

Cott Corporation

Third Quarter 2019 Earnings Conference Call

Event Date/Time: November 7, 2019 — 10:00 a.m. E.T.

Length: 51 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Jarrold Langhans

Cott Corporation — Vice President of Investor Relations

Tom Harrington

Cott Corporation — Chief Executive Officer

Jay Wells

Cott Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Nik Modi

RBC Capital Markets — Analyst

Kevin Grundy

Jefferies — Analyst

Amit Sharma

BMO Capital Markets — Analyst

Daniel Moore

CJS Securities — Analyst

Derek Lessard

TD Securities — Analyst

Mark Petrie

CIBC — Analyst

Derek Dley

Canaccord Genuity — Analyst

Peter Grom

JPMorgan — Analyst

PRESENTATION

Operator

Welcome to Cott Corporation's third quarter 2019 earnings conference call. All participants are in a 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 November 22, 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 securities 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 non-GAAP financial measures discussed during the call, with the most comparable measures in accordance with GAAP, is available in the Company's third 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 Vice President of Investor Relations.

Jarrod Langhans — Vice President of Investor Relations, 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.

Tom will kick things off by providing his thoughts on a number of activities within our business segments, including a discussion on some of our ongoing initiatives and our operational performance during the third quarter relative to our expectations. He will then turn the call over to Jay for a discussion of our third quarter consolidated financial performance, as well as the results of our key operating segments and thoughts on the full year, and Tom will conclude with a few thoughts 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. I am pleased to report revenue increased 6 percent on a currency-neutral basis, and excluding the divested Cott Beverages business and the change in average cost of coffee.

The team delivered 96.4 million in adjusted EBITDA, which was 1 million-plus higher than consensus and 5 percent higher than prior year. Both Route Based Services and the Coffee, Tea and Extract Solutions grew revenue and EBITDA during the quarter.

On the operational front, we're executing against the initiatives that we've outlined in the past and fully expect our efforts to deliver growth over the coming quarters and years.

Starting with our North American Route Based Services business. We are delivering consistent top-line revenue and EBITDA growth, and the pricing initiatives that we implemented in Q3 of 2018 have offset the general inflation experienced over the last two years.

As the North American Route Based business is our largest business, I'm happy to report the team delivered 5 percent organic HOD water revenue growth in the quarter. Consistent with historical seasonality, the team drove our HOD water growth through the delivery of good net customer growth,

increased volume, ongoing improvement in customer satisfaction and service levels, as well as increased pricing. We're confident that the investments in the customer experience that we are making will contribute to our future growth.

As an update, we implemented new communication tools that are triggered to send based on customer purchase behaviour, as well as more targeted direct marketing to our customers. These activities were implemented in Q3 in advance of the rollout of the new mobile app, which remains on target for launch around the end of the year.

We introduced new product additions to our portfolio that are in high demand with consumers, such as our Mountain Valley brand, Sparkling Ice, and other branded sparkling water and seltzers. We are focused on cross-selling case-pack water to our returnable customer base and increased our penetration rate of this product from 10 percent to 12 percent year over year, driving a double-digit volume increase compared to prior.

We've developed new and expanded channels of customer acquisition, with a new online platform which enables consumers to order and reorder returnable 5-gallon water to an online retailer. As you may recall, we began test marketing during Q2 in a few cities in Georgia, and in Q3, we expanded the test across the state of Florida. We are gathering data and performing analysis on this execution and we're working with our customer on the further expansion of this program in 2020.

We invested in our digital customer acquisition efforts, which are driving double-digit increases through this cost-effective source of new customer additions. We strengthened our North America route density with a number of small overlapping tuck-ins and expect further activity during Q4. In addition, we've identified a number of opportunities across the Mountain Valley distributed network for consolidation onto our platform.

We've developed innovative dispensing equipment solutions for new and existing customers. As noted on our last call, we will introduce a new and improved water coffee dispenser called the Aqua Barista, our combo unit that dispenses water and K-cups, in early 2020.

And we began the soft rollout of the new IoT—Internet of Things—enabled water filtration core in Southern California in recent weeks, called Pureflow. This new patented solution will support our efforts in retaining and attracting new water filtration customers across our footprint. This technology meaningfully extends the life of the water filter and requires far fewer service interactions, which will ultimately reduce our operating cost and improve customer satisfaction as we scale up on this new offering. We will also offer an app with this solution that enables customers to confirm their water quality in real time.

As we further expand our water filtration business, we believe that this solution is the right platform to invest behind, expanding another highly predictable and dependable revenue stream for the Company, and to meet consumer demand for a range of hydration solutions.

We historically have seen a small percentage of our total bottled water quits convert to water filtration. The historical losses of bottled water customers to filtration has remained consistently low over the years. Our goal is to convert these customers to a Cott filtration solution, and our new IoT unit is expected to improve our internal conversion rates as we will now have an advanced solution to offer to our customers.

In addition to our Pureflow IoT unit, we're working on further water filtration dispensing solutions that will enable us to accelerate growth in this business. Our strategy is to grow the filtration business at an accelerated rate while continuing to take market share and grow our core HOD water business. Water filtration for Cott is a separate and a distinct channel from HOD water.

Turning to our European operations. Our customer growth programs, including execution of our high-density area sales and marketing efforts, are performing well and are delivering incremental, organic new customer additions in many of our key markets. We are pleased with our booth program in the United Kingdom and because of this success, we've agreed with the customer to extend the program into 2020. The 2019 program is meeting our sales expectations, and over 80 percent of the new customers are coming from the residential channel, unlocking an additional population of available customer acquisition targets. Local country teams are improving service levels in a majority of our key markets, driving greater customer retention rates in Europe.

And in addition to delivering organic new customer additions, we strengthened our European customer base as we executed against our small tuck-in acquisition strategy. As noted last quarter, we improved our customer and route density in Poland in Q2 with an overlapping tuck-in that provided very attractive synergies. We will continue to execute other tuck-ins in Europe to further strength our core HOD business.

Elaborating more on our customer experience initiatives. The overall goal of our service proposition is to position a customer at the centre of everything we do and to strive for flawless execution on all customer interactions. Think of our initial efforts as building the foundation for our Customer 4 Life mentality, where we strive for flawless execution with all of our customers through ongoing improvements to the customer experience, while providing good old-fashioned customer service.

We remain at historical lows in terms of customer churn and have improved 180 basis points in North America compared to Q3 of the prior year. We also continue to experience low churn rates in Europe. Our focus on delivering the products and customer experience expected by consumers will enable us to further reduce churn rates. As you know, we're focusing our investments on increasing both

customer loyalty and revenue per customer by providing customers with the appropriate communication tools that they desire, which will allow us to have real-time, two-way communication with our customers.

In addition to the efforts we are implementing on customer experience, we're adding relevant products to our portfolio to further satisfy our customers' hydration needs. Put simply, our goal is to give our customers what they want, when they want it. We're confident that we will increase our HOD water revenue as a result of this multipronged approach to growth.

Moving to our Coffee, Tea and Extract Solutions business. As expected, the competitive environment improved significantly during the quarter, as we've now cycled through the pressures that we experienced last year. The S&D team delivered good growth and continued to gain market share during the quarter, with a 7 percent increase in adjusted revenue through 19 percent growth in extract volume and 4 percent growth in coffee and tea pounds sold.

With this consistent growth in our core coffee business and continuing new customer wins, we're confident that our Coffee, Tea and Extract Solutions segment is well-positioned to deliver revenue and EBITDA growth in the fourth quarter, as well as full year 2019 and 2020.

Moving to an update on our annual strategic review. It was important for our business to maintain consistency in our approach, and we've mirrored the process established over the last decade by our Executive Chairman and former CEO, Jerry Fowden. This process enabled us to execute on the transformation of our company into a business with higher margins and more predictable revenue and EBITDA growth.

This week, we've presented our plans to our board and reviewed a number of growth and operational opportunities. In reviewing all of our business segments, we see a clear set of strategic and tactical opportunities for revenue and EBITDA growth in all of our businesses as we look out over the next

three to five years. We're confident that we are well-positioned to drive value for our shareholders, associates, customers, and suppliers alike as we move forward.

One key area of opportunity we discussed relates to potential incremental investment in both top-line growth initiatives, as well as operational efficiencies or cost-down programs. As I mentioned, we've been making improvements to our customer service centre, expanding our sales teams, bringing equipment innovations to the market, implementing more targeted marketing, and working on the release of a mobile app.

As part of the strategic planning process, we've reviewed additional areas of opportunity that would drive incremental revenue growth, accelerate improvements in customer retentions, as well as improve operational efficiencies, resulting in increased margins and bottom-line growth. We will provide you with a more detailed update on our next call as we finalize these items as a part of our annual budgeting process, but examples would include a broader rollout of the Aqua Barista and Pureflow filtration equipment.

Switching to environmental, social, and governance. We are making progress in achieving the environmental sustainability goals we announced earlier this year as part of the ESG program we launched. In North America, we have developed a timeline to implement the best practices recommended by the Alliance for Water Stewardship and we'll begin this work on our key spring water sources in 2020. This is one of the key building blocks of our commitment to environmental sustainability. Our efforts ensure that our spring sources are managed sustainably to meet water needs not only for today, but for decades to come.

As consumer demand grows for sustainable products, especially coffee, S&D continues to see high demand for coffee sourced from its proprietary, sustainable sourcing solution. This program, called

Raiz, supports the coffee farmers to ensure sustainable practices are used to grow and harvest the coffee, and that fair wages are provided.

In Europe, we are building on our commitment to environmental sustainability. We lead our industry in achieving carbon-neutral certification for eight years running and enjoyed early success from the biocup we launched this year, which is created from 100 percent renewable materials and is fully compostable and biodegradable.

With that, I'll turn the call over to Jay, where he can review our third quarter results and provide an update on full year expectations before I wrap things up and we move to Q&A.

Jay Wells — Chief Financial Officer, Cott Corporation

Thank you, Tom, and good morning, everyone. We continued to see good top-line performance, with revenue up 6 percent when you exclude the impact of foreign exchange, the sale of Cott Beverages LLC, and the change in average cost of coffee, driven by customer and volume growth, as well as pricing benefits within HOD water and good price mix and extract growth within our Coffee, Tea and Extract Solutions segment.

Gross profit, excluding Cott Beverages LLC which was sold in February 2019, increased 6 percent. But gross margin as a percentage of revenue was up 70 basis points to 52.9 percent, driven by fixed-cost leverage as a result of good top-line growth.

Income tax expense was \$9 million compared to 1 million, primarily due to the mix of taxable income and losses across our 20-country footprint. And cash taxes for the quarter was \$1 million.

Adjusted EBITDA was up 5 percent at \$96 million compared to 92 million, as the growth in revenue and corresponding fixed-cost leverage was offset in part by foreign exchange and the higher year-over-year Q3 incentive accruals at our US Route Based Services business, where we have zero

management incentive accruals in Q3 2018. Adjusted free cash flow from continuing operations was \$50 million compared to \$56 million.

I am pleased with the progress that we have made on one of our second half projects, that being, implementing more robust working capital management programs within certain segments of our operations. We have targeted areas where we can improve on DSOs and DPOs in order to more effectively managing working capital. These projects are well underway and will benefit us as we closeout the year.

Moving to our full year outlook. With another positive quarter wrapped up, we remain confident in our full year expectations, which continue to project revenue to be \$2.4 billion, adjusted EBITDA coming in at the current Bloomberg consensus figure of \$328 million, and full year free cash flow guidance remains at 150 million- plus.

Let me now cover the operating performance of our Route Based Services segment. The Route Based Services segment saw revenue increase 6 percent on an FX-neutral basis. We continue to have good growth in our HOD water channel, where FX-neutral revenue grew around 6 percent overall and 3 percent organically. This growth was driven by increased volumes, in large part from a strong customer base which was up over 2 percent year over year.

Another important KPI for our Route Based Services business is FX-neutral revenue, excluding North American retail sales, as our North America retail business is a low-margin business that we utilize to leverage fixed costs and revenue can fluctuate up or down each quarter. Route Based Services' FX-neutral revenue, excluding North American retail, was up around 6 percent overall and 3 percent on an organic basis.

Gross profit increased 5 percent to \$286 million, driven primarily by revenue growth. Gross profit as a percentage of revenue was up 20 basis points at 60.6 percent, as leverage from growth within the

segment was partially offset by foreign exchange. SG&A expenses as a percentage of revenue improved by 80 basis points to 50.2 percent of revenue.

Operating income was up 20 percent, while adjusted EBITDA was up over 4 percent at \$92 million, as revenue growth and the ensuing operational leverage was partially offset by foreign exchange and the previously mentioned incentive accruals. We are pleased with the performance of our Route Based Services segment, as the business continues to demonstrate its sustainable and ongoing growth through an increased customer base, increased volumes through consumption, revenue per customer, and the elasticity of pricing.

In addition, we have invested in our customer experience, including new technologies, customer service, and new SKUs, strengthened our customer density with additional tuck-in opportunities, and have also invested in our people, who are the most important component of our shareholder value creation model.

Let me now cover the operating performance of our Coffee, Tea and Extract Solutions segment. As Tom mentioned, we continued to take market share in the third quarter with a 7 percent increase in adjusted revenue, through 19 percent growth in extract volume and 4 percent growth in coffee and tea pounds sold.

Gross profit improved to \$40 million compared to \$35 million, driven by increased volumes and operational leverage, improving gross margin as a percentage of revenue to 27.4 percent compared to 25.2 percent.

SG&A was \$37 million compared to \$33 million, driven primarily by increased selling and operating costs associated with new customer installations and incremental volume, which in turn resulted in adjusted EBITDA of \$10 million.

With another good quarter behind us, we've been able to show the strength and resiliency of our Coffee, Tea and Extract Solutions segment, as the business was able to overcome the competitive market environment experienced over the last year. And in turn, we are generating good revenue as well as volume growth in both pounds of coffee and liquid volumes sold as we complete 2019 and move into 2020.

Moving to capital deployment. We will continue our quarterly dividend and our highly synergistic tuck-in acquisition strategy in 2020, as our tuck-in pipeline remains robust. And we will communicate our 2020 plans for share buybacks and/or debt pay-down on our next call in February, once we have completed our annual operating plan for 2020.

I will now turn the call back to Tom.

Tom Harrington

Thank you, Jay. Although we will provide our 2020 full year revenue and EBITDA expectations during our February call, as I did last quarter, I want to reiterate our ongoing expectations for this business.

First, we expect to generate between 4 and 5 percent revenue growth each year, driven largely by our North American Route Based Services business, with 5 percent FX-neutral organic HOD water growth this quarter, as well as total Route Based Services (sic) [Solutions] segment FX-neutral, organic growth of 3 percent, when excluding our North American retail business.

We expect 2 to 3 percent organic revenue growth per year, supplemented with 1 to 2 percent of growth through synergistic tuck-ins. The organic revenue growth should then generate \$10 million plus of organic EBITDA growth. And the tuck-ins, depending on timing of the transactions, are expected to generate another 5 million to \$10 million of EBITDA growth.

As I look back over the last few years, we have performed consistently at generating both organic and tuck-in growth to our Route Based Services operations, even with the increased foreign exchange headwinds and inflation that we have experienced.

And although we experienced some competitive pressure in our Coffee, Tea and Extract Solutions segment which we have now overcome, and we experienced some short-term dyssynergies associated with our corporate costs which resulted from the sale of our legacy business, we're pleased with the current state of the business and its prospects for future growth. As we look at 2020, we believe we will continue to generate good organic and top-line revenue and EBITDA growth.

Before I pass the call back to Jarrod, I want to thank all the teams across the business units for delivering another good quarter and for remaining focused on delivering our full year commitments. Thank you.

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 the line for questions.

Q&A

Operator

Thank you. If you would like to ask a question at this time, please press *, then the number 1 on your telephone handset.

Our first question comes from Nik Modi from RBC. Please go ahead. Your line is open.

Nik Modi — RBC Capital Markets

Thank you. Good morning, everyone.

Jarrold Langhans

Good morning, Nik.

Nik Modi

So the question is—good morning—the question's on top line. So 4 to 5 percent is obviously very healthy as a target. But I remember, going back to when DS Services was first acquired, there was a lot of talk about cross-sell and we haven't really heard much about that. So maybe, Tom, if you could take some time to just walk us through kind of, are there opportunities there, especially now with some of these new kind of digital platforms embedded into the business? How should we really think about that as a potential upside opportunity?

Tom Harrington

Sure, Nik. In the prepared comments, we talked about our focus on case-pack water, which is half-litre, 24 bottles in a case, and the team has done good work driving the penetration from 10 to 12, which gives us solid double-digit growth. So while we haven't finalized our AOP, I can assure you that's a big portion of our plans. And then add to that what we do with Mountain Valley, so Mountain Valley, Sparkling Ice, and other carbonated water options. So that'll be a part of it. The Aqua Barista, which we hope to roll out in early 2020 as a cross-sell between water and coffee, and we benefit on two sides from that. And last but not least is, as we roll out the app, the ability for customers to add to their order all the products, as we reposition that site to make it easy for our customers to order.

Nik Modi

Thanks, Tom. Appreciate that.

Tom Harrington

Thanks, Nik.

Operator

Thank you. And our next question comes from Kevin Grundy from Jefferies. Your line is open.

Kevin Grundy — Jefferies

Hey. Thanks. Good morning, guys, and congrats on the strong quarter.

Tom Harrington

Morning, Kevin.

Jarrold Langhans

Thank you.

Kevin Grundy

Tom, let's—if we could start—so Nestle's announced that they're going to be restructuring their water business, moving to more locally managed businesses, de-emphasizing lower margin businesses within the segment. What do you think this will mean for their HOD business, competitively? And do you think this makes it more or less likely they'd consider selling that business? Then I have a follow-up.

Tom Harrington

Yeah. Ultimate, at the end of the day, I know what you know in terms of listening to their public announcements. And that's planned, I think, for the first of the year in terms of how they redistribute that business across their zones. They have talked positively in the last two calls around ReadyRefresh but we haven't seen, frankly, anything change meaningfully in terms of the competitive landscape. So don't worry about that. I think it certainly indicates that they believe that the HOD 5-gallon business is a good business to be in. And in terms of their plans about an acquisition or a disposition, I have no idea what they would be thinking about that strategically.

Kevin Grundy

Okay. All right. Fair enough. And then, Tom, the strategic review, kind of marrying that up with the reiteration or the comfort with your long-term targets. It sounds, while certainly sensible in terms of the investments you're making behind the business, more sort of evolutionary or revolutionary, or even more specifically that it's going to really act as an accelerant to the Company—to the—excuse me, to the Company's top-line growth. Is that a fair way to look at it? We shouldn't really be expecting anything outside the norm of the long-term targets or anything bigger from a productivity or margin enhancement perspective? Is that kind of the messaging here?

Tom Harrington

Yeah. I think that's the way to look at it, is it's 4 to 5 percent top-line revenue growth; it's 2 to 3, organic. We continue to have a robust pipeline. Our coffee business has very nicely, frankly, weathered the storm, and it's beginning to perform much better. And we maintain that you'll see 20 or 30 basis points of margin enhancement in RBS, and 10 or so on the overall business when you put it together. But for sure we're going to look at opportunities where we can improve. So as we go through—as we shift from the strat plan to the AOP, we'll review with the business units, is there one or two actions we could accelerate that would further enhance the business. And I referenced in my remarks the Aqua Barista. So we know, when we—with the few thousand we have placed, that when we connect water and coffee in one device, we sell more water and more coffee. So our choice is decisions around what we might invest to go faster, and we haven't made those decisions as of yet.

Kevin Grundy

Okay. All right. Fair enough. I'll pass it on and hop back in the queue. Thanks.

Tom Harrington

Thanks, Kevin. Appreciate it.

Operator

And thank you. Our next question comes from Amit Sharma from BMO Capital. Your line is open.

Amit Sharma — BMO Capital Markets

Hi. Good morning, everyone.

Jarrold Langhans

Good morning, Amit.

Tom Harrington

Morning, Amit.

Amit Sharma

Tom, you talked about EBITDA expectation, organic and M&A, for the RBS business. Can you talk about that for the Coffee business as well? Or, I mean, obviously we are getting better or some margin recovery. Should that continue in the next year? And how should we think about EBITDA progression?

Tom Harrington

Yeah. I think we're back on track with our coffee business, and it settled in in Q3 as we expected. We expect a better Q4, and we would expect to be back in the 5 percent revenue growth. And it really will be benefit from the mix of the extract growth and pretty solid lower growth base business. So that's really how we look at it.

Amit Sharma

And extract is a better margin business for you, right, compared to—

Tom Harrington

It is.

Amit Sharma

—the traditional roast and grind?

Tom Harrington

It is. And I've said this before, it's a small percentage of the overall. So the impact is not as big as you might think today, but that business will build over the coming years and become more impactful over the longer haul.

Amit Sharma

So 5 percent top line translates into maybe high single-digit EBITDA increase? That fair?

Jay Wells

Yeah. Amit, one thing I've always said, I mean, this is a business that we don't see a lot of leverage going down the balance sheet. So on that growth, I'd keep the EBITDA margins fairly flat.

Amit Sharma

Got it. Okay. And then, Tom, one more on the strategic review. Really interesting to hear at least from an operating perspective what could come out of that. Can you dig into a little bit more on a bigger-picture point of view? As you presented to the board or as you talked about it, was the portfolio, how you are exposed to certain businesses, was that also on the table when we talk about that, whether we need to be bigger or smaller in certain businesses?

Tom Harrington

Yeah. You asked a couple of questions in that one question, which is fine. In terms of the strat plan, there are opportunities for operational efficiency and it really is around route logistics. And part of it is the tuck-in strategy which is about density, but there's also technology enhancements that we could accelerate to get more dense routes and to reduce the operating cost per mile, if you will. And again,

that's the—on a high level, we know it's part of our strategy to do that, and then it's how does that translate into the annual operating plan?

Amit Sharma

Got it. Thank you.

Tom Harrington

We're also looking at—so one of the examples that we talked about was the Pureflow IoT, so that opens up new avenues for us in terms of accelerated revenue and EBITDA growth. And it's early stage. We rolled out a small number in Southern California and once we finalize proof of concept, we could go faster there, which would be enhanced revenue on EBITDA at the end of the day.

Amit Sharma

Yep.

Jarrold Langhans

And we also—looking at different alternative forms of packaging. How can we premiumize our package? How can we be more environmentally focused on our package? So we had a lot of discussions on packaging and package innovation also.

Amit Sharma

Got it. Thank you very much.

Tom Harrington

Thank you.

Operator

Thank you. Our next question comes from Daniel Moore from CJS Securities. Your line is open.

Daniel Moore — CJS Securities

Tom, Jay, good morning.

Jay Wells

Good morning.

Tom Harrington

Morning, Dan.

Daniel Moore

Maybe just that your guidance for full year free cash flow, obviously unchanged and implies a nice working capital benefit as we look at Q4. Jay, what's the kind of full year working capital benefit at this stage implied in the full year guide? And as we think about that as a lever for next year, whether that could be further gains-neutral, maybe a little bit of a headwind. And a quick follow-up. Thanks.

Jay Wells

Yeah. No. You look at year to date, we're negative about 40 million in working capital and that's kind of what I talked about in the call. There's certain builds that we just do it this time of the season, that unwinds as we get to the back half of the year. That's a normal part. But I'd say we're a little bit behind over Europe in a couple geographies on managing our working capital. So I've been spending time over there with those business units, really seeing how we can tighten up our DSOs and DPOs. So you look at that 40 million between just normal working capital trends in the business and getting back to better practices over in a couple jurisdictions over in Europe, would definitely see us recouping that 40 million of working capital and maybe even over-delivering a little bit above that recoup.

On a go-forward basis, really, I view this as with the growth we're having, if we can run this business on a flat working capital going forward, that's really my target. But between now and the end of

the year, delivering 40 million-plus in working capital benefits, as we claw back our seasonality in a couple of spots, we can manage our working capital tighter.

Daniel Moore

Very helpful. And then switching gears for one more. Maybe just talk about consumption trends at this point in the cycle, how things are holding up there. Thanks.

Tom Harrington

Yeah. Consumption was our friend in Q3. So we continue to see benefits of healthy hydration and people consuming more, which means we sell more volume, so it's been a benefit. And it appears that it will be pretty steady as we move into 2020.

Daniel Moore

Very good. Thanks for the colour.

Tom Harrington

Thanks, Dan.

Jay Wells

Thanks, Dan.

Operator

And thank you. Our next question comes from Derek Lessard from TD Securities. Your line is open.

Derek Lessard — TD Securities

Yeah. Congratulations on a good quarter, guys. And I know you're happy with the performance, and just wondering where you might have still seen room for improvement.

Tom Harrington

Yes. Thanks, Derek. If you looked at our European business, we're happy with the business. But when you have 18 countries, you get puts and takes at any given time. And particularly in Q3, we're cycling some tough weather. So August of last year might have been historical highs. So that really is a headwind in the quarter, just on the Eden business but that will probably be the biggest 90-day headwind we have, and the business has since recovered. So we're quite pleased with where we are.

Derek Lessard

Okay. And maybe just one more for me. On the Route Based business, SG&A as a percentage of sales was down 80 bips. Just wondering if you can maybe talk about the drivers there and maybe how much more room you see to squeeze costs.

Tom Harrington

Yeah. Well, one of the elements of our strat plan, frankly, is operational effectiveness. And SG&A is where all the route costs lie. So when you have good volume, we'll get some spread. The question is, can we accelerate improvement and a reduction in your SG&A as a percent of revenue through further investments? But the team made good progress in the quarter, so it was what we expected, maybe a little bit better. And now, how do we do that going forward, in addition, of course, to the tuck-ins? So as the tuck-ins flop over, we would expect to get leverage from them, and hence the reason we look at 20 to 30 basis points over time in terms of EBITDA margin expansion.

Derek Lessard

Okay. Very helpful. Thank you.

Tom Harrington

Thanks, Derek.

Operator

Thank you. Our next question comes from Mark Petrie from CIBC. Your line is open.

Mark Petrie — CIBC

Hey. Good morning. You said the competitive environment is generally pretty stable. But I wanted to ask you about your pricing today relative to all of the cost pressures you've seen over the last year or so. I know you've taken pricing through the year, but is that fully implemented today? And do you feel that now that you've kind of fully balanced the cost inflation with pricing, what's the outlook there?

Tom Harrington

Yeah. Mark, we took that pricing in Q3 of 2018, fully realized by the end of the fourth quarter of '18, so we had the full year benefit of how that came over. We believe it's covered all these costs. But at the same time, the team did a lot of work on filling open positions, removing some of that temp labour that we talked about with full time, which also benefits us. And we continue to take pricing. So the pricing we took in 2018 wasn't a onetime event, so we're back to more normal cost pricing action that we take, frankly, every day.

Mark Petrie

Thank you.

Tom Harrington

Thanks, Mark.

Operator

Thank you. Our next question comes from Derek Dley from Canaccord Genuity. Your line is open.

Derek Dley — Canaccord Genuity

Yeah. Hi, guys. Just on the—sticking with the Coffee business for a second—just on the Extract volume, 19 percent. I think in the past, you guys have kind of targeted 30 percent growth. Is that still the plan for 2020?

Operator

And pardon me, ladies and gentlemen. We are experiencing some technical difficulty. Our speakers will return momentarily.

And pardon me, ladies and gentlemen. We are currently experiencing a technical difficulty. We will resume momentarily.

And pardon me, ladies and gentlemen. We are currently experiencing technical difficulties. The call will resume momentarily.

Jarrold Langhans

We are back, on a cell phone.

Operator

And thank you. And so, we do have—pardon me—we do have Derek Dley with an open line, ready to ask his question, from Canaccord Genuity.

Derek Dley

Okay. Thanks. Sorry about that. I'll ask an easier question next time, I guess.

Jarrold Langhans

We're now on Tom's cellphone because, sorry about that, we lost our phone system.

Derek Dley

Okay. So just on the Extract volume, it was up 19 percent in the quarter. And I think in the past, you've targeted 30 percent. So just wondering if that is still the target for 2020?

Tom Harrington

Yeah, it is, Derek. The quarter was influenced by—we had an expectation of a customer with a rollout plan that was delayed and subsequently announced for like a January execution, so the pipeline still is going to come later. But we remain confident in 2020 and at 30 percent in Extract business.

Derek Dley

Okay. Great. And in the Coffee business, I mean you had really good margin leverage this quarter; I think it was 220 basis points. But then, Jay, you commented that you don't really expect to see incremental leverage going forward. So should we think about, with 4 or 5 percent volume in revenue growth in that business, a flat margin going forward? Or should we give you some margin expansion?

Jay Wells

Yeah. I mean you look at—one thing with the pricing, we did say that we did have some cost benefits that were going to come in throughout this year that would offset it. It's just the pricing was ahead of the cost savings that we had implemented. So you are seeing partly the cost savings coming through, which are helping claw back the pricing, but also, we saw really good mix in our business also. So I would say really, on a go-forward basis, I think this was a very good quarter for both cost savings and price mix, but I would model it more flat going into next year.

Derek Dley

Okay. Great. Thank you very much.

Jay Wells

Thanks, Derek.

Tom Harrington

Thank you.

Operator

Thank you. And our next question comes from Peter Grom from JPMorgan. Your line is open.

Peter Grom — JPMorgan

Hey. Good morning, everyone.

Tom Harrington

Good morning, Peter.

Peter Grom

So I appreciate the colour on the organic revenue for HOD in the quarter. And maybe I missed this, but can you maybe provide some context on kind of how that growth has progressed year to date? And then I just wanted to ask on the EBITDA growth target, I mean, can you maybe just walk through the puts and takes that could help you deliver on the plus side of that 10 million-plus equation? Thanks.

Jay Wells

Yeah. On the revenue side, what you need to look is we talk about 2 to 3 percent overall growth in this business. And when you look at the second and the third quarter, which is our key months for our water business, we'll see it at the higher end of that organic growth, and you saw it in this quarter. And when you get more to the shoulder seasons, it would be at the lower end. And that's how we see the breakout between the quarters. So this quarter came in right where we'd expect it, but as we get to the shoulder seasons where not as much water gets drunk, we'd be closer to the bottom of the range of growth.

And on EBITDA margin, we continue to say—and you saw it on our SG&A, and that's where our route cost is—as we continue to grow the business, that's where we really get our cost leverage. It's not really in the cost of goods sold. And that's what we say. That's where we're going to get the 20 to 30 bip

improvement in EBITDA margin in that business. And as Tom said, we'll continue to focus on cost reductions related to our routes, but also on the density of our routes, to keep getting more effective margin from that business.

Peter Grom

Thanks.

Operator

Thank you. And our next question comes from Amit Sharma from BMO Capital. Your line is open.

Amit Sharma

To follow-up, just wanted to quickly touch on your labour costs. At least a couple of our companies have talked about a labour-to-labour cost, and you had that issue a couple of quarters ago. We're not seeing any of that come through for you guys, right?

Tom Harrington

No. We had the challenge earlier in the year and the team did a good job, so. Of course, you have higher wages, but the pricing that we implemented and we continue to implement covers that. So we have no surprises and frankly think we're in a pretty good spot in terms of how the teams are managing the day-to-day vis-à-vis labour cost.

Amit Sharma

And, Tom, just to clarify, you did say that you see a pretty robust pipeline of tuck-in acquisitions next year. So were you still thinking about 40 million to \$60 million tuck-in next year as well?

Tom Harrington

Yeah. I think you should—

Amit Sharma

Or is it going to be higher?

Tom Harrington

I think you—well, you should think at the higher end of that range at this point in time. And as we finalize the AOP, we'll have greater clarity. But we have a good, solid list of opportunities on both sides of the Atlantic.

Amit Sharma

Got it. Thank you.

Jay Wells

And, Amit, one thing I thought I heard in your question was, what drove our taxes spent in the quarter. I did want to mention that before we did end the call is, I want to remind everybody that we do have a complicated international tax structure that minimizes our cash taxes and will continue to do so. But it's currently resulting in a higher reported taxes spent as we're generating certain losses in jurisdictions where we're not going to get the benefit and, therefore, putting an evaluation allowance against it. It's resulted in higher-than-normal book reported taxes but it's not really changing our cash taxes. We're currently working on putting a restructuring together that will mitigate this increase of reported taxes. But for Q4, I would model about a 50 percent effective tax rate for reported tax purposes, but no change to our overall cash tax guidance that we've given. So I just—

Amit Sharma

Mm-hmm.

Jay Wells

—I thought I heard the question, Amit, that you were asking, too.

Amit Sharma

Yep. No worries. Thank you so much for that clarification.

Jay Wells

Okay.

Operator

Thank you very much. And this concludes our questions. At this time, I'll turn the call back over to the presenters.

Jarrold Langhans

Thank you all for joining us on our Q3 2019 call today. Goodbye.

Operator

Thank you very much, ladies and gentlemen. This concludes today's conference call. You may now disconnect.