

**Primo Water Corporation**

**First Quarter 2024 Earnings Conference Call**

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## PRESENTATION

### Operator

At this time, I would like to welcome everyone to the Primo Water Corporation's First Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question press star, followed by two.

Thank you. I'll now turn the call over to Jon Kathol, Vice President Invest Relations. Please, go ahead.

**Jon Kathol** — Vice President, Investor Relations, Primo Water Corporation

Welcome to Primo Water Corporation's first quarter 2024 earnings conference call. All participants are currently in listen-only mode.

The call is being webcast live on Primo Water's website at [primowatercorp.com](http://primowatercorp.com), and will be available there for playback. 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 the 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 10K and the quarterly reports on Form 10-Q and other filings with 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 any non-GAAP financial measures discussed during the call with the most comparable measures in accordance with GAAP when the data is capable of being estimated is included in the Company's first quarter earnings announcement released earlier this morning or on the Investor Relations section of the Company's website at [primowatercorp.com](http://primowatercorp.com).

In addition to slides accompanying today's webcast to assist you throughout our discussion, we have included a copy of the presentation in a supplemental earnings deck on our website. I am accompanied by Robbert Rietbroek, Primo Waters Chief Executive Officer and David Hass, Chief Financial Officer.

With that, I will now turn the call over to Robbert.

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Thank you, Jon, and good morning, everyone.

I'm very pleased with our performance in the first quarter where we showed strength across the business and organization with balanced and broad-based growth across all channels. Total revenue \$452 million increased 9.6 percent consisting of volume growth of 5.1 percent and pricing growth of 4.5 percent. Revenue gains were driven by organic growth of 8.3 percent demonstrating the health of our consumer and category as well as our leadership position across our portfolio.

Adjusted EBITDA was 94 million, up 24 percent versus the prior year and the resulting Adjusted EBITDA margin was 20.8 percent which gives us confidence in our full year margin expansion. Both revenue and Adjusted EBITDA exceeded the high end of our guidance issued last quarter. David will discuss more details of the quarter in a moment, but the results are a direct reflection of our associates and their commitment to our customers.

We remain frontline focused with a clear eye to growing the business profitably. I would like to publicly recognize and thank them for embracing our must-win priorities and for their dedication. From a macro perspective, our consumer demand is strong. Persistent concerns of inflation and high interest rates have not slowed demand for our products, and we continue to see the growth potential as a pure play water company in the large highly fragmented and growing North America water category.

As consumers continue to prioritize healthier lifestyles, we offer high quality drinking water solutions to meet the consumer wherever, whenever, and however they choose to hydrate. Our split between residential and commercial customer base remains approximately 50/50, ensuring a healthy balance of revenue sources.

When you look at the broader beverage category, we are pleased that we are growing revenue in both volume and price. This contrasts with beverage companies where growth has been driven by pricing with moderate or declining volume. Recently, you may have been hearing more about external contaminants and their impact on the U.S. tap water supply, especially when sourced from surface water. Given an expansive and sometimes aging water infrastructure, many municipal solutions are likely years away from meaningful change.

Our large format bulk water products provide an immediate path to ensuring high quality drinking water for consumers. The ongoing discussion about contaminants and the quality of the North American drinking water supply will likely make consumers more discerning in their hydration choices presenting a clear opportunity for our water solutions.

With that, let's discuss the specific progress of each of our must-win priorities that I identified last quarter.

The first must-win is to provide a superior customer experience with the goal to yield net organic growth and units or gallons consumed across our water portfolio. We are focused on acquiring and maintaining high value customers and driving annual gallon growth. It starts with the sale of water dispensers at retail, which drives our portfolio of water solutions including water direct, exchange, refill and filtration.

We've begun enhancing many aspects of our consumer touch points in order to improve their experience. An important step is expanding our coverage in our customer experience centre, but we are digitizing and empowering the center with a customer centric approach. In Q1, we meaningfully increased the number of hours and days that we interacted with our valued customers through voice, social, and chat and focused on our quality of service and rapid request resolution.

Within our water.com website we created more than 180 branch pages with unique content and descriptions for improved search engine optimization and customer review interactions. Our mobile version called My Water+ has been upgraded with Spanish language capability with plans for an updated user interface experience and several more upgrades to come in the balance of the year.

We take great pride in our brand portfolio that includes 14 regional and national brands. These brands offer a variety of price tiers and water source types, whether it's Sparkletts on the West Coast, Crystal Springs in the East or Mountain Valley and Primo throughout the country, our consumers can expect high-quality and great-tasting water, sourced from one of our 70 domestic water sources. Consumers can select our products from multiple price tiers from a value price of \$0.50 per gallon for water sold at a refill station, all the way up to our super premium Mountain Valley Spring water delivered in multi-format glass bottles direct to their door or sold at retail and at various on-premise locations.

Our increased focus on Mountain Valley, which I spoke about last quarter, is delivering results. During the first quarter, we increased our Mountain Valley retail revenue by approximately 57 percent over the prior year by expanding our glass production capacity. We have launched a convenient 9-pack single-serve aluminum bottle at Whole Foods stores throughout the country, and will begin shipping this product to our water direct customers later this month.

Mountain Valley is already the number one brand of spring water sold in the natural foods channel and is now available in more than 12,000 stores in the U.S., including conventional retail stores. We continue to see high levels of demand for our 5-gallon, 2.5-gallon retail and on-premise multi-serve and single-user glass products.

The second must-win is to be the preferred water solutions partner. We meet the end consumer across numerous channels like direct-to-consumer delivery or through one of our retail partners with our exchange locations or refill stations. We have an offering to meet each of our customers' needs and

budget for what we call Water Your Way. The concept of partnering stretches across all aspects of our business, including associates, suppliers, customers and current and potential shareowners.

Starts with our associates. I am proud of the work they do, and their commitment shows in every aspect of their efforts. Providing a safe environment is job one, and is necessary for our associates to thrive. Additionally, we are investing in improvements that include workplace, upgrades in offices, locker rooms, break room areas, parking lots, and production and distribution areas.

Our associates live in the communities we serve and are passionate about the products and services we provide, and I want them to exhibit the pride in their Company as they represent us in the community. As we conduct periodic surveys of our associates, we are noticing a positive shift in the culture and engagement, culminating with an improvement in retention rates.

Community involvement includes providing support in times of need, like we did during the recent Texas wildfires. We embrace our partnerships and have been able to deepen our relationships as we span across all types of retail, including mass merchandisers, club stores, DIY and e-commerce with top-tier retailers like Walmart, Costco, Home Depot, Lowes, and other prominent grocery chains throughout North America.

I've had the opportunity to meet with several of these world-class retailers in top-to-top meetings, and I found a strong desire on their part to drive more traffic to their stores with our exchange and refill stations and Mountain Valley spring water.



During the first quarter, we were able to secure additional display racks within certain retail stores to support capacity in our exchange channel. Our focus on filling white space void and increasing capacity and in-stocks is having a noticeable effect by driving double-digit revenue growth as well as unit volume growth across the retail space.

I have also been meeting with key members of our vendor community. As another area for growth, we see an opportunity to evolve our relationships with vendors from transactional to strategic partnerships, and to help deliver innovation in our product offering.

David and I had more than 50 interactions with investors and analysts in the first quarter. It has been enlightening and educational. These themes included positive feedback regarding our growth algorithm, the sale of our European assets, an appreciation for our strong balance sheet and low leverage, and how we plan to deploy capital in the coming quarters. I'd like to personally thank the investor base for the level of engagement as sustaining, deepening, and enriching these partnerships means, we can win for the long haul.

The third must win is operational excellence. Specifically, ensuring that we have an optimized, organizational structure and operating systems to guarantee our associates' safety and well-being, delivering the highest quality products and service, and scale efficiently as we continue to grow organically and through acquisitions.

During the first quarter, we began implementing some six and seven-day delivery schedules as we prepare to head into our traditionally busy period of this summer. We were able to maintain our on-

time in full rate of 93 percent in our water direct channel for the first quarter. Our refill channel had machine uptime of 97 percent, ensuring product availability for our customer base.

Throughout our operations, we are driving integrated business processes. Successful implementation will provide technology enabled solutions to increase customer satisfaction and reduce overall costs. The latest example of our technology upgrade is the current rollout of a new fleet transportation management system, as part of what we call automatic route optimization 2.0, which is driving even more efficiencies in Water Direct and exchange.

During the first quarter, we increased our revenue per route by 8 percent and units per ounce per day by 5 percent, an indication of improved asset utilization, route density, and volume and pricing improvements. The same principles are now being employed in the optimization of our refill routes, enabling us to extract more value from our team of technicians and service providers.

We are focused on strategic CapEx investments that deliver high returns. The installation of the new high-efficiency production lines continues, and we expect our Ephrata, Pennsylvania production line to be complete in the second quarter in our Chicago facility later this year. The performances of the high-efficiency line installations are driving a reduction of water waste at the filler, and can nearly double the output capacity of the bottling line.

Advancements in robotics can be utilized to assist some of the more strenuous aspects of our plant and distribution functions, freeing up our associates to focus on the quality aspects of their roles, and quality remains at the forefront of what we do. The team remains focused on delivering the previously announced business optimization program that will enhance not only our productivity, but

also lower our overall cost to serve, while continuing to offer customers an exceptional experience. We remain committed to delivering the annual run rate savings of \$20 million by year-end 2024.

From a sustainability perspective, we strive to source and process responsibly to protect the planet we inhabit. We will continue to implement an environmental strategy that is focused on sourcing water responsibly, converting our fleet to more eco-friendly propane, reusing, refilling, and recycling of our plastic bottles and increasing the use of glass and aluminum as part of our product offering.

We offer high-quality healthy hydration solutions whether you're at home, work, or on the go with water delivery, exchange, and refill in our large-format returnable, reusable, and refillable package that is 100 percent recyclable at the end of its life.

I intend for us to remain a leader in this space, and I am proud of the results and improvements that will be contained in our 2023 sustainability report, which is expected later this quarter. I hope you can understand why I'm excited about the growth potential in front of us. We have a clear plan to deliver success with a good balance of volume and pricing. Our unique combination of associates, assets, and resources are capable of delivering results that benefit all or stakeholders.

Before I turn the call over to David to review our financial results in greater detail and provide our second quarter and full year 2024 outlook, I would like to once again thank all our Primo Water associates for their support and contribution to the excellent performance of the business.

With that, I'll turn the call over to David.

**David Hass** — Chief Financial Officer, Primo Water Corporation

Thanks, Robbert. As a reminder, at the end of the year, we disposed of the majority of our international assets, and thus, our financial results discussed today are for continuing operations only. At no point, will we cover discontinued operations unless otherwise noted.

The first quarter results of our continuing operations included revenue increasing 9.6 percent to \$452 million, Adjusted EBITDA increasing 24 percent to \$94 million, with Adjusted EBITDA margins of 20.8 percent, all metrics exceeded the high end of our most recent guidance. Within the 9.6 percent revenue growth, approximately 8.3 percent or approximately \$34 million came from organic activity with the balance 1.3 percent or approximately \$5.5 million coming from inorganic or acquired sources.

Primo Water's definition of inorganic contribution includes any tuck-in businesses that were closed less than 12 months ago. After 12 months, any acquired business becomes part of our normal contribution base.

Separately, the 9.6 percent revenue growth irrespective of organic or acquired means can be split into approximately 5.1 percent related to volume activity and approximately 4.5 percent related to pricing activity. Volume contribution in this case, comes from both new customer additions or additional gallons consumed from existing customers or retail locations in our exchange or refill businesses, where actual customer counts are not directly known.

Volume activity in the quarter was strong across all of our water services, indicating strength in our bulk-oriented offering as well as the complementary nature of our different price tiers. We believe that volume across our water services will continue to be a primary indicator of business health versus overall customer accounts.

We have expanded our channel disclosure to break out the price and volume splits for each of the channels versus prior year. A table of the results is included within our supplemental earnings deck. You will notice that volume gains occurred across each of the channels and price improved, except for the welcome price decline in water dispensers. Within our channels, we had strong revenue growth of 9 percent in Water Direct and Exchange and an 11 percent increase in our water refill and infiltration channel.

The other water channel, which is primarily the retail and on-premise portion of Mountain Valley premium spring water was up 57 percent. The water dispenser business, representing the sell-in of our units to the retailer grew 32 percent, driven by 57 percent from volume, offsetting expected lower wholesale prices as the tariff elimination works through our pricing architecture. Unit dispenser sell-in during the first quarter was highlighted by the performance of several of our largest retailers in the club, DIY and mass merchandising channels, the excess inventory created during the supply chain challenges of a couple of years ago is now largely behind us.

The sell-in was driven by pricing rollbacks, return to shelf of dispenser SKUs and effective merchandising at the store level. Water dispenser sell-through was approximately 222,000 units in the quarter, up approximately 3 percent. As a reminder, our razor and razor blade business model includes two approaches of selling the razor, the rental of water dispensers to residential and commercial customers in our Water Direct business, and the sale of water dispensers through retail partners and online. Both approaches enable growth in water solutions and contribute to our predictable and recurring revenue growth.

We have been particularly focused on growth with our brick-and-mortar retail partners, where we have greater visibility into the connectivity to our water solutions and where the connectivity is higher than through e-commerce.

As discussed in previous calls, our water dispenser category was previously under a 25 percent import tariff, but was reclassified last year and a refund process from the U.S. government was initiated. We have recorded the refunds in the same manner as the original transactions. For the first quarter, we received \$2.6 million. Approximately \$214,000 is reflected in year-end Adjusted EBITDA related to water dispensers sold to retail, \$2.1 million is related to the water dispensers that we rent as CapEx, with the residual value and approximately \$250,000 related to interest income or tariff balance paid to Primo Water.

When including last year's payment, cumulatively through the first quarter of 2024, we have received approximately \$10.8 million. As we look further into the operational metrics and as Robbert mentioned earlier, our commitment to improving the customer experience continues to result in improved on-time, in full or OTIF rates.

The ability to serve our customers in the most efficient manner possible is a critical driver of both our short- and long-term profitability and our Automated Route Optimization, ARO tool continues to yield efficiencies.

In North America, units per route per day increased approximately 5 percent compared to Q1 of 2023 and revenue per route increased more than 8 percent compared to Q1 of 2023. Our scale and leverage continues to improve as we service more customers with higher volume per route. Additionally,

Water Direct customer retention increased to approximately 85 percent slightly higher than at the end of last year and versus the year ago period.

Shifting to our balance sheet and cash flows. Our net leverage ratio at the end of the first quarter on a trailing 12-month basis stood at approximately 2.0 times our Adjusted EBITDA for continuing operations. This is on par with our year-end figure. Similarly, our liquidity remains strong with approximately \$498 million of cash on the balance sheet, approximately \$525 million when taking into account the cash within our discontinued operations, and a fully unused cash flow revolver.

In the quarter, we generated approximately \$4.7 million of interest income, slightly offset by cash aid for unused revolver fees and other expenses. On a full year basis, well, will be a net interest expense there we are quite pleased with low interest rate carried on our single use and our ability to generate interest income in today's yield environment.

Our adjusted free cash results for the first totaled \$28.4 million, a year-over-year improvement of \$39.4 million. The improvement was primarily driven by an increased earnings of our continuing operations business, reduced net interest expense, improved working capital, lower capital expenditures and the one-time gain of incremental cash proceeds in the quarter.

Once again, as I transition into our 2024 outlook any forward guidance will be strictly for continuing operations. Discontinued operations will not be covered. To help bridge our 2024 guidance, a table of 2023's financial results for continuing operations by quarter has been provided in the appendix of our supplemental earnings slides.

We are forecasting second quarter revenue guidance to be between \$472 million and \$482 million. We expect Q2 Adjusted EBITDA to be between \$103 million and \$111 million, with an implied Adjusted EBITDA margin of 22.4 percent. The 22.4 percent Adjusted EBITDA margin represents a 60-basis point improvement from the year ago period.

For the full year 2024 forecast of continuing operations, we are increasing our revenue projection to be between \$1.855 billion and \$1.885 billion, with revenue growth at the midpoint of 5.5 percent. Similarly, we are increasing our full year 2024 Adjusted EBITDA to be between \$410 million and \$430 million, with an implied Adjusted EBITDA margin of 22.5 percent at the midpoint.

The increase in guidance contemplates both the benefit from the strong start in Q1 as well as some balance of year benefit from our business optimization program. The initial contribution from early cost reduction activities is approximately \$2 million balance of year 2024 and approximately \$4 million on a 2025 run rate basis.

Neither guidance figure includes Water Direct tuck-in acquisitions that may occur across the balance of the year.

We are forecasting 2024 CapEx guidance of approximately 7 percent of our revenue guidance range plus an incremental \$22.5 million of strategic FX. We expect to return to our total CapEx spend of approximately 7 percent of revenue in 2025. Key initiatives to be funded from our 2024 CapEx plan include installing high-efficiency water production lines, reducing waste and increasing productivity. Building a more environmentally friendly fleet and expanding our private fleet to improve the efficiency of our product distribution, driving organic growth through digitization, upgrading technology platforms,



accelerating dispenser innovation, and continuing growth in refill and filtration with refreshed signage and branding of our existing units.

Full year 2024 cash taxes are expected to be approximately \$30 million to \$40 million. This anticipates utilization of US net operating losses, or NOLs, of which we have approximately 46 million US NOLs available for 2024. We expect the amount of NOLs available to be approximately \$16 million in 2025 and \$10 million per year in 2026 through 2029.

For the full year 2024, we expect net cash interest expense of approximately \$30 million to \$50 million. Our interest expense is tied to our two senior note debt facilities with very low interest rates of approximately 4.2 percent with maturity dates of 2028 and 2029. We do not currently anticipate drawing on our cash flow revolver.

Additionally, we will take steps to maximize the interest income yield throughout 2024 but could experience reduced income opportunities if market available rates decline related to any macro–Fed or bank rate environment decisions.

We still expect M&A tuck-ins to be toward the higher end of historical ranges during 2024. Combining all of these factors, along with the core health and cash generation capacity of our business model, we are forecasting adjusted free cash flow from continuing operations of between \$175 million and \$185 million in 2024. A \$5 million increase at the midpoint can be attributed to the free cash flow conversion of our increased Adjusted EBITDA guidance along with the tariff amounts received during the quarter.

This outlook continues to target our commitment to replace the adjusted free cash flow that was tied to the assets sold and those held for sale in our discontinued operations. The following three items have not been included in our 2024 guidance due to the uncertainty and timing with each discrete outcome.

First, for the remaining balance of the business optimization program, we remain confident in achieving the \$20 million improvement. Second, the remaining benefits from additional tariff refunds outside of the amounts mentioned and received during the quarter due to the uncertain timing of the government refund process. Third, the sale of discontinued operations, which includes Aimia Foods in the United Kingdom, our water business in Israel and our water and coffee businesses in the United Kingdom and Portugal.

As previously communicated, these businesses will remain in discontinued operations until they are sold. They are being actively marketed and have received interest from several parties. With respect to our share repurchase program, we repurchased \$9 million of common stock in the first quarter.

Yesterday, our Board of Directors authorized a quarterly dividend of \$0.09 per common share, a 13 percent increase over last year, which continues our path to the multiyear dividend step-up with an increase in our quarterly dividend per share of \$0.01 for the third consecutive year.

In closing, our improved financial profile and flexibility along with a compelling long-term growth outlook are a strong foundation for continued success.

With that, I will turn the call back over to Jon for Q&A.

**Jon Kathol** — Vice President, Investor Relations, Primo Water Corporation

Thanks, David. During the Q&A, to ensure 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.

Operator, please open the line for questions.

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star, followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speaker phone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Nik Modi at RBC Capital Markets. Please go ahead.

**Nik Modi** — Analyst, RBC Capital Markets

Yes. Thank you. Good morning, everyone. I really appreciate all the perspective on the quarter itself.

Robbert, I was hoping we could take a step back, this being your first full quarter as part of the organization. If you kind of take an outside "outsiders" perspective in terms of how you think about the quarter, the evolution of what you've seen and what you've really been able to accomplish now that you've been in the seat for several months now. Thanks.

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Well, thanks Nik. Thanks for the question. Yes. The way that I view the quarter is that we had very balanced growth, and we have broad-based growth. We had strength across the portfolio, across pretty much all water channels, and we reflected progress in both volume and pricing.

When I look at the revenue we delivered, Nik, it was up at 9.6 percent, and it was driven both by volume and pricing, as David said, price up 4.5 percent. But importantly, we also had 8.3 percent organic growth, which is something we're starting to report now.

I looked at the gross margin, and I think it's very healthy. It's up 160 basis points. We're now at 64.4 percent. And the underlying drivers of that is really a combination of pricing, volume, throughput, and operating efficiencies. So, that was very reassuring and translated to a strong Adjusted EBITDA as well. And margins of 20.8 percent, which are up 250 basis points, again, driven by pricing, volume, but also a disciplined approach on our operating expenses and operating efficiencies. I'm very pleased with the quarter.

If I look at the environment in which we're operating, we do obviously continue to see a challenging macro environment. The good news is that different from some of the other companies that have moderate or declining volume, we were able to deliver growth on volume and pricing, so I feel good about that. Then with regards to the efficiencies, there's still efficiencies remaining. We could remain committed to the business optimization program.

With regards to the accomplishments, which was the last part of your question, I think we've made progress against three must-win priorities. The first one is to deliver superior customer service. The second one is to remain and be seen as the water solutions partner of choice with vendors, communities, retail partners, investors, and associates. The third is really driving better operational excellence. I feel like we've made progress in those areas. I can talk a bit more about that. But thanks for the question, Nik.

**Nik Modi** — Analyst, RBC Capital Markets

Excellent. Thanks. I'll pass it on.

**Operator**

Thank you. The next question comes from Derek Lessard, an Investor. Please go ahead.

**Derek Lessard** — Analyst, Private Investor

Yes. Thanks everyone, and congratulations on another great quarter.

I wanted to actually drill down a little bit more, Robbert, maybe on the Mountain Valley performance. Maybe if you could just add some colour around the supply and demand dynamic that you're seeing, maybe some of the performance metrics? Where do you really think that you can take this thing?

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Yes. Thank you very much for the question.

The Mountain Valley brand to remind everyone is our most premium spring water brand and it's bottled at the source in Hot Springs, Arkansas. The business was very strong. David talked about the 57 percent growth in the quarter in retail. We sell Mountain Valley, both in Direct Water delivery as well as in retail, and we see on both sides that the demand in the market still outruns our supply.

To address this, the team has been working hard to increase our spring water availability, which we've now quadrupled with the new spring source that is currently operational. And, I personally went to visit two weeks ago to look at the spring source to look at the land, to look at how it all operates, and it is working really well and the water quality is outstanding.

We've also had to add and continue to add glass bottling capacity. This is a key driver of our ability to meet demand. In addition to that, we're launching single-serve and multi-pack aluminum. We've actually launched this ready into Whole Foods and it's in distribution now in over 12,000 locations. This is a super premium product, it's priced to reflect it, and we expect continued growth on this brand into the future in the near future.

**Derek Lessard** — Analyst, Private Investor

Thanks for that. I was curious of do you have a target sort of revenue base for the business long-term?

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

We don't give guidance specifically on the retail side of Mountain Valley nor do we do on direct, because it's embedded in the direct water delivery exchange delivery business.

This is an underleveraged brand that has a lot of demand and can continue to grow into the near future and potentially in the long term as well.

We have very high ambitions for this brand, and we will continue to work on capacity availability to meet the increased demand in the market to make sure we're not behind the orders.

**Derek Lessard** — Analyst, Private Investor

Awesome. Thanks for that. Robbert, I'll retire.

**Operator**

Thank you. The next question comes from Andrea Teixeira at JP Morgan. Please go ahead.

**Andrea Teixeira** — Analyst, JP Morgan

Thank you. Good morning.

I was hoping if you can talk a bit about how volumes trended through the quarter, if weather was by any means impactful through the exit, or how we should be thinking as you look at the guidance raise. It seems like you're just flowing in Q1 and thing like is there anything that we should be aware of in terms of deceleration into Q2 or maybe any mix impact that you—we should be aware? Also like from a margin perspective, anything we should be aware of like in terms of like flowing through more

business optimization that the impact that you had in margins, anything that struck you to be more conservative, or you are looking at things, how they go, and then adjusting the outlook as you see more visibility? Thank you.

**David Hass** — Chief Financial Officer, Primo Water Corporation

Thanks, Andrea. I can take the majority of that.

With regard to volume, what we're most impressed with is that it was broad-based across all channels, specifically within the quarter, across our three periods there. The momentum essentially carried through from the end of 2023. When you start to look at our channels of Water Direct and exchange, significant health there, both in the direct side as well as the exchange side, where because of that demand and volume growth, as Robbert mentioned, we've been adding racks and additional capacity to allow for our delivery frequencies to keep up with that demand.

In the refill business, which is the lowest-cost entry point for high-quality water, on—now that we're fully through the price increase that we've taken both in outdoor and indoor, the volume has rebound and the consumer remains incredibly healthy there, especially as they compare that entry price of water to sort of other prefilled formats.

When you start to look at margin and pacing, you are correct. Obviously, the guidance was the flow-through of the beat. That's the approach we're continuing to take at this moment. As we look at the macro economy, as we look at our other peers, be it beverages or services, it seems to be, those that



have the brand affinity or the service affinity, they continue to outperform, but you can obviously see signs where there are challenges.

We remain completely confident in our delivery of guidance. We remain confident in delivery of our business optimization. Again, guidance, which now contemplates some of that savings, would be that margin increase that you've asked about. Again, we remain measured, patient, and quite pleased, frankly, with the momentum and the, you know, the team's contribution for the quarter.

**Andrea Teixeira** — Analyst, JP Morgan

And if I can squeeze—that's super helpful. If I can squeeze a little of attrition there, anything we can—as you said, like, you also, I think, I believe, lapped on the direct business in terms of pricing. Any commentary on attrition or household penetration, anything we should be cognizant of or should be happy for, if you will, in terms of, like, that attrition diminishing?

**David Hass** — Chief Financial Officer, Primo Water Corporation

Yes. At this point, we have seen, actually, a small increase in our retention rate when measured at coolers or installed devices on a retention basis. I believe part of that is certainly attributable to the increased service levels by all route drivers, all experiences of better inventory, and a lot of the planning Robbert has talked about and how he wanted to orient the team this year. That is then complemented with the fact that the service available at customer service, both in person through phone or digital means, is doing a better job of either solving the issue, not necessarily in first call resolution, but resolution, or simply providing access to sort of talk through, how we can retain that business if there

are challenges. Again, pricing, as we are lapping that, taken last year. Again, retention remains higher by a few basis points, and that's a great indicator for us, again, in light of everything you might hear from either the other companies you cover or just general macro news.

**Andrea Teixeira** — Analyst, JP Morgan

That's super helpful. Thank you.

**Operator**

Thank you. The next question comes from Dan Moore at CJS Securities. Please go ahead.

**Dan Moore** — Analyst, CJS Securities

Thank you, good morning.

Thanks for taking the questions Rob and David. Maybe if you touched on this, I missed the first few minutes forgive me. With Water Direct business, are you seeing any meaningful differences in terms of organic growth and retention rates between resi and commercial?

How do you see the relative attractiveness of the opportunity set in each over the long-term? Are you allocating similar investment in service, marketing to each, how do we think about that?

**David Hass** — Chief Financial Officer, Primo Water Corporation

Sure. As Robbert mentioned, generically, our customers on a simple nominal value are about split evenly. Commercial customers would consume a little bit more than a residential just because they might be a waiting room or a break room for a commercial place of business.

We are not seeing any meaningful change in their retention, or said differently, any quit behavior different in the environment today. Again, our sales activities on the web are agnostic to who you are as a residence or a commercial customer, but our sort of associate base that targets direct selling on the street, we'll predominantly focus on commercial-oriented customers, and that's really small business.

Again, remember, the U.S business is not large office towers, which that was the primary trait of our European operations. We're very pleased with that small business focus driving customers.

Again, remember also in 2024, we had 12 months access to the Costco Booth program. The sales team continues to do a great job of converting customers when we have a show as well as through the online equivalent of the Costco sign-ups.

Again, across the board, strong health. No trends in AR, no trends in bad debt that really signal sort of challenges at this point. Again, because of the steps taken by Robbert and the team with regard to the customer service and experience center, if there are issues or payment challenges or things we need to talk about, we're more available now to talk through that, whereas previously less availability could have created customer friction, confusion, or potentially higher quits.

**Dan Moore** — Analyst, CJS Securities

Really helpful. One quick follow-up.

Obviously, you've taken a significant amount of price over the last one to two years with, as you just described, little noticeable impact on churn retention rates remain really strong.

I realize you expect price to be a more modest contributor to growth going forward. But are there pockets of the learnings that you've had, pockets of opportunity where you think it could go further over time without maybe scaring away or impacting those retention rates? Thanks again.

**David Hass** — Chief Financial Officer, Primo Water Corporation

Yes, absolutely.

If you would recall, our original guidance, Robbert and I communicated in February would have been about 5 percent midpoint revenue growth, constituting 3.5 percent, 1.5 percent, 3.5 percent price, which is mostly carried through from essentially seasoning from last year, 1.5 percent on volume.

As we move to 5.5 percent at the midpoint, essentially, we have no different opinion on pricing, and volume now is stepping up from 1.5 percent to 2 percent, getting us to that sort of 5.5 percent contribution.

Maybe back to Andrea's question, certainly in the second half, that does indicate a softer second half, but that's no different than our original guide. So, it's not like we're changing perception of anything. That's just the original flighting and pacing of that guide.

Again, we remain pleased and balanced. I think some of the learnings we would have is as long as we're continuing to stimulate the category, i.e., the ability to sign up customers across multiple

channels, and more importantly, with regard to our razor and blade focus, if we're continuing to sell dispensers through from retail to homes and places of business, and you're seeing that reflection in volume in our water, that's a learning that as long as we continue to stimulate that demand, the next newest customer doesn't know what the price used to be. They know what the price is today, and that's really our benefit of continuing to drive our multi-pronged approach of direct delivery and retail-oriented offerings.

**Dan Moore** — Analyst, CJS Securities

All right. Thank you, again.

**Operator**

Thank you. The next question comes from John Zamparo at CIBC. Please go ahead.

**John Zamparo** — Analyst, CIBC

Thank you. Good morning.

I wanted to ask about the digital side of the business, and you provided some commentary in your prepared remarks, but anything you can share on the overall volume growth or customer growth that you're seeing that you can attribute to the digital side? Can you share any metrics about how this is impacting the customer experience, whether it's your complaint ratio or wait times? I know you've shared the retention rate overall, but I'm especially interested in the digital side of the business and the improvements you're making there?

**David Hass** — Chief Financial Officer, Primo Water Corporation

Yes, John.

I'm glad you're asking the question because we're spending a disproportionate amount of time and effort and investment on the number one must-win priority, which is to deliver exceptional customer service. That obviously begins with our delivery to the home with the on-time in full, which was at 93 percent and against increased demand.

We've also expanded from six to seven days—or sorry, from five to six and even seven-day deliveries, but then there's the interaction, to your point, with our Company, which is evolving from what was historically mostly phone-based to more and more digital interaction.

My Water+ app, which is available in the App Store in both Apple and Android, we have just introduced Spanish language as a new capability, and we're about to by the end of Q2, upgrade significantly the aesthetics and the interactivity of that app. Later on in the year, we intend to upgrade our water.com and agua.com websites with significantly enhanced content to learn about the category, but also to shop our category. It will make it easier to order a dispenser online. It will be easier to be a water-only customer or start-up for a rental cooler.

The combination of the improvements in our customer experience center, which is now available more hours and more days of the week and able to handle not only voice, but also chat and social. We're starting to see all of those metrics that you're referring to increase specifically the use of chat

which is a replacement of voice is up significantly. The ability for the response time in social is much faster and the response time overall, which we then translate to what we call save rate.

We track save rate every day. We have a specific tracker that shows us how many people sign up for the service, how many people we lost usually through a move or maybe an experience that leads them to call our call center. Working on all these fronts, driving improved performance, we're not reporting out those metrics, but we're tracking those very, very actively with our management team.

**John Zamparo** — Analyst, CIBC

Got it. Okay. That's helpful. Thank you for that.

Then I wanted to move to the balance sheet. Any updated thoughts on long-term capital allocation? You shared what your plans are for this year, but I'm more interested in the long term? Given increasing free cash flow conversion, better expected EBITDA results, it sounds like you're still constructive on the ability to sell the discontinued operations. I mean, ultimately, I'm trying to wonder what's the right level of cash you need or want to hold in this business over the long term?

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Yes. Thanks, John.

With regard to the asset sales, we mentioned in the prepared remarks, we are very close on two of them within likely this quarter and even potentially within this month of May. We'll communicate

that, obviously, openly and clearly on our next call, and we remain pleased with the monetization of those two pieces of the business in the market.

The other two remain active, remain in continued dialogue with both data preparation, buyer universe, representing those sort of interactions. Again, we remain on pace there. We won't comment on value as we talked about at the sale of the first portion of the European business. That was to a strategic—that was continuous set of European countries that was highly valuable to that particular buyer and an outsized multiple at that time. Again, we're not commenting on specific value for the future or next set of assets, but, obviously, it would be unlikely to be at that level.

With regard to long-term use, we remain committed to the right proportion of spending to drive the growth. Again, our guidance at this point contemplates 5.5 percent at the midpoint. There are activities we can stimulate there with regard to new customer acquisitions that are not capitalized. As we improve and work through things like the app and water.com, those programs, which again are traditional commissioned expenses, those are all activities we're really proud of to drive the organic growth.

I think back, there was a previous question with regard to Mountain Valley. At this point, we don't know how high is high there, and so we're really trying to assess the best outcome for that business as it's a very rapid grower that we're continuing to keep pace with. Those would be allocations to spend against.

With regard to dividend, share repurchase, we remain committed to the values we've communicated to date. As far as the net leverage ratio, obviously, it ticked down at 10 times to 2.0 times



as the cash will grow either from further international sales or other means that will continue to deal ever lower.

Then we've talked about M&A on the purchasing or acquisition side. Again, we remain focused, we do not give guide with acquisitions. Then you do not want us trying to buy something to hit a guide with a particular tuck-in in any given quarter. We remain patient there. We have a strong pipeline, and expect to hear more activity as we progress through the year on some of that tuck-in behaviour.

**John Zamparo** — Analyst, CIBC

All right. Thank you very much. I'll pass it on.

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Thanks, John.

**Operator**

Thank you. The next question comes from Steve Powers at Deutsche Bank. Please go ahead.

**Steve Powers** — Analyst, Deutsche Bank

Yes. Hey, thanks for the question.

I wanted to talk about the route optimization efforts that you've had underway for some time now and the progress on units per route per day metric as a symbolism of that has been pretty steady and impressive. I guess, would love some perspective on what you think may be sort of the optimal level

for that metric or a high watermark. We're trying to understand where the ceiling may be in terms of how much more runway there is on further optimization.

**David Hass** — Chief Financial Officer, Primo Water Corporation

Yes. That's obviously—core to our business is to continue to drive units and revenue per route per day, and we've obviously disclosed a 5 percent and 8 percent increase this quarter. We're in the midst of the rollout of the automatic route optimization program 2.0, but we're also combining that with new schedules.

We were traditionally a five-day week route organization from Monday through Friday. We're currently implementing new schedules, some are four-day, some are 5-day schedules that could start on Tuesday or Wednesday and allow us to deliver on a Saturday or Sunday. The technology that sits at the heart of this work is enabling us to more efficiently build the driver routes. As you know, those include both residential, commercial, but also our retail partners with the exchange drags.

There is a natural cap to that. There's only so much capacity available on the truck, but we are continuing to drive not only utilization on a daily basis but on a weekly basis by expanding the use of our branch assets and truck assets and production assets to a seven-day a week schedule currently.

**Steve Powers** — Analyst, Deutsche Bank

Okay. Thanks for that.

I guess the second question, if I could, the dispenser sell-through rates, you talked about this in the past, but they've been hovering around that kind of 1-million-unit mark on a trailing 12-month basis for some time. Clearly, the retention rates are such that those—the incrementality of those sales are high. But I guess, is there—as you think about the progression of that metric, at what point do you really need to start to see that metric start to grow again that trailing 12-month metric grow again in order to achieve your Aspire two growth rates?

**David Hass** — Chief Financial Officer, Primo Water Corporation

Yes, we continue to see sales strong. This quarter, sell-through was up 3 percent, and we're continuing to forecast around 1 million dispenser sales this year. What I would say is that about 650,000 of those usually are new users and 350,000 of those are replacement with existing users. Every year, as we sell approximately 1 million units, and as I said, we're up 3 percent sell-through from retail to consumer this year to date, that essentially are—that's a new installed base that we can continue to serve over the years that follow. We feel good about the trend. Our sell-through from ourselves to retail, obviously, significantly higher, but some of that is just replenishing the stock levels, and we see sell-through rate at the 3 percent level.

**Steve Powers** — Analyst, Deutsche Bank

Okay. Very good. Thank you.

**Operator**

Thank you. The next question comes from Pavel Molchanov from Raymond James. Please go ahead.

**Pavel Molchanov** — Analyst, Raymond James

Thanks for taking the question. Getting back to the M&A topic that was covered just a minute ago. As you look at the tuck-in opportunities, which parts of North America are the most relevant for you to either establish a presence or bolster an existing presence?

**David Hass** — Chief Financial Officer, Primo Water Corporation

Yes. Thanks, Pavel. This is David.

On the M&A side, again, we have a pretty diverse and wide reach with regard to our branch network. As we look to deals, we would love to be that precise. It tends to much more be the willingness or the succession planning of these generally entrepreneur or family-oriented operators, and so we definitely will look to geographies to see where there are relevant opportunities, but that has to obviously then match with the willingness of the seller and the willingness of the seller at the right price.

We do analytically look across the board. Our presence is pretty wide, though, and we're pretty pleased with that. Again, unfortunately or fortunately, it has to match with willingness and sort of timing of patients of that seller.

**Pavel Molchanov** — Analyst, Raymond James

Yes. Understood. As you're kind of crafting the strategy beyond 2024, do you anticipate maintaining the progressive dividend policy that you've had for the last three years, or should we assume that it levels off at the current rate?

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Yes. At this time, the dividend policy reflects the Board's view and investor feedback that we've received to-date. Obviously, we will have a different constitution of our balance sheet heading into 2025. I will yield to sort of decisions and collective thoughts of the Board as we head into 2025 planning, allow that to be communicated at their direction, obviously, but we're quite pleased with the ability to return that money to share owners over the last three years. Then as our share repurchase program exists, that helps obviously reduce the share count, reducing the notional exposure of the dividend flow itself. Again, we'll yield to that as we head into 2025, but very proud of what we've been able to do with regard to returns for share owners to-date over the last three years.

**Pavel Molchanov** — Analyst, Raymond James

Thanks very much

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Thank you, Pavel.

**Operator**

Thank you. The next question is a follow-up from Derek Lessard, an investor. Please go ahead.

**Derek Lessard** — Analyst, Private Investor

Yes. Thanks for taking my follow-up.

Again, the question pertains more to the ARO 2.0. Just curious what the 2.0 entails and how much of that was driving the route efficiency gains. Now I think you did point to—you did talk lead to increased delivery days, but just curious what the upside is from the 2.0?

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Yes, great question.

Essentially a large part of it is associate feedback. We've now been out there for a period of time. Every day, we're making hundreds of thousands of deliveries and we're getting route feedback, no different than what a Tesla would do with regard to its optimization, meaning, what's going wrong with the route directions? What's going wrong with boundaries? What's going on with pinning a customer location? Why is it telling me to park here when the order needs to be delivered there?

It's a lot of feedback. It's listening to associates who are the ones doing the frontline work for us and for our share owners every day. It's just a lot more constitution around involving that feedback. It's not some massive technological change. It's just associate feedback providing a better outcome. Again, the six and seven-day factors into that, but that's not the technological side that causes us to call it 2.0, if you will.

**Derek Lessard** — Analyst, Private Investor

Okay. Thanks for that.

**Robbert Rietbroek** — Chief Executive Officer, Primo Water Corporation

Thank you, Derek.

**Operator**

Thank you. There are no further questions. I will now turn the call back over for closing comments.

**Jon Kathol** — Vice President, Investor Relations, Primo Water Corporation

Thank you for attending today's call and for your continued interest in Primo Water. As I hope you can tell, our team is focused on driving sustainable growth. The path started is the right one to build on, and overall, we believe we have the tools to win. We have a lot of work ahead of us, and I along with our team, are committed to taking Primo Water to the next level.

**Operator**

Thank you. Ladies and gentlemen, this concludes your conference for today. We thank you for participating, and we ask that you please disconnect your lines.