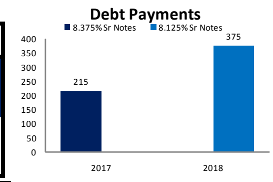
Cott Corporation (COT)

As of 30 November 2011

OVERWEIGHT



Bond Summary

Issue Size (MM)	Coupon (%)	Maturity	Priority	Credit Rating	Next Call	Bid Price	YTW (%)	STW (bp)
215	8.375	11/15/2017	Senior	B3/B/NR	11/15/2013	105	6.903	651.2
375	8.125	9/1/2018	Senior	B3/B/NR	9/1/2013	106.5	6.505	555.8

Company Description

Cott Corporation is the world's largest retailer-brand beverage company selling in over 50 countries. It partners with leading grocery and merchandise retailers to provide private label brands for carbonated soft drink, juice, water and other beverage products. The firm has bottling facilities in the United States, Canada, Mexico and the United Kingdom and employs about 4,000 people.

Key Events:

*Cott Corporation acquired Cliffstar Corporation on August 17, 2010, an acquisition that significantly expanded Cott's portfolio, particularly in stable juice products.

*Cott Corporation undertook a major corporate restructuring plan in 2009 ("The 2009 Restructuring Plan") designed to drive focus on critical brands and reduce overhead.

*Cott Corporation undertook a major corporate restructuring plan in 2007 ("The North American Plan") designed to consolidate US and Canadian businesses into one North American entity.

Financial Profile	FY08	FY09	FY10	1Q11	2Q11	3Q11	FY11E	FY12E	FY13E
Revenue	$ 1,648	$ 1,597	$ 1,803	$534	$640	$611	$ 2,314	$2,357	$ 2,522
EBITDA	$ 93	$ 173	$ 188	$ 48	$ 67	$ 53	$ 215	$ 165	$ 262
Interest Expense	$ 32	$ 30	$ 37	$ 24	$ -	$ 24	$ 48	$ 48	$ 48
Taxes	$ 48	$ (8)	$ (6)	$ (0)	$ (5)	$ (1)	$ 13	$ 15	$ (144)
CapEx	$ (56)	$ (32)	$ (44)	$ (13)	$ (11)	$ (8)	$ (46)	$ 50	$ 50
Free Cash Flow	$ 53	$ 102	$ 100	$ 11	$ 51	$ 20	$ 133	$ 181	$ 120
Total Debt	410	271	619	646	629	607	607	592	577
Cash	14.7	30.9	48.2	35.8	24	28.2	21.53333	21.5333	21.53333
Key Credit Statistics									
Total Debt/EBITDA	4.4	1.6	3.3	-	-	-	2.8	3.6	2.2
Total Debt/(EBITDA-CapEx)	11.0	1.9	4.3	-	-	-	3.6	2.8	1.9
EBITDA/Interest	2.9	5.8	5.1	-	-	-	4.4	3.4	5.4
EBITDA Margin	0.1	0.1	0.1				0.1	0.1	0.1

Analysis

Strengths:

*Paid down $275 million first lien revolver (drawn on 8/17/2010 and due 2014) by 10/1/2011

*De-leveraging to 2.0x-2.5x is a management priority

*EBITDA/Interest is increasing; Debt/EBITDA is decreasing

*Bond covenant restrictions prevent COT from engaging in major M&A in the near-term

Strong Fundamentals:

*Most active consumer group across private label (PL) beverages has household income < $25K; supports increasing sales in times of sustained high unemployment

*COT is the only PL producer with x-North Am manufacturing

*Cliffstar acquisition increases portfolio diversification, helps shift away from reliance on declining CSDs and opens up COT opportunities in the growing juice market

Risks:

*Loss of Wal-Mart as largest customer (In 2010 accounted for 31% of all revenues even after termination of exclusivity agreement)

*Inability to fully integrate and capture synergies from Cliffstar acquisition

*Inability to innovate in rising products like juice, water, energy and coffee

*Adherence to debt covenants could force COT to forego profitable business ventures

*Declining demand for PL beverages as economy recovers

*Inability to stay ahead of rising commodities costs; especially resin for PET (for which there is no spot market)

*Precedent for exchange offers/issuing debt to finance new acquisitions whenfinancials begin to improve

B2 Rating Yields* Food - Wholesale	
High	13.875
Low	7.625
Mean	9.476563
Median	9.125
All Categories	
High	14
Low	4.65
Mean	8.553343
Median	8.25

B3 Rating Yields* Food - Wholesale	
High	10.75
Low	6.9
Mean	9.660714
Median	10.25
All Categories	
High	13.75
Low	5.4
Mean	9.225316
Median	9

B+ Rating Yields**	
6 Year***	6.1479
5 Year	6.0024
4 Year	5.7884

B Rating Yields**	
6 Year***	7.1335
5 Year	6.8212
4 Year	6.4012

**Bank of America Merrill Lynch Index Data (Industrials) as of November 2011*

***Bloomberg Fair Market Curve Indices (USD - Industrials) as of November 30, 2011*

****Interpolated*

Lachesis Investment Strategies, Yale School of Management, 135 Prospect Street, New Haven, CT 06511

Part I. Overview

Cott Corporation

Cott Corporation is the world's largest private label beverage company. It partners with leading grocery and merchandise retailers to provide private label brands for carbonated soft drink, juice, water and other beverage products. The firm has bottling facilities in the United States, Canada, Mexico and the United Kingdom and employs approximately 4,000 people. Cott Corporation undertook a major corporate restructuring plan in 2007 ("The North American Plan") designed to consolidate US and Canadian businesses into one North American entity. It undertook another corporate restructuring plan in 2009 ("The 2009 Restructuring Plan") designed to drive focus on critical brands and reduce overhead. More recently, Cott Corporation acquired Cliffstar Corporation on August 17, 2010, an acquisition that significantly expanded Cott's portfolio into high growth categories like juice.

Fixed Income Credit Thesis

Given robust EBITDA projections and management's dedication to de-leveraging, we believe that Cott debt is currently cheap. Based on our analysis, Cott and its debt credit ratings will be upgraded by Moody's in 2012 when the company's leverage ratio falls below 3.5x. This report will analyze Cott Corporation's strength in terms of cash flow in part II. The following strengths and risks will be elaborated upon in part III.

Strengths of Cott Corporation's credit include the fact that management paid down its $275 million first lien revolver (drawn on 17 August 2010) by 1 October 2011 despite a final maturity in 2014. Furthermore, EBITDA/Interest is increasing and Debt/EBITDA is decreasing. Sustained unemployment aligns with strong private label sales among low income consumers. Additionally, Cott Corporation is the only private label producer with manufacturing channels across North America. Its acquisition of Cliffstar increases product portfolio diversification, shifting Cott away from its historic reliance on carbonated soft drinks (a declining market) and toward opportunities in the growing juice market.

Risks of this credit include management's adherence to debt covenants at the cost of foregoing profitable business venturesfailure tofully integrate with Cliffstar and capture the synergies resulting from the acquisition, ability to innovate beyond carbonated soft drinks in growth categories like juice, water and energy drinks and declining demand for private label beverages should there be a robust economic recovery. The biggest risk is comes from the loss of an exclusive contract as sole provider of Wal-Mart's private label beverages. This is a significant risk because Wal-Mart is Cott's largest customer.

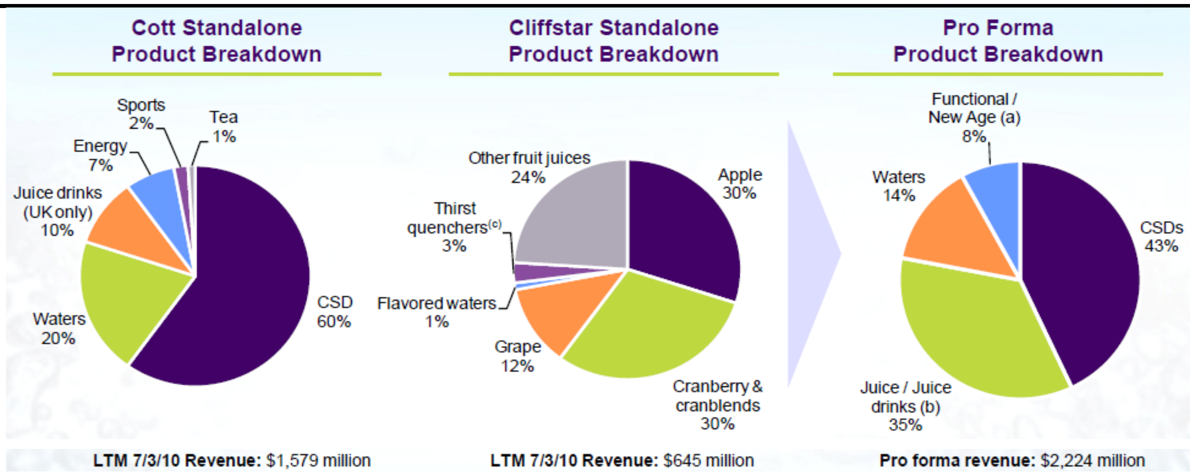
PART II. Analysis of Cott Corporation's Cash Flows

Products, private label trends, customers, correlations and comparables

Products

Cott Corporation is developing a robust portfolio of products that is in line with non-alcoholic beverage trends. Cott launched 100+ new SKUs in 2010. The company expanded its juice portfolio by acquiring Cliffstar in August 2010. It is diversifying its portfolio to capture current market trends (shifting from traditional carbonated soft drinks to the inclusion of juices) and cover declining industry-wide carbonated soft drink sales. (See Lachesis Investment Strategies research reports on Hansen's Natural Corporation (October 2011) and Dr Pepper Snapple Group (November 2011) for more information on trends in the non-carbonated soft drink categories.)

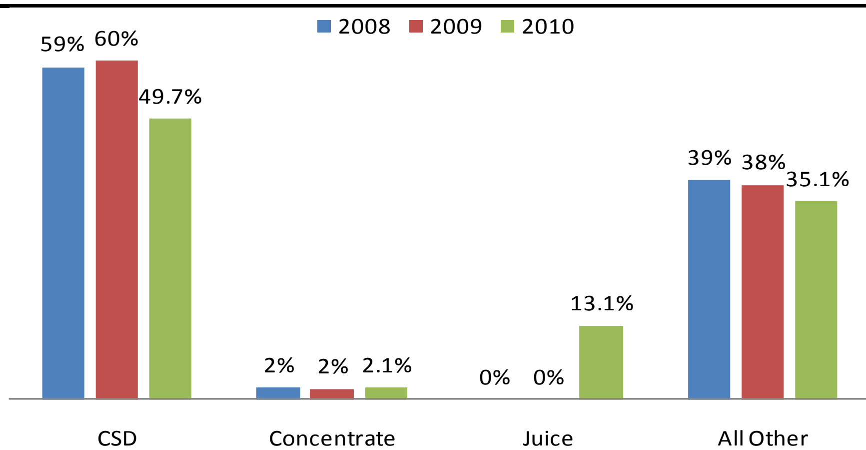
Exhibit: Cott revenue, before and after (pro forma) Cliffstar acquisition



Source: Cott Corporation Presentation at Deutsche Bank Leveraged Finance Conference, October 6, 2010

In 2010, for example, non-carbonated soft drinks accounted for only 28.3 percent of case volume, but accounted for 48.2 percent of revenues.[2]

Exhibit: Cott Revenue by Product Category



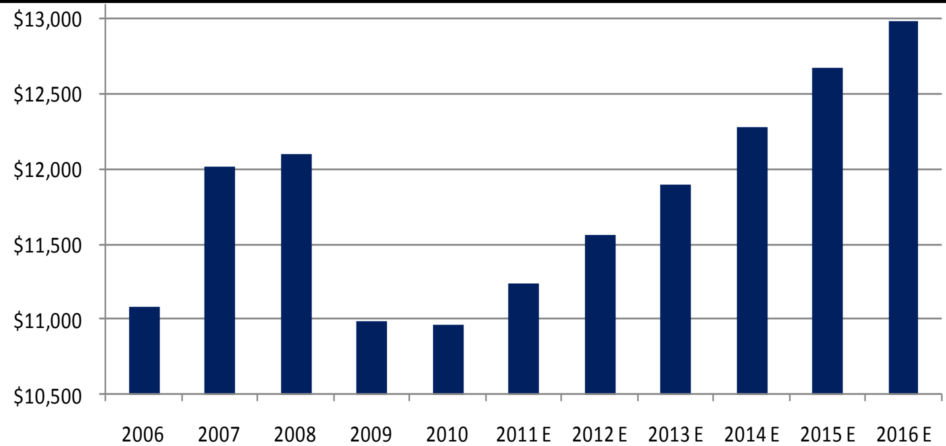
Source: Cott 2010 Annual Report

The Private Label Market at a Glance

Private label sales have been trending upwards since 2009.[3] Value comes largely from pricing, which is approximately 75 percent that of branded beverages on average.[4]

[2] Cott Corporation 2010 Annual Report
[3] Mintel data
[4] "July/August Management Briefing - The Private-Label Drinks Market" by Chris Brook-Carter, 30 July 2010, <http://www.just-drinks.com/management-briefing/julyaugust-management-briefing-the-private-label-drinks-market-part-v_id101489.aspx>

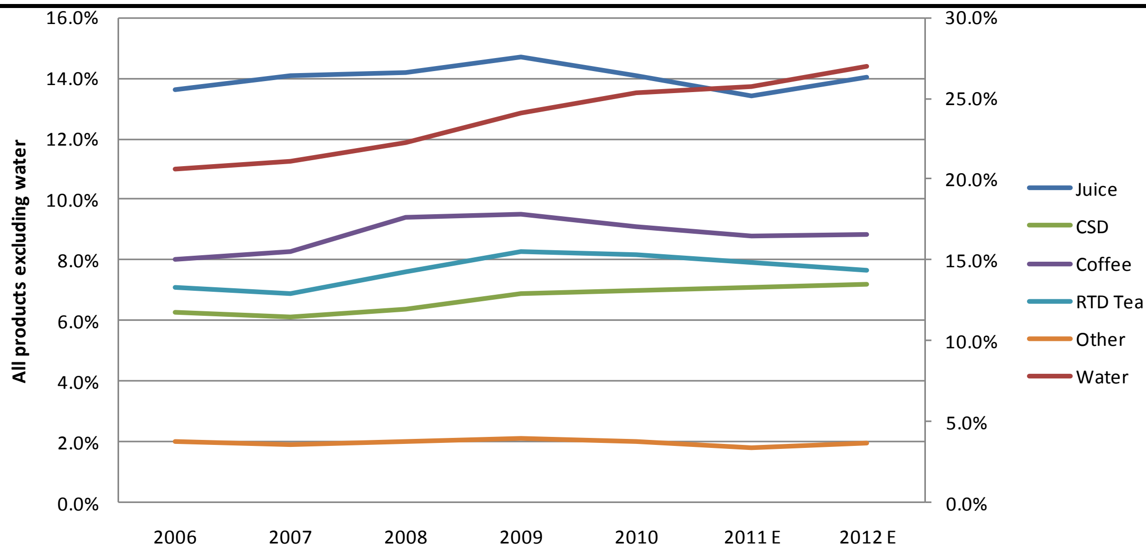
Exhibit: Private Label Sales (Millions of Dollars)



Source: Mintel data

In terms of products, private label sales have accounted for a fairly stable percentage of total sales by product since 2006. Water and juice have been exceptions; private label is expected to capture increasing market share of these categories over the next 1 – 2 years.

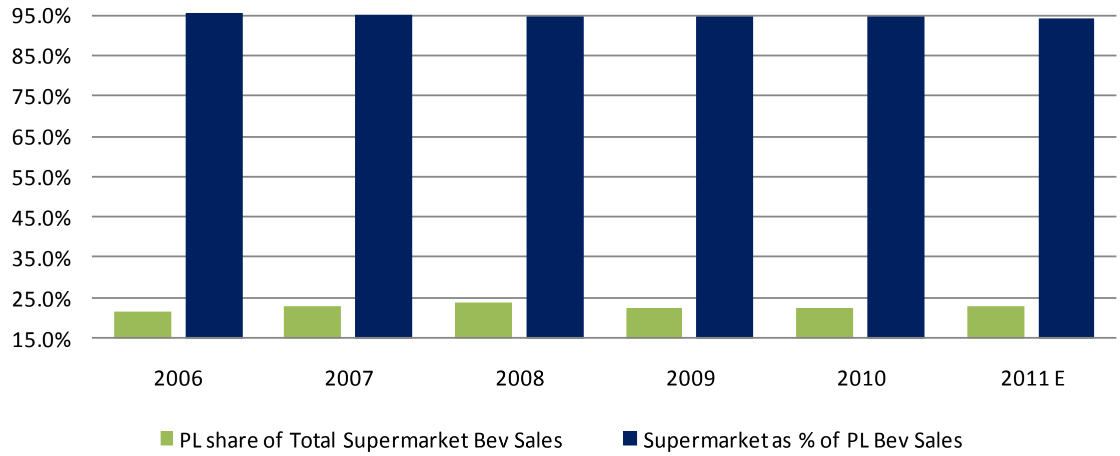
Exhibit: Private Label Sales as a Percentage of Total Beverage Sales



Source: Mintel/based on SymphonyIRI Group InfoScan® Reviews

Private label sales are derived from a distinct channel base. The vast majority (historical average of 94.8 percent) of these sales are derived from supermarkets. The private label share of total supermarket beverage sales has been relatively flat since 2006.

Exhibit: Private Label Sales – Supermarkets



Source: Mintel/based on SymphonyIRI Group InfoScan® Reviews

In terms of consumers, distinct trends can be observed among private label sales. The largest group of private label consumers is the <$25,000 per annum income bracket. With high rates of unemployment persisting, there is reason to believe private label sales will remain strong in the short to medium term.

Exhibit: Private Label Sales by Product and Income Bracket, *Feb 2010 – March 2011*

	All	<$25K	$25-49.9K	$50-74.9K	$75-99.9K	$100-149.9K	$150K+
Frozen OJ	40	35	40	45	45	45	32
Bottled OJ	26	27	28	29	30	22	19
Tomato/Veggie Juice	41	36	34	35	43	48	48
Sparkling Water	24	22	21	25	33	27	23
Bagged teas	18	26	19	17	19	14	12
Iced tea mix	19	24	18	19	21	15	12
Regular cola	12	16	12	12	10	8	6
Other regular CSD	10	15	11	8	8	8	7
Diet cola	9	13	11	9	9	8	4
Other diet	10	15	12	11	8	8	6

Source: Mintel/Experian Simmons NCS/NHCS: Winter 2011 Adult Full Year—POP

Market Position

Cott Corporation has significant private label market share. While there is no syndicated data available on the breakdown of the private label market by major player, according to their 2010 annual report, Cott management estimates that on a pro-forma basis the company is responsible for 60 percent and 52.1 percent of all private label CSDs and juices respectively in the US and 55.6% of CSDs in the United Kingdom. Cott is also the leading private label beverage company across North America. It is the only private label producer in the top 100 largest food & beverage processors in the US according to foodprocessing.com* Cott also has a competitive advantage of being the only private label beverage producer with manufacturing capabilities across the entirety of North America.

Cott's Customers

Of Cott Corporation's top 10 customers, only Wal-Mart accounted for more than 10 percent of total revenue in 2010 (31 percent in 2010). Wal-Mart terminated its exclusive contract with Cott beginning in 2010; any exclusivity will be phased out by January 28, 2012. Though a clear long-term risk, this does not present a material threat to Cott's revenues in the short-term because: a) Cott continues to supply all of Wal-Mart's private label CSDs in spite of the formal contract termination; b) though the termination agreement stipulated that Cott's exclusive rights to supply for Wal-Mart would be stepped down incrementally 1/3 each year since the termination was first announced (had 2/3 exclusivity in 2010 and 1/3 exclusivity in 2011), there has not been a substantive impact on Cott's revenues or overall financial performance; and c) as the line between supermarket and other stores becomes increasingly blurred, Cott is poised to benefit from the growing trend of groceries sold within other retail outlets (like discount dollar and mass merchandise stores).

In 2010, Cott Corporation's top 10 customers produced 54% of total revenue (compared to 60 percent in 2009 and 62 percent in 2008). Cott markets to or supplies 500+ retailers with licensed and company-owned brands in over 40 countries. Since Cott does not identify its top customers (with the exception of Wal-Mart, which will be discussed separately), we looked at *Supermarket News* Top 75 Retailers of 2011 to examine EBITDA performance over the past six months across customers likely to be representative of those in Cott's portfolio. Overall earnings were up for top supermarket retailers. With increasing customer earnings, we infer that demand for Cott products is also likely to increase.

Exhibit: *Supermarket News* Top 20 Retailers of 2011 in terms of EBITDA performance over the last six months with average EBITDA growth rates summarized

Rank Per SN's Top 75 Retailers 2011	Company Name	May 30 2011 EBITDA	Nov 30 2011 FQ EBITDA	% Change
1	Wal-Mart Stores Inc. (NYSE:WMT)	7,881.0	7,918.0	0.5%
2	The Kroger Co. (NYSE:KR)	1,310.0	862.0	-34.2%
3	Costco Wholesale Corporation (NasdaqGS:COST)	752.0	1,030.2	37.0%
4	Safeway Inc. (NYSE:SWY)	491.4	513.6	4.5%
5	SUPERVALU Inc. (NYSE:SVU)	556.0	420.0	-24.5%
6	Loblaw Companies Limited (TSX:L)	445.3	626.1	40.6%
7	Publix Super Markets, Inc.	696.7	569.4	-18.3%
8	Ahold Finance U.S.A., LLC	private	private	private
9	C&S Wholesale Grocers, Inc.	private	private	private
10	Delhaize America, Inc.	private	private	private
11	H.E. Butt Grocery Company	private	private	private
12	Sobeys Inc.	205.5	208.9	1.7%
13	7-Eleven, Inc.	210.6	210.6	0.0%
14	Meijer, Inc.	private	private	private
15	Dollar General Corporation (NYSE:DG)	402.2	418.4	4.0%
16	Wakefern Food Corporation	private	private	private
17	Metro Inc. (TSX:MRU.A)	160.8	174.7	8.6%
18	B & J Wholesale, Llc	private	private	private
19	Whole Foods Market, Inc. (NasdaqGS:WFM)	209.3	188.3	-10.0%
20	Giant Eagle, Inc.	private	private	private

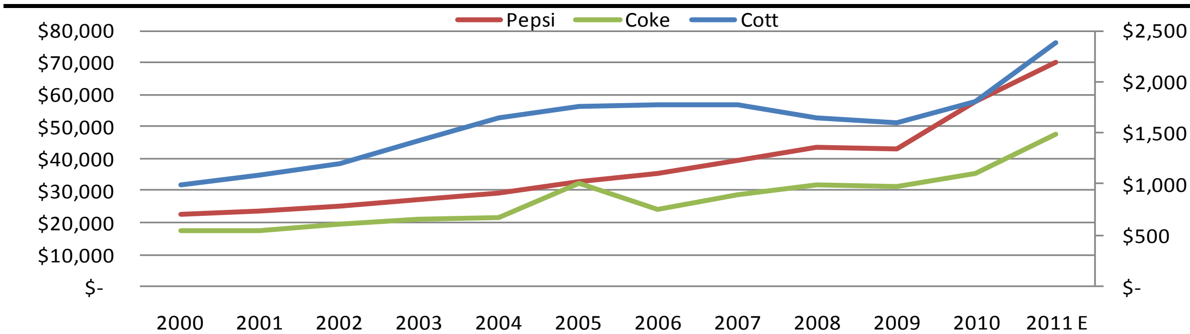
Summary Statistics (for Top 10 Retailers)	EBITDA Growth Rate
High	41%
Low	-34%
Mean	7%
Median	1%

Summary Statistics (for Top 20 Retailers)	EBITDA Growth Rate
High	41%
Low	-34%
Mean	1%
Median	1%

Correlations

Cott Corporation regularly references competitors Pepsi and Coca-Cola as risks to Cott's performance. In particular, management notes that when competitors place products on sale for promotions, this impacts Cott negatively. In contrast to management's concerns, Cott revenue is positively correlated with revenue from the two largest beverage companies and shows a similar positive growth trajectory to Pepsi and Coca-Cola since 2008. The positive correlation between Cott sales and unemployment rates (0.63 since 2000) likely reflects a shift to less expensive beverage purchases as household finances tighten. Given the current high level of unemployment, these findings support having confidence in the continued strength of private label sales across products.

Exhibit: Cott, Pepsi and Coca-Cola Sales)



Source: Company 10-K SEC Filings

De-Leveraging Priorities

Over the next 18-24 months, management is focused on debt reduction. It has a goal of devoting approximately $100MM per year toward doing so. During 2011 it successfully achieved its goals, including paying down its entire ABL balance ahead of schedule. During 2012 management seeks to increase its short-term cash position. In 2013 and beyond, management has stated it forsees significant capacity for open market bond repurchases. It is closely tracking its 8.375% bonds callable at par in 2015 and 8.125% bonds callable at par in 2016. Management has identified a target leverage range of 2.0x to 2.5x.[5]

Management's Experience

Key concerns management must address include Cott's ability to reduce cash flow volatility, achieve synergies from its acquisition of Cliffstar and drive growth in spite of declining CSD sales and the loss of Wal-Mart exclusivity. Management's 2007 and 2009 restructuring plans were designed to address these concerns. The fulfillment of outstanding goals, particularly with respect to de-leveraging priorities that may influence the performance of Cott's securities, necessitates an effective management team with the experience to drive change and the incentive to act in the best interest of the company. Cott's current team has significant financial and management experience in the beverage industry.

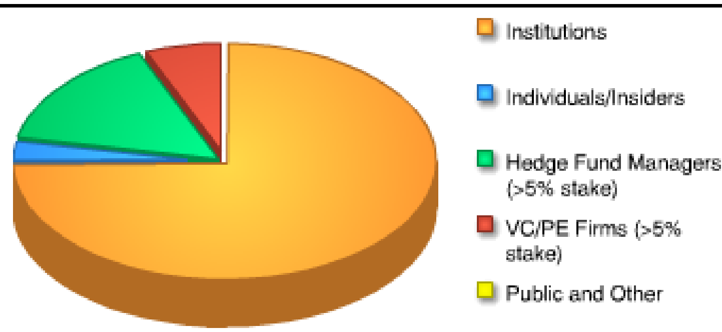
Position	Name	Bio
CEO	Jerry Fowden	Appointed CEO on 2/18/09. Prior to this, Fowden served in a number of internal roles including President of international operating segments, Interim President of North America and Interim President of United Kingdom operating segment. Prior to Cott, Fowden held a number of financial and executive leadership roles at other beverage and media companies.

[5] Cott Corporation Presentation at Deutsche Bank Leveraged Finance Conference, October 6, 2010

Position	Name	Bio
CFO	Neal Cravens	Appointed CFO effective 9/8/09. Among financial roles at other companies, Cravens spent 20 years with Seagram Company, Ltd. as Vice President of Planning and M&A, Senior Vice President of Finance and Chief Accounting Officer.
President of US Business	Mike Gibbons	Appointed President of Cott's U.S. business unit in 10/10. Prior to his appointment, Gibbons held several positions with Cott from 2004 to 2010, including General Manager of U.S. business unit, Senior Vice President/General Management of Canadian business unit, and VP of Sales for Canadian business unit. Prior to joining Cott, he served as Director of Sales for ConAgra.
Chief Procurement Officer	William Reis	Appointed SVP, Chief Procurement Officer in 3/07. Prior to Cott, Reis served as Senior Vice President and Chief Procurement Officer for Revlon and Vice President of Global Procurement for Goldman Sachs
Chief Accounting Officer	Gregory Leiter	Appointed VP, Corporate Controller and Assistant Secretary of Cott in 11/07, SVP and Controller in April 2008 and Chief Accounting Officer in 1/10. Prior to joining Cott, Leiter served as Practice Manager – Governance, Risk & Compliance with the international software firm SAP America, and Vice President – Global Business Process and Director of Internal Audit for Graham Packaging.

Looking at Cott's insider ownership structure, initial review did not trigger concern regarding threats of activist ownership. The majority of ownership is concentrated in the hands of institutions (including traditional investment managers, government pension sponsors, investment banks, sovereign wealth funds).

Exhibit: Ownership Summary

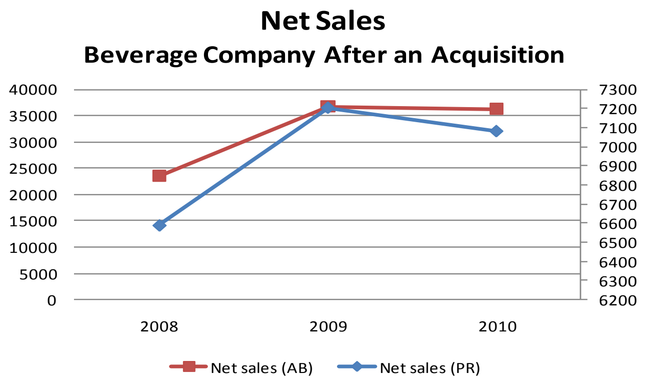


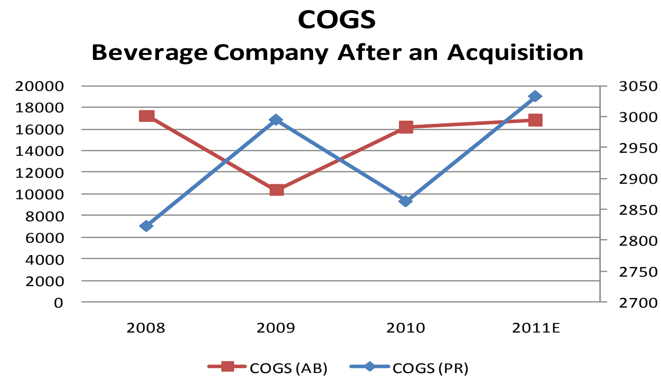
Source: Capital IQ

Acquisition Comparables

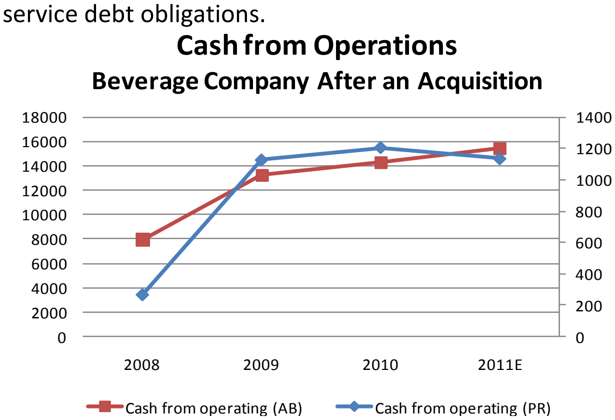
Given that Cott Corporation's acquisition of Cliffstar in August 2010 is both a strength (increases the robustness of Cott's product portfolio) and a risk (given the costs of integrating the two companies and achieving synergies), we looked for similar beverage acquisitions. Pernod Ricard (PR) acquired Vin + Spirit in March 2008. InBev acquired Anheuser Busch (AB) in November 2008. We looked for trends regarding revenue, cash flow and EBITDA since these affect Cott's ability to service its debt.

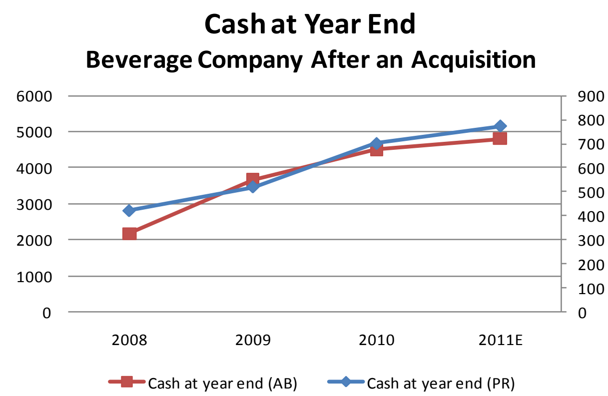
Company sales appear to stabilize about 1.5 years after the acquisition's initial merger synergies are realized. Despite inconsistent COGS, company sales performance across comps appears stable. We infer that this limits idosyncratic commodity risks affecting only Cott (and not impacting competitors).



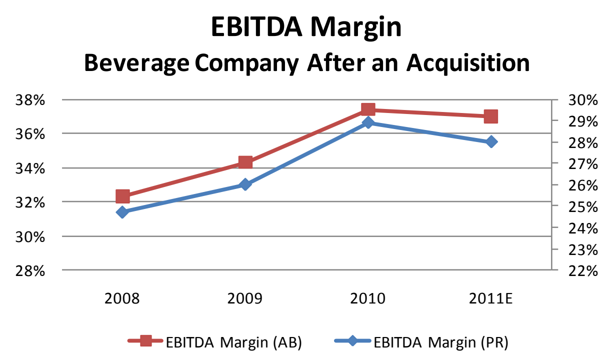


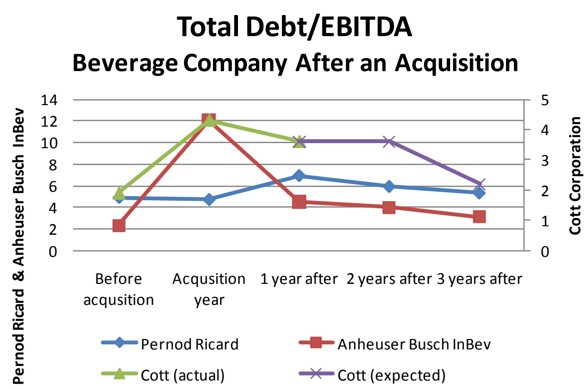
Cash is an important factor as we want to make sure the company maintains a stable cash inflow in order to service debt obligations.





EBITDA Margins, according to the comparables below, begin to fall 2.5 years after the acquisition. Margins likely rise initially as the company invests in integrating the companies to realize beneficial synergies. (A possible source of concern is Cott's "Phase II" synergies implementation that management plans to begin in 2013.) Cott's debt outstanding matures in 2017 and 1018. Following the falling leverage ratio of the comps, we expect its Total Debt/EBITDA ratio to fall below 3.5x (to 2.2x) in 2012.





Financial Projections

We were focused on calculating EBITDA to ensure sufficient cash flow to service Cott's debt obligations. We inferred FY2011 **revenue** based on the earnings reports for the past three quarters. We grew 2012 revenue at a rate of -1% to follow the trends of our two comps during the second year after their respective acquisitions. We grew 2013 revenue at a rate of 7%, the average growth rate of our two comps during the third year after their acquisitions. Operating expenses: **COGS** were calculated as an inferred 2011 amount and carried forward. Looking at our comps, the volatility of COGS does not seem to be a major factor affecting cash from operations and EBITDA margins. SG&A has historically been a fairly constant percent of sales year over year. Depreciation is driven by owned machinery and equipment. Based on company's own useful life schedule, we found expected expenditure/year across all major components of PPE. Cott does not provide an **effective tax rate**; however, it does break down the impact of different factors on their ultimate income tax payments. The rate paid is largely driven by the Canadian statutory rate, reflected herein.

	2008	2009	2010	Q1 2011	Q2 2011	Q3 2011	2011 E	2012 E	2013 E
Revenue	1,648	1,597	1,803	534	640	611	2,314	2,357	2,522
COGS	1,467	1,347	1,537	465	552	544	2,021	2,021	2,021
Gross Profit	181	250	266	70	88	68	294	336	501
SG&A	169	144	153	45	45	38	174	228	297
D&A	81	66	74	24	24	24	96	57	57
EBITDA	***93***	***173***	***188***	***48***	***67***	***53***	***215***	***165***	***262***

Financial Profile	FY08	FY09	FY10	1Q11	2Q11	3Q11	FY11E	FY12E	FY13E
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Total Debt	410	271	619	646	629	607	607	592	577
Cash	14.7	30.9	48.2	35.8	24	28.2	21.53333	21.5333	21.53333
Key Credit Statistics									
Total Debt/EBITDA	4.4	1.6	3.3	-	-	-	2.8	3.6	2.2
Total Debt/(EBITDA-CapEx)	11.0	1.9	4.3	-	-	-	3.6	2.8	1.9
EBITDA/Interest	2.9	5.8	5.1	-	-	-	4.4	3.4	5.4
EBITDA Margin	0.1	0.1	0.1				0.1	0.1	0.1

Acquisition Risk

Analysts familiar with Cott note that historically, when the company's Debt/EBITDA has improved materially, it has demonstrated a tendency to purchase new companies, issuing debt to do so. It also has a demonstrated precedent of issuing exchange offers. Should Cott take this position in the near-term, it could risk not crossing below the 3.5x Debt/EBITDA threshold. However, given Cott's bond covenants, recent major acquisition (the largest in the recent past) and projected ratios, we do not predict this to be a major risk in the short-term. Therefore, we analyzed the bonds in terms of yield to worst, focusing on the 2013 call.

Bond Covenants

Cott Corporation's bond covenants restrict Cott's activities with regard to: issuing new debt, creating liens, paying dividends or repurchasing common stock, and investing, selling assets or engaging in mergers and acquisitions. Cott's ABL facility covenant includes the following requirement: "*A minimum fixed charge coverage ratio of at least 1.1 to 1.0 effective when and if excess availability is less than the greater of (a) $30.0 million and (b) the lesser of (i) 12.5% of the amount of the aggregate borrowing base and (ii) $37.5 million. If availability is less than $37.5 million, the lenders will take dominion over the cash and will apply excess cash to reduce amounts owing under the facility.*"[6] Of interest to security investors, no dividend payments were made in 2010 due to covenant restrictions. Cott's 2010 Annual Report states that the company does not expect to pay dividends in the future. The company's annual report acknowledges that a downgrade of Cott or its debt credit ratings would impact the company's ability to access capital markets.

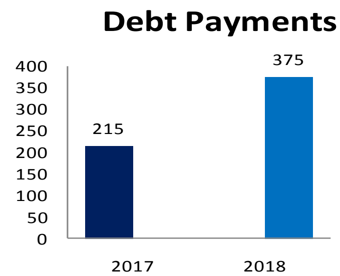
[6] Cott Corporation 10-K

Credit Upgrade Catalyst

Moody's has given Cott a credit rating of B2 with a stable outlook. Cott's debt is rated B3 with a stable outlook. The following table discusses Moody's credit rating and includes our counter-analysis in terms of catalysts for an upgrade of Cott and its debt.

Moody's Outlook - Stable	Lachesis Outlook - Upgrade
Strengths	**Strengths**
Solid credit metrics; Good liquidity; Expansion into private label juice reduces reliance on carbonated soft drinks and adds scale	First lien revolver paid down; EBITDA/Interest is increasing and Debt/EBITDA is decreasing; strong private label sales; manufacturing channels across North America; product portfolio diversified via acquisition of Cliffstar
Risks	**Analysts' Response to Moody's Risks**
Continued volatility in cash flow generation	While we agree that cash flow volatility presents a risk in the next 2-3 years, management has highlighted cash flow stability as a fundamental pillar of their restructuring plan
Significant customer concentration	Loss of Wal-Mart entirely is a critical risk. However, exclusivity has effectively been over for almost two years with no material impact on sales. Addition of juice portfolio should also expand potential customer base
Highly sensitive to national brand pricing in an already shrinking CSD market	High positive correlation with Pepsi (.86) and Coca-Cola (.90) revenue indicates that from a corporate perspective a 'rising tide lifts all boats.' Addition of juice portfolio should help smooth overall consumption of Cott products
Limited pricing power	While we agree that limited pricing power presents a risk, sustained unemployment and a large low income consumer base should drive demand in the short-term
What Could Change the Rating - Up	**What Drives the Rating - Up**
"Upward rating momentum is dependent on Cott's ability to maintain sales volumes, pricing and operating margins in a rising commodity price environment…Positive ratings momentum will likely require the completion of integration efforts relating to the Cliffstar business as well as Cott's execution of its plan to reduce borrowings on its ABL. Leverage sustained below 3.5x, on an adjusted basis, complemented by a good liquidity profile would be viewed positively."	In line with Moody's findings, Cott is well-poised to cover declining industry-wide CSD sales and capture share of the growing PL juice market. According to analysts' projections, leverage as measured by Debt/(EBITDA-CapEx) is poised to fall to 2.8 in 2012 and 1.9 in 2013. Cott also demonstrated ability to cover borrowing by paying down their $275 million first lien revolver (drawn 8/17/2010 due 2014) by 10/1/2011
What Could Change the Rating - Down	**What Could Change the Rating - Down**
"A sustained decline in earnings driven by commodity pressures or volume declines and/or a contradiction of Cott's liquidity due to multiple quarters of cash consumption could warrant a negative rating action. Quantitatively, Debt/EBITDA approaching 5.5x would likely add negative ratings pressure."	In line with Moody's, the biggest risks to Cott's credit rating include material impact to revenue from complete loss of Wal-Mart (or another top 10 customer), inability to continue appropriate hedging of commodities (particularly resin for which there is no spot market), inability to realize Cliffstar synergies and the sacrifice of critical cash flow due to covenant restrictions. Analysts' model projects Debt/EBITDA at 3.6 for 2012 and 2.2 for 2013, but any 2012 scare could impact the current trajectory

Overweight



When Cott's credit rating is upgraded by Moody's from B2 to B1, we expect the ratings of its 8.375 Senior notes due 2017 and 8.125 Senior notes due 2018 to also be upgraded from B3 to B2. Given our analysis of Moody's upgrade catalysts, we believe Cott (and its debt) will be upgraded in 2012 when the leverage ratio falls below Moody's 3.5x leverage benchmark (as stated in its August 2011 credit rating report). Management's de-leveraging priorities support the likelihood of this catalyst.

Issue Size (MM)	Coupon (%)	Maturity	Priority	Credit Rating	Next Call	Bid Price	YTW (%)	STW (bp)
215	8.375	11/15/2017	Senior	B3/B/NR	11/15/2013	105	6.903	651.2
375	8.125	9/1/2018	Senior	B3/B/NR	9/1/2013	106.5	6.505	555.8

Our recommendation is to overweight Cott debt. To ascertain where we expect the debt to trade, we looked at two indices: Bank of America Merrill Lynch Index Data (Industrials) as of November 2011 and the Bloomberg Fair Market Curve Indices (USD - Industrials) as of November 30, 2011. To begin with, Cott's YTW are generally on the tighter side already. This may be an indication that the market is expecting an upgrade. We expect yields to tighten further upon news of the upgraded credit rating. Based on the yields of our index data, we expect the following prices: 8.375 Senior notes due 2017 at $108.02 and 8.125 Senior notes due 2018 at $109.27

Bank of America Merrill Lynch Index

B3 Rating Yields* Food - Wholesale	
High	10.75
Low	6.9
Mean	9.660714
Median	10.25

UPGRADE

B2 Rating Yields* Food - Wholesale	
High	13.875
Low	7.625
Mean	9.476563
Median	9.125

All Categories	
High	13.75
Low	5.4
Mean	9.225316
Median	9

All Categories	
High	14
Low	4.65
Mean	8.553343
Median	8.25

Bloomberg Fair Market Curve Index

B Rating Yields**	
6 Year***	7.1335
5 Year	6.8212
4 Year	6.4012

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B+ Rating Yields**	
6 Year***	6.1479
5 Year	6.0024
4 Year	5.7884

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