)</u>	<u>\$(7.1)</u>	<u>\$(33.9)</u>
Income tax expense (benefit) . . . . .	<u>\$ 9.5</u>	<u>\$(4.8)</u>	<u>\$(30.0)</u>

The following table reconciles income taxes calculated at the basic Canadian corporate rates with the income tax provision:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Income tax expense (benefit) based on			
Canadian statutory rates . . . . .	\$ 2.5	\$ 6.4	\$ (8.7)
Foreign tax rate differential . . . . .	(11.1)	(2.6)	(1.3)
Local taxes . . . . .	2.1	0.5	(0.2)
Nontaxable interest income . . . . .	(8.4)	(9.8)	(11.3)
Impact of intercompany transactions and dividends . . . . .	12.2	1.0	(9.2)
Nontaxable capital gains . . . . .	—	—	(3.7)
Income tax credits . . . . .	(0.5)	—	—
Change in enacted tax rates . . . . .	(0.1)	3.4	(32.7)
Change in valuation allowance . . . . .	19.7	(4.2)	45.8
Change in uncertain tax positions . . . . .	0.3	(3.4)	(2.4)
Equity compensation . . . . .	1.5	1.5	1.1
Permanent differences . . . . .	1.6	1.1	(0.6)
Outside basis differences on discontinued operations . . . . .	—	—	(3.8)
Adjustments to deferred taxes . . . . .	(10.4)	0.7	(3.4)
Other items . . . . .	0.1	0.6	0.4
Income tax expense (benefit) . . . . .	<u>\$ 9.5</u>	<u>\$(4.8)</u>	<u>\$(30.0)</u>

### *Deferred Tax Assets and Liabilities*

Deferred income tax assets and liabilities were recognized on temporary differences between the financial and tax bases of existing assets and liabilities as follows:

<u>(in millions of U.S. dollars)</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
<b>Deferred tax assets</b>		
Net operating loss carryforwards . . . . .	\$ 134.2	\$ 109.8
Capital loss carryforwards . . . . .	12.0	13.1
Liabilities and reserves . . . . .	28.2	25.0
Stock options . . . . .	8.2	8.1
Inventories . . . . .	4.0	3.8
Interest expense . . . . .	11.3	12.2
Derivatives <sup>1</sup> . . . . .	—	2.8
Right of use lease obligations . . . . .	49.1	—
Other <sup>1</sup> . . . . .	—	3.9
	<u>247.0</u>	<u>178.7</u>
<b>Deferred tax liabilities</b>		
Property, plant and equipment . . . . .	(76.3)	(65.7)
Intangible assets . . . . .	(125.1)	(139.2)
Right of use assets . . . . .	(47.6)	—
Derivatives . . . . .	(3.9)	—
Other . . . . .	(1.2)	—
	<u>(254.1)</u>	<u>(204.9)</u>
Valuation allowance . . . . .	(120.3)	(98.0)
Net deferred tax liability . . . . .	<u>\$ (127.4)</u>	<u>\$ (124.2)</u>

<sup>1</sup> Derivatives prior year amounts have been reclassified from other to conform to the current year presentation.

As of December 28, 2019, we have outside tax basis differences, including undistributed earnings, in our foreign subsidiaries. For 2019, deferred taxes have not been recorded on the undistributed earnings because the foreign subsidiaries have the ability to repatriate funds to its parent company tax-efficiently or the undistributed earnings are indefinitely reinvested under the accounting guidance. In order to arrive at this conclusion, we considered factors including, but not limited to, past experience, domestic cash requirements, cash requirements to satisfy the ongoing operations, capital expenditures and other financial obligations of our subsidiaries. It is not practicable to determine the excess book basis over outside tax basis in the shares or the amount of incremental taxes that might arise if these earnings were to be remitted. The amount of tax payable could be significantly impacted by the jurisdiction in which a distribution was made, the amount of the distribution, foreign withholding taxes under applicable tax laws when distributed, relevant tax treaties and foreign tax credits. We repatriated earnings of \$75.1 million and \$83.1 million to Canada in 2019 and 2018, respectively, incurring no tax expense.

As of December 28, 2019, we have operating loss carryforwards totaling \$516.0 million, capital loss carryforwards totaling \$44.8 million, and tax credit carryforwards totaling \$1.7 million. The operating loss carryforward amount was attributable to Canadian operating loss carryforwards of \$213.4 million that will expire from 2027 to 2039; U.S. federal and state operating loss carryforwards of \$120.6 million and \$11.1 million, respectively, that will expire from 2020 to 2039; Dutch operating loss carryforwards of \$115.9 million that will expire from 2020 to 2025; and various other operating loss carryforwards of \$55.0 million that will expire from 2020 to 2039.

The capital loss carryforward is attributable to Canadian capital losses of \$39.2 million and Israeli capital losses of \$5.6 million, all with indefinite lives. The tax credit carryforward of \$1.7 million will expire from 2020 to 2022.

In general, under Section 382 and 383 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), a U.S. corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses (“NOLs”) or tax credits to offset future taxable income. Therefore, current or future changes in our Canadian stock ownership, many of which are outside of our control, could result in a U.S. ownership change under Section 382 and 383 of the Code. If we undergo a U.S. ownership change, our ability to utilize U.S. federal or state NOLs or tax credits could be limited. We monitor changes in our ownership on an ongoing basis and do not believe we had a change of control limitation as of December 28, 2019.

We establish a valuation allowance to reduce deferred tax assets if, based on the weight of the available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to recent cumulative losses, it was determined that it is more likely than not we will not realize the benefit of net operating loss carryforwards and other net deferred assets in Canada, and certain jurisdictions within the Eden business. The balance of the valuation allowance was \$120.3 million and \$98.0 million for the years ended December 28, 2019 and December 29, 2018, respectively. The valuation allowance increase in 2019 was primarily related to losses generated in tax jurisdictions with existing valuation allowances.

Additionally, we have determined that it is more likely than not that the benefit from our capital losses in Canada and Israel will not be realized in the future due to the uncertainty regarding potential future capital gains in the jurisdiction. In recognition of this risk, we have provided a valuation allowance of \$12.0 million on our capital losses.

The Tax Act enacted new Section 163(j) interest expense limitation rules on December 22, 2017. On November 26, 2018, the U.S. Department of the Treasury released proposed regulations to provide interpretative guidance for the new Section 163(j) rules, with early adoption permitted. We have not adopted the proposed regulations. If the proposed regulations are finalized as currently written, they could have a material impact to our consolidated financial statements in the year in which they are finalized.

### ***Unrecognized Tax Benefits***

A reconciliation of the beginning and ending amount of our unrecognized tax benefits is as follows:

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Unrecognized tax benefits at beginning of year . . . .	<b>\$15.5</b>	\$16.2	\$28.6
Additions based on tax positions taken during a prior period . . . . .	<b>5.0</b>	1.3	0.2
Reductions based on tax positions taken during a prior period . . . . .	<b>(1.9)</b>	(0.1)	(6.3)
Settlement on tax positions taken during a prior period . . . . .	—	—	(1.0)
Tax rate change . . . . .	—	(0.1)	(4.5)
Lapse in statute of limitations . . . . .	<b>(2.9)</b>	(4.3)	(3.2)
Additions based on tax positions taken during the current period . . . . .	<b>1.7</b>	3.0	1.7
Cash payments . . . . .	<b>(0.2)</b>	—	—
Foreign exchange . . . . .	<b>0.1</b>	(0.5)	0.7
Unrecognized tax benefits at end of year . . . . .	<b><u>\$17.3</u></b>	<u>\$15.5</u>	<u>\$16.2</u>

As of December 28, 2019, we had \$17.3 million of unrecognized tax benefits, a net increase of \$1.8 million from \$15.5 million as of December 29, 2018. If we recognized our tax positions, approximately \$11.4 million would favorably impact the effective tax rate. We believe it is reasonably possible that our unrecognized tax benefits will decrease or be recognized in the next twelve months by up to \$1.7 million due to the settlement of certain tax positions and lapses in statutes of limitation in various tax jurisdictions.

We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes. We recovered nil of interest and penalties during the years ended December 28, 2019, December 29, 2018 and December 30, 2017. The amount of interest and penalties recognized in the Consolidated Balance Sheets for 2019 and 2018 were a liability of \$1.0 million and \$0.6 million, respectively.

Years through 2009 have been audited by the U.S. Internal Revenue Service, though the statutes are still open back to 2008 due to certain net operating loss carryforwards. Years prior to 2014 are closed to audit by U.S. state jurisdictions. We are currently under audit in Canada by the Canada Revenue Agency (“CRA”) for tax year 2014. Years prior to 2014 are closed to audit by the CRA. We are currently under audit in Israel for the 2013 to 2017 tax years, the United Kingdom for the 2016 and 2017 tax years, and Poland for the 2014 tax year.

#### **Note 9—Share-Based Compensation**

Our shareowners approved our Amended and Restated Cott Corporation Equity Incentive Plan (the “Amended and Restated Equity Plan”) in its current form in May 2016, and approved the Cott Corporation 2018 Equity Incentive Plan (“2018 Equity Plan” and together with the Amended and Restated Equity Plan, the “Equity Plans”) in May 2018. Awards under the Equity Plans may be in the form of incentive stock options, non-qualified stock options, restricted shares, restricted share units, performance shares, performance units, stock appreciation rights, and stock payments to employees, directors and outside consultants. The Equity Plans are administered by the Human Resources and Compensation Committee (“HRCC”) of the Board of Directors or any other board committee as may be designated by the Board of Directors from time to time. Under the Amended and Restated Equity Plan, 20,000,000 shares are reserved for future issuance, and under the 2018 Equity Plan, 8,000,000 shares are reserved for future issuance, subject to adjustment upon a share split, share dividend, recapitalization, and other similar transactions and events. Shares that are issued under the Equity Plans are applied to reduce the maximum number of shares remaining available for issuance under the Equity Plans; provided that the total number of shares available for issuance under the Equity Plans are reduced two shares for each share issued pursuant to a “full-value” award (i.e., an award other than an option or stock appreciation right).

Shares to be issued pursuant to Time-based RSUs, Performance-based RSUs, or stock options that are forfeited, expired, or are canceled or settled without the issuance of shares return to the pool of shares available for issuance under the Equity Plans. As of December 28, 2019, there were 670,280 shares available for future issuance under the Amended and Restated Equity Plan, and 8,000,000 shares available for future issuance under the 2018 Equity Plan.

The table below summarizes the share-based compensation expense for the years ended December 28, 2019, December 29, 2018, and December 30, 2017. Share-based compensation expense is recorded in SG&A expenses in the Consolidated Statements of Operations. As referenced below: (i) “Performance-based RSUs” represent restricted share units with performance-based vesting, (ii) “Time-based RSUs” represent restricted share units with time-based vesting, (iii) “Stock options” represent non-qualified stock options, (iv) “Director share awards” represent common shares issued in consideration of the annual board retainer fee to non-management members



of our Board of Directors, and (v) the “ESPP” represents the Cott Corporation Employee Share Purchase Plan, under which common shares are issued to eligible employees at a discount through payroll deductions.

(in millions of U.S. dollars)	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Stock options .....	\$ 3.3	\$ 5.3	\$ 5.5
Performance-based RSUs .....	5.7	7.0	12.0
Time-based RSUs .....	2.1	3.8	4.2
Director share awards .....	1.1	1.0	1.1
Employee Share Purchase Plan .....	0.2	0.3	0.1
Total <sup>1</sup> .....	<u>\$12.4</u>	<u>\$17.4</u>	<u>\$22.9</u>

<sup>1</sup> Includes \$0.1 million and \$5.4 million of share-based compensation expense from our discontinued operations, which were included in net income (loss) from discontinued operations, net of income taxes on the Consolidated Statements of Operations for the years ended December 29, 2018 and December 30, 2017, respectively.

On August 1, 2018, in connection with the appointment of the Company’s chief executive officer to executive chairman of the Board effective December 30, 2018, the Board approved the modification of certain outstanding awards issued to the chief executive officer. The modified awards will continue to vest in accordance with their normal applicable vesting schedules regardless of continued service. The total incremental compensation expense associated with the modification was \$5.5 million for the year ended December 29, 2018.

During the third quarter of 2017, in connection with the sale of the Traditional Business and upon a determination by the HRCC, outstanding awards granted to Traditional Business employees vested as follows: outstanding time-based RSUs vested in full, outstanding unvested stock options vested in full (and remain exercisable for three years from the date of closing of the Traditional Business Disposition), and outstanding performance-based RSUs vested in full, assuming achievement of the applicable pre-tax income level at the “target” level. As a result, an additional \$1.2 million of expense was recorded for the year ended December 30, 2017 and included in net income (loss) from discontinued operations, net of income taxes on the Consolidated Statement of Operations.

The tax benefit recognized related to share-based compensation expense for the fiscal year ended December 28, 2019 was \$0.6 million (December 29, 2018 - \$0.9 million; December 30, 2017 - \$0.5 million).

As of December 28, 2019, the unrecognized share-based compensation expense and weighted average years over which we expect to recognize it as compensation expense were as follows:

(in millions of U.S. dollars, except years)	Unrecognized share-based compensation expense as of December 28, 2019	Weighted average years expected to recognize compensation
Stock options .....	\$ 5.3	2.1
Performance-based RSUs .....	6.9	2.4
Time-based RSUs .....	3.9	2.1
Total .....	<u>\$16.1</u>	

## Stock Options

During 2019, 2018 and 2017 approximately 1,138,000, 1,182,400, and 734,500 options were granted to certain employees under the Amended and Restated Equity Plan at a weighted-average exercise price of \$13.68, \$14.67, and \$17.50 per share, respectively. The weighted-average grant date fair value of the options was

estimated to be \$3.42, \$3.87, and \$4.82 per share in 2019, 2018 and 2017, respectively, using the Black-Scholes option pricing model. The contractual term of an option granted is fixed by the Amended and Restated Equity Plan and cannot exceed ten years from the grant date.

The grant date fair value of each option granted during 2019, 2018 and 2017 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Risk-free interest rate . . . . .	1.8%	2.8%	2.3%
Average expected life (years) . . . . .	6.0	5.6	6.0
Expected volatility . . . . .	29.0%	28.8%	29.2%
Expected dividend yield . . . . .	1.8%	1.6%	1.4%

The following table summarizes the activity for Company stock options:

	Stock Options (in thousands)	Weighted average exercise price	Weighted average contractual term (years)	Aggregate intrinsic value (in thousands)
<b>Outstanding at December 31, 2016</b> . . . . .	<u>4,474</u>	<u>\$10.32</u>	<u>8.8</u>	<u>\$ 5,623.3</u>
Granted . . . . .	734	17.50		
Exercised . . . . .	(169)	9.21		1,092.9
Forfeited or expired . . . . .	(33)	10.28		
<b>Outstanding at December 30, 2017</b> . . . . .	<u>5,006</u>	<u>\$11.41</u>	<u>8.1</u>	<u>\$26,952.3</u>
Granted . . . . .	1,182	14.67		
Exercised . . . . .	(734)	10.04		4,408.1
Forfeited or expired . . . . .	(8)	10.64		
<b>Outstanding at December 29, 2018</b> . . . . .	<u>5,446</u>	<u>\$12.30</u>	<u>7.3</u>	<u>\$11,993.0</u>
Granted . . . . .	1,138	13.68		
Exercised . . . . .	(91)	10.47		389.1
Forfeited or expired . . . . .	—	—		
<b>Outstanding at December 28, 2019</b> . . . . .	<u>6,493</u>	<u>\$12.57</u>	<u>6.9</u>	<u>\$11,045.4</u>
<b>Exercisable at December 28, 2019</b> . . . . .	<u>4,336</u>	<u>\$11.64</u>	<u>5.8</u>	<u>\$11,018.6</u>
<b>Vested or expected to vest at December 28, 2019</b> . . . . .	<u>6,493</u>	<u>\$12.57</u>	<u>6.9</u>	<u>\$11,045.4</u>

The aggregate intrinsic value amounts in the table above represent the difference between the closing price of our common shares on the New York Stock Exchange on December 27, 2019, which was \$13.45 (December 28, 2018 - \$13.66; December 29, 2017 - \$16.66), and the exercise price, multiplied by the number of in-the-money stock options as of the same date.

Stock options granted during the year ended December 28, 2019 vest in three equal annual installments on the first, second and third anniversaries of the date of grant.

The total amount of cash received from the exercise of stock options was not material during the fiscal year ended December 28, 2019. The total amount of cash received from the exercise of stock options was \$5.0 million during the fiscal year ended December 29, 2018 with an associated tax benefit of \$0.2 million realized. The total amount of cash received from the exercise of stock options was \$1.6 million during the fiscal year ended

December 30, 2017 with no associated tax benefit realized. The total fair value of options that vested during the year ended December 28, 2019 was \$19.0 million (December 29, 2018 — \$16.8 million; December 30, 2017 — \$16.4 million).

## Other Awards

In 2019, we granted 74,238 common shares to the non-management members of our Board of Directors under the Amended and Restated Equity Plan with a grant date fair value of approximately \$1.1 million. The common shares were issued in consideration of the directors' annual board retainer fee and were vested upon issuance.

Additionally, in 2019, we granted 284,591 Performance-based RSUs, which vest on the last day of our 2022 fiscal year. The number of shares ultimately awarded will be based upon the performance percentage, which can range from 0% to 200% of the awards granted. The Performance-based RSUs vest primarily on the Company's achievement of a specified level of cumulative pre-tax income for the applicable performance period. The number of Performance-based RSUs that may vest and the related unrecognized compensation cost is subject to change based on the level of targeted pre-tax income that is achieved during the vesting period. The Company also granted 216,057 Time-based RSUs, which vest over three years in equal annual installments on the first, second and third anniversaries of the date of grant and include a service condition.

	<u>Number of Performance- based RSUs (in thousands)</u>	<u>Weighted Average Grant-Date Fair Value</u>	<u>Number of Time-based RSUs (in thousands)</u>	<u>Weighted Average Grant-Date Fair Value</u>
<b>Balance at December 31,</b>				
<b>2016</b> .....	<u>3,063</u>	<u>\$ 9.89</u>	<u>800</u>	<u>\$11.10</u>
Awarded .....	235	17.06	135	17.50
Awarded in connection with modification .....	64	11.32	—	—
Issued .....	(320)	8.00	(409)	10.55
Forfeited .....	<u>(143)</u>	<u>15.18</u>	<u>(24)</u>	<u>12.28</u>
<b>Balance at December 30,</b>				
<b>2017</b> .....	<u>2,899</u>	<u>\$ 9.15</u>	<u>502</u>	<u>\$13.14</u>
Awarded .....	312	14.67	208	14.67
Awarded in connection with modification .....	246	9.21	—	—
Issued .....	(686)	9.32	(269)	13.07
Forfeited .....	<u>(1,106)</u>	<u>6.55</u>	<u>(14)</u>	<u>13.24</u>
<b>Outstanding at December 29,</b>				
<b>2018</b> .....	<u>1,665</u>	<u>\$13.90</u>	<u>427</u>	<u>\$14.23</u>
Awarded .....	285	13.69	216	13.69
Awarded in connection with modification .....	190	11.22	—	—
Issued .....	(441)	11.30	(239)	13.38
Forfeited .....	<u>(100)</u>	<u>12.33</u>	<u>(7)</u>	<u>14.89</u>
<b>Outstanding at December 28,</b>				
<b>2019</b> .....	<u>1,599</u>	<u>\$14.36</u>	<u>397</u>	<u>\$14.43</u>
<b>Vested or expected to vest at     December 28, 2019</b> .....	<u>1,594</u>	<u>\$13.30</u>	<u>397</u>	<u>\$14.43</u>

The total fair value of Performance-based RSUs vested and issued during the years ended December 28, 2019, December 29, 2018 and December 30, 2017 were \$5.0 million, \$6.4 million and \$2.6 million. The total fair value of Time-based RSUs vested and issued during the years ended December 28, 2019, December 29, 2018, and December 30, 2017 were \$3.2 million, \$3.5 million, and \$4.3 million.

### **Employee Share Purchase Plan**

The Company has maintained the Cott Corporation Employee Share Purchase Plan (the “ESPP”) since 2015. The ESPP qualifies as an “employee share purchase plan” under Section 423 of the Internal Revenue Code of 1986 (“IRC”), as amended. Substantially all employees are eligible to participate in the ESPP and may elect to participate at the beginning of any quarterly offering period. The ESPP authorizes the issuance, and the purchase by eligible employees, of up to 3,000,000 shares of Cott common shares through payroll deductions. Eligible employees who choose to participate may purchase Cott common shares at 90% of market value on the first or last day of the quarterly offering period, whichever is lower. The minimum contribution which an eligible employee may make under the ESPP is 1% of the employee’s eligible compensation, with the maximum contribution limited to 15% of the employee’s eligible compensation. At the end of each quarterly offering period for which the employee participates, the total amount of each employee’s payroll deduction for that offering period will be used to purchase Cott common shares. The Company recognized \$0.2 million, \$0.3 million and \$0.1 million of share-based compensation expense in SG&A expenses in the Consolidated Statement of Operations for 2019, 2018 and 2017, respectively. At December 28, 2019, 2,581,340 shares remained available for issuance under the ESPP.

### **Note 10—Common Shares and Net Income (Loss) per Common Share**

#### ***Common Shares***

On May 1, 2018, our Board of Directors approved a share repurchase program for up to \$50.0 million of Cott’s outstanding common shares over a 12-month period commencing on May 7, 2018 (the “Initial Repurchase Plan”). Since that date, for the year ended December 29, 2018, we repurchased 2,973,282 common shares for approximately \$46.0 million through open market transactions under the Initial Repurchase Plan. Shares purchased under the Initial Repurchase Plan were subsequently canceled.

On December 11, 2018, our Board of Directors approved a share repurchase program for up to \$50.0 million of Cott’s outstanding common shares over a 12-month period commencing on December 14, 2018 (the “Second Repurchase Plan”). Since that date, for the years ended December 28, 2019 and December 29, 2018, we repurchased 2,006,789 and 1,590,088 common shares for approximately \$27.8 million and \$22.2 million, respectively, through open market transactions under the Second Repurchase Plan. Shares purchased under the Second Repurchase Plan were subsequently canceled. During the second quarter of 2019, we utilized all funds under the Second Repurchase Plan.

On December 11, 2019, our Board of Directors approved a new share repurchase program for up to \$50.0 million of Cott’s outstanding common shares over a 12-month period (the “New Repurchase Plan”). We made no repurchases of our common shares under the New Repurchase Plan during 2019.

#### ***Net Income (Loss) Per Common Share***

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to Cott Corporation by the weighted average number of common shares outstanding during the periods presented. Diluted net income (loss) per common share is calculated by dividing diluted net income (loss) attributable to Cott Corporation by the weighted average number of common shares outstanding adjusted to include the effect, if dilutive, of the exercise of in-the-money stock options, Performance-based RSUs, and Time-based RSUs during the periods presented.

Set forth below is a reconciliation of the numerator and denominator for the diluted net income (loss) per common share computations for the periods indicated:

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<b>Numerator (in millions):</b>			
Net income (loss) attributable to Cott Corporation			
Continuing operations . . . . .	\$ (0.1)	\$ 28.9	\$ (3.6)
Discontinued operations . . . . .	3.0	354.0	2.2
Net income (loss) . . . . .	<u>2.9</u>	<u>382.9</u>	<u>(1.4)</u>
<b>Basic Earnings Per Share</b>			
Denominator (in thousands):			
Weighted average common shares outstanding - basic . . . . .	135,224	139,097	139,078
<b>Basic Earnings Per Share:</b>			
Continuing operations . . . . .	—	0.21	(0.03)
Discontinued operations . . . . .	0.02	2.54	0.02
Net income (loss) . . . . .	<u>0.02</u>	<u>2.75</u>	<u>(0.01)</u>
<b>Diluted Earnings Per Share</b>			
Denominator (in thousands):			
Weighted average common shares outstanding - basic . . . . .	135,224	139,097	139,078
Dilutive effect of Stock Options . . . . .	—	1,199	—
Dilutive effect of Performance based RSUs . . . . .	—	900	—
Dilutive effect of Time-based RSUs . . . . .	—	240	—
Weighted average common shares outstanding - diluted . . . . .	135,224	141,436	139,078
<b>Diluted Earnings Per Share:</b>			
Continued operations . . . . .	—	0.21	(0.03)
Discontinued operations . . . . .	0.02	2.50	0.02
Net income (loss) . . . . .	<u>0.02</u>	<u>2.71</u>	<u>(0.01)</u>

The following table summarizes anti-dilutive securities excluded from the computation of diluted net income (loss) per common share for the periods indicated:

	For the Year Ended		
(in thousands)	December 28, 2019	December 29, 2018	December 30, 2017
Stock options . . . . .	6,493	2,095	5,006
Performance-based RSUs <sup>1</sup> . . . . .	1,594	564	2,235
Time-based RSUs <sup>2</sup> . . . . .	397	148	493

<sup>1</sup> Performance-based RSUs represent the number of shares expected to be issued based on the estimated achievement of pre-tax income for these awards.

<sup>2</sup> Time-based RSUs represent the number of shares expected to be issued based on known employee retention information.

## Note 11—Segment Reporting

Our broad portfolio of products includes bottled water, coffee, brewed tea, water dispensers, coffee and tea brewers, specialty coffee, liquid coffee or tea concentrate, single cup coffee, cold brewed coffee, iced blend coffee or tea beverages, blended teas, hot tea, sparkling tea, coffee or tea extract solutions, filtration equipment, hot chocolate, soups, malt drinks, creamers/whiteners, cereals, beverage concentrates, premium spring, sparkling and flavored water, and mineral water.

We operate through three reporting segments: Route Based Services; Coffee, Tea and Extract Solutions; and All Other. Our corporate oversight function is not treated as a segment; it includes certain general and administrative costs that are not allocated to any of the reporting segments.

During the first quarter of 2019, we reviewed and realigned our reporting segments to reflect how the business will be managed and the results will be reviewed by the Chief Executive Officer, who is the Company's chief operating decision maker. Following such review, we realigned our three reporting segments as follows: Route Based Services (which includes our DSS, Aquaterra, Mountain Valley, Eden and Aimia businesses); Coffee, Tea and Extract Solutions (which includes our S&D business); and All Other (which includes miscellaneous expenses and our Cott Beverages LLC business, which was sold in the first quarter of 2019). Our segment reporting results have been recast to reflect these changes for all periods presented.

	December 28, 2019				
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
Revenue, net <sup>1</sup>	\$1,788.2	\$605.0	\$ 7.2	\$(5.9)	\$2,394.5
Depreciation and amortization	168.3	24.2	0.3	—	192.8
Operating income (loss)	115.8	15.4	(40.8)	—	90.4
Property, plant and equipment, net	557.0	89.7	1.1	—	647.8
Goodwill	1,047.5	128.2	—	—	1,175.7
Intangible assets, net	596.0	104.4	1.0	—	701.4
Total segment assets <sup>2</sup>	2,816.1	526.5	48.3	—	3,390.9
Additions to property, plant and equipment	100.9	13.3	0.4	—	114.6

<sup>1</sup> Intersegment revenue between the Coffee, Tea and Extract Solutions and the Route Based Services reporting segments was \$5.9 million for the year ended December 28, 2019.

<sup>2</sup> Excludes intersegment receivables, investments and notes receivable.

	December 29, 2018				
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
Revenue, net <sup>1</sup>	\$1,710.3	\$587.6	\$ 80.7	\$(5.7)	\$2,372.9
Depreciation and amortization	170.7	22.9	1.0	—	194.6
Operating income (loss)	89.9	16.1	(47.2)	—	58.8
Property, plant and equipment, net	530.7	88.3	5.7	—	624.7
Goodwill	1,021.6	117.8	4.5	—	1,143.9
Intangible assets, net	608.3	103.2	27.7	—	739.2
Total segment assets <sup>2</sup>	2,578.3	464.8	132.4	—	3,175.5
Additions to property, plant and equipment	112.3	16.0	2.5	—	130.8

<sup>1</sup> Intersegment revenue between the Coffee, Tea and Extract Solutions and the Route Based Services reporting segments was \$5.7 million for the year ended December 29, 2018. All Other includes \$4.2 million of related party concentrate sales to discontinued operations for the year ended December 29, 2018.

<sup>2</sup> Excludes intersegment receivables, investments and notes receivable.



	December 30, 2017				
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
Revenue, net <sup>1</sup>	\$1,599.6	\$602.2	\$ 67.9	\$—	2,269.7
Depreciation and amortization	164.9	22.7	1.0	—	188.6
Operating income (loss) <sup>2</sup>	79.7	15.9	(51.7)	—	43.9
Additions to property, plant and equipment	100.8	19.0	1.5	—	121.3

<sup>1</sup> All Other includes \$41.1 million of related party concentrate sales to discontinued operations for the year ended December 30, 2017.

<sup>2</sup> Operating income in our Route Based Services reporting segment for the year ended December 30, 2017 decreased \$5.0 million as a result of the adoption of Accounting Standards Update 2017-07 Compensation—Retirement Benefits (“ASU 2017-07”).

Credit risk arises from the potential default of a customer in meeting its financial obligations to us. Concentrations of credit exposure may arise with a group of customers that have similar economic characteristics or that are located in the same geographic region. The ability of such customers to meet obligations would be similarly affected by changing economic, political or other conditions. We are not currently aware of any facts that would create a material credit risk.

We have limited customer concentration; no customer accounts for more than 10% of our net revenues.

Revenues are attributed to countries based on the location of the customer. Revenues generated from sales to external customers by geographic area were as follows:

	For the Year Ended		
(in millions of U.S. dollars)	December 28, 2019	December 29, 2018	December 30, 2017
United States	\$1,801.7	\$1,786.9	\$1,709.0
United Kingdom	172.0	173.2	160.0
Canada	67.4	64.1	61.8
All other countries	353.4	348.7	338.9
Total	<u>\$2,394.5</u>	<u>\$2,372.9</u>	<u>\$2,269.7</u>

Revenues by channel by reporting segment were as follows:

	For the Year Ended December 28, 2019				
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
<i>Revenue, net</i>					
Home and office bottled water delivery	\$1,136.0	\$ —	\$—	\$—	\$1,136.0
Coffee and tea services	184.0	483.6	—	(5.9)	661.7
Retail	297.6	—	—	—	297.6
Other	170.6	121.4	7.2	—	299.2
Total	<u>\$1,788.2</u>	<u>\$605.0</u>	<u>\$ 7.2</u>	<u>\$(5.9)</u>	<u>\$2,394.5</u>

For the Year Ended December 29, 2018					
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
<i>Revenue, net</i>					
Home and office bottled water delivery <sup>1</sup> . . . . .	\$1,078.5	\$ —	\$ —	\$—	\$1,078.5
Coffee and tea services . . . . .	192.8	461.9	—	(5.7)	649.0
Retail <sup>1</sup> . . . . .	286.0	—	—	—	286.0
Other <sup>1</sup> . . . . .	153.0	125.7	80.7	—	359.4
Total . . . . .	<u>\$1,710.3</u>	<u>\$587.6</u>	<u>\$80.7</u>	<u>\$(5.7)</u>	<u>\$2,372.9</u>

<sup>1</sup> Revenue by channel of our Route Based Services reporting segment for the year ended December 29, 2018 had \$83.7 million of revenues reclassified from “other” and “retail” to “home and office bottled water delivery” as these activities are associated with the “home and office bottled water delivery” channel. In addition, we reclassified \$18.0 million out of the “retail” channel and into the “other” channel in order to better align the activities of a recent acquisition with those of our U.S. Route Based Services business.

For the Year Ended December 30, 2017					
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
<i>Revenue, net</i>					
Home and office bottled water delivery <sup>1</sup> . . . . .	\$ 990.6	\$ —	\$ —	\$—	\$ 990.6
Coffee and tea services . . . . .	186.8	501.7	—	—	688.5
Retail <sup>1</sup> . . . . .	282.2	—	—	—	282.2
Other <sup>1</sup> . . . . .	140.0	100.5	67.9	—	308.4
Total . . . . .	<u>\$1,599.6</u>	<u>\$602.2</u>	<u>\$67.9</u>	<u>\$—</u>	<u>\$2,269.7</u>

<sup>1</sup> Revenue by channel of our Route Based Services reporting segment for the year ended December 30, 2017 had \$50.2 million of revenues reclassified from “other” to “home and office bottled water delivery” as these activities are associated with the “home and office bottled water delivery” channel.

Property, plant and equipment, net by geographic area as of December 28, 2019 and December 29, 2018 were as follows:

(in millions of U.S. dollars)	December 28, 2019	December 29, 2018
United States . . . . .	<b>\$505.4</b>	\$491.1
United Kingdom . . . . .	<b>20.9</b>	17.8
Canada . . . . .	<b>18.6</b>	19.8
All other countries <sup>1</sup> . . . . .	<u>102.9</u>	<u>96.0</u>
Total . . . . .	<u><b>\$647.8</b></u>	<u>\$624.7</u>

<sup>1</sup> No individual country is greater than 10% of total property, plant and equipment, net as of December 28, 2019 and December 29, 2018.

**Note 12—Accounts Receivable, Net**

The following table summarizes accounts receivable, net as of December 28, 2019 and December 29, 2018:

<u>(in millions of U.S. dollars)</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Trade receivables .....	<b>\$268.5</b>	\$293.0
Allowance for doubtful accounts .....	<b>(9.1)</b>	(9.6)
Other .....	<b>19.9</b>	24.9
Total .....	<b><u>\$279.3</u></b>	<b><u>\$308.3</u></b>

**Note 13—Inventories**

The following table summarizes inventories as of December 28, 2019 and December 29, 2018:

<u>(in millions of U.S. dollars)</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Raw materials .....	<b>\$ 59.5</b>	\$ 68.5
Finished goods .....	<b>36.7</b>	36.3
Resale items .....	<b>22.8</b>	21.5
Other .....	<b>3.5</b>	3.3
Total .....	<b><u>\$122.5</u></b>	<b><u>\$129.6</u></b>

**Note 14—Property, Plant and Equipment, Net**

The following table summarizes property, plant and equipment, net as of December 28, 2019 and December 29, 2018:

<u>(in millions of U.S. dollars)</u>	<u>Estimated Useful Life in Years</u>	<u>December 28, 2019</u>			<u>December 29, 2018</u>		
		<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land .....	n/a	<b>\$ 99.3</b>	<b>\$ —</b>	<b>\$ 99.3</b>	\$ 98.5	\$ —	\$ 98.5
Buildings .....	10-40	<b>115.7</b>	<b>31.3</b>	<b>84.4</b>	111.9	22.9	89.0
Machinery and equipment .....	5-15	<b>206.6</b>	<b>85.6</b>	<b>121.0</b>	183.3	67.0	116.3
Plates, films and molds .....	1-10	<b>1.5</b>	<b>0.6</b>	<b>0.9</b>	1.4	0.4	1.0
Vehicles and transportation equipment ...	3-15	<b>91.6</b>	<b>60.4</b>	<b>31.2</b>	88.1	50.2	37.9
Leasehold improvements <sup>1</sup> .....		<b>20.0</b>	<b>10.7</b>	<b>9.3</b>	16.7	6.9	9.8
IT Systems .....	3-7	<b>19.2</b>	<b>11.3</b>	<b>7.9</b>	16.2	8.6	7.6
Furniture and fixtures .....	3-10	<b>13.6</b>	<b>9.5</b>	<b>4.1</b>	9.3	3.2	6.1
Customer equipment <sup>2</sup> .....	3-7	<b>377.5</b>	<b>164.5</b>	<b>213.0</b>	330.4	118.2	212.2
Returnable bottles <sup>3</sup> .....	3-5	<b>81.9</b>	<b>37.1</b>	<b>44.8</b>	59.7	19.1	40.6
Finance leases <sup>4</sup> .....		<b>39.9</b>	<b>8.0</b>	<b>31.9</b>	6.7	1.0	5.7
Total .....		<b><u>\$1,066.8</u></b>	<b><u>\$419.0</u></b>	<b><u>\$647.8</u></b>	<b><u>\$922.2</u></b>	<b><u>\$297.5</u></b>	<b><u>\$624.7</u></b>

<sup>1</sup> Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life.

<sup>2</sup> Customer equipment for the Route Based Services reporting segment consists of coolers, brewers, refrigerators, water purification devices and storage racks held on site at customer locations.

<sup>3</sup> Returnable bottles are those bottles on site at Route Based Services customer locations.

<sup>4</sup> Our recorded assets under finance leases relate to machinery and equipment, customer equipment, IT systems, customer equipment and vehicles and transportation equipment.

The amounts above include construction in progress of \$8.3 million and \$19.3 million for 2019 and 2018, respectively.

Depreciation expense, which includes depreciation recorded for assets under finance leases, for the year ended December 28, 2019 was \$127.5 million (2018 - \$123.6 million; 2017 - \$120.0 million).

#### Note 15—Intangible Assets, Net

The following table summarizes intangible assets, net as of December 28, 2019 and December 29, 2018:

(in millions of U.S. dollars)	December 28, 2019			December 29, 2018		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
<b>Intangibles</b>						
<i>Not subject to amortization</i>						
Rights <sup>1</sup> .....	\$ —	—	\$ —	\$ 24.5	—	\$ 24.5
Trademarks .....	<u>287.1</u>	<u>—</u>	<u>287.1</u>	<u>282.3</u>	<u>—</u>	<u>282.3</u>
<b>Total intangibles not subject to amortization .....</b>	<b><u>\$ 287.1</u></b>	<b><u>—</u></b>	<b><u>\$287.1</u></b>	<b><u>\$306.8</u></b>	<b><u>—</u></b>	<b><u>\$306.8</u></b>
<i>Subject to amortization</i>						
Customer relationships .....	<b>654.1</b>	<b>286.5</b>	<b>367.6</b>	603.1	211.1	392.0
Patents .....	<b>15.2</b>	<b>4.0</b>	<b>11.2</b>	15.2	2.5	12.7
Software .....	<b>56.9</b>	<b>31.3</b>	<b>25.6</b>	38.0	20.5	17.5
Other .....	<u>17.9</u>	<u>8.0</u>	<u>9.9</u>	<u>16.6</u>	<u>6.4</u>	<u>10.2</u>
<b>Total intangibles subject to amortization .....</b>	<b><u>\$ 744.1</u></b>	<b><u>\$329.8</u></b>	<b><u>\$414.3</u></b>	<b><u>\$672.9</u></b>	<b><u>\$240.5</u></b>	<b><u>\$432.4</u></b>
<b>Total intangible assets .....</b>	<b><u>\$1,031.2</u></b>	<b><u>\$329.8</u></b>	<b><u>\$701.4</u></b>	<b><u>\$979.7</u></b>	<b><u>\$240.5</u></b>	<b><u>\$739.2</u></b>

<sup>1</sup> Relates to the 2001 acquisition of intellectual property from Royal Crown Company, Inc. and includes the right to manufacture concentrates, with all related inventions, processes, technologies, technical and manufacturing information, know-how and the use of the Royal Crown brand outside of North America and Mexico at our Cott Beverages LLC business. The Company sold Cott Beverages LLC to Refresco during the first quarter of 2019.

Amortization expense of intangible assets was \$65.3 million during 2019 (2018 - \$71.0 million; 2017 - \$68.6 million).

The estimated amortization expense for intangible assets subject to amortization over the next five years is:

(in millions of U.S. dollars)	
2020 .....	\$ 69.7
2021 .....	58.7
2022 .....	47.7
2023 .....	37.4
2024 .....	33.4
Thereafter .....	<u>167.4</u>
Total .....	<b><u>\$414.3</u></b>

## Note 16—Accounts Payable and Accrued Liabilities

The following table summarizes accounts payable and accrued liabilities as of December 28, 2019 and December 29, 2018:

<u>(in millions of U.S. dollars)</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Trade payables . . . . .	<b>\$200.4</b>	\$206.1
Accrued compensation . . . . .	<b>58.8</b>	46.7
Accrued sales incentives . . . . .	<b>10.0</b>	10.5
Accrued interest . . . . .	<b>23.9</b>	24.2
Payroll, sales and other taxes . . . . .	<b>17.4</b>	21.7
Accrued deposits . . . . .	<b>77.1</b>	70.6
Derivative liability . . . . .	—	10.9
Self-insurance liabilities . . . . .	<b>18.3</b>	16.9
Other accrued liabilities . . . . .	<b>60.2</b>	61.4
Total . . . . .	<b><u>\$466.1</u></b>	<b><u>\$469.0</u></b>

## Note 17—Debt

Our total debt as of December 28, 2019 and December 29, 2018 was as follows:

<u>(in millions of U.S. dollars)</u>	<u>December 28, 2019</u>			<u>December 29, 2018</u>		
	<u>Principal</u>	<u>Unamortized Debt Costs</u>	<u>Net</u>	<u>Principal</u>	<u>Unamortized Debt Costs</u>	<u>Net</u>
5.500% senior notes due in 2024 . . . . .	<b>499.3</b>	<b>5.8</b>	<b>493.5</b>	513.1	7.2	505.9
5.500% senior notes due in 2025 . . . . .	<b>750.0</b>	<b>8.2</b>	<b>741.8</b>	750.0	9.8	740.2
ABL facility . . . . .	<b>92.0</b>	—	<b>92.0</b>	81.1	—	81.1
Short-term borrowings . . . . .	<b>0.4</b>	—	<b>0.4</b>	7.9	—	7.9
Finance leases . . . . .	<b>30.9</b>	—	<b>30.9</b>	5.0	—	5.0
Other debt financing . . . . .	<b>1.4</b>	—	<b>1.4</b>	2.1	—	2.1
<b>Total debt</b> . . . . .	<b>1,374.0</b>	<b>14.0</b>	<b>1,360.0</b>	1,359.2	17.0	1,342.2
Less: Short-term borrowings and current debt:						
ABL facility . . . . .	<b>92.0</b>	—	<b>92.0</b>	81.1	—	81.1
Short-term borrowings . . . . .	<b>0.4</b>	—	<b>0.4</b>	7.9	—	7.9
Finance leases—current maturities . . . . .	<b>6.3</b>	—	<b>6.3</b>	1.9	—	1.9
Other debt financing . . . . .	<b>1.1</b>	—	<b>1.1</b>	1.1	—	1.1
<b>Total current debt</b> . . . . .	<b>99.8</b>	—	<b>99.8</b>	92.0	—	92.0
<b>Total long-term debt</b> . . . . .	<b><u>\$1,274.2</u></b>	<b><u>\$14.0</u></b>	<b><u>\$1,260.2</u></b>	<u>\$1,267.2</u>	<u>\$17.0</u>	<u>\$1,250.2</u>

The long-term debt payments (which include current maturities of long-term debt) required in each of the next five years and thereafter are as follows:

<u>(in millions of U.S. dollars)</u>	<u>Long-Term Debt (including current)</u>
2020 . . . . .	<b>\$ 100.0</b>
2021 . . . . .	<b>5.6</b>
2022 . . . . .	<b>5.0</b>
2023 . . . . .	<b>4.8</b>
2024 . . . . .	<b>503.4</b>
Thereafter . . . . .	<b>755.2</b>
	<b><u>\$1,374.0</u></b>

### ***Asset-Based Lending Facility***

In March 2008, we entered into a credit agreement with JPMorgan Chase Bank N.A. as Administrative Agent that created an ABL facility to provide financing for our operations. We have amended and refinanced the ABL facility from time to time and incurred related financing fees, \$4.3 million of which have been capitalized and deferred and are being amortized using the straight-line method over the duration of the amended ABL facility.

As of December 28, 2019, our total availability under the ABL facility was \$216.4 million, which was based on our borrowing base (accounts receivables, inventory, and fixed assets as of the December 2019 month-end under the terms of the credit agreement governing the ABL facility). As of December 28, 2019, we had \$92.0 million of outstanding borrowings under the ABL facility and \$47.4 million of letters of credit. As a result, our excess availability under the ABL facility was \$77.0 million as of December 28, 2019. The commitment fee was 0.250% per annum of the unused commitment, which was \$110.6 million as of December 28, 2019. The weighted average effective interest rate at December 28, 2019 on our outstanding borrowings was 3.40%. The effective interest rates are based on our aggregate availability.

In January 2018, we amended and restated the Amended and Restated Credit Agreement. The ABL facility, as amended and restated, provides us with financing in the United States, Canada, the United Kingdom and the Netherlands. Cott and its subsidiaries, Cott Holdings Inc., DSS, S&D, Aimia and Aquaterra, are borrowers under the ABL facility. The ABL facility is a revolving facility of up to \$250.0 million with a maturity date of August 3, 2021. JPMorgan Chase Bank, N.A. serves as administrative agent and administrative collateral agent and JPMorgan Chase Bank, N.A., London Branch serves as U.K. security trustee. Availability under the ABL facility is dependent on a borrowing base calculated as a percentage of the value of eligible inventory, accounts receivable and property, plant and equipment in the manner set forth in the credit agreement. Subject to certain conditions, the ABL facility may be increased up to an additional \$100.0 million at our option if lenders agree to increase their commitments. The debt under the ABL facility is guaranteed by most of our U.S., Canadian and U.K. subsidiaries, certain of our Dutch subsidiaries and certain other subsidiaries. As disclosed previously on a Current Report on Form 8-K dated February 7, 2020 (the “ABL Amendment 8-K”), on February 7, 2020, the ABL facility was amended to, among other things, modify certain negative covenants of the ABL facility to facilitate the sale of S&D (see Note 24 to the Consolidated Financial Statements) and to limit the conditions to be met for the acquisition of Primo Water Corporation (see Note 24 to the Consolidated Financial Statements) to be permitted under the ABL facility (the “ABL Amendment”). This reference to the ABL Amendment does not purport to be complete and is qualified in its entirety by reference to Exhibit 10.1 to the ABL Amendment 8-K.

### ***5.500% Senior Notes due in 2025***

In March 2017, we issued \$750.0 million of our 2025 Notes to qualified purchasers in a private placement offering under Rule 144A under the Securities Act, and outside the United States to non-U.S. purchasers pursuant to Regulation S under the Securities Act and other applicable laws. The 2025 Notes were issued by our wholly-owned subsidiary Cott Holdings Inc., and most of our U.S., Canadian, U.K. and Dutch subsidiaries guarantee the 2025 Notes. The 2025 Notes will mature on April 1, 2025 and interest is payable semi-annually on April 1st and October 1st of each year commencing on October 1, 2017. The proceeds of the 2025 Notes were used to redeem in full the 2020 Notes, redeem \$100.0 million aggregate principal amount of our DSS Notes and to pay related fees and expenses.

We incurred \$11.7 million of financing fees in connection with the issuance of the 2025 Notes. The financing fees are being amortized using the effective interest method over a period of eight years, which represents the term to maturity of the 2025 Notes.

### ***5.500% Senior Notes due in 2024***

In June 2016, we issued €450.0 million (U.S. \$499.3 million at the exchange rate in effect on December 28, 2019) of our 2024 Notes to qualified purchasers in a private placement offering under Rule 144A and Regulation

S under the Securities Act and other applicable laws. The 2024 Notes were initially issued by our wholly-owned subsidiary Cott Finance Corporation. In connection with the closing of the acquisition of Eden, we assumed all of the obligations of Cott Finance Corporation under the 2024 Notes, and most of our U.S., Canadian, U.K. and Dutch subsidiaries that are currently obligors under the 2022 Notes and the 2020 Notes entered into a supplemental indenture to guarantee the 2024 Notes. The 2024 Notes will mature on July 1, 2024 and interest is payable semi-annually on January 1st and July 1st of each year commencing on January 1, 2017. The proceeds of the 2024 Notes were used to fund a portion of the purchase price of the acquisition of Eden and to pay related fees and expenses.

We incurred approximately \$11.3 million of financing fees for the issuance of the 2024 Notes and \$11.0 million of bridge financing commitment fees and professional fees in connection with the acquisition of Eden. The financing fees are being amortized using the effective interest method over a period of eight years, which represents the term to maturity of the 2024 Notes. The bridge financing commitment fees and professional fees were expensed as incurred.

## **Covenant Compliance**

### *Indentures governing our outstanding notes*

Under the indentures governing our outstanding notes, we are subject to a number of covenants, including covenants that limit our and certain of our subsidiaries' ability, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, prepay subordinated debt or make certain investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create or incur liens on assets securing indebtedness, (iv) merge or consolidate with another company or sell all or substantially all of our assets taken as a whole, (v) enter into transactions with affiliates and (vi) sell assets. The covenants are substantially similar across the series of notes. As of December 28, 2019, we were in compliance with all of the covenants under each series of notes. There have been no amendments to any covenants of our outstanding notes since the date of their issuance or assumption, as applicable.

### *ABL Facility*

Under the credit agreement governing the ABL facility, Cott and its restricted subsidiaries are subject to a number of business and financial covenants, including a minimum fixed charge coverage ratio, which measures our ability to cover financing expenses. The minimum fixed charge coverage ratio of 1.0 to 1.0 is effective if and when there exists an event of default or aggregate availability is less than the greater of 10% of the Line Cap under the ABL facility or \$22.5 million (which would be reduced to \$13.5 million upon the sale of our S&D business, per the ABL Amendment). Line Cap is defined as an amount equal to the lesser of the lenders' commitments or the borrowing base at such time. If an event of default exists or the excess availability is less than the greater of 10% of the aggregate availability under the ABL facility or \$22.5 million (which would be reduced to \$13.5 million upon the sale of our S&D business, per the ABL Amendment), the lenders will take dominion over the cash and will apply excess cash to reduce amounts owing under the facility. We were in compliance with all of the applicable covenants under the ABL facility as of December 28, 2019.

## **Note 18—Retirement Plans**

The Company maintains certain defined contribution ("DC") retirement plans covering qualifying employees. The total expense with respect to these DC plans was \$7.3 million for the year ended December 28, 2019 (2018—\$4.4 million; 2017—\$2.0 million).

The Company also maintains several defined benefit ("DB") plans acquired as a part of acquisitions covering certain U.S. and non-U.S. employees, referred to as the U.S. and International Plans, respectively. Retirement benefits are based on years of service multiplied by a monthly benefit factor. Pension costs are



funded in accordance with the provisions of the applicable law. Our U.S. Plan is closed to new participants and is frozen. The Company uses a December 28, 2019 measurement date for all DB plans. Any variation differences based on three days of trading are deemed immaterial.

In the third quarter of 2017, our Eden business relocated its corporate headquarters from Switzerland to Spain, which resulted in the dismissal or relocation of certain non-U.S. employees of the International Plans. As a result of the dismissal or relocation of the certain non-U.S. employees, we recorded a gain on pension curtailment of approximately \$4.5 million to other expense (income), net, in the Consolidated Statement of Operations for the year ended December 30, 2017.

#### *Obligations and Funded Status*

The following table summarizes the change in the projected benefit obligation, change in plan assets and unfunded status of the DB plans as of December 28, 2019 and December 29, 2018:

(in millions of U.S. dollars)	December 28, 2019		
	U.S.	International	Total
<b>Change in Projected Benefit Obligation</b>			
Projected benefit obligation at beginning of year . . . . .	\$ 7.9	\$ 10.8	\$ 18.7
Plan amendment . . . . .	—	0.4	0.4
Service cost . . . . .	—	0.8	0.8
Interest cost . . . . .	0.3	0.2	0.5
Plan participant contributions . . . . .	—	0.3	0.3
Benefit payments . . . . .	(0.4)	(1.5)	(1.9)
Actuarial losses . . . . .	0.8	1.5	2.3
Translation losses . . . . .	—	0.6	0.6
Projected benefit obligation at end of year . . . . .	<u>\$ 8.6</u>	<u>\$ 13.1</u>	<u>\$ 21.7</u>
<b>Change in Plan Assets</b>			
Plan assets beginning of year . . . . .	\$ 6.9	\$ 5.8	\$ 12.7
Employer contributions . . . . .	0.3	0.5	0.8
Plan participant contributions . . . . .	—	0.3	0.3
Benefit payments . . . . .	(0.4)	(1.0)	(1.4)
Settlement gains . . . . .	—	0.2	0.2
Actual return on plan assets . . . . .	1.3	(0.1)	1.2
Translation gains . . . . .	—	0.2	0.2
Fair value at end of year . . . . .	<u>\$ 8.1</u>	<u>\$ 5.9</u>	<u>\$ 14.0</u>
<b>Funded Status of Plan</b>			
Projected benefit obligation . . . . .	<u>\$(8.6)</u>	<u>\$(13.1)</u>	<u>\$(21.7)</u>
Fair value of plan assets . . . . .	<u>8.1</u>	<u>5.9</u>	<u>14.0</u>
Unfunded status . . . . .	<u>\$(0.5)</u>	<u>\$ (7.2)</u>	<u>\$ (7.7)</u>

(in millions of U.S. dollars)	December 29, 2018		
	U.S.	International	Total
<b>Change in Projected Benefit Obligation</b>			
Projected benefit obligation at beginning of year . . . . .	\$ 8.4	\$ 12.8	\$ 21.2
Plan amendment . . . . .	—	(0.1)	(0.1)
Service cost . . . . .	—	0.8	0.8
Interest cost . . . . .	0.3	0.1	0.4
Plan participant contributions . . . . .	—	0.3	0.3
Benefit payments . . . . .	(0.4)	(1.4)	(1.8)
Actuarial gains . . . . .	(0.4)	(0.4)	(0.8)
Settlement gains . . . . .	—	(0.8)	(0.8)
Translation gains . . . . .	—	(0.5)	(0.5)
Projected benefit obligation at end of year . . . . .	<u>\$ 7.9</u>	<u>\$ 10.8</u>	<u>\$ 18.7</u>
<b>Change in Plan Assets</b>			
Plan assets beginning of year . . . . .	\$ 7.1	\$ 6.6	\$ 13.7
Employer contributions . . . . .	0.3	0.4	0.7
Plan participant contributions . . . . .	—	0.3	0.3
Benefit payments . . . . .	(0.4)	(0.8)	(1.2)
Settlement losses . . . . .	—	(0.5)	(0.5)
Actual return on plan assets . . . . .	(0.1)	—	(0.1)
Translation losses . . . . .	—	(0.2)	(0.2)
Fair value at end of year . . . . .	<u>\$ 6.9</u>	<u>\$ 5.8</u>	<u>\$ 12.7</u>
<b>Funded Status of Plan</b>			
Projected benefit obligation . . . . .	\$(7.9)	\$(10.8)	\$(18.7)
Fair value of plan assets . . . . .	6.9	5.8	12.7
Unfunded status . . . . .	<u>\$(1.0)</u>	<u>\$ (5.0)</u>	<u>\$ (6.0)</u>

The accumulated benefit obligation for the U.S. Plans equaled \$8.6 million and \$7.9 million at the end of 2019 and 2018, respectively. The accumulated benefit obligation for the International Plans equaled \$13.1 million and \$10.8 million at the end of 2019 and 2018, respectively.

#### *Periodic Pension Costs*

The components of net periodic pension cost were as follows:

(in millions of U.S. dollars)	December 28, 2019		
	U.S.	International	Total
Service cost . . . . .	\$—	\$ 0.8	\$ 0.8
Interest cost . . . . .	0.3	0.2	0.5
Expected return on plan assets . . . . .	(0.5)	—	(0.5)
Net periodic pension (benefit) cost . . . . .	<u>\$(0.2)</u>	<u>\$ 1.0</u>	<u>\$ 0.8</u>
(in millions of U.S. dollars)	December 29, 2018		
	U.S.	International	Total
Service cost . . . . .	\$—	\$ 0.8	\$ 0.8
Interest cost . . . . .	0.3	0.1	0.4
Expected return on plan assets . . . . .	(0.5)	—	(0.5)
Recognized net gain due to settlement . . . . .	—	(0.3)	(0.3)
Net periodic pension (benefit) cost . . . . .	<u>\$(0.2)</u>	<u>\$ 0.6</u>	<u>\$ 0.4</u>

(in millions of U.S. dollars)	December 30, 2017		
	U.S.	International	Total
Service cost . . . . .	\$—	\$ 1.5	\$ 1.5
Interest cost . . . . .	(0.3)	0.3	—
Expected return on plan assets . . . . .	0.4	(0.3)	0.1
Curtailment gain . . . . .	—	(4.5)	(4.5)
Net periodic pension cost (benefit) . . . . .	<u>\$ 0.1</u>	<u>\$(3.0)</u>	<u>\$(2.9)</u>

#### *Accumulated Other Comprehensive Loss*

Amounts included in accumulated other comprehensive loss, net of tax, at year-end which have not yet been recognized in net periodic benefit cost were as follows:

(in millions of U.S. dollars)	December 28, 2019		
	U.S.	International	Total
Unrecognized net actuarial loss . . . . .	<u><b>\$(0.1)</b></u>	<u><b>\$ (0.9)</b></u>	<u><b>\$ (1.0)</b></u>
Total accumulated other comprehensive loss . . . . .	<u><b>\$(0.1)</b></u>	<u><b>\$ (0.9)</b></u>	<u><b>\$ (1.0)</b></u>

(in millions of U.S. dollars)	December 29, 2018		
	U.S.	International	Total
Unrecognized net actuarial (loss) income . . . . .	<u>\$(0.1)</u>	<u>\$ 0.4</u>	<u>\$ 0.3</u>
Total accumulated other comprehensive (loss) income . . . .	<u>\$(0.1)</u>	<u>\$ 0.4</u>	<u>\$ 0.3</u>

(in millions of U.S. dollars)	December 30, 2017		
	U.S.	International	Total
Unrecognized net actuarial loss . . . . .	<u>\$(0.6)</u>	<u>\$(16.2)</u>	<u>\$(16.8)</u>
Total accumulated other comprehensive loss . . . . .	<u>\$(0.6)</u>	<u>\$(16.2)</u>	<u>\$(16.8)</u>

#### *Actuarial Assumptions*

The following table summarizes the weighted average actuarial assumptions used to determine the projected benefit obligation:

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<u>U.S. Plans</u>			
Discount rate . . . . .	<b>3.0%</b>	4.0%	3.5%
Expected long-term rate of return on plan assets . . . . .	<b>6.3%</b>	6.3%	7.0%
<u>International Plans</u>			
Discount rate . . . . .	<b>1.1%</b>	2.4%	2.0%
Expected long-term rate of return on plan assets . . . . .	<b>1.3%</b>	2.7%	3.1%
Rate of compensation increase . . . . .	<b>2.7%</b>	1.4%	1.4%
CPI Inflation factor . . . . .	<b>0.3%</b>	0.3%	0.3%

The following table summarizes the weighted average actuarial assumptions used to determine net periodic benefit cost:

	For the Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
<u>U.S. Plans</u>			
Discount rate . . . . .	<b>4.0%</b>	3.5%	3.8%
Expected long-term rate of return on plan assets . . . . .	<b>6.3%</b>	6.3%	7.0%
<u>International Plans</u>			
Discount rate . . . . .	<b>1.1%</b>	2.4%	2.0%
Expected long-term rate of return on plan assets . . . . .	<b>1.3%</b>	2.7%	3.1%
Inflation factor . . . . .	<b>0.3%</b>	0.3%	0.3%

The Company utilizes a yield curve analysis to determine the discount rates for its DB plan obligations. The yield curve considers pricing and yield information for high quality corporate bonds with maturities matched to estimated payouts of future pension benefits. The Company evaluates its assumption regarding the estimated long-term rate of return on plan assets based on historical experience, future expectations of investment returns, asset allocations, and its investment strategy. The Company's long-term rate of return on plan assets reflect expectations of projected weighted average market returns of plan assets. Changes in expected returns on plan assets also reflect any adjustments to the Company's targeted asset allocation.

#### *Asset Mix*

Our DB plans weighted-average asset allocations by asset category were as follows:

	December 28, 2019	December 29, 2018
<u>U.S. Plans</u>		
Equity securities . . . . .	<b>46.3%</b>	42.8%
Fixed income investments . . . . .	<b>53.7%</b>	57.2%
<u>International Plans</u>		
Equity securities . . . . .	<b>56.8%</b>	58.6%
Fixed income investments . . . . .	<b>33.2%</b>	31.0%
Real estate . . . . .	<b>10.0%</b>	10.4%

#### *Plan Assets*

Our investment policy is that plan assets will be managed utilizing an investment philosophy and approach characterized by all of the following, listed in priority order: (1) emphasis on total return, (2) emphasis on high-quality securities, (3) sufficient income and stability of income, (4) safety of principal with limited volatility of capital through proper diversification and (5) sufficient liquidity. The target allocation percentages for the U.S. Plans' assets range between 30% to 45% in equity securities and 55% to 70% in fixed income investments. The target allocation percentages for the International Plans' assets range between 50% to 80% in equity securities, 20% to 50% in fixed income investments, 0% to 30% in real estate and 0% to 15% in alternative investments. None of our equity or debt securities are included in plan assets.

#### *Cash Flows*

We expect to contribute \$1.6 million to the DB plans during the 2020 fiscal year.

The following benefit payments are expected to be paid in the periods indicated below:

<u>(in millions of U.S. dollars)</u>	<u>U.S.</u>	<u>International</u>	<u>Total</u>
<b><u>Expected benefit payments</u></b>			
FY 2020 .....	\$0.4	\$1.2	\$ 1.6
FY 2021 .....	0.4	0.6	1.0
FY 2022 .....	0.5	0.5	1.0
FY 2023 .....	0.5	0.4	0.9
FY 2024 .....	0.5	0.6	1.1
FY 2025 through FY 2029 .....	2.6	9.7	12.3

The fair values of the Company's U.S. plan assets are measured daily at their net asset value and valued at \$8.1 million and \$6.9 million at December 28, 2019 and December 29, 2018, respectively.

The fair values of the Company's International plan assets at December 28, 2019 and December 29, 2018 were as follows:

<u>(in millions of U.S. dollars)</u>	<u>December 28, 2019</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>Mutual funds:</u></b>			
Non-U.S. equity securities .....	1.6	—	—
<b><u>Fixed income:</u></b>			
Non-U.S. bonds .....	1.7	—	—
Insurance contract .....	—	2.0	—
<b><u>Real estate:</u></b>			
Real estate .....	—	0.6	—
Total .....	<u>\$ 3.3</u>	<u>\$ 2.6</u>	<u>\$—</u>

<u>(in millions of U.S. dollars)</u>	<u>December 29, 2018</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>Mutual funds:</u></b>			
Non-U.S. equity securities .....	1.6	—	—
<b><u>Fixed income:</u></b>			
Non-U.S. bonds .....	1.9	—	—
Insurance contract .....	—	1.8	—
<b><u>Real estate:</u></b>			
Real estate .....	—	0.6	—
Total .....	<u>\$ 3.5</u>	<u>\$ 2.4</u>	<u>\$—</u>

**Note 19—Consolidated Accumulated Other Comprehensive Income (Loss)**

With the Traditional Business Disposition in 2018, the foreign currency translation balances associated with the Traditional Business were recognized in earnings in the period of disposition. Changes in consolidated accumulated other comprehensive income (loss) (“AOCI”) by component for the years ended December 28, 2019, December 29, 2018 and December 30, 2017 were as follows:

<u>(in millions of U.S. dollars) <sup>1</sup></u>	<u>Gains and Losses on Derivative Instruments</u>	<u>Pension Benefit Plan Items</u>	<u>Currency Translation Adjustment Items</u>	<u>Total</u>
Balance December 31, 2016 . . . . .	\$ (0.1)	\$(14.4)	\$(103.4)	\$(117.9)
OCI before reclassifications . . . . .	—	(2.7)	27.2	24.5
Amounts reclassified from AOCI ..	(1.3)	0.3	—	(1.0)
Net current-period OCI . . . . .	(1.3)	(2.4)	27.2	23.5
Balance December 30, 2017 . . . . .	\$ (1.4)	\$(16.8)	\$ (76.2)	\$ (94.4)
OCI before reclassifications . . . . .	(14.5)	0.2	(25.5)	(39.8)
Amounts reclassified from AOCI ..	6.2	16.9	9.4	32.5
Net current-period OCI . . . . .	(8.3)	17.1	(16.1)	(7.3)
Balance December 29, 2018 . . . . .	\$ (9.7)	\$ 0.3	\$ (92.3)	\$(101.7)
OCI before reclassifications . . . . .	12.9	(1.3)	13.6	25.2
Amounts reclassified from AOCI ..	8.0	—	—	8.0
Net current-period OCI . . . . .	20.9	(1.3)	13.6	33.2
Balance December 28, 2019 . . . . .	\$ 11.2	\$ (1.0)	\$ (78.7)	\$ (68.5)

<sup>1</sup> All amounts are net of tax.

The following table summarizes the amounts reclassified from AOCI to total net income for the years ended December 28, 2019, December 29, 2018 and December 30, 2017:

(in millions of U.S. dollars)	For the Year Ended			Affected Line Item in the Statement Where Net Income Is Presented
	December 28, 2019	December 29, 2018	December 30, 2017	
<b>Details About AOCI Components <sup>1</sup></b>				
Gains and losses on derivative instruments				
Foreign currency and commodity hedges . . . . .	<u>\$(8.0)</u>	<u>\$ (6.2)</u>	<u>\$ 1.3</u>	Cost of sales
	<u>\$(8.0)</u>	<u>\$ (6.2)</u>	<u>\$ 1.3</u>	Total before taxes
	<u>—</u>	<u>—</u>	<u>—</u>	Tax (expense) or benefit
	<u>\$(8.0)</u>	<u>\$ (6.2)</u>	<u>\$ 1.3</u>	Net of tax
Amortization of pension benefit plan items				
Recognized net actuarial loss <sup>2</sup> . . .	<u>\$—</u>	<u>\$(16.9)</u>	<u>\$—</u>	Gain on sale of discontinued operations
Actuarial (losses)/gains <sup>3</sup> . . . . .	<u>—</u>	<u>—</u>	<u>(0.3)</u>	
	<u>—</u>	<u>(16.9)</u>	<u>(0.3)</u>	Total before taxes
	<u>—</u>	<u>—</u>	<u>—</u>	Tax (expense) or benefit
	<u>\$—</u>	<u>\$(16.9)</u>	<u>\$(0.3)</u>	Net of tax
Foreign currency translation adjustments . . . . .	<u>—</u>	<u>(9.4)</u>	<u>—</u>	Gain on sale of discontinued operations
Total reclassifications for the period . . . . .	<u>\$(8.0)</u>	<u>\$(32.5)</u>	<u>\$ 1.0</u>	Net of tax

<sup>1</sup> Amounts in parenthesis indicate debits.

<sup>2</sup> Net of \$3.6 million of associated tax impact that resulted in an increase to the gain on the sale of discontinued operations for the year ended December 29, 2018.

<sup>3</sup> This AOCI component is included in the computation of net periodic pension cost.

## Note 20—Commitments and Contingencies

We are subject to various claims and legal proceedings with respect to matters such as governmental regulations, and other actions arising out of the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on our financial position, results of operations, or cash flow. In addition, the Israeli Ministry of Environmental Protection (the “Ministry”) has alleged that a non-profit recycling corporation, which collects and recycles bottles sold by manufacturers, including Eden, failed to meet recycling quotas in 2016, in violation of Israeli law. The law imposes liability directly on manufacturers, and the Ministry has asserted that the manufacturers involved with the corporation owe a fine. Eden received a notice from the Ministry on June 21, 2018. Although we cannot predict the outcome of any potential proceedings at this early stage, Eden may be subject to a fine in excess of \$0.1 million. Management believes, however, that the resolution of this matter will not be material to our financial position, results of operations, or cash flow.

We had \$47.4 million in standby letters of credit outstanding as of December 28, 2019 (\$46.1 million—December 29, 2018; \$46.0 million—December 30, 2017).



We have future purchase obligations of \$158.6 million that consist of commitments for the purchase of inventory, energy transactions, and payments related to professional fees and information technology outsourcing agreements. These obligations represent the minimum contractual obligations expected under the normal course of business.

#### *Guarantees*

After completion of the Traditional Business Disposition, the Company continues to provide contractual payment guarantees to three third-party lessors of certain real property used in the Traditional Business. The leases were conveyed to Refresco as part of the Traditional Business Disposition, but the Company's guarantee was not released by the landlord. The three lease agreements mature in 2027, 2028 and 2029. The maximum potential amount of undiscounted future payments under the guarantee of approximately \$29.4 million as of December 28, 2019 (\$32.2 million - December 29, 2018; \$42.0 million - December 30, 2017) was calculated based on the minimum lease payments of the leases over the remaining term of the agreements. The Traditional Business Disposition documents require Refresco to pay all post-closing obligations under these conveyed leases, and to reimburse the Company if the landlord calls on a guarantee. Refresco has also agreed to a covenant to negotiate with the landlords for a release of the Company's guarantees; discussions are ongoing. The Company currently believes it is unlikely that we will be required to perform under any of these guarantees or any of the underlying obligations.

#### **Note 21—Hedging Transactions and Derivative Financial Instruments**

We are directly and indirectly affected by changes in foreign currency market conditions. These changes in market conditions may adversely impact our financial performance and are referred to as market risks. When deemed appropriate by management, we use derivatives as a risk management tool to mitigate the potential impact of foreign currency market risks.

We use various types of derivative instruments including, but not limited to, forward contracts, futures contracts and swap agreements for certain commodities. Forward and futures contracts are agreements to buy or sell a quantity of a currency at a predetermined future date, and at a predetermined rate or price. Forward contracts are traded over-the-counter whereas future contracts are traded on an exchange. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices.

All derivatives are carried at fair value in the Consolidated Balance Sheets in the line item accounts receivable, net or accounts payable and accrued liabilities. The carrying values of the derivatives reflect the impact of legally enforceable agreements with the same counterparties. These agreements allow us to net settle positive and negative positions (assets and liabilities) arising from different transactions with the same counterparty.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the types of hedging relationships. Derivatives can be designated as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The changes in the fair values of derivatives that have been designated and qualify for fair value hedge accounting are recorded in the same line item in our Consolidated Statements of Operations as the changes in the fair value of the hedged items attributable to the risk being hedged. The changes in fair values of derivatives that have been designated and qualify as cash flow hedges are recorded in AOCI and are reclassified into the line item in the Consolidated Statements of Operations in which the hedged items are recorded in the same period the hedged items affect earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. The changes in fair values of derivatives that were not designated and/or did not qualify as hedging

instruments are immediately recognized into earnings. We classify cash inflows and outflows related to derivative and hedging instruments within the appropriate cash flows section associated with the item being hedged.

For derivatives that will be accounted for as hedging instruments, we formally designate and document, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, we formally assess both at the inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are highly effective at offsetting changes in either the fair values or cash flows of the related underlying exposures.

We estimate the fair values of our derivatives based on quoted market prices or pricing models using current market rates (see Note 22 to the Consolidated Financial Statements). The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or other financial indices. We do not view the fair values of our derivatives in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions. All of our derivatives are over-the-counter instruments with liquid markets.

### **Credit Risk Associated with Derivatives**

We have established strict counterparty credit guidelines and enter into transactions only with financial institutions of investment grade or better. We monitor counterparty exposures regularly and review promptly any downgrade in counterparty credit rating. We mitigate pre-settlement risk by being permitted to net settle for transactions with the same counterparty. To minimize the concentration of credit risk, we enter into derivative transactions with a portfolio of financial institutions. Based on these factors, we consider the risk of counterparty default to be minimal.

### **Cash Flow Hedging Strategy**

We use cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in commodity prices. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from AOCI into earnings. We did not discontinue any cash flow hedging relationships during the years ended December 28, 2019 or December 29, 2018, respectively.

We have entered into coffee futures contracts to hedge our exposure to price fluctuations on green coffee associated with fixed-price sales contracts with customers, which generally range from three to twelve months in length. These derivative instruments have been designated and qualified as a part of our commodity cash flow hedging program effective January 1, 2017. The objective of this hedging program is to reduce the variability of cash flows associated with future purchases of green coffee.

The notional amount for the coffee futures contracts that were designated and qualified for our commodity cash flow hedging program was 35.7 million pounds and 73.3 million pounds as of December 28, 2019 and December 29, 2018, respectively. Approximately \$8.0 million and \$6.2 million of realized losses, representing the effective portion of the cash-flow hedge, were subsequently reclassified from AOCI to earnings and recognized in cost of sales in the Consolidated Statement of Operations for the years ended December 28, 2019 and December 29, 2018, respectively. As of December 29, 2018, the estimated net amount of gains reported in AOCI that is expected to be reclassified to the Consolidated Statements of Operations within the next twelve months is \$15.4 million.

The fair value of our derivative assets included in prepaid expenses and other current assets was \$8.6 million as of December 28, 2019. We had no derivative assets as of December 29, 2018. We had no

derivative liabilities as of December 28, 2019. Our derivative liabilities included in accounts payable and accrued liabilities was \$10.9 million as of December 29, 2018. Set forth below is a reconciliation of the Company's derivatives by contract type for the periods indicated:

(in millions of U.S. dollars) Derivative Contract	December 28, 2019		December 29, 2018	
	Assets	Liabilities	Assets	Liabilities
Coffee futures <sup>1</sup> .....	<u>\$8.6</u>	<u>\$—</u>	<u>\$—</u>	<u>\$(10.9)</u>
	<u>\$8.6</u>	<u>\$—</u>	<u>\$—</u>	<u>\$(10.9)</u>

<sup>1</sup> The fair value of the coffee futures excludes amounts in the related margin accounts. We are required to maintain margin accounts in accordance with futures market and broker regulations. As of December 28, 2019 and December 29, 2018, the aggregate margin account balances were \$6.4 million and \$12.9 million, respectively and are included in cash and cash equivalents on the Consolidated Balance Sheets.

Coffee futures are subject to enforceable master netting arrangements and are presented net in the reconciliation above. The fair value of the coffee futures assets and liabilities which are shown on a net basis are reconciled in the table below:

(in millions of U.S. dollars)	December 28, 2019	December 29, 2018
Coffee futures assets .....	<u>\$12.1</u>	<u>\$ 0.1</u>
Coffee futures liabilities .....	<u>(3.5)</u>	<u>(11.0)</u>
Net asset (liability) .....	<u>\$ 8.6</u>	<u>\$(10.9)</u>

The location and amount of gains or losses recognized in the Consolidated Statements of Operations for cash flow hedging relationships, presented on a pre-tax basis, for the years ended December 28, 2019 and December 29, 2018, respectively, is shown in the table below:

(in millions of U.S. dollars)	For the Year Ended	
	December 28, 2019	December 29, 2018
	Cost of Sales	
Total amounts of income and expense line items presented in the Consolidated Statements of Operations in which the effects of cash flow hedges are recorded .....	<u>\$1,166.7</u>	<u>\$1,197.3</u>
<b>Loss on cash flow hedging relationship</b>		
Coffee futures:		
Loss reclassified from AOCI into income/expense .....	<u>\$ 8.0</u>	<u>\$ 6.2</u>

The settlement of our derivative instruments resulted in a debit to cost of sales of \$8.0 million and \$6.2 million for the years ended December 28, 2019 and December 29, 2018, respectively.

## Note 22—Fair Value Measurements

ASC No. 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.

- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

We have certain assets and liabilities such as our derivative instruments that are required to be recorded at fair value on a recurring basis in accordance with U.S. GAAP.

Our derivative assets and liabilities represent Level 2 instruments. Level 2 instruments are valued based on observable inputs for quoted prices for similar assets and liabilities in active markets. The fair value of the derivative assets as of December 28, 2019 was \$8.6 million. We had no derivative assets as of December 29, 2018. We had no derivative liabilities as of December 28, 2019. The fair value for the derivative liabilities as of December 29, 2018 was \$10.9 million.

### Fair value of financial instruments

The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, receivables, payables, short-term borrowings and long-term debt approximate their respective fair values, except as otherwise indicated. The carrying values and estimated fair values of our significant outstanding debt as of December 28, 2019 and December 29, 2018 were as follows:

(in millions of U.S. dollars)	December 28, 2019		December 29, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.500% senior notes due in 2024 <sup>1,2</sup> .....	493.5	514.5	505.9	521.7
5.500% senior notes due in 2025 <sup>1,2</sup> .....	741.8	775.3	740.2	695.8
Total .....	<u>\$1,235.3</u>	<u>\$1,289.8</u>	<u>\$1,246.1</u>	<u>\$1,217.5</u>

<sup>1</sup> The fair values were based on the trading levels and bid/offer prices observed by a market participant and are considered Level 2 financial instruments.

<sup>2</sup> Carrying value of our significant outstanding debt is net of unamortized debt issuance costs as of December 28, 2019 and December 29, 2018 (see Note 17 to the Consolidated Financial Statements).

**Note 23—Quarterly Financial Information (unaudited)**

(in millions of U.S. dollars, except per share amounts)	Year Ended December 28, 2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue, net .....	\$574.1	\$604.1	\$616.1	\$600.2	\$2,394.5
Cost of sales .....	291.2	291.0	289.9	294.6	1,166.7
Gross profit .....	282.9	313.1	326.2	305.6	1,227.8
Selling, general and administrative expenses .....	272.1	284.2	280.8	275.9	1,113.0
Loss on disposal of property plant and equipment, net .....	1.9	1.6	1.1	2.9	7.5
Acquisition and integration expenses .....	4.8	2.7	2.7	6.7	16.9
Operating income .....	4.1	24.6	41.6	20.1	90.4
Net (loss) income from continuing operations .....	(19.7)	4.4	8.6	6.6	(0.1)
Net income from discontinued operations, net of income taxes .....	—	—	1.5	1.5	3.0
Net (loss) income attributable to Cott Corporation .....	\$ (19.7)	\$ 4.4	\$ 10.1	\$ 8.1	\$ 2.9
Per share data: .....					
Net (loss) income per common share attributable to Cott Corporation					
Basic:					
Continuing operations .....	\$ (0.14)	\$ 0.03	\$ 0.06	\$ 0.05	\$ —
Discontinued operations .....	\$ —	\$ —	\$ 0.01	\$ 0.01	\$ 0.02
Net (loss) income .....	\$ (0.14)	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.02
Diluted:					
Continuing operations .....	\$ (0.14)	\$ 0.03	\$ 0.06	\$ 0.05	\$ —
Discontinued operations .....	\$ —	\$ —	\$ 0.01	\$ 0.01	\$ 0.02
Net (loss) income .....	\$ (0.14)	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.02

(in millions of U.S. dollars, except per share amounts)	Year Ended December 29, 2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue, net	\$560.8	\$603.6	\$609.3	\$599.2	\$2,372.9
Cost of sales	287.3	302.2	298.8	309.0	1,197.3
Gross profit	273.5	301.4	310.5	290.2	1,175.6
Selling, general and administrative expenses	261.1	275.2	279.9	275.9	1,092.1
Loss on disposal of property, plant and equipment, net	1.3	1.3	1.2	5.6	9.4
Acquisition and integration expenses	5.0	4.2	1.6	4.5	15.3
Operating income	6.1	20.7	27.8	4.2	58.8
Net income from continuing operations	4.6	12.2	8.5	3.6	28.9
Net income (loss) from discontinued operations, net of income taxes	357.4	(1.4)	1.5	(2.9)	354.6
Less: Net income attributable to non-controlling interests—discontinued operations	0.6	—	—	—	0.6
Net income attributable to Cott Corporation	\$361.4	\$ 10.8	\$ 10.0	\$ 0.7	\$ 382.9
Per share data:					
Net income per common share attributable to Cott Corporation					
Basic:					
Continuing operations	\$ 0.03	\$ 0.09	\$ 0.06	\$ 0.03	\$ 0.21
Discontinued operations	\$ 2.55	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 2.54
Net income	\$ 2.58	\$ 0.08	\$ 0.07	\$ 0.01	\$ 2.75
Diluted:					
Continuing operations	\$ 0.03	\$ 0.09	\$ 0.06	\$ 0.03	\$ 0.21
Discontinued operations	\$ 2.51	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 2.50
Net income	\$ 2.54	\$ 0.08	\$ 0.07	\$ 0.01	\$ 2.71

## Note 24—Subsequent Events

On January 13, 2020, Cott entered into an Agreement and Plan of Merger with Cott Holdings Inc., a wholly-owned subsidiary of Cott (“Holdings”), Fore Merger LLC, a wholly-owned subsidiary of Holdings (“Merger Sub”), Fore Acquisition Corporation, a wholly-owned subsidiary of Merger Sub (the “Primo Purchaser”), and Primo Water Corporation (“Primo”), pursuant to which, on January 28, 2020, the Primo Purchaser commenced an exchange offer to purchase all of the outstanding shares of common stock of Primo, par value \$0.001 per share, in exchange for, at the election of the Primo’s stockholders, (i) \$14.00 in cash, (ii) 1.0229 Cott common shares, no par value per share, plus cash in lieu of any fractional Cott common shares, or (iii) \$5.04 in cash and 0.6549 Cott common shares (the “Offer”). As soon as practicable following the consummation of the Offer, the Primo Purchaser intends to acquire any remaining Primo shares by a merger of the Primo Purchaser with and into Primo (the “First Merger”), with Primo surviving the First Merger as a wholly-owned subsidiary of Merger Sub. Immediately following the First Merger, Primo intends to merge with and into Merger Sub, with Merger Sub being the surviving entity (the “Second Merger” and, together with the First Merger, the “Mergers”). Cott expects to issue an aggregate of up to 26,825,842 shares of its common stock in the Offer and the Mergers (collectively, the “Primo Acquisition”). The estimated aggregate consideration to be paid in the Primo Acquisition is approximately \$775 million and includes approximately \$216 million to be paid in cash, \$367 million of Cott common shares and \$192 million of cash paid to retire outstanding indebtedness on behalf of Primo. The actual aggregate consideration will be calculated upon closing of the Primo Acquisition based on

the closing price of Cott common shares as of that date and actual outstanding indebtedness. The Primo Acquisition is expected to close in the first quarter of 2020, subject to satisfaction of certain conditions to the Offer and the First Merger.

On January 30, 2020, Cott entered into a Stock Purchase Agreement with Holdings, S&D, and Westrock Coffee Company, LLC, a Delaware limited liability company (“Purchaser”), pursuant to which Purchaser will acquire all of the issued and outstanding equity of S&D from Holdings (the “S&D Disposition”). The aggregate deal consideration is \$405 million, payable at closing in cash, subject to adjustments for indebtedness, working capital, and cash. The S&D Disposition met the held for sale criteria in the first quarter of fiscal year 2020 and, because it represents a strategic shift that will have a major effect on Cott’s operations and financial results, will be reported in discontinued operations. The S&D Disposition is expected to close in the first quarter of 2020 and is subject to satisfaction of certain conditions, including receipt of U.S. regulatory clearance. The Company intends to use the proceeds of the S&D Disposition to finance a portion of its acquisition of Primo, depending on the timing of closing, or otherwise to pay down indebtedness.

On February 7, 2020, Cott amended the Second Amended and Restated Credit Agreement, which governs our ABL facility. The amendment limits the conditions that needs to be met to consummate the S&D Disposition and the Primo Acquisition and increases the amount that the Primo assets may contribute to the borrowing base at the closing of the Primo Acquisition. In addition, subject to certain additional conditions, the amendment amends the credit agreement to permit the existence of a term loan to fund the Primo Acquisition and related expenses.

On February 19, 2020, the Board of Directors declared a dividend of \$0.06 per common share, payable in cash on March 25, 2020 to shareowners of record at the close of business on March 10, 2020.



## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(in millions of U.S. dollars)

(in millions of U.S. dollars)	Year Ended December 28, 2019					
Description	Balance at Beginning of Year	Reduction in Sales	Charged to Costs and Expenses	Charged to Other Accounts	Deductions <sup>1</sup>	Balance at End of Year
<b>Reserves deducted in the balance sheet from the asset to which they apply</b>						
<u>Allowances for losses on:</u>						
Accounts receivables . . . . .	\$ (9.6)	\$0.1	\$(12.9)	\$ 0.1	\$13.2	\$ (9.1)
Inventories . . . . .	(1.4)	—	—	—	0.2	(1.2)
Deferred tax assets . . . . .	(98.0)	—	(19.7)	(2.6)	—	(120.3)
	<u>\$(109.0)</u>	<u>\$0.1</u>	<u>\$(32.6)</u>	<u>\$(2.5)</u>	<u>\$13.4</u>	<u>\$(130.6)</u>

(in millions of U.S. dollars)

(in millions of U.S. dollars)	Year Ended December 29, 2018					
Description	Balance at Beginning of Year	Reduction in Sales	Charged to Costs and Expenses	Charged to Other Accounts	Deductions <sup>1</sup>	Balance at End of Year
<b>Reserves deducted in the balance sheet from the asset to which they apply</b>						
Allowances for losses on:						
Accounts receivables . . . . .	\$ (7.8)	\$0.2	\$(13.9)	\$ 9.8	\$2.1	\$ (9.6)
Inventories . . . . .	(1.5)	—	(0.4)	—	0.5	(1.4)
Deferred tax assets <sup>2</sup> . . . . .	(129.1)	—	4.2	26.9	—	(98.0)
	<u>\$(138.4)</u>	<u>\$0.2</u>	<u>\$(10.1)</u>	<u>\$36.7</u>	<u>\$2.6</u>	<u>\$(109.0)</u>

(in millions of U.S. dollars)

(in millions of U.S. dollars)	Year Ended December 30, 2017					
Description	Balance at Beginning of Year	Reduction in Sales	Charged to Costs and Expenses	Charged to Other Accounts	Deductions <sup>1</sup>	Balance at End of Year
<b>Reserves deducted in the balance sheet from the asset to which they apply</b>						
<u>Allowances for losses on:</u>						
Accounts receivables . . . . .	\$ (6.3)	\$0.1	\$(16.2)	\$10.8	\$3.8	\$ (7.8)
Inventories . . . . .	(1.3)	—	(0.4)	—	0.2	(1.5)
Deferred tax assets . . . . .	(117.7)	—	(17.6)	6.2	—	(129.1)
	<u>\$(125.3)</u>	<u>\$0.1</u>	<u>\$(34.2)</u>	<u>\$17.0</u>	<u>\$4.0</u>	<u>\$(138.4)</u>

<sup>1</sup> Deductions primarily represent uncollectible accounts written off.

<sup>2</sup> Amounts charged to other accounts include \$35.1 million related to the release of the U.S. valuation allowance recorded through discontinued operations as a result of the Traditional Business Disposition.

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. Harrington, certify that:

1. I have reviewed this annual report on Form 10-K of Cott Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*/s/ Thomas J. Harrington*

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Thomas J. Harrington  
Chief Executive Officer  
Dated: February 26, 2020

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jay Wells, certify that:

1. I have reviewed this annual report on Form 10-K of Cott Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*/s/ Jay Wells*

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Jay Wells  
Chief Financial and Administrative Officer  
Dated: February 26, 2020

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

The undersigned, Thomas J. Harrington, Chief Executive Officer of Cott Corporation (the “Company”), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Annual Report on Form 10-K for the year ended December 28, 2019 (the “Report”).

The undersigned hereby certifies that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 26<sup>th</sup> day of February, 2020.

*/s/ Thomas J. Harrington*

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Thomas J. Harrington  
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

The undersigned, Jay Wells, Chief Financial and Administrative Officer of Cott Corporation (the “Company”), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Annual Report on Form 10-K for the year ended December 28, 2019 (the “Report”).

The undersigned hereby certifies that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 26<sup>th</sup> day of February, 2020.

/s/ Jay Wells

Jay Wells  
Chief Financial and Administrative Officer

# Non-GAAP Reconciliations

The following table reconciles reported net revenue to adjusted revenue excluding Cott Beverages LLC for the periods presented.

<i>(in millions of U.S. dollars)</i>	For the years ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Revenue, net	\$2,394.5	\$2,372.9	\$2,269.7
Divested Cott Beverages LLC business	(7.2)	(80.7)	(67.9)
Adjusted revenue	\$2,387.3	\$2,292.2	\$2,201.8

The following table reconciles net cash provided by operating activities from continuing operations to adjusted free cash flow for the periods presented.

<i>(in millions of U.S. dollars)</i>	For the years ended	
	December 28, 2019	December 29, 2018
Net cash provided by operating activities from continuing operations	\$250.0	\$244.3
Less: Additions to property, plant and equipment	(114.6)	(130.8)
Plus: Acquisition and integration cash costs	15.3	17.3
Plus: Working capital adjustment - Refresco Concentrate Supply Agreement	-	11.1
Plus: Additional cash proceeds from Primo operating agreement	-	7.9
Plus: Cash costs related to additions to property, plant and equipment for integration of acquired entities	2.0	-
Adjusted Free Cash Flow	\$152.7	\$149.8

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## EXECUTIVE OFFICERS

Jerry Fowden  
*Executive Chairman*

Thomas Harrington  
*Chief Executive Officer*

Jay Wells  
*Chief Financial and Administrative Officer*

Marni Morgan Poe  
*Chief Legal Officer and Secretary*

Jason Ausher  
*Chief Accounting Officer*

Steve Kitching  
*Executive Chair, Route Based Services*

William Jamieson  
*Vice President – Global Chief Information Officer*

## BOARD OF DIRECTORS

Britta Bomhard<sup>2</sup>  
*Executive Vice President and  
Chief Marketing Officer*  
CHURCH & DWIGHT, INC.

Jerry Fowden  
*Executive Chairman*

Stephen H. Halperin<sup>2,3</sup>  
*Counsel*  
GOODMANS LLP

Thomas J. Harrington  
*Chief Executive Officer*  
PRIMO WATER CORPORATION

Betty Jane (BJ) Hess<sup>3</sup>  
*Corporate Director*

Gregory Monahan<sup>1</sup>  
*Senior Managing Director*  
CRESCENDO PARTNERS, L.P.

Mario Piloizzi<sup>1</sup>  
*Corporate Director*

Eric Rosenfeld<sup>2</sup>  
*President & Chief Executive Officer*  
CRESCENDO PARTNERS, L.P.

Steven Stanbrook<sup>3</sup>  
*Corporate Director*

Graham Savage<sup>1</sup>  
*Corporate Director*

- 
- |   |  |
|---|--|
| 1 | Audit Committee                            |
| 2 | Corporate Governance Committee             |
| 3 | Human Resources and Compensation Committee |

## EXECUTIVE OFFICE

4221 W. Boy Scout Blvd., Suite 400  
Tampa, Florida 33607  
tel: 813.313.1732  
fax: 813.434.2139

## REGISTERED OFFICE

1200 Britannia Rd East  
Mississauga, Ontario, Canada  
L4W 4T5

## QUARTERLY BUSINESS RESULTS/COTT NEWS

Current investor information is available on our website at [www.primowatercorp.com](http://www.primowatercorp.com)

## INVESTOR INFORMATION

Tel: 813.313.1732  
Email: [investorrelations@primowater.com](mailto:investorrelations@primowater.com)  
Website: [www.primowatercorp.com](http://www.primowatercorp.com)

## TRANSFER AGENT & REGISTRAR

Computershare Investor Services Inc.  
100 University Avenue, 8<sup>th</sup> Floor  
Toronto, Ontario, Canada M5J 2Y1

## AUDITORS

PricewaterhouseCoopers LLP  
Tampa, FL

## PUBLICATIONS

For copies of the Annual Report or the SEC Form 10-K, visit our website or contact Investor Relations

## STOCK EXCHANGE LISTINGS

NYSE: PRMW  
TSX: PRMW

