CISION

FINAL TRANSCRIPT

Cott Corporation

First Quarter 2019 Earnings Conference Call

Event Date/Time: May 2, 2019 — 10:00 a.m. E.T.

Length: 48 minutes

CORPORATE PARTICIPANTS

Jarrod Langhans
Cott Corporation — Vice President of Investor Relations and Corporate FP&A

Tom Harrington
Cott Corporation — Chief Executive Officer

Jay Wells
Cott Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Amit Sharma
BMO — Analyst

Derek Lessard
TD Securities — Analyst

Nik Modi
RBC — Analyst

Peter Grom
JPMorgan — Analyst

Derek Dley
Canaccord Genuity — Analyst

Mark Petrie
CIBC — Analyst

Daniel Moore
CJS Securities — Analyst

Faiza Alwy
Deutsche Bank — Analyst

PRESENTATION

Operator

Good morning, and welcome to Cott Corporation's first quarter 2019 earnings conference call. All participants are currently in listen-only mode.

This call will end no later than 11:00 a.m. Eastern Time.

The call is being webcast live on Cott's website at www.cott.com and will be available for a playback there until May 17, 2019.

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

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

A reconciliation of any non-GAAP financial measures discussed during this call, with the most comparable measures in the accordance with GAAP, is available in the Company's first quarter 2019 earnings announcement, released earlier this morning or on the Investor Relations section of the Company's website at www.cott.com.

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

Jarrod Langhans — Vice President of Investor Relations and Corporate FP&A, Cott Corporation

Good morning and thank you for joining our call. Today I'm accompanied by Tom Harrington, our Chief Executive Officer, and Jay Wells, our Chief Financial Officer.

As a reminder, we have also included a deck on our website at www.cott.com for you to follow along with while we go through the script.

Tom will start this morning's call by providing his thoughts on our operational performance during the quarter, relative to expectations, as well as our full year outlook. He will then turn the call over to Jay for a discussion of our first quarter consolidated financial performance, as well as the results of our key operating segments. And Tom will conclude with some of our recent initiatives, before we move to Q&A.

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

Tom Harrington — Chief Executive Officer, Cott Corporation

Thank you, Jarrod, and good morning, everyone. With my first quarter as CEO of the Company now in the books, I'm pleased to report that we delivered solid top-line revenue growth, despite higher-than-expected headwinds from FX. We remain confident we will deliver our 2019 revenue guidance of over 2.4 billion, in addition to delivering on our free cash flow guidance of 150 million-plus.

Total company revenues grew 7 percent, adjusted for FX and green coffee cost, with Route Based Services, RBS, delivering 9 percent on an FX-neutral basis, a result of solid organic growth and the benefit of acquisitions completed by the team in 2018.

Our Coffee, Tea and Extract business delivered 6 percent coffee and tea volume growth and 4 percent adjusted revenue growth, even with the previously announced revenue headwinds expected in the first half of the year. We did experience some incremental operating cost to support the increased growth.

In our RBS business segment, the early results of our customer-centric initiatives have manifested themselves in a number of ways: continued improvement in our service level to our customers; increased penetration of products sold in addition to our core 5-gallon returnable bottles; as well as continued improvement in the churn rate of our customer base.

During the quarter, I had the opportunity to visit a number of locations across our North American RBS business to see the progress we are making firsthand. I enjoy meeting directly with associates, whether it be early in the morning before our route sales representatives, RSRs, start their routes, or at one of our many plants across our production footprint.

As my management team would tell you, I have a hands-on approach to our operations, as I believe it is important to communicate directly with our frontline teammates. It is a process that enables our associates to communicate directly with me about how we can improve the customer experience.

In relation to our RSR staffing levels, over the last 18 months we have refined our compensation plans to ensure we are competitive in each market and, more importantly, to ensure the RSR incentives and the growth initiatives of the Company are aligned. Our RSRs can increase their compensation by supporting our customer experience initiatives, improving our churn rate, and driving revenue growth. As of the end of March, our efforts have resulted in approximately 100 percent staffing across our RSR positions.

We are also focused on adding new products to our portfolio to support increased revenue per customer in HOD, such as LaCroix Sparkling Water, Polar Seltzer Water in the Northeast, and Sparkling Ice. Early results are positive in terms of both RSR execution and customer adoption.

Moving to CapEx. We’re pleased to see that the tariffs for bottled water coolers were rescinded during the quarter, although we are still waiting for the refund from the federal government. While the bottled water cooler tariff was removed, there are still tariffs on water filtration coolers. Even with the removal of the tariffs on bottled water coolers, we continue to focus on reducing costs relative to overseas equipment purchases, by increasing the number of coolers we refurbish internally.

Shifting to acquisitions. We remain pleased with the performance of Crystal Rock and initial performance of Mountain Valley. In terms of tuck-ins, we expect to execute at the high end of the range of 40 million to $60 million previously communicated.

Moving to the quarterly results. Revenue tracked better than expected as we overdelivered on growth, even with the pressures we experienced in foreign exchange and coffee commodity passthrough costs.

In looking at our Route Based Services segment, our FX-neutral HOD Water revenue grew over 8 percent—4 percent growth excluding Crystal Rock and Mountain Valley—driven by: an increased customer base, with customers up 1 percent, again excluding Mountain Valley and Crystal Rock; continued improvement in our retention rates; execution of our previously discussed pricing actions; and improving penetration of other products such as cups and case-pack water, as well as branded products like LaCroix, Polar Seltzer, and Sparkling Ice.

As I mentioned earlier, our North American RBS churn, or quit rate, continued to improve and was better by another 10 basis points in the quarter, which continues to drive a 4.7-year-plus average customer life, which bodes well for our full year and long-term aspirations.

In addition, as noted in our last quarter’s call, we will have some pricing pressure during the first half of the year within our Coffee, Tea and Extract Solutions business, which will flow through price mix and other on the bridges within our press release.

As we completed the quarter, we're pleased to see that many of our efforts began to flow through and were able to offset a good portion of the pricing pressures, with increased coffee and tea volumes, which are up 6 percent in the quarter, in addition to our extracts division volume, which was up 10 percent. Our performance in Coffee, Tea and Extracts indicates that we continue to improve our market-leading position in this segment. With this quarter behind us, our confidence has grown in our ability to deliver on our full year expectations.

So on that note, I'll pass over to Jay to cover the quarter's consolidated financial performance in more detail, as well as our key operating segment performance.

Jay Wells — Chief Financial Officer, Cott Corporation

Thank you, Tom, and good morning, everyone. We saw good top-line performance with revenues up 7 percent on an adjusted basis, driven by our Route Based Services operating segment, which had revenue increase by 9 percent on a foreign exchange-neutral basis.

Revenue growth was driven primarily by the HOD water division of our Route Based Services segment, which grew over $20 million and included the benefit of around $11 million from the Crystal Rock and Mountain Valley acquisitions. As Tom noted, with this growth we remain on track to deliver over $2.4 billion of revenue for the year.

Excluding Cott Beverages LLC, which was sold in February, gross margin as a percentage of revenue was flat at 49.9 percent, as the fixed-cost leverage from revenue growth was offset by around $7 million of negative foreign exchange impacts and the increased operating costs Tom noted.

Excluding Cott Beverages LLC, SG&A increased to $271 million compared to $258 million, due primarily to the Crystal Rock and Mountain Valley acquisitions, partially offset by around $5 million of foreign exchange benefit. Other expense of approximately $6 million was driven by noncash items such as unrealized FX and the sale of Cott Beverages LLC.

Adjusted EBITDA was $63 million compared to 64 million, as the benefit of strong top-line growth was offset by the negative impact of approximately $2 million of foreign exchange, around $2 million of increased operating costs, driven by growth, as well as the competitive pricing environment within our Coffee segment.

Adjusted free cash flow from continuing operations was $4 million in the quarter compared to $22 million, as a result of timing of working capital, as well as other income in the prior year. In terms of free cash flow cadence, we typically see free cash flow usage in the first half of the year, as we build inventory and prepare for the busy summer season, and then we see good growth in the back half of the year.

In addition, we will have two interest payments in Q2, with no interest payments in Q3. As we look at full year 2019, we remain confident in delivering $150 million-plus of adjusted free cash flow.

On CapEx, we expect 2019 CapEx to be around $120 million.

Turning to returns to shareholders. During the first quarter, we returned approximately $19 million to shareholders through $8 million in quarterly dividends and $11 million of share repurchases.

Let me now cover the operating performance of our Route Based Services segment. The Route Based Services segment saw revenue increase 9 percent on an FX-neutral basis. The first quarter is historically a quarter where we focus on preparing for the summer selling season by setting up our marketing programs, implementing CapEx and cost-reduction projects, as well as implementing technological upgrades and rollouts in advance of the busier summer periods.

With that said, we had good growth in our HOD water channel, where revenue grew around 4 percent on a FX-neutral basis and excluding Crystal Rock and Mountain Valley. This growth was driven by our pricing initiatives; a strong customer base which was up approximately 1 percent year over year, excluding Crystal Rock and Mountain Valley; and higher volumes, which included increases in 5-gallon bottles, as well as greater penetration in other products such as cups, case-pack water, LaCroix, Polar Beverages, and Sparkling Ice.

Gross profit increased 4 percent to $243 million, driven primarily by growth in revenue. Gross margin as a percentage of revenue was 57.7 percent compared to 58.4 percent, as the leverage from revenue growth was offset by $7 million of negative foreign exchange and around $2 million of increased costs associated with adjusting production to support revenue growth.

SG&A increased to $225 million compared to $215 million, due primarily to the addition of Crystal Rock and Mountain Valley, partially offset by a foreign exchange benefit of $5 million.

Adjusted EBITDA was flat at $60 million, as revenue growth was offset by a $2 million negative foreign exchange impact, as well as roughly $2 million of increased production costs previously mentioned.

Let me now cover the operating performance of our Coffee, Tea and Extract Solutions segment. We continued to take market share in the first quarter with a 6 percent increase in coffee and tea pounds sold which, when combined with a 10 percent increase in liquid extracts, drove a 4 percent increase in revenue when adjusting for the change in average cost of coffee. Liquid extract growth in the quarter was lower than our 30 percent full year growth expectations, as we were lapping 59 percent growth in Q1 2018, when we had a significant new customer pipeline fill.

Gross profit improved to $40 million compared to $39 million, driven by increased volumes. SG&A was $36 million compared to $34 million, driven primarily by increased selling costs, which in turn resulted in adjusted EBITDA of $9 million compared to $10 million.

All in all, we were pleased with the results of our Coffee, Tea and Extract Solutions segment, as the business was able to generate significant volume growth to mostly offset the pricing pressure that was experienced as a result of the competitive environment. As we noted on our previous earnings call, this pricing pressure is expected to continue into Q2, but we will continue to drive volume growth to offset some of this pressure.

I will now turn the call back to Tom.

Tom Harrington

Thanks, Jay. On that note, let me give you an update on some of our 2019 initiatives, including environmental, social, and governance, or ESG, customers, experienced service and growth, progress on our US Route Based online marketing initiatives, and product penetration and channel expansion.

Starting with ESG. As our Vice President of ESG, Shayron Barnes-Selby, mentioned during our Investor Day, we have become a member of the Alliance for Water Stewardship and are working through the latest release of their requirements, with the intention of becoming compliant by 2025.

We're also developing plans to achieve carbon neutrality certification in North America, which we will look to complete in 2021. As a reminder, we're already certified carbon-neutral within our European operations. These items, as well as a number of other initiatives, can be found under the Sustainability section of our website.

In addition, we continue to benefit from the sustainability and sourcing programs within our Coffee segment, as these programs have created a competitive advantage for us in terms of acquiring new customers and/or growing the product mix within our current customers, as we can offer a program that allows our customers to market the fact they're utilizing sustainable sourcing programs that can be traced all the way back to the growers.

Moving to our customer initiatives. During the quarter in the US, we began to see improvement within our Route Based customer acquisition programs as we built headcount in our direct sales force, which is focused on small, commercial businesses with 10 to 15 employees on location, as well as our booth programs, ending the quarter in a good place for the summer selling season. In addition, we continue to progress on a number of online and social media ventures, including a recent marketing initiative that I will cover shortly.

As it relates to service, our churn rate continues to improve. In Europe, we experienced positive activity in most of our markets, and I believe we are set up well in relation to our Q2 and Q3 customer growth plans, focused in high-density areas. In addition, we continue to see good progress with the rollout of a number of other customer acquisition initiatives, and customer service continues to be a focus, resulting in customer lives and churn rate in Europe keeping pace with historical performance.

In combination with these sales efforts, we continue to spend a significant amount of energy and resources on the customer experience, and we will continue to look at these programs as key areas of focus and investment going forward, as these activities assist in driving a lower quit rate, longer customer lifecycle, and support our ability to drive organic customer growth and revenue per customer location.

As we noted throughout 2018, we continue to see a historically low churn rate in North America, and we continue to make incremental progress in areas such as improved logistics and efficiencies within our call centre. In addition, we remain on track for a second half release of our new filtration unit, and we continue to anticipate seeing our new mobile app released in the back half of the year in the US, and then we will work to release a similar tool in the remaining RBS footprint.

Turning to our online marketing initiatives. As many of you are aware, a large e-commerce company is working towards offering a recurring bottled water delivery service within its online home services platform. We're pleased to note that we would be test-marketing this program in a limited number of ZIP codes during the second quarter. And once refined, we would expect to expand to other US ZIP codes throughout 2019 and into 2020. We will provide more details as this program is fully launched.

Moving to product penetration and expansion. Within our Route Based Services segment, we developed a number of new initiatives around driving additional revenue per customer, through the utilization of well-known products such as LaCroix, Sparking Ice, and Polar Seltzer.

As I noted earlier, we've begun rolling out our updated compensation packages to encourage our RSRs to support further revenue growth per customer. We've seen incremental improvement in penetration each month this quarter, and we would expect this improvement to continue throughout the year.

In addition, with the rollout of our mobile app in the back half of the year, we'll be introducing a tool that will assist in further penetration, as our customers will be able to easily order products on the app.

In terms of product and channel penetration, our Coffee, Tea and Extracts Solutions segment continues to see growth in our liquid extract division, which has landed a number of new contracts and has acted as, not only a way to further entrench the business into our customers' supply chain but has also allowed us to properly engage customers and channels that we had not targeted in the past.

In addition, through a combination of sales efforts and our high-quality product and service offerings, we've been able to capture some market share by picking up volume from new customers that have previously been served by our competitors.

Before moving to Q&A, I'd like to take a moment and thank all of our associates, without whom we would not be able to accomplish everything we intend on accomplishing in 2019. So thank you all for your efforts thus far, and I look forward to our continued success as we look to deliver over 2.4 billion in revenue, as well as 115 million-plus in free cash flow.

I will now turn the call back to Jarrod, who'll move us to Q&A.

Jarrod Langhans

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

Operator, please open up the line for questions.

Q&A

Operator

Thank you. At this time, I would like to remind everyone, in order to ask a question, press *, then the number 1 on your telephone keypad.

Our first question comes from the line of Amit Sharma from BMO. Your line is open.

Amit Sharma — BMO

Hi. Good morning, everyone.

Jay Wells

Good morning, Amit.

Tom Harrington

Amit.

Amit Sharma

Jay, can we just go back into some of the issues that might have weighed on the EBITDA this quarter, right? Obviously, FX is one of them, and you also talked about higher operating costs. Can you provide a little bit more clarity on it? And then just talk about like how long would that be a headwind as you go through the rest of the quarters?

Tom Harrington

Yeah. And this is Tom. I'll take part of your question, then I'll ask Jay to cover the FX portion.

What happened is really, in March, as our volume expanded, a tightening labour market, we had some unplanned openings that required us to use some temporary labour and unplanned overtime to ensure that we met our customers' needs, as well as the fact that we're enjoying higher growth in both business segments. So it was a combination of factors, the largest of which was production that experienced in the month of March.

They are timing-related. The teams are very focused on filling those positions and working market by market to put full-time associates on place so that we can reduce those costs on a go-forward basis, and it remains a work in progress.

Jay Wells

And on the FX side, the last call, I believe I mentioned that the rates as we closed the year, in our forecast, in about a 1 percent FX headwind. When you look at the quarter, as the quarter went on, I would say the US dollar strengthened against the euro, against the pound. So I would say FX was probably a million more than EBITDA headwind in the quarter.

We still are hoping that we'll rebound back, and we'll get back to more of like an overall 1 percent FX headwind in the year. But we did see some additional FX toward the back end of the period, as the dollar did strengthen against those foreign currencies.

Amit Sharma

Right, right—

Tom Harrington

Amit, it's a positive thing. Amit, this is Tom. Just two other points. I did note in my prepared comments that we are essentially 100 percent filled on the RSRs, which is an important component as we move into the summer selling season. And we're also essentially filled on the freight, or IBT position. So we filled those open positions as we talked about in previous quarters.

Amit Sharma

So if I'm understanding this right, you have more visibility on the unexpected costs that we saw in 1Q, along with better absorption as volumes pick up in the stronger summer quarters. Is that fair?

Tom Harrington

I think that's fair.

Amit Sharma

And just last one, Tom, like if you look at the chart today, I mean, obviously, things are, on a top-line perspective, moving along, I think ahead of our expectation for sure. Anything that you can do from manager's perspective or board perspective to like temper some of this volatility in the talk?

Tom Harrington

Clearly, early on—and I haven't, obviously, looked at the price in the last half hour—would be the reaction to the EPS miss, and we beat revenue. We're pretty happy about where revenue is. We'll deal with these operating costs, which are a result of some open positions and the growth of the business. So we think the business is in a pretty good spot as we enter the summer selling season.

Jay Wells

Yeah. I mean when you look at the EPS miss, Amit, you really have to look at other income, which—or other expense, technically, which the new lease accounting rules—the fact that we ended up closing the sale of RCI in concentrate in January versus December. The lease accounting rules basically changed that transaction from about a 5 million gain to about a 5 million loss, just because we had to book some assets, take some deferred gains off.

So without the lease accounting rule, I would say we would have been almost spot on to EPS expectation. So that was unfortunate on the timing of that close. But that's what I think might be pushing our stock price where it is today.

Amit Sharma

Great. Thank you.

Tom Harrington

Thank you.

Operator

Our next question comes from the line of Derek Lessard from TD Securities. Your line is open.

Derek Lessard — TD Securities

Yeah. Good morning, everybody.

Tom Harrington

Good morning.

Derek Lessard

Maybe if you could just talk about the pricing and more competitive dynamic that's going on in the Coffee segment? And perhaps more specifically on the rationality of it all?

Tom Harrington

Yeah. Most of the coffee pricing occurred last year. As we've mentioned in the past, we don't have any pending RFPs or new bids, so as—for the couple of years. And it really is the overhang of that pricing pressure on our business in the first and second quarter of the year. We're really happy with the performance of the coffee volume growth at 6 percent, and then 10 percent on extracts, and the 10 percent on extracts is on top of 59 percent growth last year. So we're pretty happy with the performance of the team offsetting the impacts of that super-competitive market last year.

And as I said, we have nothing on the short, near-term horizon, which to me is a year or two, in terms of RFPs coming our way.

Derek Lessard

Has that competitive environment eased up?

Tom Harrington

Yeah. We haven't had any attacks against our business because we don't have RFPs open. And I know there's RFPs that'll come up later this year. We do gain extract business as a regular basis.

Derek Lessard

Okay. And then maybe just looking at—

Jay Wells

I mean the key thing—yeah. And the one thing that I did mention, though it is a competitive pricing, our quality, our ability, what we offer our customers, with 6 percent growth in coffee and tea pounds, we're definitely taking market share from our competitors. So even though it might be a competitive environment, I think we're performing very well in that environment.

Derek Lessard

Yeah. Absolutely. And maybe just a follow-up on the extract business. Ten percent is pretty solid, considering the tougher comp, but you also mentioned that you're looking for 30 percent growth on the year. Just wondering how your confidence is still with that growth objective?

Tom Harrington

Yeah. Derek—Tom. We have a high degree of confidence we'll make that 30 percent number.

Derek Lessard

Yeah. Tom, and what's giving you that confidence? Just new growth? New customers?

Tom Harrington

We have increases in sales costs and a developing pipeline that indicates that—and we have a high degree that we'll make that number. So we see what's coming, pending on its way.

Jay Wells

Yeah. I mean, you look at the first quarter, we're talking about quarterly growth. So if you want to break it down to periods, and the first and second period, we did see that type of 30-plus percent growth. In period three, we were lapping 129 percent growth in extracts last year in period three. But if you look at the other two periods versus prior year, we were seeing that growth. It was just the one period comp where, like I said, we had a very large pipeline for the last year. But in the other two periods of the quarter, we were seeing that type of growth.

Derek Lessard

Okay. Thanks for that, guys.

Operator

Our next question comes from the line of Nik Modi from RBC. Your line is open.

Nik Modi — RBC

Yeah. Good morning, everyone.

Jay Wells

Morning, Nik.

Nik Modi

Good morning. Just a few questions. Jay, maybe you can just help us understand when you talk about some of these higher operating costs, it seems like it's onetime, but it doesn't feel like it's going to be onetime, just given what's going on in the labour market, and how seasonally intensive your business is. So maybe you can talk about how Cott can think about managing that risk going forward, whether it be through pricing or other action?

And then, Tom, I guess a question for you. Now that you've been in the CEO role, getting your legs under you, how do you think about—I guess to the earlier question about the stock volatility and just general communication to the investor community regarding Cott's near-terms results, just as you try to build a track record as the incoming CEO? Thank you.

Tom Harrington

Yeah. Thanks. In terms of the operating costs, the good news is we have the prior headwind of freight better under control. The team took the actions to fill the positions. We referenced our investment in direct sales force, so we have confidence that, in both the Coffee side of the business in terms of their efforts against the pipeline, as well as in RBS in terms of the commercial sales headcount and the sales headcount associated with the booth program, that we're in a good place in terms of arms and legs to get that done.

Our RSRs, for the last time I can remember, are essentially 100 percent, and that is the single-most important position we have. And then we got caught late in the quarter with this production opportunity. We lost some people. We had the growth. So it forced us into overtime and temp costs. The teams are diligently working, branch by branch, right—production branch to address those openings and fill those.

We're confident that as the year progresses, is that we'll adjust the workforce—it's just another lever for us—and that the team has to focus on adjusting that. They're working on that now to get the headcount in place.

In terms of my first 120 days here, I'm quite pleased with the top-line performance of the Company. It's higher growth than we'd previously communicated, and FX was not our friend in the quarter. It's higher in the first quarter than our full year forecast. That's created a further headwind. And I view these costs as short term and that the team will get them in place so that we can consistently deliver on our commitments. We remain committed to over 2.4 billion in revenue for the year and 150 million-plus of free cash flow.

Nik Modi

Thank you.

Tom Harrington

Thank you.

Operator

Our next question comes from the line of Peter Grom from JPMorgan. Your line is open.

Peter Grom — JPMorgan

Hey. Good morning, everyone.

Tom Harrington

Morning, Peter

Jay Wells

Morning, Peter

Peter Grom

So I was kind of hoping you could elaborate on the tuck-in commentary. If tuck-ins are expected to be at the high end of the range, does that imply the tailwind from tuck-ins for free cash flow and EBITDA is also at the high end? Or are valuations higher than we have seen historically?

And if it is at the high end, with free cash flow guidance reiterated, does that imply any change to your previously outlined underlying growth or synergy assumptions?

And maybe this builds on the last portion, but if those underlying assumptions are unchanged, as we look ahead, it seems to imply more like high single-digit EBITDA growth through the balance of a year. I guess what kind of visibility or confidence do you have that your business can accelerate meaningfully from here?

And just last, from a staging standpoint, anything we should think about from a Q2 or back-half EBITDA? Thanks.

Tom Harrington

Well, that was a couple questions, so let me sort through those. Look, in terms of tuck-ins, the high end, we have visibility on small deals in process. They will be back-weighted, right, so we continue to work through their execution. They have always been part of our plan in terms of—we've said two to three organic, four of the five in total, when we add those acquisitions. First quarter was better. And we see the tuck-ins phasing later in the year on both sides of the Atlantic at this point. So that was, I think, one question.

Peter Grom

Neat.

Tom Harrington

Yeah. We don't see any changes to our guidance at this point in time. So our focus on delivering our original commitments of the 2.4 billion and the 151 million-plus in terms of free cash flow. As those tuck-ins come in later, we don't enjoy a full benefit. They really have that—similar to our pricing initiatives last year, you get a little bit of benefit in one year, and then you get the flop benefit in 2020. That's how I think about the tuck-ins and their impact on the algorithm.

Peter Grom

And then nothing changed from an underlying growth? So I guess it was 10 million to 15 million or synergy of 7 million to 8 million standpoint?

Jay Wells

Nothing different on the full year with the same cadence we discussed on the last earnings call.

Tom Harrington

Yeah. Similar to what we presented on Investor Day, which provided the clarity on how we build free cash flow.

Peter Grom

Great. Thanks.

Tom Harrington

Thanks.

Operator

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

Derek Dley — Canaccord Genuity

Yeah. Hi. Thanks. Just a question on your extract capacity. Where are you guys at today in terms of capacity utilization? And do you have enough capacity online or coming online to support that target of 30 percent growth?

Tom Harrington

The answer is yes. Right? So we have capacity for the next year or two at that 30 percent. So we're confident we can deliver what we need this year. And if it grew more, we could deliver that as well.

Derek Dley

Okay. And then on the sort of gross split within the RBS division, in the past, you guys have helped us quantify the breakdown between consumption, customer growth, and pricing. Can you do that again this quarter?

Tom Harrington

Yeah. So the drivers were, obviously, the pricing and customer base, which was good performance and increased revenue per customer, plus tuck-ins.

Derek Dley

Yeah.

Tom Harrington

And we can refer to the—

Jay Wells

I really think that—if I can. We posted on our deck, our presentation deck—and Jarrod's looking at the slide—a bridge of our growth within HOD water that—

Tom Harrington

Yeah. So it's Page 6 of the deck we prepared. And you can see the impact of customer and volume, and this narrowly HOD water, right? Customer volume at 4 million, price mix at 5, and then we call out specifically, Crystal Rock and Mountain Valley, and then the negative impact of FX on HOD water during the quarter.

Derek Dley

Right. So that, the first line there, the HOD water, I'm just a little confused on what that represents.

Tom Harrington

So confused about water—so it's the HOD water revenue inside of RBS, excludes retail, excludes filtration, excludes OCS, and a bit of other. And you can see that on the press release on Page 2, in terms of what's not in maybe better way to say it.

Jay Wells

Yeah. Yeah. On the percentages, I mean I called out that 1 percent on new customers. You look at price, and you look at the graft on the price. Is it around 2 percent on price? And then the remainder would be on volume—

Derek Dley

All right.

Jay Wells

— to kind of break it down, and I think in the percentages you're look for.

Derek Dley

Yeah. That's perfect. That's great. Thank you very much.

Tom Harrington

Thanks, Derek.

Operator

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

Mark Petrie — CIBC

Hey. Good morning. Wondering if you could just—

Tom Harrington

Good morning, Mark.

Mark Petrie

Wonder if you could just give a bit more clear picture in terms of the organic, core gross margin and SG&A percentage performance in Route Based Services? And I guess the HOD business specifically?

And I know, broadly speaking, you've talked about this business as being a sort of 10 to 20 EBITDA margin leverage business over the course of time. At what point do you think that it's realistic to be sort of delivering that kind of stability and that kind of result? I mean is that a back-half-of-the-year sort of aspiration? Or when should we expect to sort of see that kind of result?

Tom Harrington

Well, we'd like to see stability start in the next quarter and on a go-forward basis. So we enjoy the top-line growth. As I said, we have to—the teams are working on managing the operating costs. I can't control FX, but you know that, and FX did hit us more than we had anticipated in Q1. And we would expect to build stability in the RBS business on a go-forward basis, and the revenue growth is going to help us do that and create some leverage.

Mark Petrie

And then on the Coffee, Tea and Extract business, is it sort of just getting through the noise of Q2 and the pricing pressure there, and then it's a back-half (unintelligible)?

Tom Harrington

Yeah. We previously shared that Q1 and Q2, we'd have that pricing pressure from prior year RFP. The team did a fine job, frankly, with volume—6 percent volume growth in the base Coffee business. And we expect that to stabilize as we move through Q2 and get to Q3 and Q4. So it's back half-weighted for sure.

Mark Petrie

And when you look at the back half, I mean what would be the sort of biggest risks to delivering sort of that kind of stability at this point? I mean outside of things like FX that obviously are just sort of out your control and transient.

Tom Harrington

Yeah. We don't see huge risks, coffee commodity costs aside; we exclude that. Is there any other pressure in the labour market that comes our way in terms of RBS? We think we're in a good spot. We have some work to do, but that's the unknown, excluding FX, from our view.

Mark Petrie

Okay. Thank you very much.

Tom Harrington

Thanks, Mark.

Operator

Our next question comes from the line of Daniel Moore from CJS Securities. Your line is open.

Jay Wells

Morning, Dan.

Tom Harrington

Morning, Dan.

Jay Wells

Dan, you muted?

Daniel Moore — CJS Securities

Sorry. Can you hear me now?

Tom Harrington

Yeah.

Jay Wells

Yes. We can.

Tom Harrington

There you go.

Daniel Moore

Better.

Tom Harrington

Well done.

Daniel Moore

Excellent. We'll try again.

Tom Harrington

Yes.

Daniel Moore

On free cash flow, about a 4 million delta between adjusted and actual in the quarter. Just as we look out to the full year, Jay, what are their sort of nonrecurrings—might there be in the adjusted guide versus expectations for actual free cash flow for de-levering?

Jay Wells

Yeah. In the adjusted guide, there really isn't any onetime items within our guidance. What you see within our schedule for adjustment, really, what we're just adjusting out, is any incremental acquisition integration costs we incur. That's really the only thing that's in that. But other than that, there is no onetime items within our guidance like the things we might have had in last year, like the working capital benefit we saw at the end of the year or some other income benefits like we saw in this quarter.

Daniel Moore

Helpful. And one other quickly. You mentioned E-commerce opportunity, kind of early days of the opportunity here in Q2. Any colour at this stage in terms of regions where you're rolling out? And kind of the structure of that relationship?

Tom Harrington

Yeah. I won't reference who it is, but everybody knows—has a good idea. We're working on a small number of ZIP codes. Frankly, it's in the southeast United States. We're happy with the current state of the economics. But we want to get through the tests and make sure that all the parts and pieces work together. There is some IT investment required so that we can communicate with the online retailer, and we're—that's what's behind the tests. The economics are solid. And remember—

Daniel Moore

More to come—more to come, I'm sure.

Tom Harrington

Yeah. Absolutely, more to come. But remember, it's the sixth or seventh way we get new customers. Right? So it's a way we use our sales reps for commercial, the booth program, other online initiatives. This is another way for us to drive organic growth.

Daniel Moore

Understood. Thank you.

Jay Wells

Thanks, Dan.

Operator

Our next question comes from the line of Faiza Alwy from Deutsche Bank. Your line is open.

Faiza Alwy — Deutsche Bank

Yes. Hi. Good morning. I just wanted to talk about—

Tom Harrington

Good morning.

Faiza Alwy

—the E-commerce opportunity again. I know you said you'll give us more colour later, and you just mentioned sort of some incremental costs. Could you talk about—dimensionalize those costs for us? And perhaps discuss the timing of those costs?

Tom Harrington

Yeah. It's not—there's in our run rate costs. So this was incremental. It's just work to make the connection between us and them, with existing headcount and technologies, to make sure we can effectively communicate. But this is just about making sure that those pieces work together with the E-commerce provider, and that we deliver on our commitments to the customer service experience as those customers are onboarded. And that's really what the test is, to make sure that all the component parts are aligned and working appropriately, before we announce an expansion. But again, we're happy with the economics, and we're happy with the current state. We expect to get started sometime in the second quarter.

Faiza Alwy

Okay. And then I know you haven't provided an EBITDA guidance for the year, publicly. So I was wondering why there is sort of a hesitancy to do that? And if you're maybe more willing to give us an update on how you're thinking about EBITDA for the year?

Tom Harrington

Yeah. We have not historically given EBITDA guidance. And right now, our position is we'll continue to give revenue and free cash flow guidance. I've certainly gotten a lot of input about providing EBITDA guidance. I'm not prepared to change our position at this point in time, in terms of that guidance.

Jay Wells

Yeah. I mean, keep in mind we have given our free cash flow guidance of 150-plus million. We have given CapEx guidance of 120. Cash taxes will probably be about 5 million. Interest will be about 70 million. And we should see about 5 million to 10 million of working capital benefits. So those are the items we've talked about. And we currently don't give guidance, but I think that is a significant amount of guidance that we've given, and triangulation is doable.

Faiza Alwy

All right. Thank you.

Operator

And our final question today comes from the line of Amit Sharma from BMO. Your line is open.

Amit Sharma

Hi, guys. Thank you so much for taking the follow-up. Jay, just wanted to follow up on the last thing you said. I mean, clearly, it is enough to bridge for full year EBITDA. Right? But I think what we are seeing in the market today, even small deviation on EBITDA line on a quarterly basis leads to this type of stock.

So keeping that in mind, can you just like look at the second quarter and see if there are any factors that we consider as we model for second quarter and third quarter?

Tom Harrington

Well—

Amit Sharma

Like first quarter, like FX showed up higher, then probably operating costs showed up. Are there any of those things that we should be considering as we model the quarters?

Tom Harrington

Well, you have the tail down—FX is FX. Right? We know it was higher in the first quarter. Well, it'll still probably be higher than we anticipate. We have the existing headwinds, as previously communicated on coffee, where—referenced labour. So we're working hard to mitigate that, as we shared. So those are like really the three drivers that—we're confident in the top line. We're confident in the coffee volume. But those are three areas that we think about as we enter the second quarter.

Amit Sharma

Got it. And then just on that, Tom, the RBS top line, I know on an organic basis and a pretty good trajectory. You think that can continue?

Tom Harrington

Yeah. I see no reason for that to be different in Q2 than Q1, frankly.

Amit Sharma

Got it.

Tom Harrington

And we're quite pleased with the component. The only difference is Crystal Rock is no longer a cycle, so we'll talk about excluding Mountain Valley only. But we think we're going to continue to have good organic growth, better than that 2 to 3, based on what happened in this quarter.

Amit Sharma

Right. That makes sense. Thank you so much.

Tom Harrington

Thanks.

Jay Wells

Thanks, Amit.

Operator

I'll now turn the call over to our presenters for closing remarks.

Jarrod Langhans

Thank you all for joining us today.

Operator

This concludes today's conference call. You may now disconnect.