Wal-Mart cutting Cott's shelf space

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Shares in Cott Corp. were crushed yesterday, after the company confirmed Wal-Mart Stores Inc. will reduce the amount of shelf space it devotes to the company's carbonated soft drinks.

The company's stock dived about 38% on the Toronto Stock Exchange to $2.50. The drop came on the heels of a 20% decline the previous day amid rumours the Arkansas-based retailing giant would cut space and marketing support for Cott brands.

A spokeswoman said the investor reaction was understandable, but stressed the amount of shelf space lost is still up in the air.

"Cott is still in active negotiation [with Wal-Mart], nothing has been finalized," said Lucia Ross.

Last Friday, a beverage industry newsletter said that Cadbury Schweppes PLC would be gaining more shelf space at Wal-Mart for its Royal Crown and Diet Rite brands at the expense of Cott's Sam's Choice brand.

The reduction will not affect Cott's bottled water products, said Ms. Ross.

In a note to investors yesterday, USB analyst Kaumil Gajrawala estimated that Wal-Mart accounts for about 40% of Cott's total revenue, or US$700-million. He said the loss of crucial shelf space at the world's biggest retailer could cost Cott about US$70-million.

The bargain-basement share price could make Cott a target for private-equity buyers, said John Stephenson, portfolio manager at First Asset Investment Management.

"You could take pressure off the stock if it were to go private, and it opens the door for a stronger hand to come in," he said. "I don't see much positive visibility for this company."

Scotia Cassels small-cap portfolio manager David Whetham has not followed the stock recently, but said the news from Wal-Mart would likely be a harsh blow.

In losing shelf space at Wal-Mart, volumes would likely be lost at most of Cott's North American plants, Mr. Whethaºm said.

Unlike a steel company, which can shut down one plant and leave the rest at full capacity, beverage bottlers need local plants because transportation costs for soft drinks are so high relative to the selling price.

"The key to [Cott's] business is low costs, and you keep low costs by keeping your plants at full capacity," he said.

If Cott loses volume, it will have to find other ways to cut costs, said Mr. Whetham, although it will likely be difficult to find new customers.

The past year has not been kind to Cott, which calls itself the world's biggest maker of retailer-brand soft drinks. Once a great Canadian business success story, Cott's stock has shed nearly 90% of its value from the 52-week high of $19.70 last April.

Shares soared last spring when the company revealed it was one of the bidders for Cadbury's beverage unit.

But a series of poor earnings results and news that Cadbury would spin off its beverage unit to existing shareholders sent Cott shares downward.

Veritas Investment Research analyst ***Peter Holden*** said Cott is simply the victim of aggressive price competition from competitors with big pockets.

"Cott promoted themselves heavily on the idea that store brands would drive Coke and Pepsi out of the market," he said. "Turns out not so much."