JP Morgan Opportunities Forum

Company Participants

- David Hass, Chief Financial Officer
- Dean Metropoulos, Chairman of the Board
- Jon Kathol, Vice President, Investor Relations
- Robbert Rietbroek, Chief Executive Officer

Other Participants

- Andrea Teixeira, JPMorgan Chase & Co.

Presentation

Operator

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I would now like to turn the call over to Jon Kathol, Vice President of Investor Relations. Jon?

Jon Kathol {BIO 17473644 <GO>}

Thank you. Today's comments may contain forward looking statements. Actual results could differ materially. For a list of factors that can affect our business, please refer to the Investor Relations section of our website at ir.primobrands.com. You will find a full listing of our cautionary statements at that site.

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

Questions And Answers

Operator

(Question And Answer)

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, Jon. I'm Andrea Teixeira, and I co-operate Beverages, Household and Personal Care for Equity Research at J.P. Morgan. And it's now my pleasure and honor as part of the J.P. Morgan team to welcome Primo Brands. It's a very historical time for the company as it merged with the two very large companies to create the fourth-largest beverage company in the U.S.

And it's a pleasure to have well-represented by the Chairman, Dean Metropoulos; also the CEO, Robbert Rietbroek; and also the CFO, David Hass.

I would like to just turn it on to Dean and ask you to explain the rationale of the deal, of the combination.

A - Dean Metropoulos {BIO 1404446 <GO>}

Thank you Andrea for hosting us and to J.P. Morgan for supporting us. Thank you very much. Thank you all very, very much. We're very, very pleased and very proud to talk about this wonderful merger and we look forward to your engagement and partnership for many years to come.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And maybe we should start with you -- your view of the combination. What is the rationale? How do you feel about the deal?

A - Dean Metropoulos {BIO 1404446 <GO>}

Thank you. Yes, I think this combination is very unique in a great sector. As many of you know, Dean Mitropoulos, myself, my family office and One Rock acquired this company, all the water brands in the U.S. from Nestle a little over three years ago. The company has gone through tremendous transformation, moving it out of a very large corporate entity. We've invested hundreds of millions of dollars in upgrading the facilities, improving efficiencies.

We put in a completely new standalone system, the IT system, that has really given us incredible insights into operating our business. And we've been very, very pleased and proud of the performance of this company over the next -- past three years, even with all these distractions of investing very heavily in IT, diverting a lot of our management resources to making sure the IT systems, the operations of the plants. We had a lot of warehouses initially because we did not have the full stand up of the manufacturing facilities. We're out a lot of those warehouses now. So we are in a very great position to with a lot of tailwinds.

And a few months ago, we started talking with the Primo Brands. We were also very pleased that they had shed a lot of their international business and there was a distraction for them. And we wanted to focus on becoming the very unique and largest healthy hydration branded company in the U.S. Today, the combination is, again, very, very special and unique. We control all the spring brands in the U.S. across the country.

We have 92 springs, again, very, very unique. We have some 200 plus depots across the country, 50, almost 50 plants that provide water to every place the consumer touches and needs the water, we're they are, from their home to the drugstores, to the restaurants, to the supermarkets, to the hospitals, offices. This is the most unique platform and no one will ever be able to duplicate this platform, certainly in the foreseeable future. And very importantly, it's a very healthy category. Hydration, healthy hydration is so key today in everybody's sense of wellness.

Our carbonated drinks, beers are all struggling and healthy water is, particularly natural spring waters, is perceived to be very unique in almost anything we read talks about all the benefits of this wonderful hydration. In addition to that and unfortunately many communities across the country struggle with all kinds of old infrastructure that creates drinking water issues and we're always there to provide the alternative and for many families that is a very important part of their life.

In addition to that and we'll talk about it a little more, we're very devoted to ESG and very committed to that and we'll get into more details. So we feel we've got great trends behind us and moving into the future. We have an operational footprint that cannot be duplicated in certainly the foreseeable future and we can leverage that footprint to double our business with incremental costs that are fairly very reasonable.

In addition to that, notwithstanding that we are the number one branded company we've grown at 4% to 6% a year as we are together now and we have been growing at that level over the past three or four years and many many other beverage companies are not growing at all. They're flat or slightly down and we've been growing continuously at this 4% to 6% rate.

And in addition to that we're delivering tremendous free cash flow. We'll get into that. David will cover that a little more. Strong cash flow, very strong about 20% to 23% EBITDA margins that we expect. And we expect that headwind to continue and accelerate particularly as we integrate this company and are able to penetrate the marketplace a lot more efficiently and far more deeply than we've been able to do so independently.

So with that I'm going to turn it over back to you and Robbert. Robbert's the CEO. By the way, I should say one last thing. Overlaying this wonderful story that I just summarized, it's a management culture that's highly entrepreneurial, very results oriented, a lean, agile culture that delivers performance and results and it's all about execution not about explanations and slideshows. It's all about achieving results, winning in the race and gaining market share and growing our business and innovating around this whole space.

So with that I'd like to turn it over to Robbert.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Right. So, you want to?

Q - Andrea Teixeira {BIO 1941397 <GO>}

Yes, so what I wanted to just like as a quick question like give Robbert the credit for having the experience in CPG from Procter & Gamble to Kimberly Clark to most recently at PepsiCo leading Quaker globally. So I think it comes so how you relatively to that experience and being able to manage now a much bigger company with brands and so can you talk about to the point that?

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes. So, first of all thanks Andrea and J.P. Morgan for hosting us. I also want to thank Dean and the board for their support and confidence in myself, David, and the rest of the management team. As we started in week, what is now week one of a new company, we closed last Friday. We started trading with a new ticker, PRMB. So that's the PRMB ticker, this last Monday. So we're excited to see the results so far.

Well, we are now a leading North America branded beverage company, and we have a focus, as Dean said, on healthy hydration. We deliver sustainable, domestically sourced, North American offerings across different product formats. We have anything from glass to aluminum to five gallons, and we serve many price points, starting at $0.50 a gallon for refill, all the way up to super premium water in Mountain Valley and Saratoga. We're actually distributed in every state in the union and in Canada.

Now, we have a very good brand portfolio. We'll talk a bit more about our brands at a later stage, but we have a couple of billion brands, notably Pure Life and Poland Spring, and we have regional spring brands. We also have the Primo brand. And what's really special, I think Dean alluded to it, is the fact that we have distribution across pretty much all channels. We distribute via retail. We go to residential. We go commercial. We do away-from-home. We do small format. We do direct delivery as well. And we're now in over 150,000 retail outlets. That is extraordinary, the access that we have to our retail partners.

We also serve approximately three million residential and commercial customers directly. We have 26,500 exchange locations where you can pick up a five gallon bottle and maybe bring back your empty bottle. We have 23,500 self-serve refill stations where you can bring your own bottle and get fresh water that's purified. We have 11,000 or more associates in the combination. And I think Dean alluded to it, 50 plus production facilities. We source from over 90 springs, as we said. And we actually take care of 27,000 acres of land that we preserve.

We preserve the land, we preserve the water. And so this is a truly exciting company that is a branded beverage company that really plays across the board. And we feel very good about the space we operate in. Beverage is about a $250 billion category across North America, across all channels. So we have a lot of growth because we're about 3% of that entire universe. The retail business is about $135 billion. We're about 5% of that. But in water, we're the leading, as Dean said, the leading branded beverage company in water with a 19th [ph] share of retail.

And we have now brought some of these brands together. You see a couple in front of us, like the Mountain Valley brand and the Saratoga brand. Both were recent acquisitions by the respective two companies that are doing tremendously well, and we're excited about the future.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. Maybe we should shift now to David and talk about the combination. You have a recent slide deck that for most investors, which is up there, Jon is broadcasting for all of you, but you can find online as well. But perhaps talk to the numbers and how we can think about a much larger scale.

A - David Hass {BIO 20560096 <GO>}

Sure. Thank you. Last week on Thursday, both companies independently released their Q3 results. Both were coming into the merger with tremendous momentum. Primo growing at over 8%, 5% volume. BlueTriton coming in over 4% with almost 2% volume. So both companies independently are closing the year strong, heading into the merger with great volume contribution to the overall category and our growth, which is not typical these days, as Dean mentioned, and Robbert talked about with the categories and the channels we're in. When you put these two businesses together, and what we wanted to do with the release of that deck yesterday morning is to be able to convey things on a combined and on a consistent accounting basis on a TTM period for Q3.

And when you do that, you end up with the scale that we've talked about and why the merger is so unique and wonderful in that we're coming together with $6.7 billion in revenue on a trailing basis, $1.5 billion when including the benefit of the $200 million in synergies, which yields that run rate benefit of 23% EBITDA margins. You can see the tremendous cash flow profile of the business and really the deleveraging that is taking place both through the cash bill, but eventually the ability to sort of optimize our debt structure. So we feel that, again, each company came into this from a position of strength, and together we obviously will continue that momentum for our future performance.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And perhaps, Robbert, you can talk about the brand portfolio and how it fits within the 25 brands in hydration, and how maybe team [ph] can come with, also how it was structured really well for the Nestle in 3.5 years, how you were able to bring in a lot of that brand water.

A - Robbert Rietbroek {BIO 18264883 <GO>}

I'd be happy to. We do have approximately 25 brands, obviously 13 core brands, big brands, two billion brands, Pure Life is a purified water brand, Poland Spring, a spring brand, and then we have leading spring brands such as Ozarka in the South, Deer Park, we have Arrowhead, Ice Mountain, and for those in Florida, Zephyrhills, very, very popular brand. And we have the Primo brand, obviously, on the bulk side, both in refill and exchange.

And if you look at the opportunity ahead, we see these brands coming together in a great way. For instance, on the trucks where we deliver, we can now start cross-selling and selling maybe more of the fantastic premium spring brand portfolio that Nestle Waters had and BlueTriton had that were now available to us on the trucks together. We see an opportunity for a brand like

Saratoga maybe to go to the natural channel where Mountain Valley is very strong. We are very strong on Lowes and Home Depot, as. We have an opportunity to bring more caseback water there. So these brands are tremendous and some of these brands are over 100 years old.

So we have six brands that are over 100 years old. There is a seventh brand with a birthday next year that's Sparkletts. It'll be 100 years next year. And actually, four of these brands date back to the 1800s. They're part of the fabric of American society. So we have a great brand portfolio. They're healthy brands and we believe that a lot of these brands have expansion and growth and share growth opportunity with the right capacity, the right investments, the right brand building, and the right focus on distribution and just promoting these brands the way they deserve to be promoted.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And from your perspective, of course, like these brands have low retail side, amazing following.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes.

Q - Andrea Teixeira {BIO 1941397 <GO>}

In Saratoga, you were able to pivot really fast within that integration.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And perhaps talk about a little bit of the background of the backbone of all integration, the 3.5 years that you had taking the business, how much investment you've made close to $1 billion in CapEx.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Again, when we acquired the company, they were well-established brands for decades and centuries, in fact. And so they were very well recognized. Robbert said it well, they're an integral part of society. Everybody identifies with them. People feel very comfortable drinking with them.

So there's a very close association that we can continue to leverage and be stewards of because we don't take that for granted. We acquired Saratoga about three years ago. It was only a very small brand, $12.5 million in sales. We encountered some sourcing of glass initially. We've introduced PET recently. So this brand is looking to be close to $130 million, $140 million brand as we move forward.

The same thing with Mount Valley, the two most elegant premier brands in the country. We haven't even attempted yet to go after the real food service business where we are into every restaurant. We've converted a lot of restaurants, but we have not had quite the system in place to deliver and satisfy the needs of the various restaurants across the country, hospitality and all that. These two brands are high quality, very well recognized, and there's no reason for people to be buying foreign brands, bringing them from around the world with all the environmental concerns we have about diesel fuels and fumes and all of that. These brands will, no question, as we take them through our organization and our network across the country, they will begin to fill all those slots.

The other traditional brands, they will continue to migrate. As we said earlier, there's a tremendous tailwind on healthy hydration. Recently, there were two articles talking about consumers increasing their embrace of bottled water for many of the reasons we talk about and we're aware of. So these brands are going to continue to be an integral part of society. We're going to innovate around them. We are planning to integrate them and roll them out and touch on far more touch points than we've been doing independently. So it's a wonderful stream of growth that we anticipate continuing.

In fact, we should be able to accelerate it on the growth we've been experiencing over the past three or four years as we penetrate deeper into the country and all the markets and stores. There's thousands of stores that we're not even yet touching point and restaurants. So there's a lot of upside in our minds and incidentally, you mentioned between when we took over BlueTriton, between our IT expenditures and we've set up a completely separate IT platform that gives us a lot more visibility into the business to be able to make decisions on which of the markets, which of the routes are most efficient, how do we make them even more efficient? That process behind us, we're going to bring Primo into that platform and there's some significant opportunities for that.

In addition to that, between IT and our CapEx and manufacturing, we've spent almost a billion dollars in the past three years. Just to give you an example, when we took over the company, the manufacturing efficiencies were running at around 61%. This year, they're running at 73%, going to 76%, 77% going forward. And that's a great tailwind to our profitability and cash flow. We eliminated a whole bunch of warehouses over the past year because we had to build some inventories to help for the seasonality in the summers. We're no longer given these efficiencies. We don't need that inventory. We get rid of a lot of warehouses. The two businesses are super efficient today.

And by the way, in the next few months, and we're starting integration as we speak, we're already got a lot of moves in place to integrate these companies, to create efficiency, to create more strategic penetration. And there's no question about combining SG&A accounting and call centers. And we're going to reduce the number of manufacturing facilities significantly, the various depots across the country. We're going to make our routes much more efficient and consolidate a lot of them with AI and very, very effectively design. So we are in very good shape as we move into this year. And we think these trends are going to continue for years to come.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. That's a great segue for the synergies. Maybe David you can talk about like how the $200 million came about. And that's only cost synergies.

A - David Hass {BIO 20560096 <GO>}

That's correct, so to be very clear, these are cost synergies, I'll talk a little bit more of how we might evolve that thinking here as we are now closed. As this transaction started to come together in theory and then get into more principle and tactics, both companies brought forth operation teams, financial leadership to start to think through how this might look and start to feel. So when you look across our core categories like operations, procurement, Dean mentioned IT and ERP, call center, we had different philosophies of how to staff and manage call center between the two companies.

Now we can have a common thinking to really scale and drive efficiencies by being less people driven and being much more customer facing and able to solve problems immediately when they call. There's obviously the redundancies that might occur across some associate pools where we have very duplicative functions that we can streamline over time.

But the core here is across these functional areas. The business started doing discovery, started understanding geographic points of proximity to each other, who had different facilities. Dean has mentioned line efficiencies and production efficiencies. We would compare a lot of that data. Is it best to go with a plant that Primo had recently upgraded or a different version? So we've gone through all of that data.

That's fun and exciting to go through that. Now it's time to execute. And so we are having, over the last three months, we've been going through a ton of planning. We've gone into execution mode. We will begin this week as well as in coming quarters putting together operations and the routing efficiencies. Legacy Primo and BlueTriton have both run their own version of ARO which we talk about, automated route optimization.

Previously, each independent company was doing density building through that ARO. Today, we can take customer lists and streamline routes to make sure that that density is not only providing a better delivery opportunity, a better effective relationship with that customer, but also reducing the miles. And that's very important. So not only are we more environmentally friendly with the fleet, but we're also cutting gross mileage by the density and the routing through this synergy process.

Q - Andrea Teixeira {BIO 1941397 <GO>}

So is that fair to say that the $200 million was just a high level before you were able to see the numbers because you're not communicating obviously for compliance reasons, and that was a high level comparison of margins?

A - David Hass {BIO 20560096 <GO>}

Yes, these were all cost and operational activities. Next week, we begin, as we are now closed, going through and looking at commercialization opportunities whether this is cross-selling products into different channels where one company had a strength and the other might have the opportunity to grow, notably on the regional spring water side the BlueTriton family had a premium set of brands that now we can bring to our customers.

We have a lot of growth factors that we can perform against, and these are largely discussed in the deck we released yesterday, but what makes it exciting is now we can have these open conversations where we were very much principled in sort of not getting into too much detail until we knew the deal would close, and then now that's occurred, we can proceed further.

So we'll communicate more as we learn more, and we'll have an event in February to really lay out the 2025 guidance and get into some more detail where these activities and synergy buckets will sort of drive for us.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And Dean, you had spoken about how efficient you became also at BlueTriton in terms of the service levels that are impressive within some of your customers, like Service Cloud [ph] was an example, by getting the service levels to as much as 98%, so I think as to the benefit of the audience who may not know, given that was a private company, can you talk about that evolution? And of course, within ReadyRefresh, the business that delivers directly to home and to offices, like that would be probably the biggest synergy that you can get in the new companies.

A - Dean Metropoulos {BIO 1404446 <GO>}

Yes. Well, service levels have certainly improved dramatically. I mean, we were selected the number one supplier to Sam's, and we're very proud of that, but our delivery levels and service levels have climbed 99%, and that's because, first of all, we have much more visibility, our IT systems have improved, we have a lot better efficiencies and scheduling in the plants, we're able to service our customer and predict demand much more effectively with our IT, we have an excellent sales organization out there that has created, and is continuing to create, great partnerships with retailers so we know when we're going to have displays so we can plan accordingly to make sure the product is all available.

So the system, the company has become, so systems, not as an AI, is a very important part of that, the management culture is an important part of that, our commitment to be the category captain in this wonderful category, and we work very closely with retailers to ensure that they understand what the drivers of the category are, and we plan together and work with them very carefully to provide the proper display support, the proper value for consumers, and all that is very important to us.

It isn't about just going out and optimizing profit, it's all going out and optimizing the relationship with our customers across the country, and our consumers, and I think that's what's making this beautiful relationship work very effectively, the partnership with the retailers that provides frequent value to the consumers, and provides some wonderful choices between Saratoga, Spring Water, Pure Life Water, anything the consumer wants, we're there one stop and we're willing to do what needs to take, what needs to be done to satisfy their needs.

And I think in addition, they also see us as incredible supporters for, and we will talk about that on ESG, and almost every hurricane, any fire event, we're always there with free water to supply those communities from Flint, Michigan, the fires in Hawaii, all across the country, we're absolutely there, and communities that go through, like our community up in Maine, through some real terrible things that have occurred, we're there to support it and be part of that community. We feel very, very embedded and very, very much appreciative of these communities.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Yes, so that trip about online. I want to go back to that, maybe Robbert you can talk about the ESG initiative side that Dean spoke to, but also as a combined company.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes, I would love to. Okay, so, the first thing we look at is land and water preservation. Both companies have an exceptional track record of taking care of the 27,000 acres of land that we protect, make sure there's no contamination of any sort, no use of pesticides, proper forestry, preservation orientation. So that's the first thing. On circularity, almost 50% of the volume that we sell as a combined entity is in the three or five gallon reusable bottle format, and we use those bottles up to 40x, and when possible, and in most cases, we then recycle those bottles. So if you have a company that half of which is reusable packaging, that by definition makes us the number one most sustainable branded beverage company in America.

In addition to that, 35% of the plastic we use is recycled PET. In October, we had 39%, and the target for next year, full year is 40% use of recycled PET, which is significantly ahead of the industry standard. We're also advancing aluminum, you see an example here on Mountain Valley, and glass back into the category. So we are significantly increasing our capacity, for instance, on the Mountain Valley side. We've quadrupled our water supply with an additional spring on location. We've also -- we're investing in additional glass, and we're reallocating some of our existing PET capacity to the brand.

The third is emissions. Everybody's concerned about greenhouse gas, we are as well. And we've implemented, actually simultaneously, it's two separate companies. We already have a very aligned philosophy on ESG. Both companies were investing propane fueled fleets. So large trucks and out of 5,900 trucks that we have about a third today is already in propane. Propane is a very clean way and it's also they're very strong trucks because you need a lot of strength to carry water and you need a lot of torque, a lot of engine capacity.

But they're very clean. And we're going to continue to increase the percentage of our total fleet to propane and we want to reduce this as a DECTA [ph] we've submitted over 40% of our emissions. And finally and Dean alluded to this the communities we serve. We do a lot of charitable donations we are particularly strong because of our branch network when it comes to hurricane or other natural disaster relief. When in the Appalachians. Hawaii and various other locations. The companies are always amongst the first on scene to donate water and make water available. Because we believe. In giving back to our communities.

So, if you put that all together those are the four pillars of our ESG approach as a company.

A - David Hass {BIO 20560096 <GO>}

Well the other pillar I might add is our very careful and very warm consideration of our employees. We feel very committed to ensuring that they have safety and an environment that's pleasant to work with, a wonderful relationship with them. And we have really in the recent months we've gotten some of the highest ratings in the industry with the satisfaction of our frontline workers and that's a very, very important part of our partnership our P&Ls. P&Ls almost take a second place to the worker relationships and to our environmental concerns. Anyway that's a very critical part of the balance that we want to keep striving to continue.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And some of them go to the homes of your clients, right? So you have to get them, it's a service business. So I will be dismissive not asking you about the consumer dynamics and how you see that happening right now. Of course, we see the consumer in the U.S. a bit more cautious and a bit more value oriented. You've been competing especially with a lot of private label, but private label in purified, not so much in obviously in spring water. So can you talk about those dynamics and how do you see pricing and promotional environment shaping?

A - Robbert Rietbroek {BIO 18264883 <GO>}

Sure. And please know, we work with you, you can -- we have -- we're a 19th share of the retail water business we also have very large commercial and residential delivery business. We also serve away-from-home. And what we see across the board is that the water category has had a product annual growth rate of around let's say 4% or 4.5% over the years. Continues to grow as not having some of the headwinds that we're seeing some of the other beverage categories like carbonated soft drinks.

More and more consumers are accepting bottled water. We -- a recent report that came out this week. Actually said that 70% of American consumers are now affected by PFAS in their tap water. Now we believe that there should be free and clean tap water available to all consumers.

But the reality is there are -- This increasing dynamic of concern around contamination and therefore it takes an average of 7 miles from the water purification plants to your home through often antiquated infrastructure and aging pipes. So since the consumer is aware of that, there's a -- they're more inclined to use a water bottled water for their daily consumption.

And within that obviously we see the premium spring brands growing share. Spring brands are becoming more popular as more people are realizing these are natural products with natural minerals.

High quality products. We see the overall market growing and we believe there's tailwinds. More tailwinds than headwinds for our categories in healthy hydration. Dean told me a story about the fact that when you go to the doctor nowadays a lot of people get the question. Are you drinking enough water? Are you hydrated enough?

And we actually see that the people who buy our five gallon bottles on average consume more water on a daily basis than people who don't. So we're also trying to convert more and more people in this sustainable. Environmentally friendly five gallon format. Dean what do you think?

A - Dean Metropoulos {BIO 1404446 <GO>}

No, I think all of that. Yes, consumers have been under pressure. They migrate away from more expensive beers and carbonate drinks and all that into water. We have not needed to raise prices for quite a few years with the water yet our profitability has doubled, almost doubled.

And the important thing is we have tremendous efficiencies, continually great tailwinds with efficiencies to protect our margins, continue to grow our margins and as we integrate these two companies we're going to have far deeper penetration, much more efficient penetration, shorter routes, more density in locations that we deliver to, that will continue to provide tailwinds and so we don't have to pass things off to the consumer.

In addition we work very closely with our retailers and we provide tremendous value around display support and promotions for our consumers to come in and find water at a very reasonable price. I mean, you can still buy cases of twenty four packs for three of them for $12 or $11, $10.99, $11, it depends on the locations but -- and we're so efficient across the country to service those retailers and those consumers that I don't anticipate that we will need to be aggressive on prices for certainly the foreseeable future. And I think we will continue to be something that the consumer wants, they will be able to afford, and they realize more than ever how critical it is to the health of their families.

So it is the most unique branded company with the most unique platform I think that exists in the country with great continued tailwinds, a lot of continued integration benefits and synergies and cost savings.

So I think for the foreseeable next few years, I think we're in a very, very good place.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And then thinking about like long-term as you left up your speech about like long-term drivers in terms of like the brands, how to take the brands. So the HOD business was growing at a high-single digit clip, right? And then your business in retail was growing -- the retail part of the business mid-single digits with good volumes in both ways, right? So 3% and then 5% volume. How do you see -- how can investors think about long-term? Obviously, there are two separate businesses which may be integrated from a revenue synergy perspective because the trucks can carry sometimes both, especially the channels like, let's say, Home Depot carry case pack water that didn't carry because you didn't have it.

A - Dean Metropoulos {BIO 1404446 <GO>}

Right.

Q - Andrea Teixeira {BIO 1941397 <GO>}

All of those synergies. But thinking about just as it is now, the combined entity, can it sustain that type of growth?

A - Robbert Rietbroek {BIO 18264883 <GO>}

It's a very good question. And obviously, we'll give guidance early next year. And as we give our quarterly earnings results, we'll be providing more clarity on guidance.

But if you look at the third quarter of -- we just closed, BlueTriton had a 4% net revenue growth and it was also driven by volume. We had an 8% growth of Primo, which was driven by volume, I think consolidated, it was a 5.5% growth.

If you contrast that with some of the other branded beverages companies, we're very proud of those results. We think we've done really well. And what I would say is this, we believe the volume growth is as important as mix and pricing.

As we're premiumizing the portfolio, we'll start, obviously, evolving mix. That's a big part of running a consumer packaged goods business, as you know. You want to continue to maintain or expand gross margins. We want to continue to have healthy EBITDA margins.

And we also want to offer the right consumer value. That's why we offer $0.50 a gallon of refilled self-serve. That's why we offer purified with Pure Life, which is a fantastic brand. That's why we offer more premium spring water and even super premium spring water with these brands you see in front of you.

So, we think that as long as we keep the right balance between unit growth and then revenue accretive moves, whether that's mix or pricing, and we drive household penetration, and we continue to grow our share requirements towards more water consumed by consumers, which is healthier for the consumer than some of the other beverages.

That's where we believe we should be focusing on the mid and long-term. These brands, some of these brands are, as I said, over 100 years old. Some of them date back to the 1800s.

The company that we're jointly building should sustain for the long-term. We think about the next decades of building a really sustainable, exciting consumer packaged goods, branded beverages company.

And at some point, we haven't talked about capital allocations, probably your next question. We may also look at acquiring another branded beverage, but we're obviously going to drive our net leverage ratio down first.

But maybe David, you want to comment a bit on our capital allocation strategy?

A - David Hass {BIO 20560096 <GO>}

Yes, so I think first, in one area where, admittedly, legacy Primo Water received some criticism was a little bit of a higher capitalization or CapEx ratio as a percent of sales. Well, why would that have occurred?

The reality was we did not blow mold any of our own five gallon product. On an annualized basis, we would spend upwards of $30 million paying a supplier to provide five gallon product, which was a core skew of our offer.

When we bring these two companies together and the investments Dean talked about that One Rock team made in the business is to bring volume like our five gallon production into their manufacturing capabilities.

That immediately goes into efficiencies of the business. And that allows us, as folks can see on the screen in some of the materials we released yesterday, allows us to get into a more normalized CapEx as a percent of revenue that one would come to expect.

And oh, by the way, it prioritizes the focus. That was already a discipline that existed inside of BlueTriton. And the Primo Water Associates no longer now have to worry about procurement deals and getting upside down on a pricing opportunity.

So I think primarily on the CapEx side, you'll see a much more efficient spend ratio. And I'm very proud of that. When it gets into other capital allocation decisions, we've talked about continuing with the existing dividend for the time being from the Primo Water side.

There is not an active share repurchase plan at this moment. Other considerations will go into that. But we're very excited about building a nice healthy growing company that will have a sustainable EBITDA margin with synergies that is about 22.9% on a trailing 12 month basis as of Q3.

It's a great starting position to allow our free cash flow to grow and to allow us to make interesting decisions to expand our portfolio and reach. We will still prioritize tuck-ins that legacy Primo Water was doing more on the water direct or five gallon side.

It's a great way to continue to bring density to this business, and density to our route structure. So I think, again, the platform here is very exciting, and that's before we really start to talk about line extensions or other areas of beverages where this company can succeed.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And maybe, before we go into the white spaces other than the HOD business, like perhaps talk about the debt, the combined debt, the cost, and how you're thinking of the leverage. Of course, as manageable as it is, but perhaps the opportunity that you can get down.

A - Dean Metropoulos {BIO 1404446 <GO>}

Sure. So today, the company has a gross debt position of about $5.1 billion on a gross debt basis. When you involve net debt of some of the cash balances on a prospective basis, dealing with some of the transaction fees, et cetera, just combining, it puts our net leverage ratio right at 3.1x, including the benefit on a run rate basis of those synergies.

So we feel like that's already in a very manageable position. However, we will continue to build cash and proactively take steps to sort of efficiently get our debt position into a lower gross basis. Both companies today, ironically, have a $350 million position.

We had a cash flow revolver, BlueTriton had an ABL. We'll look to consolidate that into a single position. Neither company at this moment is drawn on those facilities, so that's a great position of where we sit.

There are some complex debt structures that we have to simplify. We've been working with our rating agency partners on that. We just received BlueTriton, just on their standalone, just recently received an upgrade in that position because of the diversification of this new company and the profile of that.

So we're very excited to work with our rating agency partners, work with our debt holders to sort of simplify that structure over time.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. And then, in terms of the scale and efficiency, you obviously talked about the trucks going up and down and some of the things that I think investors would appreciate, like a little bit more detail of what the opportunity is.

For example, I remember when you came in and you talked about the racks. Why is Robbert talking about the racks and you're bringing all the racks into more efficiency and perhaps bringing some of these brands even in the jugs, potentially, on the strength side, not only purify.

A - Robbert Rietbroek {BIO 18264883 <GO>}

I mean, Dean and I philosophically believe that scale and growth are the solutions to most problems. So when you look at -- let's look at the exchange business, which is interesting. We've talked about a lot in the past.

So we had, on a software basis, Primo at 18,500. We're now together at 26,500 exchange locations. And we focus on two things. One is to make sure we are always in stock, that we are, particularly during the weekends, that's why we went from five day to six day to even seven day delivery in some cases because our retail partners work seven days a week.

So we need to be there seven days a week and through holidays as well. We also have expanded capacity in those racks where we could because of the velocity of those units. Now we have an opportunity to potentially add another spring opportunity, spring brand next to a purified brand, or vice versa.

So there's just a lot of benefits to scale. When it comes to manufacturing, we're going to be able to consolidate into fewer, bigger manufacturing sites. And that will give us tremendous asset utilization benefits and yields and efficiency that Dean referred to already.

Procurement benefits as well. So there's just so much benefit to this scaled company that now will be the fourth largest beverage company, branded beverage company in North America.

So Dean, what are your thoughts on this?

A - Dean Metropoulos {BIO 1404446 <GO>}

No, I agree 100% and you asked earlier how we feel about continued growth? The fundamentals that have been driving the growth will not change. And if anything, I see those fundamentals growing.

And more importantly, as we penetrate and service much more density throughout our country, I think our growth will continue to expand as we gain shares because so far, we've been able to do very few deliveries to the restaurant chains, for example.

Right now, we have a much more intensive network to be able to do that efficiently. So I think, so the fundamentals for this business will continue to grow. And very importantly, they're old brands. They cannot be replaced. And it's the fastest growing branded business today in the country.

The most integrated, one of the most integrated branded businesses with service levels at every part of the country that can service consumers very, very, and our own customers at a very cost-efficient basis.

So this, we think, and by the way, looking at a 23% EBITDA margin that shows on that slide, $700 million free cash flow. And by the way, part of my history, once we develop and integrate this company over the coming months and create the efficiencies and deeper reach that we're thinking about doing, we will look for some, and we've got this culture of transformation and execution.

We will look for some very, very disciplined acquisitions to add to the platform where we can leverage SG&A, distribution, brand knowledge, and all of that. So I think that's always been part of our brand building company in the past.

So again, we're staying in our very healthy category and we feel very, very good about the future.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Yes, with the 10 minutes we have left, I wanted to go into that white space. I asked on the call, on the earnings call, what are the white spaces you wanted to have? And then the second, which is very important, is to think about the ownership and the lockouts coming up for the sponsor into the new company and the ownership is important to the social groups.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes, look, the white space opportunities that are very obvious and immediate for us are usually related to distribution. So I'm a big believer that distribution is the gift that keeps on giving.

As I said, we are in 150,000 unique retail outlets today, but we're definitely not everywhere. Dean alluded to the fact that we have a large away-from-home opportunity with restaurants, hospitals, schools, and other food service customers, airlines for instance.

We have an obvious opportunity to strengthen our position in the natural channel, which is growing, where we have strength with Mountain Valley. We want to probably accelerate more into mass. Mass is a big, so the Walmart of the world is a big opportunity for us where we see distribution opportunities and partnership opportunities.

And we now can show up as one integrated company. So where in the past, Primo would be selling dispensers in the purification aisle in Walmart next to the purification SKUs, and we had a refill station in the water aisle, and we had an exchange, now we actually have a big presence on the shelf as well.

So we can go in the fall, when we do work with our retail partners, to talk about a joint business plan, truly touches the front of the store, and the retail shelf side, and the equipment side.

So this gives us a real opportunity to build a growth plan that is far more, I would say holistic than before. DIY, we have fantastic partnerships with Home Depot and Lowes, we'd love to expand on those.

So there are so many opportunities, but we are going to be disciplined in year one to really focus on the integration and making it a success. We'll have people focusing on integration and other people focusing on execution. So we're not mixing those two things up.

We have an incredibly capable leadership team, which is available on Primo Brands has become a very supportive, strong board with a lot of experience, deep experience in the category, you'll see that.

And then we'll, as David said appropriately, identify and sequence these white space revenue synergy opportunities, which also includes adding all the Triton spring brands to our trucks.

We have a network that is national, we're the only exchange delivery company that can actually service exchange racks on a national basis.

So there's a lot of growth opportunities that we'll go pursue. We'll do it in a disciplined way, we'll prioritize the biggest ones first, work with our retail partners and make sure that we don't falter in execution.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. And then -- and that takes precedent, I guess, like going after energy drinks or going after like sport drinks for now?

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes. We will keep an eye out for potential synergistic M&A opportunities in the mid-term. As Dean said, the first six months will be 100% focused on the integration, but as opportunities come up, I think Saratoga is a great example of where Triton made a very early decision early on after the acquisition.

It is an incredible success story. It goes from strike to strike. We're expanding this brand across the network now in new locations, new markets. We just talked about additional spring and volume capacity, so we are going to keep our eyes open.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Great. And then on the ownership, both from the dual-class structure, I think you guys might want to know what is the intention as you go into next year as the lock-up expires.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Well, as you know, we have a lock-up period for the next three months. Importantly, not of any surprise, we're private equity type investors, One Rock is, and I think in a very intelligent way, obviously the role we play with our own investors is to return capital, but I think we're going to do that in a way that's measured.

And I think, if anything, any sales that we execute will provide more liquidity to the stock because I think we need more shares out there because we hear more and more demand from a lot of big institutions, and I think as we exit, I think it'll provide more liquidity, but we're going to do it in a very measured and careful way, and we're not in any hurry with the gun to our head to do that because we see a very successful business continuing.

Q - Andrea Teixeira {BIO 1941397 <GO>}

So that takes us to February, but you're still going to have kind of the quiet period?

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes, we'll always have with earnings. David, you may want to talk about that.

A - David Hass {BIO 20560096 <GO>}

Yes, so again, we intend, based on our filing dates and deadlines, to provide Q4 and 2024 full year earnings on approximately February 20th. We do -- we will communicate further on these details, but we do envision having an Investor Day on approximately February 27th. When both of those are clear in our normal runway with regard to blackout periods around earnings and the blackout can now be then expired, it will be at the full discretion of the ownership group.

But as Dean mentioned, there's a lot of tremendous opportunity here, and I think everyone there in that ownership group will be very measured in how they look at providing liquidity to the shares over the future months to come.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And the shares eventually will be fungible, correct? When those are kind of sold, then it will be fungible. And you had, correct me if I'm wrong, you had committed to stay on the board for two years?

A - Dean Metropoulos {BIO 1404446 <GO>}

Yes. I'm committed to being continuous chairman for the next two years.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. I guess with that, any parting messages?

A - Dean Metropoulos {BIO 1404446 <GO>}

Very unique company. We're very proud of it. We love our culture of execution. And we look forward to continuing good results.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Yes, I would like to take the opportunity to, once again, thank Dean and the board for their confidence. Also want to say thank you to the management team and all the associates that we have who are out there every day, delivering against customer service requirements and make us proud.

As you probably know, our Google business ranking went up into the, above four, our trust pilot ranking went up above four, which are both in the excellent category. We're very proud of that. We get great NPS scores. That is all because of our associates who work hard every day.

The frontline, particularly the delivery truck drivers, they are compensated on performance. There is a big part of that. Our company is a performance culture. We pay for results. We are results-oriented business, results-oriented leadership team, and we'll be very lean as we go forward, a lean, efficient company.

And thank you to JP Morgan for hosting us.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you all. Thank you, Dean, thank you, Robbert, thank you, David, and thank you, Jon. And I'm sure that we're all going to be together like in February, but in the meantime, if you guys just have any questions, you're more than available to team.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Absolutely.

A - David Hass {BIO 20560096 <GO>}

Yes. Absolutely, anytime.

A - Dean Metropoulos {BIO 1404446 <GO>}

Thank you very much.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you all.

A - Robbert Rietbroek {BIO 18264883 <GO>}

Thank you for your attention.

A - Dean Metropoulos {BIO 1404446 <GO>}

Thank you.

Operator

This concludes today's webinar. Thank you all for your participation. You may now disconnect your lines.