FINAL TRANSCRIPT

Primo Water Corporation

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CORPORATE PARTICIPANTS

Jon Kathol
Primo Water Corporation — Vice President, Investor Relations

Tom Harrington
Primo Water Corporation — Chief Executive Officer

David Hass
Primo Water Corporation — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Pete Lukas
CJS Securities — Analyst

Nik Modi
RBC Capital Markets — Analyst

Andrea Teixeira
JP Morgan — Analyst

John Zamparo
CIBC — Analyst

Cheryl Zhang
TD Securities — Analyst

Steve Powers
Deutsche Bank — Analyst

Graham Price
Raymond James — Analyst

PRESENTATION

Operator

Good morning. My name is Julie, and I will be your conference Operator today. At this time, I would like to welcome everyone to Primo Water Corporation’s second quarter 2023 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 *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press *, 2. Thank you.

I will now turn the call over to Jon Kathol, Vice President, Investor Relations. Please go ahead.

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

Welcome to Primo Water Corporation’s second quarter 2023 earnings conference call. All participants are currently in listen-only mode.

This call will end no later than 11 a.m. Eastern time. The call is being webcast live on Primo Water’s website at primowatercorp.com and will be available for playback there for two weeks.

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 cautionary statements and disclaimers contained in the safe harbor statements in this morning’s press release and the Company’s annual report on Form 10-K and 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 second quarter earnings announcement released earlier this morning or on the Investor Relations section of the Company's website at primowatercorp.com.

We have also included a deck on our website that was designed to assist you throughout our discussion.

I am accompanied by Tom Harrington, Primo Water's Chief Executive Officer, and David Haas, Chief Financial Officer. Tom will start today's call by providing a high-level review of the second quarter and our progress on Primo Water's strategic initiatives. Then David will review our segment-level performance, and will discuss our second quarter performance in greater detail and offer our outlook for the full year of 2023 before handing the call back to Tom to provide a long-term view ahead of Q&A.

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

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thank you, Jon, and good morning, everyone.

Before I cover the results of our second quarter, I would like to take a moment to thank those of you who participated in our recent Investor Perception Study conducted by Rivel. We appreciate the suggestions, the candor, and the insights from your perspective and will certainly take them into consideration going forward.

I would also like to thank the Primo Water teams for their contributions to the continuing momentum of the business and delivering another quarter of strong results.

As you know, I announced my retirement at the end of 2023, and the board has initiated a search for my successor. The board, with the support of an international search firm, is currently conducting a search process and meeting a number of highly qualified candidates. To ensure a smooth transition, I have agreed to continue to serve as CEO and on the board until a successor has been identified and appointed.

As you can see from our results, the business continues to perform well and is well positioned for the future.

In Q2, we deliver normalized FX-neutral revenue growth of 8 percent; adjusted EBITDA growth of 13 percent; adjusted EBITDA margin of 20.5 percent, a 160-basis point overall increase versus the prior year; adjusted free cash flow of $41 million; and sell-through of approximately 251,000 water dispensers.

For Q2 2023, consolidated revenue increased to 4 percent to $593 million compared to $571 million. Excluding the impact of foreign exchange, normalized revenue increased 8 percent for the quarter. Normalized revenue excludes the exit from the single-use retail bottle water business in North America and the exit of our business in Russia.

Adjusted EBITDA increased $14 million to $122 million, an increase of 13 percent. Excluding the impact of foreign exchange, adjusted EBITDA grew 12 percent.

We delivered increased revenue, adjusted EBITDA growth, and adjusted EBITDA margin expansion.

Revenue growth was driven by strong revenue growth in Water Direct and Exchange of 7 percent, continued revenue growth in Water Refill and Filtration of 18 percent, increased revenue growth in our European operations of 9 percent, excluding the impact of foreign exchange, and global Water Direct customer retention of approximately 85 percent, which was consistent with last quarter.

Revenue growth in the quarter was driven by pricing actions. We believe that our investment in sales, driven by Costco, and our marketing initiatives, along with tuck-in acquisitions, will create customer growth by the end of 2023.

The growth in customers is expected to reflect a combination of organic customer growth as well as the execution of our tuck-in strategy. As a reminder, our tuck-in acquisitions are a core component of our customer growth plan. These customers have strong retention rates synergized within 90 days and enhanced route density resulting in increased adjusted EBITDA dollars and margins in the markets where executed.

Through our razor/razorblade business model, we had water dispenser sell-through of approximately 251,000 units in the quarter, up 4 percent versus prior year.

Consumer demand remains resilient as the higher-priced, tariff-related dispensers continue to work through our and our retail customer inventories.

Referring to Slide 7 of our supplemental deck, our trailing 12-month dispenser sell-through remains greater than 1 million units sold.

As a reminder, water dispenser sell-through represents the units sold by our retail customers to the end consumer and are a leading indicator of the future organic growth of our water solutions. This is an important metric for the Company because these water dispenser sales drive connectivity to our water solutions resulting in recurring higher-margin revenue.

Our consolidated Water Direct and Exchange business continued to experience strong top-line momentum during the quarter with 7 percent revenue growth driven by pricing and 85 percent customer retention in Water Direct.

During Q2, we continued to enhance our mobile app in North America with a biometric login and targeted messaging and offers. The average active users of the app were approximately 500,000, an increase of 5 percent versus the first quarter, while maintaining a 4.9 and 4.8 rating on Apple and Google stores respectively.

Our digital focus in 2023 remains centred on new Water Direct customer acquisitions, water dispenser sales, and connectivity to our water solutions.

During the quarter, we hired a Vice President of Marketing for our North American business and look forward to his contributions leading our efforts to improve customer growth, connectivity across our water services, and further enhance the customer experience through new and more effective marketing initiatives.

We also implemented a new software solution, Medallia, to engage directly with our customers in real time to solicit their feedback on our performance. We intend to extend this solution to Europe and Israel later this year.

Our Water Refill and Filtration business continues to exhibit steady growth with revenue increasing 18 percent in the quarter. This growth is driven by pricing, improved service levels, and machine uptime at our refill stations. We have a high refill station retention rate, and we are expecting continued revenue and profit growth in this category.

Water Refill targets a value-conscious consumer and provides similar margins to our other water offerings, which provides us a diverse platform of water services for all consumers.

Consistent with our plan to grow the customer base through a combination of organic growth and tuck-in acquisition growth, we are pleased to announce that, during the quarter, we acquired the Diamond Springs company, which operates in Richmond, Virginia. This acquisition adds density while further strengthening our footprint in the region.

Shifting to operating efficiencies, the ability to serve our customers in the most efficient manner possible is a critical driver of both our short and long-term profitability. Our Automated Route Optimization, ARO, tool continues to yield efficiencies. We were able to increase revenue per route and units per route per day while keeping route SG&A expense as a percentage of route revenue consistent with Q2 of last year.

We will extend the use of ARO into our Refill and Filtration business later in 2023 to capture efficiencies and the improved service levels that this tool can deliver. In addition to capturing cost efficiencies, the reduction in mileage supports our commitments to reductions in greenhouse gas emissions.

As part of our incremental CapEx investment, we increased the size of our private fleet, tractors and trailers, to reduce the cost and variability associated with the use of common carriers. This fleet investment is specifically focused on the transportation of three and five-gallon bottles from our production sites to our distribution centres. In the Pacific Northwest, for example, we invested $2 million in private fleet equipment, yielding a reduced cost of $1.3 million on an annualized basis.

A key service metric we focus on is on-time in-full or OTIF. OTIF simply put is did we deliver to the customer on the scheduled day with all the products they requested. OTIF in North American Q2 is consistent with prior quarters.

During the quarter, we published our 2022 ESG or sustainability report. Since publishing our inaugural report covering 2020, we have further integrated our ESG sustainability strategies across our global business and aligned our operations with our commitments. We made significant progress towards our initiatives in 2022 and achieved new milestones as indicated in the report. A couple of our long-term 2030 targets include improving water efficiency by 20 percent and obtaining zero waste at 50 percent of our production facilities.

A copy of the report is included in the Investor Relations section of our corporate website, and we expect to continue to publish an annual report going forward.

Given the strong performance in the first half of the year, we feel confident in increasing our annual revenue guidance to be between $2.32 billion and $2.36 billion, with normalized revenue growth in a range of 7 percent to 9 percent.

We expect full year 2023 adjusted EBITDA to be between $460 million and $480 million and an increase in annual adjusted free cash flow to $150 million.

I will now turn the call over to our CFO, David Haas, to review our second quarter financial results in greater detail.

David Hass — Chief Financial Officer, Primo Water Corporation

Thank you, Tom, and good morning, everyone.

Starting with our second quarter results, consolidated revenue increased 4 percent to $593 million compared to $571 million. Excluding the impact of foreign exchange, normalized revenue increased 8 percent for the quarter.

Adjusted EBITDA grew 13 percent to $122 million, which represents a 160 basis points of margin expansion to 20.5 percent. Excluding the impact of foreign exchange, adjusted EBITDA grew 12 percent.

Turning to our segment level performance for the quarter.

North America revenue increased 3 percent to $451 million compared to $437 million. Excluding the impact of foreign exchange, normalized revenue increased 7 percent.

Adjusted EBITDA in North America increased 10 percent to $107 million. Adjusted EBITDA margins climbed 23.7 percent, a 140-basis point improvement over last year.

In our Europe segment, revenue increased by 12 percent to $78 million. Excluding the impact of foreign exchange, normalized revenue increased 15 percent.

Adjusted EBITDA in the Europe segment increased 50 percent to $18 million. Excluding the impact of foreign exchange, adjusted EBITDA increased 44 percent. Adjusted EBITDA margins climbed to 22.8 percent, a 580-basis point improvement over last year.

The results of our European operations continue to show strong improvement and have returned to pre-pandemic levels. Our focus on improving route density, increasing our scale, improving our route operations, and the benefits of Europeans returning to the office are taking hold. Our team in Europe is executing their strategic plan, and we expect to see further improvements as we move through the balance of the year.

Turning to our Q3 and full year outlooks.

We expect consolidated revenue from continuing operations for the third quarter to be between $612 million and $632 million and that our third quarter adjusted EBITDA will be in the range of $129 million to $139 million.

As Tom mentioned, for the full year 2023, we are confident in increasing our guidance with the revenue projected to be between $2.32 billion and $2.36 billion, with normalized revenue growth in the range of 7 percent to 9 percent.

We now expect full year 2023 adjusted EBITDA to be between $460 million and $480 million with an annual adjusted free cash flow of $150 million, an increase of $10 million compared to previous guidance.

Our increased adjusted EBITDA guidance is driven by the year-to-date performance that has come in ahead of our initial expectations as well as year-to-date tariff refunds of approximately $2.2 million that I will discuss in a moment.

The balance of our increased annual guidance is driven by our confidence level for improved performance in the back half of the year, as well as the expected contribution of our recent Diamond Springs tuck-in acquisition.

Our SG&A expenses in the second quarter reflect the impact of higher commission payments to our delivery drivers as a result of increased pricing. The higher gross margins provided a net offset to the increased commission expense providing higher adjusted EBITDA.

Our reported SG&A expenses in the second quarter also include several one-time charges, including those related to the proxy challenge during the second quarter. Without these one-time charges, our SG&A as a percent of sales would have been 52.6 percent compared to the reported 53.5 percent. Year-to-date SG&A would have been 53.5 percent compared to the reported 54.5 percent. We expect our Q3 SG&A to decline as a percent of sales as we will benefit from the leverage and scale of higher volume due to seasonality.

We are maintaining our 2023 CapEx guidance of approximately $200 million, which is approximately 7 percent of revenue, plus an incremental $30 million.

As a reminder, in 2023 and 2024, we will invest an incremental $30 million per year as opposed to the $50 million noted in our November 2021 Investor Day. This decision is based upon our confidence and run rate performance that enables us to reduce the investment dollars and deliver the 2023 and 2024 outlook.

Key initiatives to be funded from our CapEx plan include: driving digital growth; leading dispenser innovation; building a more environmentally friendly fleet as well as investing in our private fleet, which will allow for a more efficient distribution of our products; installing more efficient water production lines, which will reduce water usage and increase productivity; and driving growth in Refill and Filtration with refreshed signage and branding of our existing units, the development of our on-the-go units, and new filtration innovations.

We expect to return to our normalized total CapEx spend of approximately 7 percent of revenue in 2025.

For full year 2023, we continue to expect interest expense of approximately $70 million to $75 million.

The majority of our interest expense is tied to our two senior note debt facilities with very low interest rates of approximately 4 percent, with maturity dates of 2028 and 2029. The balance of our interest expense is tied to our cash flow revolver loan that we are actively managing lower with excess cash while rates remain at approximately 7 percent.

With the increase in our adjusted EBITDA guidance, we are moving our estimate for cash taxes toward the high end of our previously communicated range and currently expect approximately $25 million of cash taxes. This anticipates utilization of US net operating losses or NOLs. While we are limited in the amount of NOLs we can utilize each year, we still have significant US NOLs available in the balance of 2023 and 2024.

As a reminder, our Water Dispenser category was previously under a 25 percent import tariff burden by US customs. The tariff impacted both the water dispensers that we rent as CapEx as well as the water dispensers we sell with the increased costs reflected as cost of goods sold. Our dispensers were reclassified in November of 2022 with recoveries of tariff funds available through a refund process.

We have recorded the refunds in the same manner of the original transactions. Through Q2, we have received approximately $4 million of tariff refunds. Approximately $2.2 million of the $4 million is reflected in year-to-date adjusted EBITDA related to the water dispensers sold to retail, and the remaining

$1.8 million is related to the water dispensers that we rent as CapEx. The cumulative $4 million is reflected in our updated adjusted free cash flow guidance that we'll discuss in a moment. While the refund progress is promising, we have not reflected any additional refund amounts in our updated guidance due to the uncertain timing of the refund process.

One key learning from the Investor Perception Study that we conducted was to be more transparent and clearly articulate expected outcomes, especially on the topic of adjusted free cash flow. As we look at our performance in the front half of the year, we are confident in our ability to raise our annual adjusted free cash flow guidance to $150 million, an increase of $10 million. This is driven by our increased adjusted EBITDA outlook, the tariff refunds received to date, slightly offset by the increase in our estimated cash taxes.

While the estimated property sales will generate additional taxes not contemplated in our $25 million cash tax estimate, these would be one-time in nature and added back to our reported adjusted free cash flow metric. We wanted to take time this quarter to clarify our adjusted free cash flow outlook and the changes since our last communication guidance on this metric.

We continue to make progress on the sale of properties. The timing of our larger transactions is still estimated to occur in the second half of 2023 and have been the primary mechanism for funding our opportunistic share repurchase program as disclosed last year.

As we did not complete any of these property sales during the quarter, we repurchased approximately $2 million worth of shares. To date, we have repurchased approximately $43 million under the existing program.

We remain committed to achieving our targeted net leverage ratio of below 3 times by the end of 2023 and a targeted net leverage ratio of less than 2.5 times by the end of '24. This will occur through both our adjusted EBITDA performance as well as utilizing this year's property sales to reduce the borrowings on our cash flow revolver while opportunistically repurchasing shares.

Our year-to-date tuck-in M&A activity, along with the potential acquisitions for the back half of the year, positions us to achieve our 2023 tuck-in purchase guidance of $20 million to $30 million. Acquisitions remain a complementary source of customer acquisition.

Whether we acquire organically or through the acquisition of the customer base of tuck-ins, both are means of scaling our customer base. The cost per customer acquired through acquisitions is typically similar to other means of acquisitions. However, the difference lies in the stickiness of the customers.

Customers acquired through tuck-in acquisitions are already users of the service and understand the benefits and the annual costs of Water Direct service. We remain committed to Water Direct tuck-ins as a way to accelerate density in our operating regions and provide operating scale.

Our cash flow and balance sheet enable us to simultaneously return value to shareholders through regular quarterly dividends and opportunistic share repurchases while continuing to invest in internal and external opportunities that will further strengthen our operations and drive long-term growth.

The Board of Directors and the management team believe that repurchasing stock is an important part of our capital allocation strategy. Yesterday, our Board of Directors authorized a new $50 million share repurchase program, which replaces the previously authorized share repurchase program that expires on August 14, 2023.

Finally, yesterday, our Board of Directors authorized a quarterly dividend of $0.08 per common share, which continues our path to the multiyear dividend step-up, with an increase in our quarterly dividend per share of $0.01 in 2022, 2023, and another in 2024.

I will now turn the call back to Tom.

Tom Harrington

Thanks, David. Our performance reinforces our confidence in our ability to deliver sustained growth supported by strong revenue growth in our Water Direct Exchange and Refill businesses, continued execution of our tuck-in M&A strategy, the improved performance of our European operation, and adjusted EBITDA margin expansion.

We're pleased to report that our commitment to improving the customer experience is paying off. We have seen a significant increase in service levels, the digital experience, and customer satisfaction.

We are excited about the opportunities that lie ahead. We are making solid progress and have the right plan and the right team in place to succeed. We are one of the only pure-play water platforms, and we benefit from a large and growing revenue base.

Our high-single-digit, long-term growth targets are driven by the connectivity of water dispensers to our water solutions as well as consumer tailwinds such as the focus on health and wellness and concerns about aging global water infrastructure.

We have a healthy balance sheet, a compelling long-term growth outlook, and an attractive margin profile. We remain confident that we will generate adjusted EBITDA approaching $530 million with margins of approximately 21 percent and an adjusted ROIC of 12 percent by the end of 2024.

Once again, I'd like to thank the Primo Water associates across the business for their tireless efforts to serve our customers.

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

Jon Kathol

Thanks, Tom. 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.

Q&A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press the *, followed by the 1 on your touch-tone phone. If you'd like to withdraw your question, please press the * followed by the 2. If you're using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Dan Moore from CJS Securities. Please go ahead.

Pete Lukas — CJS Securities

Yes. Hi. Good morning. It's Pete Lukas for Dan. Thank you. You did give us a lot of colour on free cash flow and do appreciate that. Just can you give us maybe a little more on the primary drivers that give you confidence in generating $350 million of implied cash flow from operations?

And how sustainable do you think that is going into '24?

Tom Harrington

Good morning, Pete. This is Tom. We'll let David handle that. David?

David Hass

Thanks, Pete. We understand the importance of predictable free cash flow. We wanted to thank the participants of the Rivel Perception Study. The study confirmed what we anticipated, which is being a little bit more transparent and support around the critical metric of free cash flow and improving our messaging around it.

This quarter, we wanted to provide a bit more clarity there. The $150 million is a noticeable step up from last year, where we ended the year at $85 million in adjusted free cash flow. It's also a $10 million increase from our prior guidance on the prior quarter.

The primary reason there is the increased earnings power in the outlook that we've given paired with some of the tariff refunds to date. And then these gains are slightly offset with estimated cash taxes for that increased operating income.

And we will continue to provide updates related to free cash flow pacing including how we think about its long-term potential in coming quarters.

Pete Lukas

Extremely helpful. Thank you.

And then you reiterated your '24 goal of adjusted EBITDA approaching $530 million next year, which implies about a 13 percent growth from the midpoint. Can you talk about what gives you the confidence in driving a stronger operating leverage next year?

Tom Harrington

Yeah. If you just think about the performance this year and the building momentum coming out of 2022 that we see continued high-single-digit revenue growth, which is obviously a key driver. We're quite pleased with the EBITDA margin of 20.5 percent in the quarter, which I think is an all-time high for us.

And you may recall we achieved 20 percent adjusted EBITDA margins in both Q3 and Q4. So that 160 basis points clears the hurdle of what we'd said about the exit of the retail water business in America and got true expansion. So that, as you think about that track record now, builds as we drive revenue. And frankly, we continue to focus on our operations.

If you look at Page 10 in the supplemental deck, it's an example of one being responsive, frankly, to our early learnings from the Perception Study about providing more detail. But this is where we see the benefit of a number of our investments and our focus on improving operations and routes matter, and our performance on the route side has been pretty solid over the recent quarters.

So all of that helps build our confidence, further builds our confidence about our ability to deliver in 2024.

Pete Lukas

Extremely helpful. Thanks. I'll jump back in the queue.

Tom Harrington

Thanks, Pete.

Operator

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

Nik Modi — RBC Capital Markets

Yeah. Thank you. Good morning, everyone.

Tom Harrington

Good morning, Nik.

Nik Modi

Good morning, Tom. I know you guys don't provide this breakdown, but I was hoping you can provide some clarity around kind of price (unintelligible) contribution.

And then just the broader question is, just would love to hear about the Costco ramp and the implications that that's been having, if you can provide any context around that. Thank you.

Tom Harrington

Yeah. Thanks, Nik. Before I speak specifically to Costco, clearly, we're pleased with our 8 percent revenue growth in the quarter and the consistent revenue growth that we've produced over recent quarters. So that is certainly a trend.

And to the earlier question, it's all about our confidence in our ability to drive top-line revenue growth as we go forward into, frankly, the end of this year and into 2024.

You may recall in prior quarters when we talked about revenue growth, we articulated that we expected that pricing would be the key driver, key component of the revenue growth in the first half of the year. It turned out to be exactly the case.

We also shared that, as we shifted to the back half of the year, that we would expect to get more benefit as we built the relationship and the number of road show events that we execute at Costco. That still remains our expectation.

We will continue to invest in growth that will include sales, that will include marketing initiatives, that will include digital investment, and it's certainly going to include the customer experience. We'll execute our M&A tuck-in plans as evidenced by our closing on the Diamond Springs business in Richmond, Virginia. We will achieve the debt pay down to under three by the end of 2023. We remain focused on share repurchase and dividend policy will remain in place.

Specific to Costco, the business continues to ramp. By ramp means week over week, the number of in-store events that we execute in Costcos across the US. In that business, as I've said in the past, Nik, is you don't get a big spike. You get the benefit of week after week building of the relationship and the number of Costco members that enjoy our service.

So that number will build through Q3 and Q4, and we're confident currently in the pacing and pleased with the performance, frankly, of the teammates across the business that are executing.

Nik Modi

Excellent. Thanks, Tom.

Tom Harrington

Thanks, Nik.

Operator

Your next question comes from Andrea Teixeira from JPMorgan. Please go ahead.

Andrea Teixeira — JP Morgan

Thank you. Good morning. So I have several questions. I just give you to the top question, a clarification, and I would say in the spirit of improved disclosure, I appreciate that.

Number one, how was the volume and price breakdown in particular in Water Direct and the price carryover? I'm assuming the price carryover has moderated, at least from now. So looking at your guidance, how much are you imbedding in there?

And, of course, I saw what you said that the 7 percent sales growth was driven by pricing, but I was wondering if on an organic basis, volumes were negative or just flat.

And if you can, I understand the retention was 85 percent, but just if you can give us an idea of your retention in the Americas and how the last year has been evolving with you as well.

And then my clarification question was on the gross margin. I think, David, you called out the $4 million benefit, and I understand it flows through gross margin for the tariffs. And you have a record high gross margin, which is obviously very welcome. So I'm thinking more how should we all think about where gross margins will land in the future? Thank you.

Tom Harrington

Good morning, Andrea. That was a good question. We're going to try and pick it apart here as best we can. We've got a couple arms and legs in there.

David, you want to take the gross margin question?

David Hass

Yeah. Let me address the tariff impact in gross margin first. So $2.2 million year to date would be in as the tariff money is coming back from the government, those tariff monies received that are affiliated or attributed to dispensers sold to retailers, how that flows through the income statement is a reduction in cost of goods in that particular quarter.

So if I receive $1, it basically reduces cost of goods sold on that segment. And that $1 then flows through as an improvement in EBITDA. The balance, or the $1.8 million, does not flow through the P&L in that way because that portion of the tariff receipts is affiliated with the increased CapEx or the increased cost of those coolers when we were importing them to rent. And so that balance of money flows through other income and would not have been part of the expansion in gross profit.

So going forward, how we look at that is there are future tariff monies available, but it's always the irregular, if you will, cycle of how we receive them from the government. It's been in fits and starts this year. That's why we have not contemplated the additional monies we're owed yet in our guide.

All that said, the gross margin expansion is the largest contributor to the normalized EBITDA expansion of 160 points on a comparative basis to last year.

Andrea Teixeira

And would you think that is sustainable then. Right? So I just did a simple math that on excluding—and obviously that $2 million is negligible—you still would have the first half north of 60. So the first half was like gross margin of close to 61. How should the investors think about their margin going forward?

David Hass

Yeah. We would still have, obviously, some shoulder seasons in Q1 and Q4 and peaks in Q2 and Q3 based on just throughput that goes through the system affiliated with higher consumption from customers. But I think what you're seeing overall is a step up as we've now lapped the single-use plastics drag on the gross margin. You're seeing kind of what would a typical company look like on a go-forward basis.

So these are, again, you can exclude the $2 million, which is relatively negligible. This should give you good perspective of how the flighting could look in a future year when there's not a little bit of tariff noise.

Andrea Teixeira

Mm-hmm. That's super helpful. Thank you.

And, Tom, I guess a bit on the price against volume algorithm and how we should be thinking on an organic basis for the business and how elasticity has been evolving.

Tom Harrington

Yeah. I think it's important, and we shared earlier our appreciation for the input from the shareholders and the Rivel shareholders and sell side in terms of the Perception Study. We're frankly digesting all of that information because it is, I guess, fresh would be a good word to use. We're reviewing it in real time.

And what we’ve chosen to do is to provide lots of clarity around free cash flow because as we inbound that data, it rose to the top of the list of what shareholders and others have said. This is really important for us that you provide more clarity and disclosure and transparency around free cash flow. So hence the reason we’ve spent a fair bit of time in our materials and the script trying to provide just that.

The second part that we wanted to get to was that Page 10 I referenced earlier was around the route side of this business and one of the ways, how do you drive margins, how do you get leverage, and that’s to demystify this. And we have frankly in the past provided pieces of this information inconsistently and wanted to demystify that and provide that.

That being said, we’re pleased with high-single-digit revenue growth. I’ve said in the past, a couple of things. I’ve said that our revenue will come from price and volume principally, installed customer-based new customers. I’ve also said that will generally doesn’t come the same way on a year-over-year basis.

For this year, I’ve said in the first half of the year that the bulk of that top-line revenue growth, specifically in Water Direct was the reference point, would come from pricing and that’s what happened. So we’re frankly quite pleased because it delivered the numbers that we committed to and played out the way that we thought it would play out.

As we shift to the second half of the year and we haven’t disclosed the pieces of a little bit of this, a little bit of that, right, ever. But what we have said is that we would expect that there would be more contribution as a result of the Costco program than pricing. We still believe that to be true. We are still fully committed to that high single-digit growth and, obviously, the $2.32 billion to $2.36 billion in revenue for the full year.

Andrea Teixeira

And so if I can just go through that, what you just mentioned, and you did disclose this quarter and you started disclosing on a quarterly basis the customer count, I believe, from fourth quarter. And you did add 40,000 customers, I mean I think from Water Direct if I'm not mistaken. So those would be the acquisition that you just announced, that announced to us I guess. I mean you were probably working through the quarter.

How much of that it would be helpful just to know, the 40,000 new customers, were they basically mostly through the acquisition? Or were they organic?

Tom Harrington

A portion of that would certainly be through acquisition. Right? So that's the ending base, if you will, related to the Diamond Springs acquisition in Virginia. Right. So that would certainly be part of it. You also have benefit of ongoing retention, right, as an example.

That growth comes a lot of different ways. It comes from, right, I can get customers through things like Costco sales initiatives. I get customers through marketing and digital. I shared in the script how pleased we are that we've hired a new Vice President of Marketing, and I look forward to his contributions. He doesn't have his sea legs yet. Right? So he's in a journey of learning. We get customers through acquisitions, and that M&A has long been a component part of how we add customers to our base over the long term. And it will continue to be that.

And then, certainly, when I say customer experience, the outcome of our customer experience investments is we extend the useful life, we extend the life of the customer, and that is a component of our growth story.

So all legs of that would be in the 2240 that we posted in the supplemental and on the web.

Andrea Teixeira

Great. Thank you very much. I'll pass it on.

Tom Harrington

Yeah. Thanks, Andrea. Appreciate it.

Andrea Teixeira

Thank you.

Operator

And your next question comes from John Zamparo from CIBC. Please go ahead.

John Zamparo — CIBC

Thank you. Good morning.

Tom Harrington

Hello, John. Good morning.

John Zamparo

I wanted to ask about pricing as well, and I would like to get your thoughts on your ability to pass through pricing in the second half. And appreciate the comments that more of your growth is going to come from customer adds, particularly through the Costco program. But the reason I ask this is, we've seen different consumer companies talk about a more challenging period for pricing in the second half.

So do you plan to take incremental pricing? Or are you relying on the impact of prior price increases?

And I wonder how that might compare to the inflation you're seeing.

Tom Harrington

Yeah. Yeah. Good question. So the way I think about our pricing in the back half of the year is we take normal pricing on the installed customer base, John, normal course. We have no plans to decrease that or increase that as we sit here today. So the normal course pricing when a customer reaches their anniversary date, if you will, of their original start date, we'll put pricing through. So there's no changes to any incrementality or decrement to that. So kind of standard fare.

Our delivery fees, we did take a delivery fee in Q2, and the wild card for us in inflation is really around fuel. So fuel had—overall oil prices had mitigated in the early part of this year, although, as I've mentioned before, diesel had been a little more resistant than other forms, and we'll deal with it depending on where that price goes.

Now I think oil price in the last—I'll be wrong, I didn't look at it yesterday—but would have been the highest it's been in nine months. We'll see how that manifests in the pump. And if required, we will act on delivery fees, adjust that if necessary. But as we sit here today, we're highly confident in our ability to deliver that top line in our current construct. And you're right. It includes the future benefit of as we build this Costco base, for sure.

So we're confident there. We've had the ability as you've seen over the last number of quarters our ability to drive through pricing and maintain the level of customer base, the stickiness of that customer base. So we're quite pleased with that. And we don't see anything changing where our company sits compared to others.

John Zamparo

Okay. That's helpful. I appreciate that, Tom.

And my follow-up is on the use of NOLs in the future. And in the past, you've said you can use these at a pretty reasonable rate in '23 and '24, but that they'll drop off a bit in '25. I'm trying to figure out how we should think about that. And if we should think about it on a dollar basis for cash taxes or a percent because the rate on cash taxes this year on pretax income seems mid-to-high teens as a percentage.

And I wonder what you think a reasonable level is in 2025 and beyond.

Tom Harrington

Yeah. That's a David question.

David Hass

Thanks, John. Yeah. We're certainly looking at that, as we've said before, in the US side, where we have a majority of usable NOLs due to the operating profit generation, we've got two years, this year and next, in the $46 million range on the NOL value. And then that drops in 2025 by about $30 million. So about 16 million NOLs usable.

And so we're going through a lot of analysis there jurisdictionally in combination with where profits are starting to drive now in our European business. We will be able to address that in future quarters when we're able to comfortably address sort of a longer-term outlook that would take guidance into '25.

At this time, we're not commenting on it, but I wanted to provide some colour on at least the NOL schedule for the US business, which is still the primary profit driver of the Company.

John Zamparo

Understood. That's helpful. Thank you very much.

Tom Harrington

Thanks, John.

Operator

Your next question comes from Derek Lessard from TD Securities. Please go ahead.

Cheryl Zhang — TD Securities

Good morning. This is Cheryl, standing in for Derek. Thanks for taking our questions, and congrats on the strong results.

Tom Harrington

Thanks, Cheryl. Good morning.

Cheryl Zhang

Good morning. So most of our questions are answered, but we have a couple more. Just on the residential side, would you be able to talk about the changes in residential consumer behaviour, if there is any, and what you're seeing so far in Q3?

David Hass

Sure. This is David. We continued to see strong demand in both the Water Direct business. Again, that is reflected in our future flighting of customer-based attraction through Costco programs. On the Water Exchange side, continued demand, frankly, that has been there for a decade plus and sees no sign of letup. And, largely, that's why we attribute a lot of the dispenser sell-through success and that immediate connectivity factor. If I bought a dispenser, I have a trigger to do something with Exchange or Refill, and I do that.

On the Refill side, something that's really playing out that ties back into some of the consumer elasticity question of a prior question, the Refill side has taken the price increase extremely well. This is the most value-conscious consumer in our portfolio, and we think a few factors are occurring there. One, it's still the most valuable way to get bulk water today. Yes. You do the work yourself, but you pay that discount to do the work, and you go through that process.

What we've seen really happening, though, is the on-shelf price of one-gallon prefilled and two-and-a-half-gallon prefilled as well as basically non-promotion prices for case pack have really gone higher due to both resin increases as well as just overall pricing decisions by those brands. That puts Refill in a very strong sweet spot of a value-based and attractive value for that consumer. I think you can see that in this quarter's sort of increase around 18 percent in that business.

Cheryl Zhang

All right. That's great. Thank you. And our follow-up is on the commercial side. I think last quarter, you mentioned that commercial sales have not yet returned to pre-pandemic level. Just curious where it is trending now. Thank you.

Tom Harrington

Yeah. It's still not back, but I think I referenced it. We believe it's a tailwind. And you can see it in, frankly, the stellar performance of our business in Europe in terms of growth. And I think it was a 580-basis point improvement in adjusted EBITDA margin.

So we're seeing it come back. It's not all the way back. I don't know if it'll ever be back to where it was in 2019, but we are seeing good performance on both sides of the Atlantic in that commercial customer base. And you'll remember that the commercial customer base in Europe is a little bit more large office, and the commercial customer base in North America is a little bit more of what we call small office. So hopefully, that helps.

Cheryl Zhang

Yeah. It does. Thank you.

Tom Harrington

Thank you.

Operator

Your next question comes from Steve Powers from Deutsche Bank. Please go ahead.

Steve Powers — Deutsche Bank

Hey, guys. Good morning.

Tom Harrington

Morning, Steve.

Steve Powers

Morning. So I wanted to ask just maybe just to give us a little bit more detail on to what extent, where we are in the process of flushing the dispensers from the marketplace to carry the higher tariff costs. I think you talked about that still being a bit of a headwind to consumption in the second quarter.

So to what extent where are we in that process? When is that inventory expected to clear from the channel?

And then as you think about it, should we expect an acceleration in sell-through once that inventory does clear? How do we think about that over the coming quarters, coming year?

Tom Harrington

A couple ways to think about it. So we sold through 251,000, which was, I want to say 4 percent versus prior year. So we're pleased with that.

We are seeing inventories deplete. Obviously, aggressively managing that. We would expect, today, that we will get to that million-dispenser 12-month sell-through number. TTM, I think, it's in the supplemental, would suggest 1,017,000. So we're still on track for that, which is a positive sign.

The retail pricing is lagging. So until it's all flushed through, which will be for sure not before the end of the year, we wouldn't expect to see deflation in the price of dispensers.

As we move into 2024, we haven't guided anything on this, we would expect that the dispenser revenue might be lower than the prior year as the pricing that we've had to implement for tariffs is eliminated.

So and it's going to vary by customers. So it's not a perfect on Tuesday, January 3rd. It's just not going to work that way. It's going to vary by customer and how aggressive, frankly, they are. It will certainly depend to a large degree on promotional activity in Q4, particularly around traditional Black Friday days or weeks, depending on how you look at it.

So we still have a ways to go, but that's how we look at it today. The key indicator is that we're still getting a sell-through, whilst we still deal with some elevated inventories, ours and then, as I said, by retail.

Steve Powers

Yeah. I guess is there a reason to not be more—I mean I get the revenue goes down as there's deflation that flows through. But I mean volumetrically, I guess I'm thinking you should see an acceleration in sell-through, which is a good leading indicator as you have talked about. Is that too ambitious?

Or are there reasons to temper my enthusiasm? Or is that a fair expectation?

Tom Harrington

I would, without giving guidance, I think 1 million a year is a good number because part of the way that you deal with this is there could be a mix shift on the dispensers that get sold, so I could sell these lower-priced dispensers, or I could sell higher-priced dispensers. All of those have puts and takes on the pricing, if you will, per unit.

So I think if I am going to model it, I would model a million because that's a, I think, like a three-year number-ish, in terms of if you look at three buckets of individual years, Steve.

Steve Powers

Yup. Yup. Yup.

David Hass

And I think the follow-up I'd add there is, theoretically, if you added 10 percent into sell-through, you actually could do better helping connect more of the existing one million we already do sell to our existing solution.

So that's why, theoretically, you could sell a million for several years on out. As long as we improve our connectivity tactics, as long as we improve our market share in our businesses, the amount that convert to our use of water has a much higher throughput than just simply trying to gun the sell-through of the dispenser if that makes sense.

And on a dollar basis, this gets much more confusing because whether you choose to buy a pump or you choose to buy a high-end unit that's $300 that might do single cup coffee or tea, it's a very different mix, they still are going to consume the annual gallons when they buy whichever one they choose to buy.

Steve Powers

Yes. Okay. Great. I appreciate the discussion. Thanks.

David Hass

Absolutely.

Tom Harrington

Thanks, Steve.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the *, followed by the 1.

Your next question comes from Graham Price from Raymond James. Please go ahead.

Graham Price — Raymond James

Hi. Good morning. Thanks for fitting me in. For my first one great to see the progress on the private fleet side, and you mentioned the $3.5 million in annualized savings. Just curious how high you think that can go.

And then wondering if those routes to distribution centres are short enough that they're applicable to be electrified or use alternative fuels.

Tom Harrington

Yeah. Well, good morning. Two questions there. So we're analyzing all of the common carrier lanes today. We'll, frankly, never get to 100 percent, and it just has to do with we like to have trips that you can complete in one day; so out and back, if you will, and that's the most effective, highest return in how we do this, and it avoids all the short run spot rate.

So the PAC Northwest was the one where we put $2 million in, and I think our annualized return is $1.3 million. There are other initiatives and work that we're doing that are, frankly, part of our 2024 and the incremental CapEx that we've talked about, about how we benefit from those investments to get to the higher margin and to deliver the $530 million of EBITDA we've talked about for 2024, as an example.

Electrification to date on the bulk of our fleet, which is beverage-body, large-route trucks, large-format bottles, are not an affordable solution. So the cost for that asset is, I'll be wrong, but it's 3X what it is for a propane route truck.

So I think there'll be a benefit sometime, but it's not yet there today in terms of return on invested capital. So we've got to be thoughtful about the cost we lay out for the asset and return we get balanced against. Our shift to propane is about being as ESG responsible as we can with the constraints of appropriate returns.

Graham, so hopefully that gets to your two questions.

Graham Price

It does, yeah. Thank you for that. And then for my follow-up, I guess we saw modest but growing dispenser sales in Europe, and I assume that's tied to the return to office trends that you mentioned. Just wondering about any kind of read-through from that and what to expect from Europe in particular, which looks especially strong this quarter.

Tom Harrington

Yeah. I think our European team has done a terrific job. We're confident that they'll deliver on their commitments and against their strategic plan as I think we referenced. So we have a high degree of confidence in their ability to deliver on their commitments. There is a benefit of more return to work for sure, and we see that flow through.

And we would be early stages on selling dispenses in Europe. So I wouldn't yet call it a green shoot, but it wants to be one. But we'll continue to focus on how we provide solutions for European consumers to participate in one of our services at the end of the day, so.

But we're quite pleased with Europe and confident in their ability to continue to deliver their fair share of our '23 and '24.

Graham Price

Yup. Right. Absolutely. Well, thank you very much. I'll pass it along.

Tom Harrington

Thanks. Have a good day.

Operator

Jon, there are no further questions at this time. Please proceed with your closing remarks.

Jon Kathol

Thanks, Julie. This concludes Prima Water's second quarter results call. Thank you all for attending.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining, and you may now disconnect your lines. Thank you.