

Cott Corp. Isn't Just a Soft Drink Company Anymore

Description

Cott Corp. (TSX:BCB)(NYSE:COT) is a provider of private label beverages in North America and parts of Europe. It also has its own lesser-known brands, such as Cott and RC, to name a few. Although the company's main products have been soft drinks, Cott has expanded into coffee, tea, and water. With consumers looking for healthier alternatives and the trend going away from sugary drinks, Cott recognized the importance of focusing on healthier products. But in order to diversify, the company needed to diversify its customer base as well and not be dependent on a select few and their specific needs.

Less dependence on big customers

In 2016, **Wal-Mart** represented over 15% of Cott's total revenue. However, overall, Cott has been reducing its dependence on its top 10 customers. In 2016, less than 29% of Cott's sales came from its top 10 customers compared with over 46% in 2014. Although big customers are good, relying on a select few too heavily can put the company at risk if the customer runs into issues or takes advantage of the situation by using leverage when it is time to renegotiate a contract. Too many big customers will also dictate the product mix based on their needs, which could handcuff a company from being able to change its mix.

Change in sales mix

Cott has averaged an annual growth rate in sales of over 15% for the past three years. However, the company's sales mix has changed drastically, as its soft drink sales in North America no longer lead the way. In 2014, this segment had \$1.4 billion in sales, or an overwhelming 68% of total product revenue. Fast forward to 2016, and that revenue number is slightly down to \$1.2 billion, but it now represents just under 40% of total sales.

The water and coffee solutions segment has taken off from just \$28 million in 2014 (1% of sales) to over \$1.4 billion in 2016 (45% of sales) and is now the highest-selling segment. Making up most of the sales for the water and coffee segment is bottled water delivery of just under \$800 million (55% of sales for the segment) and coffee and tea services of \$334 million (23% of segment sales).

Cott has been able to reinvent itself and diversify its offerings to meet the changing needs of consumer tastes and preferences. Year to date, the company's share price has grown over 23% and is trading over three times its book value, so the stock might be a bit expensive. However, a good earnings result (which is coming up in a few weeks) could propel its price even further. Long term, I think Cott presents a great growth opportunity with a modest dividend of under 2%.

Andrew Peller Ltd. ([TSX:ADW.A](#)), by comparison, specializes in wine products and shows no signs of looking to diversify its product mix. The company does not need to diversify as it has been growing its business steadily. For the past three years, Andrew Peller has averaged a sales-growth rate of just under 5%. Profits have been growing by 22%, although in real dollars the increase has been a total of

\$12 million during that time.

Bottom line

Not all companies need to diversify, but it is important to know that companies can do so when needed. Without the change in product mix, Cott would have seen declines in overall sales and likely its stock price as well. Andrew Peller, luckily enough, is showing no signs that people are turning away from wine.

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