

Cott fears loss of U.S. shelf space

Shares plummet over Wal-Mart plan to give room to rival products

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Canada's two largest retailers say they're not planning any major changes in their private-label soft drinks strategy, but that may be small comfort to Cott Corp., the world's largest supplier of store branded pop.

Cott's shares plunged 37.5 per cent yesterday to \$2.50 after the troubled Toronto-based company confirmed reports its biggest customer, Wal-Mart Stores Ltd., in the U.S. wants to cut its shelf space.

Cott, which counts on Wal-Mart U.S. for 38 per cent of its \$1.8 billion a year in sales, said yesterday it's still in talks with the retailer.

"It's premature to comment on the outcome of those discussions," said spokesperson Lucia Ross, adding Cott expects a decision from Wal-Mart in the next three weeks.

Cott acknowledged that any reduction in shelf space would be "significant" to its business, an admission that caused a major debt-rating agency to place Cott's debt on a "credit watch with negative implications."

Standard & Poor's said it was "concerned about a potential significant volume reduction and its impact on Cott's profitability, which is already pressured by elevated raw material costs."

Cott's shares have lost half their value in two days. Already besieged by rising costs for raw materials such as aluminum, and a declining market for soft drinks, the shares are down 85 per cent for the year.

"The company was built around supplying soda pop to Wal-Mart," noted **Peter Holden**, an analyst at **Veritas Investment Research Corp.**, in Toronto. "That Wal-Mart wants less pop is a very bad sign."

Wal-Mart's Canadian unit said yesterday it doesn't expect to make any major changes in the pop aisle, noting it carries both branded and private-label soft drinks.

Loblaw Cos. Ltd. said it planned to continue developing and promoting its private-label President's Choice sodas.

Earlier this week, a report in trade publication *Beverage Digest* said Wal-Mart U.S. planned to cut Cott's shelf space by four feet, or 1.2 metres, per store to make way for products made by rival Dr. Pepper Snapple Group, formerly Cadbury Schweppes Americas Beverages.

The report said the Cadbury company would gain space for its Royal Crown and Diet Rite brands at the expense of Cott-made Sam's Choice soft drinks and other products. The report quotes unnamed bottlers as its source. (Outside the U.S., Royal Crown and Diet Rite are made by Cott.)

Four feet of shelf space per store could represent as much as \$70 million in lost sales for Cott, UBS research analyst Kaumil Gajrawala said in a note to clients.

Once a rising star, Cott has struggled to keep up with a changing market. Despite diversifying into fruit juices, teas and bottled water, it reported wider quarterly losses and essentially flat sales this month. The company, which landed Wal-Mart U.S. as a customer in the early 1990s, blamed rising raw materials costs, and an inability to pass on needed price increases to retailers.