FINAL TRANSCRIPT

Primo Water Corporation

Third Quarter 2023 Earnings Conference Call

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PRESENTATION

Operator

At this time, I would like to welcome everyone to the Primo Water Corporation's Third Quarter 2023 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise.

(Operator Instructions)

Thank you. I'll 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 Third Quarter 2023 Earnings Conference Call.

All participants are currently in listen-only mode. This call will end no later than 11:00 a.m. Eastern Time. The call is being webcast live on Primo Water's website at www.primowatercorp.com and will be available for playback.

This conference call contains forward-looking statements, including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with the cautionary statements and disclaimers contained in the Safe Harbour statements in this morning's earnings 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 third quarter earnings announcement released earlier this morning, or on the Investor Relations section of the Company's website at www.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 Hass, Chief Financial Officer. Tom will start today's call by providing a high-level summary of the transaction announced earlier this morning, followed by a review of the third quarter and our progress on Primo Water's strategic initiatives. Then David will review our segment-level performance and will discuss our third 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 exciting news announced earlier today, and the strong results the team delivered in the third quarter, I'd like to share that our associates, customers, suppliers, and the citizens of Israel have been and remain in our thoughts and prayers. Our associates in Israel have shown an incredible commitment to our customers, each other, and their communities in the face of a horrific situation, by continuing to supply bottled water to the citizens of Israel. I want to thank them for their tremendous efforts.

Now onto today's news, as we announced that we have agreed to sell a significant portion of our international businesses to Culligan International. This deal is the first of several transactions that will occur in 2024 as we are executing strategic alternatives for the remainder of the international businesses, which include Aimia Foods in the United Kingdom as well as our water and coffee businesses in the United Kingdom, Portugal, and Israel, and expect to finalize these in 2024.

We believe this deal unlocks significant value for Primo Water share owners. The transaction was the result of a proactive, Board-led process that resulted in an agreement that offers an attractive premium valuation for the businesses sold. It enables us to focus on the North American market where we have leadership, scale, and a significant addressable customer opportunity. The proceeds will be used to drive organic growth, reduce leverage, accelerate Water Direct tuck-ins, pursue opportunities in water adjacencies, and return capital to share owners via share repurchases.

Highlights of the transaction include: up to $575 million all-cash purchase price for a significant portion of our international businesses, unlocking substantial share owner value; an attractive premium valuation multiple of approximately 11x trailing 12 months Q2 Adjusted EBITDA; upon closing the transaction, we intend to repay the outstanding balance of our cash flow revolver, with a long-term goal of sustaining net leverage under 2.5x Adjusted EBITDA. In addition, upon closing, the Board plans to authorize an incremental $25 million share repurchase program. To be clear, the existing $50 million authorization, approved in August of 2023, remains in place until closing and will be increased to an aggregate authorization of $75 million post-closing. The remaining international businesses are expected to generate additional cash as they are sold in the upcoming year.

This transaction marks another major milestone in our transformation as a Company. Following the completion of the transaction, and the divestiture of the remaining international businesses, the simplified pro forma Prima Water will have greater focus on our pure-play North America water businesses with scale and operational focus, an improved financial profile, accelerating the achievement of several previously-announced 2024 targets by approximately one year, the means to execute highly synergetic tuck-ins, as well as the ability to pursue adjacent water services and high-growth categories.

Our capital allocation priorities will align with our opportunities for growth and will be able to support a full suite of options to drive value. We will able to drive organic customer growth, digital initiatives, and customer retention activities, and our capital investments will be focused in high-impact, profit-generating projects. We will reduce leverage, giving us increased flexibility to pursue the growth opportunities. We will fund M&A through tuck-ins, as well as new and potential revenue streams. We will support the return of capital to share owners via share repurchases.

Upon closing, we will have a North American-based Company that aligns with our brands' strengths, a leaner, more focused associate base, a balance sheet that has lower leverage, the power to increase organic growth, greater earnings power, and a Company poised to execute M&A at an accelerated pace. We anticipate releasing next year's guidance in conjunction with our 2023 year-end earnings in February 2024.

I would like to thank all the Primo Water teams for their contributions to the excellent performance of the business and delivering another quarter of strong revenue and earnings results, and generating record Adjusted EBITDA margins. In Q3, we delivered consolidated revenue growth of 6 percent, Adjusted EBITDA growth of 21 percent, Adjusted EBITDA margin of a record 22.7 percent, a 270-basis point increase versus the prior year, adjusted free cash flow of $102 million, and sell-through of approximately 252,000 water dispensers.

For the third quarter, consolidated revenue increased 6 percent to $622 million compared to $585 million. Excluding the impact of foreign exchange, revenue increased 6 percent for the quarter.

Adjusted EBITDA increased $24 million to $141 million, an increase of 21 percent. Excluding the impact of foreign exchange, Adjusted EBITDA grew 19 percent.

In short, we delivered increased revenue, Adjusted EBITDA growth, Adjusted EBITDA margin expansion, and significant free cash flow.

Revenue growth was driven by strong revenue growth in Water Direct & Exchange of 7 percent, double-digit revenue growth in Water Refill & Filtration of 19 percent, increased revenue growth in our European operations of 4 percent, excluding the impact of foreign exchange, and Global Water Direct customer retention of approximately 86 percent, a slight increase from last quarter. Two-thousand and twenty-three growth in customers is expected to reflect a combination of organic customer growth, as well as the execution of our tuck-ins strategy. As a reminder, our tuck-in acquisitions are a core component of our customer growth plan. These customers have strong retention rates, generally synergize within 90 days, and enhance route density, resulting in increased Adjusted EBITDA dollars and margins in the markets we execute in.

Our razor-razorblade business model includes two approaches: the rental of water dispensers direct to residential and commercial customers, and the sale of water dispensers through retail partners. Both approaches enable growth in Water Solutions and contribute to our predictable and recurring revenue growth.

In Q3, we had water dispenser sell-through of approximately 252,000 units, on pace with our target of one million water dispenser sold through for the year. In 2023, we were particularly focused on growth with our brick-and-mortar retail partners, where we have great visibility into the connectivity to our Water Solutions, and where the connectivity is dramatically higher than through e-commerce.

Our consolidated Water Direct & Exchange business continued to experience strong top line momentum during the quarter, with 7 percent revenue growth driven by pricing, and 86 percent customer retention in Water Direct.

Our Water Refill & Filtration business continues to exhibit strong growth, with revenue increasing 19 percent in the quarter. The growth was driven by pricing, consistent 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 a diverse platform of water solutions for all consumers.

We are pleased to report that our commitment to improving the customer experience has resulted in improved operational metrics, digital experience, and customer satisfaction. As a reminder, 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 and with all the products they requested? OTIF in North America in Q3 increased when compared to Q3 of 2022.

The ability to serve our customers in the most efficient manner possible is a critical driver of both our short and long-term profitability. Units per route per day increased approximately 4 percent compared to Q3 of 2022, and revenue per route increased 7 percent compared to Q3 of 2022. Our scale and leverage are becoming more evident as we service more customers with higher volume per route. Route density and revenue per route have never been higher, and as a result, we were able to post record Adjusted EBITDA margins of 22.7 percent across the entire Company, and North American margins of 25.7 percent.

Relative to ESG, last month we received the results of the Sustainalytics Gap Analysis Report. We were able to significantly improve our overall risk score related to ESG factors and received a strong corporate governance score. Our strengths in ESG, coupled with our ownership of water rights and access to water sources, as well as our expansive distribution network, sets us apart in terms of our ability to meet our customers' needs, whenever, wherever, and however they want. We have an economic moat that is not easily replicated and sets us up for sustained success.

Looking ahead, we are reaffirming our full-year 2023 revenue guidance to be between $2.32 billion and $2.36 billion, with revenue growth in a range of 7 percent to 9 percent, and full-year 2023 Adjusted EBITDA to be between $460 million and $480 million, while understanding the current challenges in Israel. Our disruptions to-date have been relatively minor and we continue to monitor the situation closely.

We've made significant strides with respect to adjusted free cash flow generation, through a combination of increased earnings and improved working capital. We expect an increase in full-year 2023 annual adjusted free cash flow, to $160 million, a $10 million increase versus prior guidance. We anticipate releasing next year's guidance in conjunction with our 2023 year-end earnings in February of 2024.

I'll now turn the call over to our CFO, David Hass, to review our third quarter financial results in greater detail.

David Hass — Chief Financial Officer, Primo Water Corporation

Thank you, Tom, and good morning, everyone.

Starting with our third quarter results, consolidated revenue increased 6 percent to $622 million compared to $585 million. Excluding the impact of foreign exchange, revenue increased 6 percent for the quarter.

Adjusted EBITDA grew 21 percent to $141 million, which represents 270 basis points of margin expansion, to 22.7 percent. Excluding the impact of foreign exchange, Adjusted EBITDA grew 19 percent.

Turning to our segment-level performance for the quarter, North America revenue increased 5 percent to $470 million, compared to $447 million. Adjusted EBITDA in North America increased 18 percent to $121 million. Adjusted EBITDA margins climbed to 25.7 percent, a 280-basis point improvement over last year.

In our Europe segment, revenue increased by 13 percent to $81 million. Excluding the impact of foreign exchange, revenue increased 4 percent. Adjusted EBITDA in the Europe segment increased 32 percent to $20 million. Excluding the impact of foreign exchange, Adjusted EBITDA increased by 18 percent. Adjusted EBITDA margins climbed to 25.2 percent, a 350-basis point improvement over last year.

Turning to our Q4 and full-year outlook; we expect consolidated revenue for the fourth quarter to be between $558 million and $598 million, and Adjusted EBITDA will be in the range of $108 million to $118 million. As Tom mentioned, for the full-year 2023, we are reaffirming our guidance, with revenue projected to be between $2.32 billion and $2.36 billion, with revenue growth in the range of 7 percent to 9 percent and full-year 2023 Adjusted EBITDA to be between $460 million and $480 million. Additionally, we are raising our adjusted free cash flow guidance to $160 million, an increase of $10 million compared to the previous guidance.

Our reported SG&A expenses in the third quarter were 50.7 percent. As expected, our Q3 SG&A declined as a percentage of sales, as we were able to benefit from the leverage and scale of higher volumes due to seasonality. On a year-to-date basis, adjusting for the one-time nonrecurring items such as the activist proxy contest, SG&A would have been 52.5 percent compared to the reported 53.2 percent.

We are maintaining our 2023 CAPEX guidance of approximately $200 million, which is approximately 7 percent of revenue, plus an incremental $30 million. We reaffirm our prior guidance that we expect to return to our total CAPEX spend of approximately 7 percent of revenue in 2025, irrespective of the transaction.

Key initiatives to be funded from our CAPEX plan include: driving organic growth, including investments in digital capabilities; 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.

For the full-year 2023, we continue to expect interest expense of approximately $70 million to $75 million. Most 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 that we are actively managing lower with excess cash, while rates remain at approximately 7 percent. Due to the increased cash generation from the business and the management of CAPEX and working capital items, we've been able to prioritize reducing our cash flow revolver by $76 million in the third quarter alone.

Full-year 2023 cash taxes are expected to be approximately $25 million. This anticipates utilization of U.S. net operating losses, or NOLs. We still have a substantial amount of U.S. NOLs available in the balance of 2023 and 2024.

As a reminder, our Water Dispenser category was previously under a 25 percent import tariff but was reclassified last year, and a refund process was initiated. We have recorded the refunds in the same manner as the original transactions. Through Q3, we have received approximately $5.1 million of tariff-free funds, a slight increase since last quarter. Approximately $2.4 million of the $5.1 million is reflected in year-to-date Adjusted EBITDA related to water dispensers sold to retail. A similar $2.4 million is related to the water dispensers that we rent, as CAPEX, with the residual value, approximately $326,000 related to interest income for the year-to-date tariff balance paid to Primo.

Through Q3, $5.1 million is reflected in our adjusted free cash flow guidance that we'll discuss in a moment. We have not included any additional refund amounts in our updated guidance due to the uncertain timing of the refund process.

As we look at our performance in the first three quarters of the year, we are confident in our ability to raise our annual adjusted free cash flow guidance to $160 million, an increase of $10 million. The $10 million increase from prior guidance is attributable to the slight increase in tariff receipts since last quarter, with the balance related mainly to the benefits in working capital actions across the quarter, and anticipated into year-end.

We are pleased to report that we have achieved our targeted adjusted net leverage ratio with the latest quarter coming in at 2.9x, which is below our 3.0x target for the end of 2023, and we remain committed to achieve a targeted net leverage ratio of less than 2.5x after the completion of the transaction.

Our year-to-date tuck-in M&A activity, along with potential acquisitions for the remainder of the year, positions us to achieve the high end of 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 acquisition is typically similar to other means of acquisition; however, the difference lies in the stickiness of the customer. Customers acquired through tuck-ins acquisitions are already users of the service and understand the benefits and annual costs of Water Direct service. We remain committed to Water Direct tuck-ins 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. Our Board of Directors has 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 each of the last two years.

As it relates to the transaction announced this morning, we are very excited about Primo Water's financial profile on a go-forward basis. We remain confident in our ability to achieve previously-communicated 2024 financial targets, and this transaction will allow us to accelerate several of these targets by up to a year sooner than anticipated. The transaction will also allow Primo Water to focus on the North American business that contributes most to the financial benefits to the Company. Across the board, the transaction yields greater financial outcomes across margin and adjusted free cash flow conversion metrics.

While the notional value of Adjusted EBITDA and free cash flow decline, the conversion of each future dollar increases significantly. This reflects the scale present in the North American business. When you take our updated 2023 full-year adjusted free cash flow guidance of $160 million, the new Primo Water will deliver approximately $140 million of that benefit. As we right-size the Company across 2024, we expect to replace nearly all of the $20 million of adjusted free cash flow by optimizing the cost structure of the Company. This is prior to the additional organic and acquired free cash flow growth that will occur in normal course throughout the year.

Immediately upon close, we intend to repay the outstanding balance on our cash flow revolver, as well as increase and fulfill the newly authorized $75 million share repurchase program. The additional proceeds will provide financial flexibility to pursue organic growth, accelerate accretive Water Direct tuck-in acquisitions, and engage in acquisition opportunities complementary and adjacent to our core North American Water businesses.

To achieve the $20 million in business optimization previously discussed, we intend to engage outside consultants to support initiatives to drive efficiencies as we shift from a global organization to one focused solely on the North American market. We intend to provide updated 2024 guidance for the

North American-focused version of Primo Water in February, during our normal Earnings Call related to Q4 and fiscal 2023 results.

I will now turn the call back to Tom.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, David.

Our strong performance reinforces our confidence in our ability to deliver sustained growth, supported by strong revenue growth in our Water Direct, Exchange, Refill, and Filtration businesses, continued execution of our tuck-in M&A strategy, the improved performance of our operations, and Adjusted EBITDA margin expansion. 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 with leading national and local brands, and we benefit from a large and growing revenue base. Our 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 the aging water infrastructure.

We have a healthy balance sheet, a compelling long-term growth outlook, and an attractive margin profile. We are confident that share owners will be pleased with the results of the transaction announced earlier today as we create value by driving organic growth, reducing leverage, funding M&A, and supporting the return of capital.

As an update, earlier this summer, I announced my retirement at the end of 2023, and the Board initiated a search for my successor. The Board, with the support of an international search firm, has met with a number of highly qualified candidates and is in the final stages of the process. We therefore anticipate announcing a new CEO later this quarter.

As you can see from our results, the business continues to perform at a high level with strong results, and is clearly well-positioned for the future. It has been an amazing personal journey over the last two decades, including the last five years as the CEO of the Company. I'm proud of what we have accomplished. The transformation of the Company from a private label juice, coffee, and soft drink manufacturer into a pure-play water company has proven to be the right move for our customers, associates, and share owners. All this accomplished whilst managing through a global pandemic, record high inflation, two major wars, and a significant Board refresh. The current transaction to sell most of our international businesses at a premium valuation will enable the Company to become a more focused North American water business.

I will remain a supporter of the Company, and will be cheering them on as an investor, fan, and the customer. I'd also like to thank you, the investors and analysts of the financial community. I'm hopeful that the marketplace recognizes the value of our model and our consistent execution, and rewards us accordingly. Our Leadership team and our associates across the business are amazing, and I thank them for their tireless efforts and support in our mission of serving our customers with professionalism. They truly are the best in the business.

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

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

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.

(Operator Instructions)

Your first question comes from Derek Lessard, TD Cowen. Derek, please go ahead.

Derek Lessard — Analyst, TD Securities

Hey, good morning, everybody.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Good morning, Derek.

Derek Lessard — Analyst, TD Securities

Good morning, Tom. I just wanted to start maybe with a little congratulations, Tom, on your retirement. I think you've done a remarkable job at the helm of this organization through really challenging times, to say the least, so wishing you nothing but the best for the second act, whatever that may be.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, Derek, I appreciate that very much.

Derek Lessard — Analyst, TD Securities

Of course, you're going out with a bang. I expected nothing less, so congrats (audio interference). Just had a few questions, maybe it's more for David, but on the pro forma business, it's mostly all really on Slide 12. Just wondering if maybe you could clarify the step-down in EBITDA from $470 million to $375 million? I think the legacy business that you're selling in Europe is close to $60 million of that, so what's the missing piece there?

David Hass — Chief Financial Officer, Primo Water Corporation

Yes, thanks, Derek.

The purpose of that was to give everyone a foundation of who and what we call Newco will be, on a '23 guide basis. As you think about the $470 million representing the midpoint of our guidance, $375 million would include the PW&A component and the corporate component. But the reality is, there's about $416 million of equivalent midpoint guide EBITDA in the business that includes PW&A, corp, and the assets that will be part of secondary transactions across 2024.

The other thing the $375 million does not yet contemplate would be optimization gains as we look to right-size the business, i.e., reduce some of the overhead in the business for just a domestic business. Obviously, on a pro forma basis, that $375 million, equivalent to the free cash flow chart, has about $20 million of upside. This is all before we give guidance that includes both organic and inorganic growth sliding across 2024. I think that's really the clarity we wanted to provide there. Appreciate the question.

Derek Lessard — Analyst, TD Securities

Okay, that's helpful. Maybe you just touched on it too on the same slide, looking at that free cash flow. You walk it down to $140 million and then talk it back up to $160 million. I think you did allude to it on the call, but maybe just what you're expecting to drive that incremental $20 million?

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Correct, yes. Again, $160 million would be the guide we just took up with that $10 million increase for the enterprise for 2023. Inside that $160 million, $140 million would be the adjusted free cash flow generative capacity of the PW&A business that we will have as a go-forward. The $20 million represents pro forma basis of us, again, right-sizing with 100 percent flow-through of that benefit, basically saying that, when we're done, on a run rate basis, there will be zero slippage in free cash flow for what we consider the Newco business. Now, that'll take across calendar '24 to develop, and again similarly to the comments in the prepared remarks, that is prior to any organic or inorganically acquired free cash flow that comes across 2024.

But the same thing; $375 million has upside when you think about these optimizations, and we depicted the $140 million with its $20 million upside to get us back to parity with the business we are right now. That shows you, again, the free cash flow potential of who we'll be going forward of just this domestic-oriented business.

Derek Lessard — Analyst, TD Securities

Okay, that's all very helpful. Maybe I'll sneak one last one in, just again on your 2023 guide, more specifically on Q4. Obviously, a big beat this quarter, but revenue and Adjusted EBITDA guide you kept unchanged. That's not the discontinued ops just yet, right?

Tom Harrington — Chief Executive Officer, Primo Water Corporation

No, no. That's normal course, so we expect to close on, I think we've said 12/31. That is existing Company, as-is, where is. Look, Derek, to be completely transparent, we have a business in Israel. It hasn't—it's performed well through the last crazy four weeks, and thus far minimal impact. But frankly, I wanted to have a degree of conservatism here because I don't know what's going to happen over the next four to six weeks. We watch it and we're in contact real-time, all the time with the team. Just hedging against what could be an outcome in Israel. I don't know, so I don't want to get ahead of myself; I certainly don't want to leave this for the new guy, not properly reflecting what could be.

Derek Lessard — Analyst, TD Securities

No, that's fair, guys. Thanks, Tom. Thanks, David. Again, congrats.

David Hass — Chief Financial Officer, Primo Water Corporation

Definitely.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Derek, appreciate it.

Operator

Thank you.

Your next question comes from Stephen Powers, Deutsche Bank. Steven, please go ahead.

Stephen Powers — Analyst, Deutsche Bank

Great, thanks so much, and Tom, congrats from me as well…

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Yes, thanks, Stephen. I appreciate it.

Stephen Powers — Analyst, Deutsche Bank

Great. Hey, so building on the transaction topic, the first thing, Tom, you had mentioned—you used the words in your prepared remarks, it's in the slides as well, of proceeds from the transaction of "up to $575 million," and I just wanted to clarify what might be the variables around that? If it's just normal course closing costs and the like, that's fine, but if there's any kind of variability in the terms of the deal, that would be helpful to know.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

No, no, there's no if A, then B. It is just those last-minute closing costs between now and then. Yes, we expect to close at $575 million, but costs could vary a little bit between now and then.

Stephen Powers — Analyst, Deutsche Bank

Okay.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

There's no trigger that's up or down or anything to that nature.

Stephen Powers — Analyst, Deutsche Bank

Great, okay. Then, maybe David, if you could clarify a little bit more, just bridging the pro forma. Another way to cut it, what is the EBITDA base of the businesses that remain for sale? What is that EBITDA base from the perspective of a future buyer, number one? Then netted against that, what's the stranded corporate cost assumption that you've embedded here? I'm having a little hard time parsing that out from the numbers that have been provided.

David Hass — Chief Financial Officer, Primo Water Corporation

Yes, understood. Obviously on the screen with that same slide that Derek was asking about, there's about a $95 million step-down inside the residual assets not included with this transaction. On an equivalent kind of a guide, apples-for-apples like value, is about USD$40 million, local currency.

Stephen Powers — Analyst, Deutsche Bank

Okay.

David Hass — Chief Financial Officer, Primo Water Corporation

Then, there's about $2 million of stranded North American overhead that gets shipped overseas, basically, if you will, as support costs that comes back and increases the overall corp value to about $35.5 million. That's the bucket, if you will, of the money where we're trying to seek the optimization across '24.

Stephen Powers — Analyst, Deutsche Bank

Okay. Okay, I got it. But from an apples-to-apples basis, you've got about a $40 million EBITDA base that remains for sale.

David Hass — Chief Financial Officer, Primo Water Corporation

That's correct, yes. Again, we are in active processes to monetize those additional transactions of those entities, but today, obviously, we wanted to talk about the primary and the first transaction that is a major benefit for us to begin the focus here domestically.

Stephen Powers — Analyst, Deutsche Bank

Okay. I just wanted to make sure that those conversations are all in place. It sounds like they are. I just wanted to clarify.

David Hass — Chief Financial Officer, Primo Water Corporation

Absolutely. That's correct, yes.

Stephen Powers — Analyst, Deutsche Bank

Okay. Very good. Thanks so much.

David Hass — Chief Financial Officer, Primo Water Corporation

Thank you.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, Stephen. Have a good one.

Operator

Thank you.

Your next question comes from Andrea Teixeira, JPMorgan. Andrea, please go ahead.

Andrea Teixeira — Analyst, JPMorgan

Thank you, good morning. Congrats on the transaction.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thank you, Andrea. Good morning.

Andrea Teixeira — Analyst, JPMorgan

Yes, good morning, and I had congratulated you on your retirement, so here it goes again.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

(Multiple speakers) you said nice things about me, I remember.

Andrea Teixeira — Analyst, JPMorgan

Yes, yes. I have two questions, first on the deal. If we step back, Tom, on this divestiture, you talked about strategic options for you now, as you have been announced you were going to be able to focus in the U.S. Can you think about potentially bigger transactions, transformation of transactions as you had attempted in the past, obviously with your largest competitor? This obviously puts you in a completely different position from a capital structure perspective. You're going to have excess cash, no leverage. You're going to have, obviously, additional free cash. Just a very little impact on your free cash flow. From an LBO perspective or anything you can think of, I was just hoping to see where could this Company take—in terms of next steps from a strategic perspective.

Then, secondly on the line business for—there are a couple of things that I wanted to clarify. One is the Water Direct & Exchange. Can you talk a bit more about the composition of the top line? I know this is something that investors and CPG have been asking throughout, in terms of volume of customers and pricing within the third quarter growth.

Also, I know in Dispensers, you had a very tough comparison in the quarter. I think you were shifting ahead of consumption, ahead of the price increase last year. But just a little bit of colour there, if you're seeing anything as it relates to any deceleration or anything that we should be aware of?

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Hi, Andrea. (Multiple speakers).

Andrea Teixeira — Analyst, JPMorgan

I know it's a lot.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Yes, we'll see if I—we'll get through this. Let's talk about our capital deployment strategy, right, which I think is important. As we see it today, we will invest in growth in North America. That's the organic triggers, digital capabilities, as well as investments against high profit-generating projects. That would be some of the plants that we've discussed in the past. As an example, continue development on our digital capabilities to support the growth of the top line from an organic perspective.

We are focused on deleverage, so we will reduce the cash flow revolver to $0 at the time of closing, which'll get us in a position that we could maintain the 2.5x leverage go-forward for the foreseeable future. That is our intended path.

We have the ability, because we have a robust pipeline of—think of it as Water Direct M&A tuck-ins, that we will invest energy there because they remain highly synergistic and help us build both EBITDA, but certainly EBITDA margins as we leverage those incremental customers and revenue inside the markets where we execute those. That will be a primary focus of ours. Then of course, we've referenced share repurchase as part of our go-forward capital deployment strategy.

We don't see anything transformative on the near-term horizon. We will look at what I'll call water adjacencies, so are there other highly profitable areas that fit in water, because we are a water company, that we will consider? There's nothing imminent or actionable there, but this gives us the ability to further pursue adjacencies that fit with our model and that, at the end of the day, would (inaudible) to our shareholders' benefit. That's the capital deployment, our current view of how we'll use cash, and responsive to your question about that biggest customer.

I'll skip the revenue; I'll leave that one for David, but I'll just touch base briefly on your dispenser question. Yes, we had a big comp.

Andrea Teixeira — Analyst, JPMorgan

Mm-hmm.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

We were able to sell through roughly 252,000 dispensers. We're confident in our ability to get to approximately a million this year, a million of sell-through in 2023. Importantly, we're very focused on brick-and-mortar as opposed to e-commerce, and part of our cycle, or the comp we have, is because of some activities we did a year ago in e-commerce. But we've really shifted to be focused on that brick-and-mortar because we have a clear line of sight to the connectivity. When I sell a dispenser at a large retailer, I can see it translate into an exchanged sale. It's much harder for us to see that benefit in e-commerce. I think some of the future work that the team will have to do is, how do we improve that visibility in e-commerce? We're not there today, and shift our real focus to, how do we sell more in big box retailers, and all of our customers where we enjoy a relationship where they sell dispensers.

Hopefully that clarifies that a bit. Then I'll flip to your revenue question or component questions over to David.

Andrea Teixeira — Analyst, JPMorgan

Thank you.

David Hass — Chief Financial Officer, Primo Water Corporation

Yes, Andrea, within the quarter, it's again focused on the North America side, as that's our go-forward business. We had a positive volume contribution of close to a percent with the balance being pricing. That obviously shows a sequencing that is how we had articulated the pacing would undergo throughout the calendar year, and that came through within Water Direct & Exchange being about a point of volume and the balance being price.

Andrea Teixeira — Analyst, JPMorgan

Very helpful. I'll pass it on. Thank you.

David Hass — Chief Financial Officer, Primo Water Corporation

Thank you, Andrea.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, Andrea.

Operator

Thank you.

Your next question comes from Daniel Moore, CJS Securities. Daniel, please go ahead.

Daniel Moore — Analyst, CJS Securities

Thank you. Good morning, Tom and David. Tom, thank you again, best of luck. I think you left this Company with an exceptional collection of assets poised for growth going forward.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, Dan. Appreciate that.

Daniel Moore — Analyst, CJS Securities

Absolutely. I wanted to—I was going to say, "Don't let the door hit you," but I didn't want to say that. If it was in the presentation and I missed it, please let me know, but is there any tax leakage at the $575 million? I'm assuming there's no regulatory hurdles that you're particularly concerned with, given the short window in which you expect to close.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

We obviously have to get through some regulatory hurdles, but Culligan believes they'll get through those, and you can see it's a pretty quick close. There are no guarantees, but our view is, Culligan's view is we'll get through any of those in normal course over the next several weeks, next whatever it is, two months, Dan.

Daniel Moore — Analyst, CJS Securities

Got it.

David Hass — Chief Financial Officer, Primo Water Corporation

Yes, and Dan, on the tax side, we're estimating some minimal leakage. We don't believe that will actually end up becoming true, but just for conservatism and how we're looking to deploy capital, we're reserving a little bit, sub-$10 million on that. But we'll circle back, obviously, upon close, with the final outcome.

Daniel Moore — Analyst, CJS Securities

Perfect. Then, as it relates to the multiple you receive from Culligan, Tom, when you think about the assets that you're selling relative to the assets that remain, any discernable differences? In other words, obviously Culligan will probably generate some pretty reasonable synergies on their side, and it's embedded in the multiple, but anything else that would explain the discrepancy between the sell price versus where Primo's trading? Thanks again.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Yes. The Culligan deal stands on its own, for what it is, and the value that they were willing to pay for us for, in many cases, overlapping assets. That's that. I don't want to get—we're in processes and starting processes and don't really want to get into a public discussion about what multiple we might, might not get for those remaining assets, because it'll all be different. I think it would be wise to not disclose any of that. It will hurt our ability to maximize value, frankly, over the long haul on those assets.

David Hass — Chief Financial Officer, Primo Water Corporation

Yes. I think, as communicated, the ability with just this transaction to eliminate the revolver, with just this transaction to increase the share repurchase by $25 million, obviously will have additional communications as those transact about the next set or next use of proceeds. But we're pretty pleased that, with just this transaction, we can be that impactful with our leverage and our cash flow.

Daniel Moore — Analyst, CJS Securities

Perfect. Then the last one, well, I get one more crack at you, Tom. Route density obviously a big focus, and reached peak level; well, not peak but record levels this quarter. Excluding further price increases, how much room is there, in your mind, to continue to improve route density from these current levels we saw in Q3? Thanks again.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Yes, thanks, Dan.

If you look at the numbers we've put out there, it runs in the order of 3 percent to 4 percent on a quarter-over-quarter. I don't think we've finished. It does absolutely have to do with customer density, so one of the things we benefit from our Costco relationship is we bring in customers over those same routes. As you reduce miles and you have more customers in a smaller geographic footprint, we'll deliver more on a daily basis off that footprint. Then it's also an important component of our M&A tuck-in strategy, is you buy businesses in overlapping geographies, we will continue to benefit from the leverage that they provide us in terms of route density.

I think maybe he dropped.

Operator

Okay. Thank you.

Moving on, your next question comes from John Zamparo, CIBC. John, please go ahead.

John Zamparo — Analyst, CIBC Capital Markets

Thank you, good morning.

Tom, I know your ears are already burning, but I'll echo my congratulations on your career and transition as well. It's been a pleasure.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, John. Appreciate it.

John Zamparo — Analyst, CIBC Capital Markets

My first question's on the M&A market. I wonder what you've seen here. Are there more opportunities now relative to years' past, given private equity might be pulling back in the environment of higher-for-longer? Is that one of the reasons that you might want to accelerate tuck-in deals?

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Well, I think there's—you may recall, last year, when we gave our guide of tuck-ins of 20 to 30, we were purposeful about lack of clarity about the revenue performance of some of those tuck-ins, and that we articulated we wanted to be cautious because many times we pay a multiple of revenue, and we wanted to make sure that any price increases they took stuck.

Secondly, that we talked about the impact of high fuel prices on smaller operators. We think that was a prudent decision and that, as we stand here today, we have as robust a pipeline as we've had in maybe as long as I can remember doing this. It is an actionable '24, '25 pipeline of activities that we have to be thoughtful about timing of when we do them so we can execute properly. That's the Company's job. But it's a robust platform.

I think it's the market conditions that are (inaudible) to our benefit. We continue to be the leader in this space in terms of our ability to execute in Water Direct.

David Hass — Chief Financial Officer, Primo Water Corporation

Yes, and I think, John, the one thing I'd pile on there is, because of Primo's scale domestically, and our branch network, we really don't bump up against private equity where a single transaction would benefit them none in creating, or starting a platform, if you will. We would have the ability to compete at any level really, because of the ability to synergize those down quickly within our network itself. I feel pretty fortunate that that's our pipeline and its ability to tuck-in very smoothly.

John Zamparo — Analyst, CIBC Capital Markets

Right, understood. Okay, that's helpful. Then my follow-up is on pricing. Specifically, you've demonstrated some real pricing power over the past couple years. I wonder how you're thinking about pricing for '24? Do you have anything planned at the moment? Does it depend on your outlook for cost? Have you seen pushback on pricing subsequent to Q3? Thanks.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Yes, fair question, John. I think in my prepared remarks we talk about our retention rate on that Water Direct business at 86 percent, which was a slight uptick from prior quarter. That's a pretty good indication of our ability, and the customer's reaction, for pricing. We haven't—we want to stay elastic. We would, currently, in '24, look at normal course pricing. We don't currently see the need for accelerated pricing, based on where inflation appears to be settling in, but we've always reserved the right. If that number moves, then we'll get ahead of it. Then, we certainly watch fuel pricing on a daily basis, and if that ticks the other way, we'll take an action. I think the last 2.5 years or so would indicate that the customer base is stable, we're able to drive the pricing through. It does offset inflation and we've been able to add to our margins as a result of those actions, over the course of, I don't know, 15, a dozen quarters that we've been doing it.

John Zamparo — Analyst, CIBC Capital Markets

Okay, fair enough. Thank you very much.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, John.

Operator

Thank you.

Your next question comes from Pavel Molchanov, Raymond James. Pavel, please go ahead.

Pavel Molchanov — Analyst, Raymond James

Yes, thanks for taking the question.

Back on the M&A topic, the fact that you have not been particularly active with rollup activity over the past 12 months, is that because you've been reluctant to take on more debt while you are above the leverage targets?

Tom Harrington — Chief Executive Officer, Primo Water Corporation

No, we fund it out of free cash flow, and that has not been the driver. It was more strategically. Obviously, debt is strategic and our long-term target, where we said we wanted to get under three in 2023, we did it a quarter early. We're at 2.91 at the end of Q3; clear line of sight to 2.5 as normal course. I don't want to diminish how important that is. But it was really more about market conditions, largely driven by inflation, largely driven within the fuel costs and how that, we believe, would wear on the smaller target Water Direct operators. I believe that's now become true, based on our pipeline.

David Hass — Chief Financial Officer, Primo Water Corporation

Yes, and I think, Pavel, we've been able to buy the right target at the right price this year, and then obviously within the quarter alone, still reduced the revolving loan by $76 million. It's not been an either/or to-date, it's been about the right target, the right geography, the right ability to synergize it down for value. But again, we're of course excited about the cash-generative opportunity of the new business. That seems to match well, heading into '24, with the pipeline that built across for us to execute against next year. I think it's maybe reversing your question a little bit, we're pretty excited about where we can go with tuck-ins next year.

Pavel Molchanov — Analyst, Raymond James

Now that you will be a North American pure-play, are there any particular states or Canadian provinces where you have not historically, perhaps, accessed, but are now going to try to penetrate?

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Yes. Our first course is, I'll call it the overlapping, because they're the most synergistic to us. Greenfield has historically not been an area we've invested energy on tuck-ins. What we will do, though, is begin to think about what are those water adjacencies that make sense for us? That would be to the right of center, but it's something that this Company needs to think about longer-term, about what are the things we could do, because we will be in a position to do that, that make sense for the Company and its shareholders.

Pavel Molchanov — Analyst, Raymond James

All right, thanks very much.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, Pavel. Appreciate it.

Operator

Thank you. There are no further questions at this time. I will now turn it back to Jon Kathol for closing remarks.

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

Thanks, Chris.

This concludes Primo Water's Third Quarter Results Call. Thank you all for attending.

Operator

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