

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

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**FORM 10-Q**

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**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: **September 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**

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**COTT CORPORATION**

(Exact name of registrant as specified in its charter)

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Canada	98-0154711
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
1200 BRITANNIA ROAD EAST	
MISSISSAUGA, Ontario	L4W 4T5
Canada	
4221 WEST BOY SCOUT BOULEVARD	
SUITE 400	
TAMPA, Florida	33607
United States	
(Address of principal executive offices)	(Zip Code)
<b>Registrant's telephone number, including area code: (905) 795-6500 and (813) 313-1732</b>	

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Shares, no par value per share</b>	<b>COT</b> <b>BCB</b>	<b>New York Stock Exchange</b> <b>Toronto Stock Exchange</b>

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, 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.

Large Accelerated Filer

Non-accelerated filer

Accelerated filer

Smaller reporting 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at November 1, 2019</u>
Common Shares, no par value per share	134,694,893

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Cott Corporation

Consolidated Statements of Operations

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

Unaudited

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Revenue, net</b>	\$ 616.1	\$ 609.3	\$ 1,794.3	\$ 1,773.7
Cost of sales	289.9	298.8	872.1	888.3
<b>Gross profit</b>	<b>326.2</b>	310.5	<b>922.2</b>	885.4
Selling, general and administrative expenses	280.8	279.9	837.1	816.2
Loss on disposal of property, plant and equipment, net	1.1	1.2	4.6	3.8
Acquisition and integration expenses	2.7	1.6	10.2	10.8
<b>Operating income</b>	<b>41.6</b>	27.8	<b>70.3</b>	54.6
Other expense (income), net	3.8	(0.6)	6.9	(33.0)
Interest expense, net	20.2	18.9	58.6	58.3
<b>Income from continuing operations before income taxes</b>	<b>17.6</b>	9.5	<b>4.8</b>	29.3
Income tax expense	9.0	1.0	11.5	4.0
<b>Net income (loss) from continuing operations</b>	<b>\$ 8.6</b>	\$ 8.5	<b>\$ (6.7)</b>	\$ 25.3
Net income from discontinued operations, net of income taxes	1.5	1.5	1.5	357.5
<b>Net income (loss)</b>	<b>\$ 10.1</b>	\$ 10.0	<b>\$ (5.2)</b>	\$ 382.8
Less: Net income attributable to non-controlling interests - discontinued operations	—	—	—	0.6
<b>Net income (loss) attributable to Cott Corporation</b>	<b>\$ 10.1</b>	\$ 10.0	<b>\$ (5.2)</b>	\$ 382.2
<b>Net income (loss) per common share attributable to Cott Corporation</b>				
<b>Basic:</b>				
Continuing operations	\$ 0.06	\$ 0.06	\$ (0.05)	\$ 0.18
Discontinued operations	\$ 0.01	\$ 0.01	\$ 0.01	\$ 2.56
Net income (loss)	\$ 0.07	\$ 0.07	\$ (0.04)	\$ 2.74
<b>Diluted:</b>				
Continuing operations	\$ 0.06	\$ 0.06	\$ (0.05)	\$ 0.18
Discontinued operations	\$ 0.01	\$ 0.01	\$ 0.01	\$ 2.51
Net income (loss)	\$ 0.07	\$ 0.07	\$ (0.04)	\$ 2.69
<b>Weighted average common shares outstanding (in thousands)</b>				
Basic	134,667	138,787	135,395	139,503
Diluted	136,208	141,176	135,395	141,963

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

**Cott Corporation**  
**Condensed Consolidated Statements of Comprehensive Income**  
*(in millions of U.S. dollars)*  
*Unaudited*

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income (loss)	\$ 10.1	\$ 10.0	\$ (5.2)	\$ 382.8
Other comprehensive (loss) income:				
Currency translation adjustment	(0.8)	5.1	6.3	(3.6)
Pension benefit plan, net of tax <sup>1</sup>	—	—	—	16.9
(Loss) income on derivative instruments, net of tax <sup>2</sup>	(1.0)	(5.7)	6.0	(10.0)
<b>Total other comprehensive (loss) income</b>	<b>(1.8)</b>	<b>(0.6)</b>	<b>12.3</b>	<b>3.3</b>
<b>Comprehensive income</b>	<b>\$ 8.3</b>	<b>\$ 9.4</b>	<b>\$ 7.1</b>	<b>\$ 386.1</b>
Less: Comprehensive income attributable to non-controlling interests	—	—	—	0.6
<b>Comprehensive income attributable to Cott Corporation</b>	<b>\$ 8.3</b>	<b>\$ 9.4</b>	<b>\$ 7.1</b>	<b>\$ 385.5</b>

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

<sup>2</sup> Net of the effect of \$1.1 million tax benefit and \$2.2 million tax expense for the three and nine months ended September 28, 2019, respectively, and \$2.0 million and \$2.4 million tax benefit for the three and nine months ended September 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)*  
*Unaudited*

	September 28, 2019	December 29, 2018
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 143.6	\$ 170.8
Accounts receivable, net of allowance of \$8.6 (\$9.6 as of December 29, 2018)	312.6	308.3
Inventories	126.2	129.6
Prepaid expenses and other current assets	29.1	27.2
<b>Total current assets</b>	<b>611.5</b>	<b>635.9</b>
Property, plant and equipment, net	640.9	624.7
Operating lease right-of-use-assets	198.6	—
Goodwill	1,152.2	1,143.9
Intangible assets, net	696.4	739.2
Deferred tax assets	0.1	0.1
Other long-term assets, net	21.1	31.7
<b>Total assets</b>	<b>\$ 3,320.8</b>	<b>\$ 3,175.5</b>
<b>LIABILITIES AND EQUITY</b>		
<i>Current liabilities</i>		
Short-term borrowings	\$ 96.3	\$ 89.0
Current maturities of long-term debt	5.1	3.0
Accounts payable and accrued liabilities	445.6	469.0
Current operating lease obligations	37.7	—
<b>Total current liabilities</b>	<b>584.7</b>	<b>561.0</b>
Long-term debt	1,243.0	1,250.2
Operating lease obligations	166.2	—
Deferred tax liabilities	126.4	124.3
Other long-term liabilities	58.6	69.6
<b>Total liabilities</b>	<b>2,178.9</b>	<b>2,005.1</b>
<i>Equity</i>		
Common shares, no par value - 134,670,538 (December 29, 2018 - 136,195,108) shares issued	890.5	899.4
Additional paid-in-capital	75.8	73.9
Retained earnings	265.0	298.8
Accumulated other comprehensive loss	(89.4)	(101.7)
<b>Total Cott Corporation equity</b>	<b>1,141.9</b>	<b>1,170.4</b>
<b>Total liabilities and equity</b>	<b>\$ 3,320.8</b>	<b>\$ 3,175.5</b>

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)*  
*Unaudited*

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Cash flows from operating activities of continuing operations:</b>				
Net income (loss)	\$ 10.1	\$ 10.0	\$ (5.2)	\$ 382.8
Net income from discontinued operations, net of income taxes	1.5	1.5	1.5	357.5
Net income (loss) from continuing operations	8.6	8.5	(6.7)	25.3
<b>Adjustments to reconcile net income (loss) from continuing operations to cash flows from operating activities:</b>				
Depreciation and amortization	48.0	49.6	142.1	145.7
Amortization of financing fees	0.9	0.9	2.6	2.6
Share-based compensation expense	1.7	6.8	8.5	14.6
Provision for deferred income taxes	6.0	0.1	0.8	2.8
Gain on extinguishment of debt	—	—	—	(7.1)
Loss (gain) on sale of business	—	—	6.0	(6.0)
Loss on disposal of property, plant and equipment, net	1.1	1.2	4.6	3.8
Other non-cash items	3.5	0.8	0.2	(1.4)
Change in operating assets and liabilities, net of acquisitions:				
Accounts receivable	(6.4)	(21.8)	(21.0)	(41.0)
Inventories	3.9	4.3	(12.2)	(9.4)
Prepaid expenses and other current assets	(0.8)	(0.8)	(2.1)	(7.4)
Other assets	0.2	0.2	1.5	1.4
Accounts payable and accrued liabilities and other liabilities	15.4	28.4	(7.1)	22.2
Net cash provided by operating activities from continuing operations	82.1	78.2	117.2	146.1
<b>Cash flows from investing activities of continuing operations:</b>				
Acquisitions, net of cash received	(5.2)	(0.4)	(47.7)	(67.0)
Additions to property, plant and equipment	(35.9)	(36.3)	(87.5)	(95.0)
Additions to intangible assets	(3.3)	(2.7)	(7.6)	(6.9)
Proceeds from sale of property, plant and equipment	0.5	0.8	2.9	3.7
Proceeds from sale of business, net of cash sold	—	—	50.5	12.8
Proceeds from sale of equity securities	—	7.9	—	7.9
Other investing activities	0.5	0.1	0.6	0.4
Net cash used in investing activities from continuing operations	(43.4)	(30.6)	(88.8)	(144.1)

<b>Cash flows from financing activities of continuing operations:</b>				
Payments of long-term debt	(1.5)	(0.2)	(4.5)	(263.5)
Borrowings under ABL	1.2	0.4	64.1	1.4
Payments under ABL	(1.2)	(0.4)	(63.1)	(1.4)
Premiums and costs paid upon extinguishment of long-term debt	—	—	—	(12.5)
Issuance of common shares	0.2	1.8	0.9	6.0
Common shares repurchased and canceled	(0.1)	(24.4)	(31.1)	(46.1)
Financing fees	—	—	—	(1.5)
Dividends paid to common shareholders	(8.2)	(8.3)	(24.4)	(25.1)
Payment of deferred consideration for acquisitions	—	—	(0.2)	(2.8)
Other financing activities	2.0	1.9	5.4	4.0
Net cash used in financing activities from continuing operations	(7.6)	(29.2)	(52.9)	(341.5)
<b>Cash flows from discontinued operations:</b>				
Operating activities of discontinued operations	—	(5.6)	(3.2)	(93.6)
Investing activities of discontinued operations	—	—	—	1,228.6
Financing activities of discontinued operations	—	—	—	(769.7)
Net cash (used in) provided by discontinued operations	—	(5.6)	(3.2)	365.3
Effect of exchange rate changes on cash	(0.9)	0.5	0.5	(8.0)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>30.2</b>	<b>13.3</b>	<b>(27.2)</b>	<b>17.8</b>
Cash and cash equivalents and restricted cash, beginning of period	113.4	162.4	170.8	157.9
Cash and cash equivalents and restricted cash from continuing operations, end of period	\$ 143.6	\$ 175.7	\$ 143.6	\$ 175.7
<b>Supplemental Non-cash Investing and Financing Activities:</b>				
Dividends payable	\$ —	\$ —	\$ 0.1	\$ 0.4
Additions to property, plant and equipment through accounts payable and accrued liabilities and other liabilities	13.3	13.5	17.0	17.5
<b>Supplemental Disclosures of Cash Flow Information:</b>				
Cash paid for interest	\$ 3.0	\$ 0.7	\$ 53.3	\$ 47.1
Cash paid for income taxes, net	1.4	4.2	6.7	6.4

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 and per share amounts)  
Unaudited

**Cott Corporation Equity**

	Number of Common Shares (In thousands)	Common Shares	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
<b>Balance at June 29, 2019</b>	134,638	\$ 890.0	\$ 74.4	\$ 263.1	\$ (87.6)	\$ —	\$ 1,139.9
Net income	—	—	—	10.1	—	—	10.1
Other comprehensive loss, net of tax	—	—	—	—	(1.8)	—	(1.8)
Common shares dividends (\$0.06 per common share)	—	—	—	(8.2)	—	—	(8.2)
Share-based compensation	—	—	1.7	—	—	—	1.7
Common shares repurchased and canceled	(4)	(0.1)	—	—	—	—	(0.1)
Common shares issued - Equity Incentive Plan	13	0.2	(0.2)	—	—	—	—
Common shares issued - Employee Stock Purchase Plan	24	0.4	(0.1)	—	—	—	0.3
<b>Balance at September 28, 2019</b>	<b>134,671</b>	<b>\$ 890.5</b>	<b>\$ 75.8</b>	<b>\$ 265.0</b>	<b>\$ (89.4)</b>	<b>\$ —</b>	<b>\$ 1,141.9</b>

**Cott Corporation Equity**

	Number of Common Shares (In thousands)	Common Shares	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
<b>Balance at December 29, 2018</b>	136,195	899.4	73.9	298.8	(101.7)	—	1,170.4
Cumulative effect of changes in accounting principle, net of taxes	—	—	—	10.5	—	—	10.5
Net loss	—	—	—	(5.2)	—	—	(5.2)
Other comprehensive income, net of tax	—	—	—	—	12.3	—	12.3
Common shares dividends (\$0.18 per common share)	—	—	—	(24.5)	—	—	(24.5)
Share-based compensation	—	—	8.5	—	—	—	8.5
Common shares repurchased and canceled	(2,215)	(16.5)	—	(14.6)	—	—	(31.1)
Common shares issued - Equity Incentive Plan	618	6.5	(6.5)	—	—	—	—
Common shares issued - Dividend Reinvestment Plan	3	—	—	—	—	—	—
Common shares issued - Employee Stock Purchase Plan	70	1.1	(0.1)	—	—	—	1.0
<b>Balance at September 28, 2019</b>	<b>134,671</b>	<b>\$ 890.5</b>	<b>\$ 75.8</b>	<b>\$ 265.0</b>	<b>\$ (89.4)</b>	<b>\$ —</b>	<b>\$ 1,141.9</b>

**Cott Corporation**

**Consolidated Statements of Equity**  
(in millions of U.S. dollars, except share and per share amounts)  
Unaudited

**Cott Corporation Equity**

	Number of Common Shares (In thousands)	Common Shares	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total Equity
<b>Balance at June 30, 2018</b>	139,435	\$ 918.4	\$ 67.3	\$ 333.4	\$ (90.5)	\$ —	\$ 1,228.6
Net income	—	—	—	10.0	—	—	10.0

Other comprehensive income, net of tax	—	—	—	—	(0.6)	—	(0.6)
Common shares dividends (\$0.06 per common share)	—	—	—	(8.3)	—	—	(8.3)
Share-based compensation	—	—	6.8	—	—	—	6.8
Common shares repurchased and canceled	(1,574)	(10.5)	—	(13.9)	—	—	(24.4)
Common shares issued - Equity Incentive Plan	221	3.0	(1.4)	—	—	—	1.6
Common shares issued - Dividend Reinvestment Plan	3	0.1	—	—	—	—	0.1
Common shares issued - Employee Stock Purchase Plan	21	0.3	—	—	—	—	0.3
<b>Balance at September 29, 2018</b>	<b>138,106</b>	<b>\$ 911.3</b>	<b>\$ 72.7</b>	<b>\$ 321.2</b>	<b>\$ (91.1)</b>	<b>\$ —</b>	<b>\$ 1,214.1</b>

**Cott Corporation Equity**

	Number of Common Shares <i>(In thousands)</i>	Common Shares	Additional Paid-in- Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total Equity
<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	—	—	—	382.2	—	0.6	382.8
Other comprehensive income, net of tax	—	—	—	—	3.3	—	3.3
Common shares dividends (\$0.18 per common share)	—	—	—	(25.5)	—	—	(25.5)
Share-based compensation	—	—	14.6	—	—	—	14.6
Common shares repurchased and canceled	(2,930)	(22.8)	—	(23.3)	—	—	(46.1)
Common shares issued - Equity Incentive Plan	1,462	15.8	(10.9)	—	—	—	4.9
Common shares issued - Dividend Reinvestment Plan	17	0.2	—	—	—	—	0.2
Common shares issued - Employee Stock Purchase Plan	68	1.0	(0.1)	—	—	—	0.9
Distributions to non-controlling interests	—	—	—	—	—	(0.9)	(0.9)
Sale of subsidiary shares of non-controlling interests	—	—	—	—	—	(5.8)	(5.8)
<b>Balance at September 29, 2018</b>	<b>138,106</b>	<b>\$ 911.3</b>	<b>\$ 72.7</b>	<b>\$ 321.2</b>	<b>\$ (91.1)</b>	<b>\$ —</b>	<b>\$ 1,214.1</b>

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

**Cott Corporation**  
**Notes to the Consolidated Financial Statements**  
**Unaudited**

**Note 1—Business and Recent Accounting Pronouncements**

***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, coffee, tea, extracts 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, and a leader in custom coffee roasting, iced tea blending, and extract solutions for the U.S. foodservice industry. 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, restaurant chains, hotels and motels, small and large retailers, and healthcare facilities.

On February 8, 2019, we sold all of the outstanding equity of Cott Beverages LLC, which operated our soft drink concentrate production business and our Royal Crown International (“RCI”) division, to Refresco Group B.V., a Dutch beverage manufacturer (“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. The sale of Cott Beverages LLC resulted in a loss of approximately \$6.0 million that was recorded to other expense (income), net in the Consolidated Statement of Operations for the nine months ended September 28, 2019. The Company used the proceeds of this transaction to repay a portion of the outstanding borrowings under our asset-based lending credit facility (the “ABL facility”).

***Basis of Presentation***

The accompanying interim unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial reporting. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of our results of operations for the interim periods reported and of our financial condition as of the date of the interim balance sheet have been included. The Consolidated Balance Sheet as of December 29, 2018 included herein was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (our “2018 Annual Report”). This Quarterly Report on Form 10-Q should be read in conjunction with the annual audited Consolidated Financial Statements and accompanying notes in our 2018 Annual Report. The accounting policies used in these interim Consolidated Financial Statements are consistent with those used in the annual Consolidated Financial Statements.

The presentation of these interim Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes.

***Changes in Presentation***

Certain prior period amounts have been reclassified to conform to the current period presentation in the accompanying Consolidated Statements of Cash Flows. 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 & 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.

## ***Significant Accounting Policies***

Included in Note 1 of our 2018 Annual Report is a summary of the Company's significant accounting policies. Provided below is a summary of additional accounting policies that are significant to the financial results of the Company.

### ***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 the shipment of products from our production facilities to customer locations are reflected in cost of sales. Shipping and handling costs included in SG&A expenses were \$130.5 million and \$372.8 million for the three and nine months ended September 28, 2019, respectively, and \$121.8 million and \$358.6 million for the three and nine months ended September 29, 2018, respectively. Finished goods inventory costs include the cost of direct labor and materials and the applicable share of overhead expense chargeable to production.

### ***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 our 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.

### **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.

## Recently issued accounting pronouncements

### *Update ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326) and Update ASU 2019-05 – Financial Instruments—Credit Losses—Targeted Transition Relief (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. The amendments in these updates 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 these standards 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 related to a 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.

**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 three and nine months ended September 28, 2019 were as follows:

<b>(in millions of U.S. dollars)</b>	<b>For the Three Months Ended</b>	<b>For the Nine Months Ended</b>
	<b>September 28, 2019</b>	
Operating lease cost	\$ 14.7	\$ 41.0
Short-term lease cost	1.7	4.4
Finance lease cost		
Amortization of right-of-use assets	\$ 0.9	\$ 3.8
Interest on lease liabilities	0.6	0.9
Total finance lease cost	\$ 1.5	\$ 4.7
Sublease income	\$ 0.2	\$ 0.7

Supplemental cash flow information related to leases for the three and nine months ended September 28, 2019 was as follows:

<b>(in millions of U.S. dollars)</b>	<b>For the Three Months Ended</b>	<b>For the Nine Months Ended</b>
	<b>September 28, 2019</b>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	12.7	40.2
Operating cash flows from finance leases	0.6	0.9
Financing cash flows from finance leases	1.2	3.3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	3.8	14.0
Finance leases	2.9	18.0

Supplemental balance sheet information related to leases was as follows:

<b>(in millions of U.S. dollars, except lease term and discount rate)</b>	<b>September 28, 2019</b>
<b>Operating leases</b>	
Operating lease right-of-use assets	\$ 198.6
Current operating lease obligations	37.7
Operating lease obligations	166.2
Total operating lease obligations	\$ 203.9
<b>Financing leases</b>	
Property, plant and equipment, net	\$ 20.1
Current maturities of long-term debt	3.9
Long-term debt	14.9
Total finance lease obligations	\$ 18.8

**Weighted Average Remaining Lease Term**

Operating leases	7.9 years
Finance leases	5.3 years

**Weighted Average Discount Rate**

Operating leases	6.3%
Finance leases	6.1%

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

<b>(in millions of U.S. dollars)</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
2019	\$ 12.7	\$ 1.9
2020	49.8	6.6
2021	39.0	5.6
2022	29.4	5.1
2023	24.8	4.9
Thereafter	111.3	7.6
Total lease payments	267.0	31.7
Less imputed interest	(63.1)	(12.9)
Present value of lease obligations	\$ 203.9	\$ 18.8

**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:

<b>(in millions of U.S. dollars)</b>	<b>Operating Leases</b>
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 \$14.7 million and \$44.3 million for the three and nine months ended September 29, 2018, respectively, which is net of sublease income of \$0.3 million and \$0.7 million for the three and nine months ended September 29, 2018, respectively.

### **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>	<b>Capital Leases</b>	
2019	<b>\$</b>	<b>1.9</b>
2020		<b>1.4</b>
2021		<b>0.7</b>
2022		<b>0.5</b>
2023		<b>0.4</b>
Thereafter		<b>0.1</b>

### **Note 3—Revenue**

We are a water, coffee, tea, extracts and filtration service company. 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. 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 our 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, we estimate the rebate or discount that will be granted to the customer and record an accrual upon invoicing. These estimated rebates or discounts are included in the transaction price of our 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. Accrued sales incentives were \$9.8 million and \$10.5 million at September 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 we recognize 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 our 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 September 28, 2019 and December 29, 2018 were \$19.2 million and \$22.0 million, respectively. The amount of revenue recognized in the three and nine months ended September 28, 2019 that was included in the December 29, 2018 deferred revenue balance was \$1.9 million and \$16.2 million, respectively.

We do not have any material contract assets as of September 28, 2019.

## Disaggregated Revenue

In general, our business segmentation is aligned according to the nature and economic characteristics of our 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:

<u>(in millions of U.S. dollars)</u>	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 28, 2019</u>	<u>September 29, 2018</u>	<u>September 28, 2019</u>	<u>September 29, 2018</u>
United States	\$ 458.8	\$ 457.8	\$ 1,348.9	\$ 1,330.0
United Kingdom	35.9	41.7	124.2	126.8
Canada	18.0	16.7	51.7	48.8
All other countries	103.4	93.1	269.5	268.1
Total	\$ 616.1	\$ 609.3	\$ 1,794.3	\$ 1,773.7

## Note 4—Acquisitions

### *Mountain Valley Acquisition*

In October 2018, DSS 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:

<u>(in millions of U.S. dollars)</u>	
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	\$ 80.0

The Mountain Valley Acquisition supported the Company's strategy to expand its 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 include adjustments to property, plant and equipment and intangible assets based on a valuation of such assets, as well as the assumed customer bottle deposit liability based on a review by management.

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:

<b>(in millions of U.S. dollars)</b>	<b>Originally Reported</b>	<b>Measurement Period Adjustments</b>	<b>Acquired Value</b>
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)
<b>Total</b>	<b>\$ 80.4</b>	<b>\$ (0.4)</b>	<b>\$ 80.0</b>

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

In March 2018, the Company completed the acquisition of Crystal Rock, a direct-to-consumer home and office water, coffee and filtration business serving customers throughout New York and New England. 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:

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

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, was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the aggregate fair values was recorded as goodwill. Measurement period adjustments include adjustments to property, plant and equipment and intangible assets based on review of valuations, adjustments to deferred taxes and other long-term liabilities based on analysis of certain tax positions, as well as adjustments to accounts receivable, inventory, prepaid expenses, other assets and accounts payable and accrued liabilities based on review of their fair values as of the acquisition date. 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:

<b>(in millions of U.S. dollars)</b>	<b>Originally Reported</b>	<b>Measurement Period Adjustments</b>	<b>Acquired Value</b>
Cash and cash equivalents	\$ 1.6	\$ —	\$ 1.6
Accounts receivable	6.5	(0.1)	6.4
Inventory	2.3	(0.1)	2.2
Prepaid expenses and other current assets	1.2	1.0	2.2
Property, plant and equipment	9.4	(0.5)	8.9
Goodwill	16.7	(2.5)	14.2
Intangible assets	13.3	(0.7)	12.6
Other assets	0.8	(0.7)	0.1
Short-term borrowings	(4.1)	—	(4.1)
Current maturities of long-term debt	(1.6)	—	(1.6)
Accounts payable and accrued liabilities	(5.2)	(1.5)	(6.7)
Long-term debt	(10.4)	—	(10.4)
Deferred tax liabilities	(6.5)	3.5	(3.0)
Other long-term liabilities	(2.5)	1.6	(0.9)
<b>Total</b>	<b>\$ 21.5</b>	<b>\$ —</b>	<b>\$ 21.5</b>

During the second quarter of 2018, Crystal Rock was integrated within our DSS business.

#### **Note 5—Share-based Compensation**

During the nine months ended September 28, 2019, we granted 74,238 common shares with an aggregate grant date fair value of approximately \$1.1 million to the non-management members of our Board of Directors under the Amended and Restated Cott Corporation Equity Incentive Plan. The common shares were issued in consideration of the directors' annual board retainer fee and are fully vested upon issuance.

#### **Note 6—Income Taxes**

Income tax expense was \$9.0 million on pre-tax income from continuing operations of \$17.6 million for the three months ended September 28, 2019, as compared to income tax expense of \$1.0 million on pre-tax income from continuing operations of \$9.5 million in the comparable prior year period. Income tax expense was \$11.5 million on pre-tax income from continuing operations of \$4.8 million for the nine months ended September 28, 2019, as compared to income tax expense of \$4.0 million on pre-tax income from continuing operations of \$29.3 million in the comparable prior year period. The effective income tax rates for the three and nine months ended September 28, 2019 were 51.1% and 239.6%, respectively, compared to 10.5% and 13.7% in the comparable prior year periods.

The effective tax rate for the three months ended September 28, 2019 varied from the effective tax rate for the three months ended September 29, 2018 due primarily to increased income in taxable jurisdictions. The effective tax rate for the nine months ended September 28, 2019 varied from the effective tax rate for the nine months ended September 29, 2018 due primarily to losses incurred in jurisdictions for which no tax benefit is recognized and an increase in U.S. federal income tax from related party interest payments.

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. The proposed regulations were open to public comment until the end of February 2019 and have not yet been finalized. We have not adopted the proposed regulations for our 2019 tax year. 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.

## **Note 7—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”). For the nine months ended September 29, 2018, we repurchased 2,556,117 common shares for approximately \$40.0 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 our outstanding common shares over a 12-month period commencing on December 14, 2018 (“the Repurchase Plan”). The Repurchase Plan replaced the Initial Repurchase Plan, which was scheduled to expire on May 6, 2019. As of December 29, 2018, the maximum approximate amount of common shares available to be purchased under the Repurchase Plan was \$27.8 million. For the nine months ended September 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 quarter ended June 29, 2019, we utilized all funds under the Repurchase Plan. We will continue to review ongoing market conditions for the opportunity to begin a similar program in the future.

### *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 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 Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Numerator (in millions of U.S. dollars):</b>				
Net income (loss) attributable to Cott Corporation				
Continuing operations	\$ 8.6	\$ 8.5	\$ (6.7)	\$ 25.3
Discontinued operations	1.5	1.5	1.5	356.9
Net income (loss)	10.1	10.0	(5.2)	382.2
<b>Basic Earnings Per Share</b>				
Denominator (in thousands):				
Weighted average common shares outstanding - basic	134,667	138,787	135,395	139,503
<b>Basic Earnings Per Share:</b>				
Continuing operations	0.06	0.06	(0.05)	0.18
Discontinued operations	0.01	0.01	0.01	2.56
Net income (loss)	0.07	0.07	(0.04)	2.74
<b>Diluted Earnings Per Share</b>				
Denominator (in thousands):				
Weighted average common shares outstanding - basic	134,667	138,787	135,395	139,503
Dilutive effect of Stock Options	686	1,212	—	1,260
Dilutive effect of Performance-based RSUs	644	918	—	954
Dilutive effect of Time-based RSUs	211	259	—	246
Weighted average common shares outstanding - diluted	136,208	141,176	135,395	141,963
<b>Diluted Earnings Per Share:</b>				
Continuing operations	0.06	0.06	(0.05)	0.18
Discontinued operations	0.01	0.01	0.01	2.51
Net income (loss)	0.07	0.07	(0.04)	2.69

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

(in thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Stock Options	2,202	1,141	5,473	1,086
Performance-based RSUs <sup>1</sup>	527	327	1,215	327
Time-based RSUs	3	—	358	—

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

## Note 8—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 & 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.

<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>For the Three Months Ended September 28, 2019</b>					
Revenue, net <sup>1</sup>	\$ 472.1	\$ 145.4	\$ —	\$ (1.4)	\$ 616.1
Depreciation and amortization	41.6	6.3	0.1	—	48.0
Operating income (loss)	46.4	3.2	(8.0)	—	41.6
Additions to property, plant and equipment	32.8	3.0	0.1	—	35.9
<b>For the Nine Months Ended September 28, 2019</b>					
Revenue, net <sup>1</sup>	\$ 1,348.2	\$ 443.4	\$ 7.2	\$ (4.5)	\$ 1,794.3
Depreciation and amortization	124.1	17.8	0.2	—	142.1
Operating income (loss)	89.8	9.7	(29.2)	—	70.3
Additions to property, plant and equipment	78.9	8.3	0.3	—	87.5
<b>As of September 28, 2019</b>					
Total assets <sup>2</sup>	\$ 2,780.5	\$ 487.9	\$ 52.4	\$ —	\$ 3,320.8

<sup>1</sup> Intersegment revenue between the Coffee, Tea and Extract Solutions and the Route Based Services reporting segments was \$1.4 million and \$4.5 million for the three and nine months ended September 28, 2019, respectively.

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

<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>For the Three Months Ended September 29, 2018</b>					
Revenue, net <sup>1</sup>	\$ 449.8	\$ 140.2	\$ 20.7	\$ (1.4)	\$ 609.3
Depreciation and amortization	43.5	5.8	0.3	—	49.6
Operating income (loss)	38.8	5.0	(16.0)	—	27.8
Additions to property, plant and equipment	30.3	4.4	1.6	—	36.3
<b>For the Nine Months Ended September 29, 2018</b>					
Revenue, net <sup>1</sup>	\$ 1,285.6	\$ 431.8	\$ 60.3	\$ (4.0)	\$ 1,773.7
Depreciation and amortization	127.8	17.2	0.7	—	145.7
Operating income (loss)	80.9	12.3	(38.6)	—	54.6
Additions to property, plant and equipment	83.6	9.0	2.4	—	95.0
<b>As of December 29, 2018</b>					
Total assets <sup>2</sup>	\$ 2,579.0	\$ 464.8	\$ 131.7	\$ —	\$ 3,175.5

<sup>1</sup> Intersegment revenue between the Coffee, Tea and Extract Solutions and the Route Based Services reporting segments was \$1.4 million and \$4.0 million for the three and nine months ended September 29, 2018, respectively. All Other includes \$4.2 million of related party concentrate sales to discontinued operations for the nine months ended September 29, 2018.

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

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.

Revenues by channel by reporting segment were as follows:

<b>For the Three Months Ended September 28, 2019</b>					
<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue, net</b>					
Home and office bottled water delivery	\$ 309.3	\$ —	\$ —	\$ —	\$ 309.3
Coffee and tea services	43.0	114.8	—	(1.4)	156.4
Retail	77.9	—	—	—	77.9
Other	41.9	30.6	—	—	72.5
Total	\$ 472.1	\$ 145.4	\$ —	\$ (1.4)	\$ 616.1
<b>For the Nine Months Ended September 28, 2019</b>					
<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue, net</b>					
Home and office bottled water delivery	\$ 858.5	\$ —	\$ —	\$ —	\$ 858.5
Coffee and tea services	138.5	355.6	—	(4.5)	489.6
Retail	224.6	—	—	—	224.6
Other	126.6	87.8	7.2	—	221.6
Total	\$ 1,348.2	\$ 443.4	\$ 7.2	\$ (4.5)	\$ 1,794.3



**For the Three Months Ended September 29, 2018**

<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<i>Revenue, net</i>					
Home and office bottled water delivery <sup>1</sup>	\$ 293.4	\$ —	\$ —	\$ —	\$ 293.4
Coffee and tea services	46.3	113.0	—	(1.4)	157.9
Retail <sup>1</sup>	73.8	—	—	—	73.8
Other <sup>1</sup>	36.3	27.2	20.7	—	84.2
<b>Total</b>	<b>\$ 449.8</b>	<b>\$ 140.2</b>	<b>\$ 20.7</b>	<b>\$ (1.4)</b>	<b>\$ 609.3</b>

<sup>1</sup> Revenues by channel of our Route Based Services reporting segment for the three months ended September 29, 2018 had \$22.3 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. In addition, we reclassified \$4.1 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 Nine Months Ended September 29, 2018**

<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<i>Revenue, net</i>					
Home and office bottled water delivery <sup>1</sup>	\$ 817.7	\$ —	\$ —	\$ —	\$ 817.7
Coffee and tea services	142.3	349.0	—	(3.9)	487.4
Retail <sup>1</sup>	214.4	—	—	—	214.4
Other <sup>1</sup>	111.2	82.8	60.3	(0.1)	254.2
<b>Total</b>	<b>\$ 1,285.6</b>	<b>\$ 431.8</b>	<b>\$ 60.3</b>	<b>\$ (4.0)</b>	<b>\$ 1,773.7</b>

<sup>1</sup> Revenues by channel of our Route Based Services reporting segment for the nine months ended September 29, 2018 had \$58.2 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. In addition, we reclassified \$11.5 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.

**Note 9—Inventories**

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

<b>(in millions of U.S. dollars)</b>	<b>September 28, 2019</b>	<b>December 29, 2018</b>
Raw materials	<b>\$ 63.0</b>	\$ 68.5
Finished goods	<b>38.8</b>	36.3
Resale items	<b>21.2</b>	21.5
Other	<b>3.2</b>	3.3
<b>Total</b>	<b>\$ 126.2</b>	\$ 129.6

**Note 10—Intangible Assets, Net**

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

<b>(in millions of U.S. dollars)</b>	<b>September 28, 2019</b>			<b>December 29, 2018</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Intangible Assets</b>						
<i>Not subject to amortization</i>						
Trademarks	\$ 285.0	\$ —	\$ 285.0	\$ 282.3	\$ —	\$ 282.3
Rights	—	—	—	24.5	—	24.5
<b>Total intangible assets not subject to amortization</b>	<b>285.0</b>	<b>—</b>	<b>285.0</b>	<b>306.8</b>	<b>—</b>	<b>306.8</b>
<i>Subject to amortization</i>						
Customer relationships	616.4	250.1	366.3	603.1	211.1	392.0
Patents	15.2	3.7	11.5	15.2	2.5	12.7
Software	49.0	24.7	24.3	38.0	20.5	17.5
Other	16.9	7.6	9.3	16.6	6.4	10.2
<b>Total intangible assets subject to amortization</b>	<b>697.5</b>	<b>286.1</b>	<b>411.4</b>	<b>672.9</b>	<b>240.5</b>	<b>432.4</b>
<b>Total intangible assets</b>	<b>\$ 982.5</b>	<b>\$ 286.1</b>	<b>\$ 696.4</b>	<b>\$ 979.7</b>	<b>\$ 240.5</b>	<b>\$ 739.2</b>

Amortization expense of intangible assets was \$16.3 million and \$48.4 million for the three and nine months ended September 28, 2019, respectively, and \$18.4 million and \$52.9 million for the three and nine months ended September 29, 2018, respectively.

The estimated amortization expense for intangible assets over the next five years and thereafter is:

<b>(in millions of U.S. dollars)</b>	
Remainder of 2019	\$ 19.3
2020	63.4
2021	54.8
2022	46.1
2023	36.1
Thereafter	191.7
<b>Total</b>	<b>\$ 411.4</b>

**Note 11—Accumulated Other Comprehensive (Loss) Income**

With the sale of our North America, United Kingdom and Mexico business units (including the Canadian business) and our RCI finished goods export business in January 2018, the foreign currency translation balances associated with these businesses were recognized in earnings in the period of disposition. Changes in accumulated other comprehensive (loss) income (“AOCI”) by component for the three and nine months ended September 28, 2019 and September 29, 2018 were as follows:

<b>(in millions of U.S. dollars) <sup>1</sup></b>	<b>Gains and Losses on Derivative Instruments</b>	<b>Pension Benefit Plan Items</b>	<b>Currency Translation Adjustment Items</b>	<b>Total</b>
Beginning balance June 29, 2019	\$ (2.7)	\$ 0.3	\$ (85.2)	\$ (87.6)
OCI before reclassifications	(3.1)	—	(0.8)	(3.9)
Amounts reclassified from AOCI	2.1	—	—	2.1
Net current-period OCI	(1.0)	—	(0.8)	(1.8)
Ending balance September 28, 2019	\$ (3.7)	\$ 0.3	\$ (86.0)	\$ (89.4)
Beginning balance December 29, 2018	\$ (9.7)	\$ 0.3	\$ (92.3)	\$ (101.7)
OCI before reclassifications	(0.4)	—	6.3	5.9
Amounts reclassified from AOCI	6.4	—	—	6.4
Net current-period OCI	6.0	—	6.3	12.3
Ending balance September 28, 2019	\$ (3.7)	\$ 0.3	\$ (86.0)	\$ (89.4)
Beginning balance June 30, 2018	\$ (5.7)	\$ 0.1	\$ (84.9)	\$ (90.5)
OCI before reclassifications	(8.1)	—	5.1	(3.0)
Amounts reclassified from AOCI	2.4	—	—	2.4
Net current-period OCI	(5.7)	—	5.1	(0.6)
Ending balance September 29, 2018	\$ (11.4)	\$ 0.1	\$ (79.8)	\$ (91.1)
Beginning balance December 30, 2017	\$ (1.4)	\$ (16.8)	\$ (76.2)	\$ (94.4)
OCI before reclassifications	(13.8)	—	(13.0)	(26.8)
Amounts reclassified from AOCI	3.8	16.9	9.4	30.1
Net current-period OCI	(10.0)	16.9	(3.6)	3.3
Ending balance September 29, 2018	\$ (11.4)	\$ 0.1	\$ (79.8)	\$ (91.1)

<sup>1</sup> All amounts are net of tax. Amounts in parentheses indicate debits.

The following table summarizes the amounts reclassified from AOCI for the three and nine months ended September 28, 2019 and September 29, 2018, respectively:

<b>(in millions of U.S. dollars)</b>	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>		<b>Affected Line Item in the Statement Where Net Income Is Presented</b>
<b>Details About AOCI Components <sup>1</sup></b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>	
<b>Gains and losses on derivative instruments</b>					
Foreign currency and commodity hedges	\$ (2.1)	\$ (2.4)	\$ (6.4)	\$ (3.8)	Cost of sales
	(2.1)	(2.4)	(6.4)	(3.8)	Total before taxes
	—	—	—	—	Tax expense or (benefit)
	<u>\$ (2.1)</u>	<u>\$ (2.4)</u>	<u>\$ (6.4)</u>	<u>\$ (3.8)</u>	Net of tax
<b>Amortization of pension benefit plan items</b>					
Recognized net actuarial loss <sup>2</sup>	—	—	—	(16.9)	Gain on sale of discontinued operations
Prior service costs	\$ —	\$ —	\$ —	\$ —	Cost of sales
	—	—	—	(16.9)	Total before taxes
	—	—	—	—	Tax expense or (benefit)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (16.9)</u>	Net of tax
Foreign currency translation adjustments	—	—	—	(9.4)	Gain on sale of discontinued operations
<b>Total reclassifications for the period</b>	<u>\$ (2.1)</u>	<u>\$ (2.4)</u>	<u>\$ (6.4)</u>	<u>\$ (30.1)</u>	Net of tax

<sup>1</sup> Amounts in parentheses indicate debits.

<sup>2</sup> Net of \$3.6 million of associated tax impact that resulted in an increase in the gain on the sale of discontinued operations for the nine months ended September 29, 2018.

#### **Note 12—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. Eden has since undertaken an administrative appeal process and intends to proceed to litigation. 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 flows.

We had \$46.1 million in standby letters of credit outstanding as of September 28, 2019 (\$46.1 million as of December 29, 2018).

## Guarantees

After the sale of our North America, United Kingdom and Mexico business units (including the Canadian business) and our RCI finished goods export business in January 2018, we have continued to provide contractual payment guarantees to three third-party lessors of certain real property used in these businesses. The leases were conveyed to Refresco as part of the sale, but our 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 \$30.1 million as of September 28, 2019 (\$32.2 million—December 29, 2018) was calculated based on the minimum lease payments of the leases over the remaining term of the agreements. The sale documents require Refresco to pay all post-closing obligations under these conveyed leases, and to reimburse us if the landlord calls on a guarantee. Refresco has also agreed to a covenant to negotiate with the landlords for a release of our guarantees. Discussions with the landlords are ongoing. We currently do not believe it is probable we would be required to perform under any of these guarantees or any of the underlying obligations.

## Note 13—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 prepaid expenses and other current assets 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 14 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 nine months ended September 28, 2019 or September 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 18 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 69.4 million pounds and 73.3 million pounds as of September 28, 2019 and December 29, 2018, respectively. Approximately \$2.1 million and \$6.4 million of realized losses for the three and nine months ended September 28, 2019, respectively and \$2.4 million and \$3.8 million of realized losses for the three and nine months ended September 29, 2018, respectively, 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 Statements of Operations. As of September 28, 2019, the estimated net amount of losses reported in AOCI that is expected to be reclassified to the Consolidated Statements of Operations within the next twelve months is \$2.3 million.

The fair value of our derivative liabilities included in accounts payable and accrued liabilities was \$2.3 million and \$10.9 million as of September 28, 2019 and December 29, 2018, respectively. We had no derivative assets as of September 28, 2019 and December 29, 2018. Set forth below is a reconciliation of our derivatives by contract type for the periods indicated:

<b>(in millions of U.S. dollars)</b> Derivative Contract	<b>September 28, 2019</b>		<b>December 29, 2018</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Coffee futures <sup>1</sup>	\$ —	\$ (2.3)	\$ —	\$ (10.9)

<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 September 28, 2019 and December 29, 2018, the aggregate margin account balances were \$3.8 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:

<b>(in millions of U.S. dollars)</b>	<b>September 28, 2019</b>	<b>December 29, 2018</b>
Coffee futures assets	\$ 5.0	\$ 0.1
Coffee futures liabilities	(7.3)	(11.0)
Net asset (liability)	\$ (2.3)	\$ (10.9)

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 three and nine months ended September 28, 2019 and September 29, 2018, respectively, is shown in the table below:

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>(in millions of U.S. dollars)</b>	<b>Cost of sales</b>		<b>Cost of sales</b>	
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	\$ 289.9	\$ 298.8	\$ 872.1	\$ 888.3
<b>Loss on cash flow hedging relationship</b>				
Coffee futures:				
Loss reclassified from AOCI into expense	\$ 2.1	\$ 2.4	\$ 6.4	\$ 3.8

The settlement of our derivative instruments resulted in a debit to cost of sales of \$2.1 million and \$6.4 million for the three and nine months ended September 28, 2019, respectively, and a debit to cost of sales of \$2.4 million and \$3.8 million for the three and nine months ended September 29, 2018, respectively.

#### Note 14—Fair Value Measurements

FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, 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 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 for the net derivative liabilities as of September 28, 2019 and December 29, 2018 was \$2.3 million and \$10.9 million, respectively. We had no derivative assets as of September 28, 2019 and December 29, 2018.

## 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 September 28, 2019 and December 29, 2018 were as follows:

<b>(in millions of U.S. dollars)</b>	<b>September 28, 2019</b>		<b>December 29, 2018</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
5.500% senior notes due in 2024 <sup>1,2</sup>	<b>486.3</b>	<b>506.4</b>	505.9	521.7
5.500% senior notes due in 2025 <sup>1,2</sup>	<b>741.5</b>	<b>766.4</b>	740.2	695.8
<b>Total</b>	<b>\$ 1,227.8</b>	<b>\$ 1,272.8</b>	<b>\$ 1,246.1</b>	<b>\$ 1,217.5</b>

<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 September 28, 2019 and December 29, 2018.

## Note 15—Subsequent Events

On November 5, 2019, our Board of Directors declared a dividend of \$0.06 per share on common shares, payable in cash on December 6, 2019 to shareowners of record at the close of business on November 26, 2019.



## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to further the reader’s understanding of the consolidated financial condition and results of operations of our Company. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the fiscal year ended December 29, 2018 (our “2018 Annual Report”). These historical financial statements may not be indicative of our future performance. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks referred to under “Risk Factors” in Item 1A in our 2018 Annual Report. As used herein, “Cott,” “the Company,” “Cott Corporation,” “we,” “us,” or “our” refers to Cott Corporation, together with its consolidated subsidiaries.

### Overview

Cott is a water, coffee, tea, extracts 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, and a leader in custom coffee roasting, iced tea blending, and extract solutions for the U.S. foodservice industry. 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, restaurant chains, hotels and motels, small and large retailers, and healthcare facilities.

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 green coffee, tea, polyethylene terephthalate resin, high-density polyethylene 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.

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 & 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.

### Divestiture Transaction

On February 8, 2019, we sold all of the outstanding equity of Cott Beverages LLC, which operated our soft drink concentrate production business and our Royal Crown International (“RCI”) division, to Refresco Group B.V., a Dutch beverage manufacturer (“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. The sale of Cott Beverages LLC resulted in a loss of approximately \$6.0 million that was recorded to other expense (income), net in the Consolidated Statement of Operations for the nine months ended September 28, 2019. 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”).

## Forward-Looking Statements

In addition to historical information, this report, and any documents incorporated in this report by reference, 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, 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 report and any documents incorporated in this report 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 report.

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” in our 2018 Annual Report, and those described from time to time in our future reports filed with the U.S. Securities and Exchange Commission (“SEC”) and Canadian securities regulatory authorities.

The following are some of the factors that could affect our financial performance, including but not limited to, sales, earnings and cash flows, or could cause actual results to differ materially from estimates contained in or underlying the forward-looking statements:

- our ability to compete successfully in the markets in which we operate;
- fluctuations in commodity prices and our ability to pass on increased costs to our customers or hedge against such rising costs, and the impact of those increased prices on our volumes;
- our ability to manage our operations successfully;
- our ability to fully realize the potential benefit of acquisitions or other strategic opportunities that we pursue;
- potential liabilities associated with our recent divestitures;
- our ability to realize the revenue and cost synergies of our acquisitions due to integration difficulties and other challenges;
- our exposure to intangible asset risk;
- currency fluctuations that adversely affect the exchange between the U.S. dollar and the British pound sterling, the exchange between the Euro, the Canadian dollar and other currencies and the exchange between the British pound sterling and the Euro;
- our ability to maintain favorable arrangements and relationships with our suppliers;
- our ability to meet our obligations under our debt agreements, and risks of further increases to our indebtedness;
- our ability to maintain compliance with the covenants and conditions under our debt agreements;
- fluctuations in interest rates, which could increase our borrowing costs;
- the incurrence of substantial indebtedness to finance our acquisitions;
- the impact of global financial events on our financial results from uncertainty in the financial markets and other adverse changes in general economic conditions;
- any disruption to production at our manufacturing facilities;

- our ability to maintain access to our water sources;
- our ability to protect our intellectual property;
- compliance with product health and safety standards;
- liability for injury or illness caused by the consumption of contaminated products;
- liability and damage to our reputation as a result of litigation or legal proceedings;
- changes in the legal and regulatory environment in which we operate;
- the seasonal nature of our business and the effect of adverse weather conditions;
- the impact of national, regional and global events, including those of a political, economic, business and competitive nature;
- our ability to recruit, retain and integrate new management;
- our ability to renew our collective bargaining agreements on satisfactory terms;
- disruptions in our information systems;
- our ability to securely maintain our customers' confidential or credit card information, or other private data relating to our employees or our company;
- our ability to maintain our quarterly dividend;
- our ability to adequately address the challenges and risks associated with our international operations and address difficulties in complying with laws and regulations including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act of 2010;
- increased tax liabilities in the various jurisdictions in which we operate;
- our ability to utilize tax attributes to offset future taxable income;
- the impact of the 2017 Tax Cuts and Jobs Act on our tax obligations and effective tax rate; or
- credit rating changes.

We undertake no obligation to update any information contained in this report 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 report. Undue reliance should not be placed on forward-looking statements, and 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.

#### **Non-GAAP Measures**

In this report, we supplement our reporting of financial measures determined in accordance with U.S. generally accepted accounting principles ("GAAP") by utilizing certain non-GAAP financial measures that exclude certain items to make period-over-period comparisons for our underlying operations before material changes. 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 earnings (loss) before interest expense, taxes, depreciation and amortization ("EBITDA"), which is GAAP net income (loss) from continuing operations before interest expense, net, expense 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 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.

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 report 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.

### Summary Financial Results

Net income from continuing operations for the three months ended September 28, 2019 (the “third quarter”) and net loss from continuing operations for the nine months ended September 28, 2019 (“first nine months of 2019” or “year to date”) was \$8.6 million or \$0.06 per diluted common share, and \$6.7 million or \$0.05 per diluted common share, respectively, compared with net income from continuing operations of \$8.5 million or \$0.06 per diluted common share, and \$25.3 million or \$0.18 per diluted common share for the three and nine months ended September 29, 2018, respectively.

#### The following items of significance affected our financial results for the first nine months of 2019:

- Net revenue increased \$20.6 million, or 1.2%, from the prior year period 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 impact of unfavorable 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 \$922.2 million from \$885.4 million in the prior year period 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 was 51.4% compared to 49.9% in the prior year period;
- Selling, general and administrative (“SG&A”) expenses increased to \$837.1 million from \$816.2 million in the prior year period 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. SG&A expenses as a percentage of net revenue was 46.7% compared to 46.0% in the prior year period;
- Other expense, net was \$6.9 million compared to other income, net of \$33.0 million in the prior year period 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 first nine months of 2019, partially offset by gains recognized on the redemption of the 10.000% senior secured notes due 2021 (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 period;
- Income tax expense was \$11.5 million on pre-tax income from continuing operations of \$4.8 million compared to income tax expense of \$4.0 million on pre-tax income from continuing operations of \$29.3 million in the prior year period due primarily to losses incurred in jurisdictions for which no tax benefit is recognized and an increase in U.S. federal income tax resulting from related party interest payments;
- Adjusted EBITDA increased to \$243.3 million compared to \$237.0 million in the prior year period due to the items listed above; and
- Cash flows provided by operating activities from continuing operations was \$117.2 million compared to \$146.1 million in the prior year period. The \$28.9 million decrease was due primarily to the decrease in net income (loss) from continuing operations and the change in working capital balances relative to the prior year period.

## Results of Operations

The following table summarizes our Consolidated Statements of Operations as a percentage of revenue for the three and nine months ended September 28, 2019 and September 29, 2018:

(in millions of U.S. dollars)	For the Three Months Ended				For the Nine Months Ended			
	September 28, 2019		September 29, 2018		September 28, 2019		September 29, 2018	
	\$	%	\$	%	\$	%	\$	%
<b>Revenue, net</b>	<b>616.1</b>	<b>100.0</b>	609.3	100.0	<b>1,794.3</b>	<b>100.0</b>	1,773.7	100.0
Cost of sales	<b>289.9</b>	<b>47.1</b>	298.8	49.0	<b>872.1</b>	<b>48.6</b>	888.3	50.1
<b>Gross profit</b>	<b>326.2</b>	<b>52.9</b>	310.5	51.0	<b>922.2</b>	<b>51.4</b>	885.4	49.9
Selling, general and administrative expenses	<b>280.8</b>	<b>45.6</b>	279.9	45.9	<b>837.1</b>	<b>46.7</b>	816.2	46.0
Loss on disposal of property, plant and equipment, net	<b>1.1</b>	<b>0.2</b>	1.2	0.2	<b>4.6</b>	<b>0.3</b>	3.8	0.2
Acquisition and integration expenses	<b>2.7</b>	<b>0.4</b>	1.6	0.3	<b>10.2</b>	<b>0.6</b>	10.8	0.6
<b>Operating income</b>	<b>41.6</b>	<b>6.8</b>	27.8	4.6	<b>70.3</b>	<b>3.9</b>	54.6	3.1
Other expense (income), net	<b>3.8</b>	<b>0.6</b>	(0.6)	(0.1)	<b>6.9</b>	<b>0.4</b>	(33.0)	(1.9)
Interest expense, net	<b>20.2</b>	<b>3.3</b>	18.9	3.1	<b>58.6</b>	<b>3.3</b>	58.3	3.3
<b>Income from continuing operations before income taxes</b>	<b>17.6</b>	<b>2.9</b>	9.5	1.6	<b>4.8</b>	<b>0.3</b>	29.3	1.7
Income tax expense	<b>9.0</b>	<b>1.5</b>	1.0	0.2	<b>11.5</b>	<b>0.6</b>	4.0	0.2
<b>Net income (loss) from continuing operations</b>	<b>8.6</b>	<b>1.4</b>	8.5	1.4	<b>(6.7)</b>	<b>(0.4)</b>	25.3	1.4
Net income from discontinued operations, net of income taxes	<b>1.5</b>	<b>0.2</b>	1.5	0.2	<b>1.5</b>	<b>0.1</b>	357.5	20.2
<b>Net income (loss)</b>	<b>10.1</b>	<b>1.6</b>	10.0	1.6	<b>(5.2)</b>	<b>(0.3)</b>	382.8	21.6
Less: Net income attributable to non-controlling interests - discontinued operations	—	—	—	—	—	—	0.6	—
<b>Net income (loss) attributable to Cott Corporation</b>	<b>10.1</b>	<b>1.6</b>	10.0	1.6	<b>(5.2)</b>	<b>(0.3)</b>	382.2	21.5
Depreciation & amortization	<b>48.0</b>	<b>7.8</b>	49.6	8.1	<b>142.1</b>	<b>7.9</b>	145.7	8.2

The following tables summarize the change in revenue by reporting segment for the three and nine months ended September 28, 2019:

(in millions of U.S. dollars, except percentage amounts)	For the Three Months Ended September 28, 2019				
	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Eliminations	Total
Change in revenue	\$ 22.3	\$ 5.2	\$ (20.7)	\$ —	\$ 6.8
Impact of foreign exchange <sup>1</sup>	4.1	—	—	—	4.1
Change excluding foreign exchange	\$ 26.4	\$ 5.2	\$ (20.7)	\$ —	\$ 10.9
Percentage change in revenue	5.0%	3.7%	(100.0)%	—%	1.1%
Percentage change in revenue excluding foreign exchange	5.9%	3.7%	(100.0)%	—%	1.8%

**For the Nine Months Ended September 28, 2019**

<b>(in millions of U.S. dollars, except percentage amounts)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
Change in revenue	\$ 62.6	\$ 11.6	\$ (53.1)	\$ (0.5)	\$ 20.6
Impact of foreign exchange <sup>1</sup>	22.2	—	—	—	22.2
Change excluding foreign exchange	\$ 84.8	\$ 11.6	\$ (53.1)	\$ (0.5)	\$ 42.8
Percentage change in revenue	4.9%	2.7%	(88.1)%	12.5%	1.2%
Percentage change in revenue excluding foreign exchange	6.6%	2.7%	(88.1)%	12.5%	2.4%

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

Our corporate oversight function is not treated as a segment; it includes certain general and administrative costs that are disclosed in the All Other category.

The following table summarizes our net revenue, gross profit, SG&A expenses and operating income (loss) by reporting segment for the three and nine months ended September 28, 2019 and September 29, 2018:

<b>(in millions of U.S. dollars)</b>	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>
<b><i>Revenue, net</i></b>				
Route Based Services	\$ 472.1	\$ 449.8	\$ 1,348.2	\$ 1,285.6
Coffee, Tea and Extract Solutions	145.4	140.2	443.4	431.8
All Other	—	20.7	7.2	60.3
Eliminations	(1.4)	(1.4)	(4.5)	(4.0)
Total	\$ 616.1	\$ 609.3	\$ 1,794.3	\$ 1,773.7
<b><i>Gross profit</i></b>				
Route Based Services	\$ 286.3	\$ 271.9	\$ 800.7	\$ 765.6
Coffee, Tea and Extract Solutions	39.9	35.4	121.2	111.5
All Other	—	3.2	0.3	8.3
Total	\$ 326.2	\$ 310.5	\$ 922.2	\$ 885.4
<b><i>Selling, general and administrative expenses</i></b>				
Route Based Services	\$ 237.0	\$ 229.5	\$ 699.1	\$ 673.2
Coffee, Tea and Extract Solutions	36.6	33.0	111.4	101.2
All Other	7.2	17.4	26.6	41.8
Total	\$ 280.8	\$ 279.9	\$ 837.1	\$ 816.2
<b><i>Operating income (loss)</i></b>				
Route Based Services	\$ 46.4	\$ 38.8	\$ 89.8	\$ 80.9
Coffee, Tea and Extract Solutions	3.2	5.0	9.7	12.3
All Other	(8.0)	(16.0)	(29.2)	(38.6)
Total	\$ 41.6	\$ 27.8	\$ 70.3	\$ 54.6

The following tables summarize net revenue by channel for the three and nine months ended September 28, 2019 and September 29, 2018:

<b>For the Three Months Ended September 28, 2019</b>					
<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<i>Revenue, net</i>					
Home and office bottled water delivery	\$ 309.3	\$ —	\$ —	\$ —	\$ 309.3
Coffee and tea services	43.0	114.8	—	(1.4)	156.4
Retail	77.9	—	—	—	77.9
Other	41.9	30.6	—	—	72.5
<b>Total</b>	<b>\$ 472.1</b>	<b>\$ 145.4</b>	<b>\$ —</b>	<b>\$ (1.4)</b>	<b>\$ 616.1</b>

  

<b>For the Nine Months Ended September 28, 2019</b>					
<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<i>Revenue, net</i>					
Home and office bottled water delivery	\$ 858.5	\$ —	\$ —	\$ —	\$ 858.5
Coffee and tea services	138.5	355.6	—	(4.5)	489.6
Retail	224.6	—	—	—	224.6
Other	126.6	87.8	7.2	—	221.6
<b>Total</b>	<b>\$ 1,348.2</b>	<b>\$ 443.4</b>	<b>\$ 7.2</b>	<b>\$ (4.5)</b>	<b>\$ 1,794.3</b>

  

<b>For the Three Months Ended September 29, 2018</b>					
<b>(in millions of U.S. dollars)</b>	<b>Route Based Services</b>	<b>Coffee, Tea and Extract Solutions</b>	<b>All Other</b>	<b>Eliminations</b>	<b>Total</b>
<i>Revenue, net</i>					
Home and office bottled water delivery <sup>1</sup>	\$ 293.4	\$ —	\$ —	\$ —	\$ 293.4
Coffee and tea services	46.3	113.0	—	(1.4)	157.9
Retail <sup>1</sup>	73.8	—	—	—	73.8
Other <sup>1</sup>	36.3	27.2	20.7	—	84.2
<b>Total</b>	<b>\$ 449.8</b>	<b>\$ 140.2</b>	<b>\$ 20.7</b>	<b>\$ (1.4)</b>	<b>\$ 609.3</b>

<sup>1</sup> Revenues by channel of our Route Based Services reporting segment for the three months ended September 29, 2018 had \$22.3 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. In addition, we reclassified \$4.1 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 Nine Months Ended September 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>	\$ 817.7	\$ —	\$ —	\$ —	\$ 817.7
Coffee and tea services	142.3	349.0	—	(3.9)	487.4
Retail <sup>1</sup>	214.4	—	—	—	214.4
Other <sup>1</sup>	111.2	82.8	60.3	(0.1)	254.2
<b>Total</b>	<b>\$ 1,285.6</b>	<b>\$ 431.8</b>	<b>\$ 60.3</b>	<b>\$ (4.0)</b>	<b>\$ 1,773.7</b>

<sup>1</sup> Revenues by channel of our Route Based Services reporting segment for the nine months ended September 29, 2018 had \$58.2 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. In addition, we reclassified \$11.5 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.

The following table summarizes our EBITDA and Adjusted EBITDA for the three and nine months ended September 28, 2019 and September 29, 2018:

(in millions of U.S. dollars)	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Net income (loss) from continuing operations</b>	<b>\$ 8.6</b>	<b>\$ 8.5</b>	<b>\$ (6.7)</b>	<b>\$ 25.3</b>
Interest expense, net	20.2	18.9	58.6	58.3
Income tax expense	9.0	1.0	11.5	4.0
Depreciation and amortization	48.0	49.6	142.1	145.7
<b>EBITDA</b>	<b>\$ 85.8</b>	<b>\$ 78.0</b>	<b>\$ 205.5</b>	<b>\$ 233.3</b>
Acquisition and integration costs <sup>1</sup>	2.7	1.6	10.2	10.8
Share-based compensation costs	2.1	10.2	8.5	16.2
Commodity hedging loss, net	—	—	—	0.3
Foreign exchange and other losses (gains), net	4.3	0.4	4.6	(10.8)
Loss on disposal of property, plant and equipment, net	1.1	1.2	4.6	3.8
Gain on extinguishment of long-term debt	—	—	—	(7.1)
Loss (gain) on sale of business	—	—	6.0	(6.0)
Cott Beverages LLC <sup>2</sup>	—	(1.2)	0.4	(3.1)
Other adjustments, net	0.4	1.4	3.5	(0.4)
<b>Adjusted EBITDA</b>	<b>\$ 96.4</b>	<b>\$ 91.6</b>	<b>\$ 243.3</b>	<b>\$ 237.0</b>

<sup>1</sup> Includes a reduction of \$0.4 million for the three months ended September 28, 2019, and a reduction of \$3.4 million and \$1.6 million for the three and nine months ended September 29, 2018, respectively, of share-based compensation costs related to awards granted in connection with the acquisition of our S&D and Eden businesses.

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



## Three Months Ended September 28, 2019 Compared to Three Months Ended September 29, 2018

### **Revenue, Net**

Net revenue increased \$6.8 million, or 1.1%, in the third quarter from the comparable prior year period.

Route Based Services net revenue increased \$22.3 million, or 5.0%, in the third quarter from the comparable prior year period due primarily to the addition of revenues from the Mountain Valley business, pricing initiatives and growth within our home and office water delivery operations of \$18.2 million, as well as growth in other product sales of \$8.2 million, partially offset by the unfavorable impact of foreign exchange rates of \$4.1 million.

Coffee, Tea and Extract Solutions net revenue increased \$5.2 million, or 3.7%, in the third quarter from the comparable prior year period due primarily to the growth in coffee volumes, change in customer mix and growth in liquid coffee and extracts of \$9.4 million, as well as growth in other product sales of \$0.4 million, partially offset by lower green coffee commodity prices of \$4.6 million.

All Other net revenue decreased \$20.7 million, or 100.0%, in the third quarter from the comparable prior year period due primarily to less revenue contributed by our Cott Beverages LLC business, which was sold in the first quarter of 2019.

### **Gross Profit**

Gross profit increased to \$326.2 million in the third quarter from \$310.5 million in the comparable prior year period. Gross profit as a percentage of revenue was 52.9% in the third quarter compared to 51.0% in the comparable prior year period.

Route Based Services gross profit increased to \$286.3 million in the third quarter from \$271.9 million in the comparable prior year period due primarily to the addition of the Mountain Valley business, 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 \$39.9 million in the third quarter from \$35.4 million in the comparable prior year period 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 nil in the third quarter from \$3.2 million in the comparable prior year period 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 \$280.8 million in the third quarter from \$279.9 million in the comparable prior year period. SG&A expenses as a percentage of revenue was 45.6% in the third quarter compared to 45.9% in the comparable prior year period.

Route Based Services SG&A expenses increased to \$237.0 million in the third quarter from \$229.5 million in the comparable prior year period due primarily to the addition of the Mountain Valley business and an increase of incentive costs, 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 \$36.6 million in the third quarter from \$33.0 million in the comparable prior year period due primarily to increased selling and operating costs.

All Other SG&A expenses decreased to \$7.2 million in the third quarter from \$17.4 million in the comparable prior year period due primarily to lower SG&A expenses incurred by our Cott Beverages LLC business, which was sold in the first quarter of 2019, as well as a decrease in professional fees and share-based compensation costs.

### **Operating Income**

Operating income increased to \$41.6 million in the third quarter from \$27.8 million in the comparable prior year period.

Route Based Services operating income increased to \$46.4 million in the third quarter from \$38.8 million in the comparable prior year period due to the items discussed above.

Coffee, Tea and Extract Solutions operating income decreased to \$3.2 million in the third quarter from \$5.0 million in the comparable prior year period due to the items discussed above.

All Other operating loss decreased to \$8.0 million in the third quarter from \$16.0 million in the comparable prior year period due to the items discussed above.

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

Other expense, net was \$3.8 million for the third quarter compared to other income, net of \$0.6 million in the comparable prior year period due primarily to an increase of net losses on foreign currency transactions in the third quarter and mark to market gains on warrant securities recognized in the prior year period.

### ***Income Taxes***

Income tax expense was \$9.0 million in the third quarter compared to \$1.0 million in the comparable prior year period. The effective tax rate for the third quarter was 51.1% compared to 10.5% in the comparable prior year period.

The effective tax rate for the third quarter varied from the effective tax rate from the comparable prior year period due primarily to increased income in taxable jurisdictions.

## **Nine Months Ended September 28, 2019 Compared to Nine Months Ended September 29, 2018**

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

Net revenue increased \$20.6 million, or 1.2%, for the year to date from the comparable prior year period.

Route Based Services net revenue increased \$62.6 million, or 4.9%, for the year to date from the comparable prior year period 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 \$54.1 million, as well as growth in other product sales of \$30.7 million, partially offset by the unfavorable impact of foreign exchange rates of \$22.2 million.

Coffee, Tea and Extract Solutions net revenue increased \$11.6 million, or 2.7%, for the year to date from the comparable prior year period due primarily to the growth in coffee volumes, change in customer mix and growth in liquid coffee and extracts of \$26.6 million, partially offset by lower green coffee commodity prices of \$12.8 million and a decrease in other product sales of \$2.2 million.

All Other net revenue decreased \$53.1 million, or 88.1%, for the year to date from the comparable prior year period due primarily to less revenue contributed by our Cott Beverages LLC business, which was sold in the first quarter of 2019.

### ***Gross Profit***

Gross profit increased to \$922.2 million for the year to date from \$885.4 million in the comparable prior year period. Gross profit as a percentage of revenue was 51.4% year to date compared to 49.9% in the comparable prior year period.

Route Based Services gross profit increased to \$800.7 million for the year to date from \$765.6 million in the comparable prior year period 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 \$121.2 million for the year to date from \$111.5 million in the comparable prior year period 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 for the year to date from \$8.3 million in the comparable prior year period 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 \$837.1 million for the year to date from \$816.2 million in the comparable prior year period. SG&A expenses as a percentage of revenue was 46.7% year to date compared to 46.0% in the comparable prior year period.

Route Based Services SG&A expenses increased to \$699.1 million for the year to date from \$673.2 million in the comparable prior year period due primarily to the addition of the Mountain Valley and Crystal Rock businesses and an increase of incentive costs, 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 \$111.4 million for the year to date from \$101.2 million in the comparable prior year period due primarily to increased selling and operating costs.

All Other SG&A expenses decreased to \$26.6 million for the year to date from \$41.8 million in the comparable prior year period 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 and share-based compensation costs.

### ***Operating Income***

Operating income increased to \$70.3 million for the year to date from \$54.6 million in the comparable prior year period.

Route Based Services operating income increased to \$89.8 million for the year to date from \$80.9 million in the comparable prior year period due to the items discussed above.

Coffee, Tea and Extract Solutions operating income decreased to \$9.7 million for the year to date from \$12.3 million in the comparable prior year period due to the items discussed above.

All Other operating loss decreased to \$29.2 million for the year to date from \$38.6 million in the comparable prior year period due to the items discussed above.

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

Other expense, net was \$6.9 million for the year to date compared to other income, net of \$33.0 million in the comparable prior year period 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 first nine months of 2019, partially offset by 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 period.

### ***Income Taxes***

Income tax expense was \$11.5 million for the year to date compared to \$4.0 million in the comparable prior year period. The effective tax rate for the year to date was 239.6% compared to 13.7% in the comparable prior year period.

The effective tax rate for the year to date varied from the effective tax rate from the comparable prior year period due primarily to losses incurred in jurisdictions for which no tax benefit is recognized and an increase in U.S. federal income tax resulting from related party interest payments.

### ***Liquidity and Capital Resources***

As of September 28, 2019, we had total debt of \$1,344.4 million and \$143.6 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 September 28, 2019 and December 29, 2018 includes \$12.4 million and \$12.5 million, respectively, of cash proceeds received from the sale of our North America, United Kingdom and Mexico business units (including the Canadian business) and our RCI finished goods export business 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 September 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 September 28, 2019 and December 29, 2018, include margin account balances related to our coffee futures of \$3.8 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 our 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.

As of September 28, 2019, our total availability under the ABL facility was \$219.7 million, which was based on our borrowing base (accounts receivables, inventory, and fixed assets as of the September 2019 month-end under the terms of the credit agreement governing the ABL facility). We had \$82.2 million of outstanding borrowings under the ABL facility and \$46.1 million in outstanding letters of credit. As a result, our excess availability under the ABL facility was \$91.4 million. Each month's borrowing base is not effective until submitted to the lenders, which typically occurs on the fifteenth day of the following month.

We earn a portion of our consolidated operating income in subsidiaries located outside of Canada. We have not provided for federal, state and foreign deferred income taxes on the undistributed earnings of our non-Canadian subsidiaries. We expect that these earnings will be permanently reinvested by such subsidiaries except in certain instances where repatriation attributable to current earnings results in minimal or no tax consequences.

We expect our existing cash and cash equivalents, cash flows and the issuance of debt to continue to be sufficient to fund our operating, investing and financing activities. In addition, we expect our existing cash and cash equivalents and cash flows outside of Canada to continue to be sufficient to fund the operating activities of our subsidiaries.

A future change to our assertion that foreign earnings will be permanently reinvested could result in additional income taxes and/or withholding taxes payable, where applicable. Therefore, a higher effective tax rate could occur during the period of repatriation.

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 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 the aggregate, may be material. However, the covenants in our ABL facility subject such purchases to certain limitations and conditions.

A dividend of \$0.06 per common share has been declared during each quarter of 2019 for aggregate dividend payments of approximately \$24.5 million.

The following table summarizes our cash flows for the three and nine months ended September 28, 2019 and September 29, 2018, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

<b>(in millions of U.S. dollars)</b>	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 28, 2019</b>	<b>September 29, 2018</b>	<b>September 28, 2019</b>	<b>September 29, 2018</b>
Net cash provided by operating activities from continuing operations	\$ 82.1	\$ 78.2	\$ 117.2	\$ 146.1
Net cash used in investing activities from continuing operations	(43.4)	(30.6)	(88.8)	(144.1)
Net cash used in financing activities from continuing operations	(7.6)	(29.2)	(52.9)	(341.5)
<b>Cash flows from discontinued operations:</b>				
Net cash used in operating activities from discontinued operations	—	(5.6)	(3.2)	(93.6)
Net cash provided by investing activities from discontinued operations	—	—	—	1,228.6
Net cash used in financing activities from discontinued operations	—	—	—	(769.7)
Effect of exchange rate changes on cash	(0.9)	0.5	0.5	(8.0)
Net increase (decrease) in cash, cash equivalents and restricted cash	30.2	13.3	(27.2)	17.8
Cash and cash equivalents and restricted cash, beginning of period	113.4	162.4	170.8	157.9
Cash and cash equivalents and restricted cash from continuing operations, end of period	\$ 143.6	\$ 175.7	\$ 143.6	\$ 175.7

### ***Operating Activities***

Cash provided by operating activities from continuing operations was \$117.2 million year to date compared to \$146.1 million in the comparable prior year period. The \$28.9 million decrease was due primarily to the decrease in net income (loss) from continuing operations and the change in working capital balances relative to the prior year period.

### ***Investing Activities***

Cash used in investing activities from continuing operations was \$88.8 million year to date compared to \$144.1 million in the comparable prior year period. The \$55.3 million decrease 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 period, partially offset by the cash received from the sale of our PCS business and a sale of equity securities in the prior year period.

### ***Financing Activities***

Cash used in financing activities from continuing operations was \$52.9 million year to date compared to \$341.5 million in the comparable prior year period. The \$288.6 million decrease was due primarily to the redemption of the DSS Notes in the prior year period, as well as a decrease in common shares repurchased relative to the prior year period.

### **Off-Balance Sheet Arrangements**

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

### **Contractual Obligations**

We have no material changes to the disclosure on this matter made in our 2018 Annual Report.

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

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

We have no material changes to the disclosure on this matter made in our 2018 Annual Report.

#### ***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 September 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.

##### *ABL Facility*

Under the credit agreement governing the ABL facility, as amended and restated to date, 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 our aggregate availability is less than the greater of 10% of the Line Cap under the ABL facility or \$22.5 million. 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, the lenders will take dominion over the cash and will apply the 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 September 28, 2019.

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

#### *Tax Withholding*

In the third quarter of 2019, an aggregate of 4,183 common shares were withheld from delivery to our employees to satisfy their respective tax obligations related to share-based awards. In the third quarter of 2018, an aggregate of 13,688 common shares were withheld from delivery to our employees to satisfy their respective tax obligations related to share-based awards. Please refer to the table in Part II, Item 2 of this Quarterly Report on Form 10-Q.

### **Capital Structure**

Since December 29, 2018, our equity has decreased by \$28.5 million. The decrease was due primarily to net loss of \$5.2 million, common share dividend payments of \$24.5 million and common shares repurchased and canceled of \$31.1 million, partially offset by share-based compensation costs of \$8.5 million, other comprehensive income, net of tax of \$12.3 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*

On August 6, 2019, the Board of Directors declared a dividend of \$0.06 per share on common shares, payable in cash on September 4, 2019 to shareowners of record at the close of business on August 21, 2019. On November 5, 2019, the Board of Directors declared a dividend of \$0.06 per share on common shares, payable in cash on December 6, 2019 to shareowners of record at the close of business on November 26, 2019. 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 continuing 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.

## **Critical Accounting Policies**

Our critical accounting policies require management to make estimates and assumptions that affect the reported amounts in the Consolidated Financial Statements and the accompanying notes. These estimates are based on historical experience, the advice of external experts or on other assumptions management believes to be reasonable. Where actual amounts differ from estimates, revisions are included in the results for the period in which actual amounts become known. Historically, differences between estimates and actual amounts have not had a significant impact on our Consolidated Financial Statements.

Critical accounting policies and estimates used to prepare the Consolidated Financial Statements are discussed with the Audit Committee of our Board of Directors as they are implemented and on an annual basis.

We have no material changes to our Critical Accounting Policies and Estimates disclosure as filed in our 2018 Annual Report, except for certain policy changes due to the required adoption of ASC 842, "Leases" on December 30, 2018. Refer to Note 1 and Note 2 to the Consolidated Financial Statements for additional information related to the adoption of ASC 842.

## **Recent Accounting Pronouncements**

See Note 1 to the Consolidated Financial Statements for a discussion of recent accounting guidance.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

In the ordinary course of business, we are exposed to foreign currency, interest rate and commodity price risks. We hedge firm commitments or anticipated transactions and do not enter into derivatives for speculative purposes. We do not hold financial instruments for trading purposes. We have no material changes to our Quantitative and Qualitative Disclosures about Market Risk as filed in our 2018 Annual Report.

**Item 4. Controls and Procedures****Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial and Administrative Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 28, 2019. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial and Administrative Officer concluded that, as of September 28, 2019, the Company's disclosure controls and procedures are functioning effectively to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial and Administrative Officer, to allow timely decisions regarding required disclosure.

In addition, our management carried out an evaluation, as required by Rule 13a-15(d) of the Exchange Act, with the participation of our Chief Executive Officer and our Chief Financial and Administrative Officer, of changes in our internal control over financial reporting. Based on this evaluation, the Chief Executive Officer and the Chief Financial and Administrative Officer concluded that there have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is made to the legal proceedings described in our 2018 Annual Report and our quarterly report on Form 10-Q for the quarter ended June 29, 2019.

### Item 1A. Risk Factors

There has been no material change in our risk factors since December 29, 2018. Please refer to our 2018 Annual Report on Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Tax Withholdings

The following table contains information about common shares that we withheld from delivering to employees during the third quarter of 2019 to satisfy their respective 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 Number (or Approximate Dollar Value) of Common Shares that May Yet Be Purchased Under the Plans or Programs</b>
June 30 - July 31, 2019	352	\$ 13.35	N/A	N/A
August 1 - August 31, 2019	3,603	\$ 12.67	N/A	N/A
September 1 - September 28, 2019	228	\$ 13.13	N/A	N/A
<b>Total</b>	<b>4,183</b>			



## Item 6. Exhibits

Exhibit No.	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	Exhibit	Filing Date	File No.	
3.1	<a href="#">Articles of Amalgamation of Cott Corporation, as amended.</a>	10-K	3.1	2/27/2019	001-31410	
3.2	<a href="#">By-laws of Cott Corporation, as amended.</a>	8-A	3.2	5/4/2018	001-31410	
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended September 28, 2019.</a>					*
31.2	<a href="#">Certification of the Chief Financial and Administrative Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended September 28, 2019.</a>					*
32.1	<a href="#">Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended September 28, 2019.</a>					*
32.2	<a href="#">Certification of the Chief Financial and Administrative Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended September 28, 2019.</a>					*
101	The following financial statements from Cott Corporation's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019, filed November 7, 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, (vi) Notes to the Consolidated Financial Statements.					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					*

## SIGNATURES

Pursuant to the requirements 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  
(Registrant)

Date: November 7, 2019

*/s/ Jay Wells*

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Jay Wells  
Chief Financial and Administrative Officer  
(On behalf of the Company)

Date: November 7, 2019

*/s/ Jason Ausher*

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Jason Ausher  
Chief Accounting Officer  
(Principal Accounting Officer)

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas J. Harrington, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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*

Thomas J. Harrington

Chief Executive Officer

Dated: November 7, 2019

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jay Wells, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 7, 2019

**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 Quarterly Report on Form 10-Q for the quarter ended September 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 7th day of November, 2019.

*/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 Quarterly Report on Form 10-Q for the quarter ended September 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 7th day of November, 2019.

*/s/ Jay Wells*

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Jay Wells

Chief Financial and Administrative Officer