COTT CORP /CN/
Form 10-Q
November 08, 2018

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

FORM 10-Q

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

For the quarterly period ended: September 29, 2018
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to l

Commission File Number: 001-31410

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

CANADA (State or Other Jurisdiction of Incorporation or Organization)	98-0154711 (IRS Employer Identification No.)
1200 BRITANNIA ROAD EAST MISSISSAUGA, ONTARIO, CANADA	L4W 4T5
4221 WEST BOY SCOUT BOULEVARD SUITE 400 TAMPA, FLORIDA, UNITED STATES (Address of principal executive offices)	33607 (Zip Code)

Registrant’s telephone number, including area code: (905) 795-6500 and (813) 313-1732

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 ý 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 ý 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 ý	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

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

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

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

Class	Outstanding at November 1, 2018
Common Shares, no par value per share	137,783,507 shares

TABLE OF CONTENTS

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 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenue, net	$ 609.3	$ 580.9	$1,773.7	1,698.4
Cost of sales	298.8	288.1	888.3	849.7
Gross profit	310.5	292.8	885.4	848.7
Selling, general and administrative expenses	279.9	263.2	816.2	778.2
Loss (gain) on disposal of property, plant and equipment, net	1.2	(0.4)	3.8	4.8
Acquisition and integration expenses	1.6	7.7	10.8	21.7
Operating income	27.8	22.3	54.6	44.0
Other income, net	(0.6)	(3.4)	(33.0)	(6.0)
Interest expense, net	18.9	23.2	58.3	62.1
Income (loss) from continuing operations before income taxes	9.5	2.5	29.3	(12.1)
Income tax expense	1.0	0.9	4.0	1.0
Net income (loss) from continuing operations	$ 8.5	$ 1.6	$25.3	$ (13.1)
Net income from discontinued operations, net of income taxes (Note 3)	1.5	43.0	357.5	1.0
Net income (loss)	$ 10.0	$ 44.6	$382.8	$ (12.1)
Less: Net income attributable to non-controlling interests - discontinued operations	—	2.1	0.6	6.4
Net income (loss) attributable to Cott Corporation	$ 10.0	$ 42.5	$382.2	$ (18.5)
Net income (loss) per common share attributable to Cott Corporation				
Basic:				
Continuing operations	$ 0.06	$ 0.01	$0.18	$ (0.09)
Discontinued operations	$ 0.01	$ 0.29	$2.56	$ (0.04)
Net income (loss)	$ 0.07	$ 0.30	$2.74	$ (0.13)
Diluted:				
Continuing operations	$ 0.06	$ 0.01	$0.18	$ (0.09)
Discontinued operations	$ 0.01	$ 0.29	$2.51	$ (0.04)
Net income (loss)	$ 0.07	$ 0.30	$2.69	$ (0.13)
Weighted average common shares outstanding (in thousands)				
Basic	138,787	139,205	139,503	138,980
Diluted	141,176	141,003	141,963	138,980
Dividends declared per common share	$ 0.06	$ 0.06	$0.18	$ 0.18

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

3

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 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income (loss)	$ 10.0	$ 44.6	$ 382.8	$ (12.1)
Other comprehensive (loss) income:				
Currency translation adjustment	5.1	3.9	(3.6)	26.1
Pension benefit plan, net of tax [1, 2]	—	(0.2)	16.9	(0.4)
Loss on derivative instruments, net of tax [3]	(5.7)	0.5	(10.0)	(0.5)
Total other comprehensive (loss) income	(0.6)	4.2	3.3	25.2
Comprehensive income	$ 9.4	$ 48.8	$ 386.1	$ 13.1
Less: Comprehensive income attributable to non-controlling interests	—	2.1	0.6	6.4
Comprehensive income attributable to Cott Corporation	$ 9.4	$ 46.7	$ 385.5	$ 6.7

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

2 Net of the effect of $0.3 million tax benefit for the nine months ended September 30, 2017.

3 Net of the effect of $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.

4

Cott Corporation
Consolidated Balance Sheets
(in millions of U.S. dollars, except share amounts)
Unaudited

	September 29, 2018	December 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$175.7	$91.9
Accounts receivable, net of allowance of $9.4 ($7.8 as of December 30, 2017)	331.9	285.0
Inventories	136.6	127.6
Prepaid expenses and other current assets	29.7	20.7
Current assets of discontinued operations	—	408.7
Total current assets	673.9	933.9
Property, plant and equipment, net	591.5	584.2
Goodwill	1,129.1	1,104.7
Intangible assets, net	732.4	751.1
Deferred tax assets	1.4	2.3
Other long-term assets, net	31.8	39.4
Long-term assets of discontinued operations	—	677.5
Total assets	$3,160.1	$4,093.1
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	$9.0	$—
Short-term borrowings required to be repaid or extinguished as part of divestiture	—	220.3
Current maturities of long-term debt	3.1	5.1
Accounts payable and accrued liabilities	463.4	412.9
Current liabilities of discontinued operations	—	295.1
Total current liabilities	475.5	933.4
Long-term debt	1,262.9	1,542.6
Debt required to be repaid or extinguished as part of divestiture	—	519.0
Deferred tax liabilities	132.8	98.4
Other long-term liabilities	74.8	68.2
Long-term liabilities of discontinued operations	—	45.8
Total liabilities	1,946.0	3,207.4
Equity		
Common shares, no par value - 138,105,592 (December 30, 2017 - 139,488,805) shares issued	911.3	917.1
Additional paid-in-capital	72.7	69.1
Retained earnings (accumulated deficit)	321.2	(12.2)
Accumulated other comprehensive loss	(91.1)	(94.4)
Total Cott Corporation equity	1,214.1	879.6
Non-controlling interests	—	6.1
Total equity	1,214.1	885.7
Total liabilities and equity	$3,160.1	$4,093.1

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 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Cash flows from operating activities of continuing operations:				
Net income (loss)	$10.0	$ 44.6	$382.8	$ (12.1)
Net income from discontinued operations, net of income taxes	1.5	43.0	357.5	1.0
Net income (loss) from continuing operations	8.5	1.6	25.3	(13.1)
Adjustments to reconcile net income (loss) from continuing operations to cash flows from operating activities:				
Depreciation and amortization	49.6	49.4	145.7	141.8
Amortization of financing fees	0.9	0.6	2.6	1.4
Amortization of senior notes premium	—	(1.1)	(0.4)	(3.9)
Share-based compensation expense	6.8	2.1	14.6	11.1
(Benefit) provision for deferred income taxes	0.1	(3.1)	2.8	1.4
Commodity hedging (gain) loss, net	—	(0.4)	0.3	(1.9)
Gain on extinguishment of debt	—	—	(7.1)	(1.5)
Gain on sale of business	—	—	(6.0)	—
Loss (gain) on disposal of property, plant and equipment, net	1.2	(0.4)	3.8	4.8
Other non-cash items	0.8	(8.4)	(1.3)	(13.2)
Change in operating assets and liabilities, net of acquisitions:				
Accounts receivable	(21.8)	(16.4)	(41.0)	(36.7)
Inventories	4.3	(4.9)	(9.4)	(14.5)
Prepaid expenses and other current assets	(0.8)	2.5	(7.4)	(0.3)
Other assets	0.2	0.7	1.4	4.8
Accounts payable and accrued liabilities and other liabilities	28.4	24.0	22.2	58.5
Net cash provided by operating activities from continuing operations	78.2	46.2	146.1	138.7
Cash flows from investing activities of continuing operations:				
Acquisitions, net of cash received	(0.4)	(3.4)	(67.0)	(33.4)
Additions to property, plant and equipment	(36.3)	(38.2)	(95.0)	(97.1)
Additions to intangible assets	(2.7)	(3.4)	(6.9)	(6.0)
Proceeds from sale of property, plant and equipment	0.8	3.1	3.7	6.0
Proceeds from sale of business, net of cash sold	—	—	12.8	—
Proceeds from sale of equity securities	7.9	—	7.9	—
Other investing activities	0.1	0.5	0.4	0.9
Net cash used in investing activities from continuing operations	(30.6)	(41.4)	(144.1)	(129.6)

Cash flows from financing activities of continuing operations:				
Payments of long-term debt	(0.2)	(0.3)	(263.5)	(101.9)
Issuance of long-term debt	—	—	—	750.0
Borrowings under ABL	0.4	—	1.4	—
Payments under ABL	(0.4)	—	(1.4)	—
Premiums and costs paid upon extinguishment of long-term debt	—	—	(12.5)	(7.7)
Issuance of common shares	1.8	2.1	6.0	2.9
Common shares repurchased and canceled	(24.4)	(0.1)	(46.1)	(1.9)
Financing fees	—	—	(1.5)	(11.1)
Dividends paid to common shareholders	(8.3)	(8.4)	(25.1)	(25.1)
Payment of deferred consideration for acquisitions	—	—	(2.8)	—
Other financing activities	1.9	—	4.0	0.5
Net cash (used in) provided by financing activities from continuing operations	(29.2)	(6.7)	(341.5)	605.7
Cash flows from discontinued operations:				
Operating activities of discontinued operations	(5.6)	47.4	(93.6)	56.1
Investing activities of discontinued operations	—	(13.3)	1,228.6	(36.7)
Financing activities of discontinued operations	—	(9.2)	(769.7)	(610.5)
Net cash (used in) provided by discontinued operations	(5.6)	24.9	365.3	(591.1)
Effect of exchange rate changes on cash	0.5	2.0	(8.0)	6.4
Net increase in cash, cash equivalents and restricted cash	13.3	25.0	17.8	30.1
Cash and cash equivalents and restricted cash, beginning of period	162.4	123.2	157.9	118.1
Cash and cash equivalents and restricted cash, end of period	175.7	148.2	175.7	148.2
Cash and cash equivalents and restricted cash of discontinued operations, end of period	—	66.2	—	66.2
Cash and cash equivalents and restricted cash from continuing operations, end of period	$175.7	$82.0	$175.7	$82.0
Supplemental Non-cash Investing and Financing Activities:				
Accrued deferred financing fees	$—	$—	$—	$0.6
Dividends payable	—	—	0.4	—
Additions to property, plant and equipment through accounts payable and accrued liabilities and other liabilities	13.5	6.8	17.5	6.9
Supplemental Disclosures of Cash Flow Information:				
Cash paid for interest	$0.7	$12.6	$47.1	$45.4
Cash paid (received) for income taxes, net	4.2	(0.1)	6.4	1.7

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

Cott Corporation
Consolidated Statements of Equity
(in millions of U.S. dollars, except share amounts)
Unaudited

	Cott Corporation Equity						
	Number of Common Shares (In thousands)	Common Shares	Additional Paid-in-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
Balance at December 31, 2016	138,591	$909.3	$ 54.2	$ 22.9	$ (117.9)	$ 5.3	$873.8
Common shares repurchased and canceled	(165)	(1.9)	—	—	—	—	(1.9)
Common shares issued - Equity Incentive Plan	708	6.4	(5.0)	—	—	—	1.4
Common shares issued - Dividend Reinvestment Plan	27	0.3	—	—	—	—	0.3
Common shares issued - Employee Stock Purchase Plan	108	1.4	(0.2)	—	—	—	1.2
Share-based compensation	—	—	14.3	—	—	—	14.3
Common shares dividends	—	—	—	(25.1)	—	—	(25.1)
Distributions to non-controlling interests	—	—	—	—	—	(3.3)	(3.3)
Comprehensive income (loss)							
Currency translation adjustment	—	—	—	—	26.1	—	26.1
Pension benefit plan, net of tax	—	—	—	—	(0.4)	—	(0.4)
Loss on derivative instruments, net of tax	—	—	—	—	(0.5)	—	(0.5)
Net (loss) income	—	—	—	(18.5)	—	6.4	(12.1)
Balance at September 30, 2017	139,269	$915.5	$ 63.3	$ (20.7)	$ (92.7)	$ 8.4	$873.8
Balance at December 30, 2017	139,489	$917.1	$ 69.1	$ (12.2)	$ (94.4)	$ 6.1	$885.7
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
Share-based compensation	—	—	14.6	—	—	—	14.6
Common shares dividends	—	—	—	(25.5)	—	—	(25.5)
Distributions to non-controlling interests	—	—	—	—	—	(0.9)	(0.9)
Sale of subsidiary shares of non-controlling interests	—	—	—	—	—	(5.8)	(5.8)
Comprehensive (loss) income							
Currency translation adjustment	—	—	—	—	(3.6)	—	(3.6)
Pension benefit plan, net of tax	—	—	—	—	16.9	—	16.9
	—	—	—	—	(10.0)	—	(10.0)

Loss on derivative instruments, net of tax							
Net income	—	—	—	382.2	—	0.6	382.8
Balance at September 29, 2018	138,106	$911.3	$ 72.7	$ 321.2	$ (91.1)	$ —	$1,214.1

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.

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 30, 2017 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 30, 2017 (our "2017 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 2017 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

Our corporate oversight function is not treated as a segment; it includes certain general and administrative costs that are not allocated to any of our reporting segments. During the second quarter of 2018, we combined and disclosed the corporate oversight function in the All Other category. Our segment reporting results have been recast to reflect these changes for all periods presented. See Note 9 to the Consolidated Financial Statements for segment reporting.

On January 30, 2018, we sold our carbonated soft drinks and juice businesses via the sale of our North America, United Kingdom and Mexico business units (including the Canadian business) and our Royal Crown International ("RCI") finished goods export business (collectively, "Traditional Business" and such transaction, the "Transaction"). As a result, the Company has reclassified the financial results of the Traditional Business to net (loss) income from discontinued operations, net of income taxes in the Consolidated Statements of Operations for the three and nine months ended September 30, 2017. Cash flows from the Company's discontinued operations are presented in the Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2017. See Note 3 to the Consolidated Financial Statements for additional information on discontinued operations.

Subsequent to the completion of the Transaction, management re-evaluated the measure of profit for our reportable segments and determined that excluding corporate allocations from segment operating income was appropriate as these costs are not considered by management when evaluating performance. Operating income for the prior periods have been recast to reflect this change. See Note 9 to the Consolidated Financial Statements for segment reporting.

Significant Accounting Policies

Included in Note 1 of our 2017 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.

9

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 $121.8 million and $358.6 million for the three and nine months ended September 29, 2018, respectively, and $123.2 million and $339.0 million for the three and nine months ended September 30, 2017, respectively. Finished goods inventory costs include the cost of direct labor and materials and the applicable share of overhead expense chargeable to production.

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but instead is tested for impairment at least annually. The following table summarizes our goodwill on a reporting segment basis as of September 29, 2018:

	Reporting Segment			
(in millions of U.S. dollars)	Route Based Services	Coffee, Tea and Extract Solutions	All Other	Total
Balance at December 30, 2017	$936.7	$ 117.8	$ 50.2	$1,104.7
Goodwill acquired during the year	30.2	—	7.5	37.7
Adjustments [1]	(2.7)	—	—	(2.7)
Foreign exchange	(9.0)	—	(1.6)	(10.6)
Balance at September 29, 2018	$955.2	$ 117.8	$ 56.1	$1,129.1

1 During the nine months ended September 29, 2018, we recorded adjustments to goodwill allocated to the Route Based Services segment in connection with the acquisitions of Crystal Rock (see Note 5 to the Consolidated Financial Statements).

Recently adopted accounting pronouncements

Update ASU 2014-09 – Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board ("FASB") amended its guidance regarding revenue recognition and created a new Topic 606, Revenue from Contracts with Customers. The objectives for creating Topic 606 were to remove inconsistencies and weaknesses in revenue recognition, provide a more robust framework for addressing revenue issues, provide more useful information to users of the financial statements through improved disclosure requirements, simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer, and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity should apply the following steps: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application.

Effective December 31, 2017, we adopted FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"). ASC 606 was applied using the modified retrospective method. Adoption of this standard did not result in a cumulative adjustment to the opening balance of retained earnings at December 31, 2017 and did not have any other material effect on the results of operations, financial position or cash flows of the Company for the three and nine months ended September 29, 2018 (see Note 4 to the Consolidated Financial Statements).

Update ASU 2017-01 – Business Combinations (Topic 805)

In January 2017, the FASB amended its guidance regarding business combinations. The amendment clarified the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide an analysis of fair value of assets acquired to determine when a set of assets is not a business, and uses more stringent criteria related to inputs, substantive process, and outputs to determine if a business exists. We adopted the guidance in this amendment effective December 31, 2017, and applied it prospectively to all periods presented. Adoption of this new standard may result in more transactions being accounted for as asset acquisitions versus business combinations; however, the impact on our Consolidated Financial Statements in future periods will depend on the facts and circumstances of future transactions.

Update ASU 2017-07 – Compensation—Retirement Benefits (Topic 715)

In March 2017, the FASB issued an update to its guidance on presentation of net periodic pension cost and net periodic post-retirement pension cost, and requires the service cost component to be presented in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable.

Effective December 31, 2017, we adopted the guidance in this amendment retrospectively. The new standard requires that only the service cost component of periodic benefit cost is recorded in SG&A expenses. All other components of net periodic benefit cost are excluded from operating income. Adoption of this standard resulted in a $4.9 million decrease to operating income for the three and nine months ended September 30, 2017.

Update ASU 2017-09 – Stock Compensation – Scope of Modification Accounting (Topic 718)

In May 2017, the FASB amended its guidance regarding the scope of modification accounting for share-based compensation arrangements. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public entities for reporting periods for which financial statements have not yet been issued. We adopted the guidance in this amendment effective December 31, 2017, and applied it prospectively to all periods presented. The adoption of this standard did not have a material impact on our Consolidated Financial Statements.

Recently issued accounting pronouncements

Update ASU 2016-02 – Leases (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. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements. The Company is evaluating the standard's applicability to our various contractual arrangements. We currently believe that the most significant changes relate to the recognition of new right of use assets and lease liabilities for real estate and equipment leases, which will result in future increases to our assets and liabilities on our Consolidated Balance Sheets. We believe that substantially all of our lessee lease arrangements will continue to be classified as operating leases under the new standard. Additionally, we had $19.9 million of deferred gains at December 31, 2016 associated with sale-leaseback transactions which are currently being amortized over the leaseback term. Upon adoption of this standard, we will be required to recognize the unamortized deferred gain at January 1, 2017 as a cumulative effect adjustment to equity. In addition, upon adoption of this standard, deferred gains related to the sale-leaseback transactions completed in 2017 of $7.9 million at December 30, 2017 will be recognized in net income (loss) from discontinued operations, net of income taxes in the Consolidated Statement of Operations for the year ended December 30, 2017.

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

Update ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326)

In June 2016, the FASB amended its guidance to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. The amended guidance also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption will be permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This guidance will be applied using a prospective or modified retrospective transition method, depending on the area covered in this update. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

Update ASU 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. 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. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. At adoption, this update will be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

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

In February 2018, the FASB amended its guidance which 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 are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

Update ASU 2018-05 – Income Taxes—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (Topic 740)

In March 2018, the FASB amended its guidance regarding Accounting Standards Codification Topic 740, Income Taxes (“ASC 740”). On December 22, 2017, the U.S. government enacted the Tax Act, which makes broad and complex changes to the U.S. tax code that will affect the Company’s fiscal year 2018. The U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cut and Jobs Act (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for entities to complete the accounting under ASC 740. In accordance with SAB 118, an entity must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that an entity’s accounting for certain income tax effects of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If an entity cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The Company has applied SAB

118, and has recorded a provisional estimate related to certain 2017 effects of the Tax Act, and has provided the required disclosures (see Note 7 to the 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 606. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our Consolidated Financial Statements.
Update ASU 2018-11 – Leases—Targeted Improvements (Topic 842)
In July 2018, the FASB amended its guidance on lease accounting for lessees and lessors. The amended guidance provides entities with an additional and optional transition method to adopt ASC 842, where the entity initially applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. 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, instead to account for those components as a single component if the non-lease components otherwise would be accounted for under ASC 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 606. Otherwise, the entity must account for the combined component as an operating lease in accordance with ASC 842. For public entities that have not adopted ASC 842, 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. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.
Update ASU 2018-13 – Fair Value Measurement (Topic 820)
In August 2018, the FASB amended its guidance on disclosure requirements for fair value measurement. The update amends existing fair value measurement disclosure requirements by adding, changing, or removing certain disclosures. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this update while delaying adoption of the additional disclosures until their effective date. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.
Update ASU 2018-14 – Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)
In August 2018, the FASB amended its guidance on disclosure requirements for defined benefit plans. The update amends existing annual disclosure requirements applicable to all employers that sponsor defined benefit pension and other postretirement plans by adding, removing, and clarifying certain disclosures. The amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted, and are to be applied on a retrospective basis to all periods presented. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.
Update ASU 2018-15 – Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)
In August 2018, the FASB amended its guidance on customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update also requires customers to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted, including adoption in any interim period. The amendments in this update should be applied either retrospectively or prospectively to all implementation

costs incurred after the date of adoption. We are currently assessing the impact of adoption of this standard on our Consolidated Financial Statements.

Note 2—Revision of Previously Reported Financial Information

On January 30, 2018, the Company completed the sale of the Traditional Business (the "Transaction") to Refresco Group N.V., a Dutch company ("Refresco"). The Transaction was structured as a sale of the assets of the Canadian business and a sale of the stock of the operating subsidiaries engaged in the Traditional Business in the other jurisdictions. See Note 3 to the Consolidated Financial Statements for additional information. The aggregate deal consideration was approximately $1.25 billion, paid in cash at closing, resulting in a gain on sale of $427.6 million. During the third quarter of 2018, we identified an error in the entries recorded as part of the Transaction which resulted in an understatement of accounts payable and accrued liabilities and overstatement of currency translation adjustment, a component of accumulated other comprehensive loss, on our Consolidated Balance Sheet as of March 31, 2018 and June 30, 2018 of $10.3 million. The misstatement in these balances also impacted the currency translation adjustment reported on our Condensed Consolidated Statements of Comprehensive Income (Loss) and net cash provided by operating activities from continuing operations and operating activities of discontinued operations as reported in our Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and the six months ended June 30, 2018 as well as accumulated other comprehensive loss as reported in our Consolidated Statements of Equity as of March 31, 2018 and June 30, 2018. The error in the Consolidated Statement of Cash Flows resulted from incorrectly presenting cash from operations of continued operations as discontinued operations for the three months ended March 31, 2018 and six months ended June 30, 2018. No other financial statement line items were impacted by this error.

We have evaluated the error and determined it is not material to the previously issued financial statements and have elected to revise our previously issued consolidated statements as follows:

Consolidated Balance Sheets

(in millions of U.S. dollars)	March 31, 2018 As Previously Reported	Adjustments	As Revised	June 30, 2018 As Previously Reported	Adjustments	As Revised
Accounts payable and accrued liabilities	439.8	10.3	450.1	421.5	10.3	431.8
Total current liabilities	445.6	10.3	455.9	430.2	10.3	440.5
Total liabilities	1,948.0	10.3	1,958.3	1,896.3	10.3	1,906.6
Accumulated other comprehensive loss	(62.7)	(10.3)	(73.0)	(80.2)	(10.3)	(90.5)
Total Cott Corporation Equity	1,263.8	(10.3)	1,253.5	1,238.9	(10.3)	1,228.6

Condensed Consolidated Statements of Comprehensive (Loss) Income

(in millions of U.S. dollars)	For the Three Months Ended March 31, 2018 As Previously Reported	Adjustments	As Revised	For the Six Months Ended June 30, 2018 As Previously Reported	Adjustments	As Revised
Currency translation adjustment	18.6	(10.3)	8.3	1.6	(10.3)	(8.7)
Total other comprehensive income	31.7	(10.3)	21.4	14.2	(10.3	