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<<Pavel Molchanov, Analyst, Raymond James>>

Good morning, everybody. Welcome to this session for Primo Water, PRMW. I’m Pavel Molchanov. research analyst. From Primo, we have Robbert Rietbroek, CEO; David Hass, CFO. We’ll have some Q&A for Robert and David and some time for questions from all of you towards the end.

So Robert, you are thinking your first 100 days at the company as the CEO. So maybe for our audience that has not come to know you before, maybe just talk a little bit about your background and how you ended up at Primo.

<<Robbert Rietbroek, Chief Executive Officer>>

Yeah, good morning, and thank you for coming to the Raymond James Conference. And thank you to Raymond James for organizing such an exceptionally well organized conference.

So, I’m Robbert Rietbroek. I’ve met several of you, for those who I haven’t, good morning and hello. I joined Primo January 1, as the new CEO and Member of the Board. My last role was heading up the Quaker Foods North America Business for PepsiCo. I was also Head of Australia and New Zealand for PepsiCo, brand Kimberly-Clark, Australia, New Zealand. Spent about 15.5 years at Procter & Gamble. So it’s been a combination of brand building and general management roles.

And I was really excited to join Primo at the beginning of the year with an exceptional team. We can talk a little bit later about the category, but I believe that Primo is a company that is set up for success. I really like the category of water, which is squarely positioned in the health and wellness category. I really like the formats. I like the fact that we have highly sustainable reusable bottles and we’re basically saving 1,500 single-use plastics for every 5-gallon bottle that we sell, because it’s reused between 30 to 50 times.

And I like the sustainability aspect. I like the business aspect as well. I like the fact that it’s a rapidly growing category and that we’re growing within that category. I’m really proud to be part of the team. And I’m thankful and grateful to the leadership team for welcoming me, onboarding me, for the investor community here today, for welcoming me so graciously, and to the Board of Primo for inviting me and the confidence they have in me.

<<Pavel Molchanov, Analyst, Raymond James>>

So let’s kind of zoom out first. What’s the problem with drinking water from the tap?

<<Robbert Rietbroek, Chief Executive Officer>>

It's a very good question. I wouldn't say that – I wouldn't call it a problem. First of all, I think that a lot of people actually consider it's a very good quality. We believe that there's an opportunity to address the increasing consumer need for quality water. So there's increased awareness of the quality, the need for quality water. And there's just an increased awareness of potential contamination of water. That's a fact. There's lots of solutions out there. Our solutions are on trend.

Right now, we've seen increased demand for value water for large format, 5-gallon bottles, which are distributed both direct and in exchange. The home delivery business is also increasingly popular. It's a great format. A lot of people using home delivery for food and beverages, for consumer goods. So, I think we're on trend. Obviously, there's an opportunity to educate consumers about the quality of water, and we're happy to be part of that.

<<Pavel Molchanov, Analyst, Raymond James>>

All the sort of contaminants, PFAS, [indiscernible] (0:04:09) arsenic, people see lots of headlines about that. But for most consumers, when they think of drinking bottled drinking water, they go to the supermarket, buy evian Crystal Spring, single-use plastics. Just explain what the downside is of doing that?

<<Robbert Rietbroek, Chief Executive Officer>>

Yeah, rather than describing it as a downside, I would probably want to describe the upside of the offerings that we have. So we currently have a business that is direct water delivery, where we come to your house and we offer you 5-gallon or 3-gallon jugs in either purified or spring that allows you to consume high quality water without having to use single-use plastics, without having to throw those in the recycling box, or often, unfortunately, they end up in the garbage.

If you feel, if you want instant shopping, you can go to a Home Depot or Lowe's or Walmart or a grocer, and you can go buy that 5-gallon jug and you can put it on the dispenser yourself. We also have a refill business, which is the most affordable version, where you can take your 5-gallon jug and refill it at the store. We know that's obviously high quality water, and we offer premium water in retail in glass, mostly in glass, and more recently in aluminum.

So to your question, I think there is obviously for us a decision and a determination that we would rather be in a sustainable format, either a reusable large bottle or a potentially a glass or an aluminum container. And the reason for that is that we would like to help in the goal that all of us have to reduce the contamination of single-use plastics, which are less and less favored by consumers and also heavily scrutinized by many and even some of the regulators.

So, we're on that journey. We're glad to be part of it. We've removed our caseback plastic single-use from retail, as you probably all know. Or if you don't, we did that very decisively. And we are introducing new formats like the one I'm holding here in my hand, which is an aluminum Mountain Valley Spring Water from Hot Springs, Arkansas. So if you feel like drinking nice quality spring water in an aluminum format, we offer this. We're going to be offering this more broadly in the retail sector.

<<Pavel Molchanov, Analyst, Raymond James>>

For asking this next question, I'd like to get a show of hands from the audience. How many of you have seen a Primo dispensing machine in your local supermarket? It's a lot. Not quite everybody, but it's a lot. So talk about where your vending machines are located and how they work? How is it that you can get this sort of water from a local community store?

<<Robbert Rietbroek, Chief Executive Officer>>

Yeah, we have over 20,000 dispensers placed at a variety of stores. It could be at your local Kroger, it could be at your local grocery, your regional – it could be a Costco. So we tend to look geographically for favorable spots, make sure they're not too close together, that there's a distance between those machines and in favorable demographics and where we place them, we see extremely high consumption. In fact, in Q4, we saw a complete recovery post pricing. As you probably know, we sell a gallon of refill water for $0.57 a gallon. So for a 5-gallon jug, the consumer would pay approximately $2.50. That is up from $0.35 before.

So we took a significant price increase in Q1 of last year. We saw a short term moderation of the volume, and it came back at the fourth quarter of last year. So those machines are usually blue. They set near an entrance, under a roof, or sometimes outside. A sprouts, for instance. In my local town, it's outside and very often inside as well. And we ask consumers to bring their own device, whatever that may be, a vessel, and go and refill it. And it's the best value water you can buy currently in retail. We're also very proud that we then offer other price points. You can get it right.

<<Pavel Molchanov, Analyst, Raymond James>>

That's the refill?

<<Robbert Rietbroek, Chief Executive Officer>>

That's the refill.

<<Pavel Molchanov, Analyst, Raymond James>>

Then how does the exchange work?

<<Robbert Rietbroek, Chief Executive Officer>>

On exchange, we have racks all over the nation, and we essentially replenish those with the same route sales representatives that deliver to commercial and residential customers. So on their route, they'll go by, they'll look at the shelf. It usually is a rack with 36 bottles. There's also a return rack right next to it. They'll determine whether or not they need to refill that. They'll place however many six or 10 empty spots there are. They'll pick up the empties and we'll sell those for what is currently $7.99 if you have a bottle, you're returning.

So if you're going, that's an average price. It varies a little bit, but that would be the average price in the nation. So it's still incredibly good value. It's easy. You can buy four or five bottles, or you can buy one single bottle if you like. And we see that business growing quite significantly and strongly and over a continued period, and we anticipate continued growth on that business. And we like that business a lot, because it utilizes our assets.

So if you drive distribution, which distribution is the gift that keeps on giving. Once you place the rack, you keep replenishing it. Average placement cost is about $1200 for both racks, 36 rack holder and a returnable return rack, which has some automation on it. And that's a one-time investment. And then we keep replenishing it. We have the working capital, it's pay as you scan. So as it scans through the retailer. We then invoice the retailer, which is good for their working capital, and we control the inventory, which we like a lot.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. So some kind of financial questions now. What portion of your revenue mix you would define as recurring?

<<David Hass, Chief Financial Officer>>

Yeah. So, across all these business segments that Robert has talked through, most of them have that behavior. The Water Direct business, we would have a direct relationship with you, and you might be on a two or a four-week schedule. But the behaviors of how consumers shop, exchange and refill exhibit that same behavior. It's an à la carte option for them. They can flex up or down in refill. Obviously they seek that value. But in most cases, once the rack or the machine is placed, they exhibit the same behavior as a Water Direct customer.

The contractual or the logistical relationship is with the retailer. We have incredibly high retention in those places of distribution at the retail. And the consumer behaves very similarly, makes this a part of their normal shopping habits in exchange typically a weekend in grocery, typically during their weekly trip, and continue to provide recurring revenue from that. So nearly the majority of the business.

<<Pavel Molchanov, Analyst, Raymond James>>

So the refills and exchanges, they're not technically contracted. Right? But you've observed that there is sort of a repeatability to it.

<<David Hass, Chief Financial Officer>>

That's right. With both of them since we are the leaders in locations for both of those businesses, as we place the equipment, there's a typical ramp period where consumers become more aware. I'm sure those who didn't raise their hand now that they are aware of us, the next time they visit their local grocery store or DIY. Once you see the rack, you don’t forget it. And now you’re kind of aware of the category.

So there’s a natural ramp. Again, there’s no contractual obligation for a consumer to purchase, but they choose to seek that out and go forward with that. And again, as long as we maintain an appropriate retail relationship, which is a background Robert comes from, we persist for a long period of time. In many cases have close to 95%, 96% retention. The only time we might lose a store is typically when that retailer is choosing to sort of relocate or close or move their real estate.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. In thinking about the home based or office based delivery, so those are contracted. How long are the contracts and what is the churn rate?

<<Robbert Rietbroek, Chief Executive Officer>>

Yeah. So for most of the customers, there is a relationship that’s flexible. So as a residential consumer, if I choose to exit the program, I can. But what we do see is that most behavior is about a four and a half year or more relationship with either the consumer or the commercial side. It’s not until we get into some of the larger accounts. If you’ve been here drinking water from the coolers, that is our water at the Crystal Springs brand, we have a relationship with Marriott. Those are where you get into more of the contractual relationships, where there’s maybe set pricing or how payment terms might work.

But again, we have an average retention rate in the Water Direct business of about 85%. We think that can go higher, but that’s where we are. It’s been relatively consistent, despite whatever perception of economic where the world is today. But we continue to perform quite well with our customer base.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay, so Robert, shortly before he joined company, sold the European business, which was large. It was 20% of Primo to Culligan, which also happens to be a big player in this space. What was the logic of divesting Europe?

<<Robbert Rietbroek, Chief Executive Officer>>

Yeah, the European business was big for us. It was also relatively successful. It was a good business. And as we looked at the average margins, it was slightly dilutive and it was free cash flow dilutive. So by divesting the European business, we were able to significantly improve our balance sheet, and that’s an equity ratio. And therefore, now we feel we’re in a great position where we have the right balance sheet to continue to be able to invest in growth with the focus on North America going forward so the U.S. and Canada. So we are now the new company. We have a number of stranded assets, which are currently for sale, but the new co for…

<<Pavel Molchanov, Analyst, Raymond James>>

Little bits of remaining bits.

<<Robbert Rietbroek, Chief Executive Officer>>

And remaining bits. Yeah, but the new company will be entirely focused and dedicated to North American business. Where we see enormous growth potential in a $27 billion category that grows at over 4% annually. So there’s a lot of market share to be had. There’s a lot of growth opportunities for us in the North American market.

<<Pavel Molchanov, Analyst, Raymond James>>

So you mentioned there’s organic growth. Again, people kind of gravitating to or away from tap water. There is also an M&A angle to what you do. You’re not going to buy Culligan. Let’s stipulate that. But there are a lot of small kind of local players. Maybe just give people a sense of like how many there are and how big these potential positions are?

<<Robbert Rietbroek, Chief Executive Officer>>

Yeah, there’s about a third of the home and office delivery market is split amongst numerous, countless, not countless, but there’s tens of owner operated businesses that have been there, multigenerational in many cases, that are eventually retiring out of the business, that put their business up for sale. We are very good and we have strong capabilities in the integration of such acquisitions. Those usually are local, so they could cover a specific geography.

The person who leads that work for us was an owner operator himself and has that network across the nation and therefore is a very trusted partner for those owner operated businesses. And that makes us often the buyer of choice. David indicated in the call that our M&A rate is between $20 million to $30 million annually, $30 in the high range. We expect to be on the high end of that with the M&A strategy for this year, utilizing that cash in the balance sheet and really looking at businesses that could be $1 million to $2 million in revenue, but all the way up to $20 million or beyond as well.

Some of the bigger ones may come up for sale and we would love to be a candidate for buying those. And we integrate those quickly. The small ones could be integrated in a week or a weekend even, the bigger ones could take up to 90 to 180 days for full integration. That means the branding, it means the back office, invoicing. But we are really fast and good and have high quality of execution in those acquisitions. So thank you for asking that.

I’ll say one more thing about that. When we acquire them, they usually are dedicated routes, commercial, residential businesses. But we can then plug in our exchange business, so they can start replenishing those racks that are situated at the Home Depot or Lowe’s or Walmart. And so we get immediate benefits out of that efficiency, out of that acquisition usually.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. Let's maybe think conceptually about geography. So you have different brands in different parts of North America. Are there any geographies where you maybe do not have the presence that you would like and you would want to kind of prioritize for M&A.

<<Robbert Rietbroek, Chief Executive Officer>>

As we look at available owner operated businesses, we're going to look at more densely populated, underserved geographies, and we're going to look at migration trends and patterns as well. And so there is, the Sunbelt clearly is a priority, but even in the Midwest and the Northeast will continue to look for acquisition targets. There is no specific geographic presence for our acquisitions, but they're widespread geographically across the U.S. and Canada.

<<Pavel Molchanov, Analyst, Raymond James>>

David, maybe talk about the financial guidance that you recently gave for 2024. And in that context, is there any M&A baked into that guidance?

<<David Hass, Chief Financial Officer>>

Yeah. So the guidance we would have given on our recent earnings call would have been 5% revenue growth consisting approximately of 3.5% pricing, 1.5% and volume. In this particular environment, we tend to be one of the few beverage companies with positive volume. We're very proud of that. That would have been about $1.86 billion in the midpoint of revenue, about $412 million in EBITDA. The nice thing within that guidance, not only the EBITDA margin continuing to increment as we focus now in the North America market, where we have the most scale, but on a free cash flow basis, we exited the year in 2023 at $184 million in adjusted free cash flow globally.

The discontinued operations contributed about $26 million of that. And we'll be back almost fully to par just in the continuing operations business this year. So the midpoint of our free cash flow guidance is $175 million. And then based on pending tariff timing, that could take us again all the way fully back to par. So we're really proud that not only did the transaction provide us much needed cash to sort of optimize the balance sheet, but we're able to replace the free cash flow of the discontinued operations within a single calendar period, EBITDA shortly thereafter. In terms of replacing the sort of sold off or discontinued EBITDA of those businesses.

<<Pavel Molchanov, Analyst, Raymond James>>

And maybe touch on share buyback and the dividend policy.

<<David Hass, Chief Financial Officer>>

Yeah. So first thing we did with the proceeds was immediately reduced our cash flow loan to zero. It had about $132 million outstanding balance. It was actually the highest interest expense in our facility. The two term notes we have are actually pretty reasonable, just plus, minus 4%.

On the share repurchase side, we increased a previous authorization of $50 million to $75 million upon the receipt of those proceeds. And then on the dividend side, this is the third consecutive year of a step up in dividend that moves to $0.36 on a annual basis per share. And then based on the share buyback, actually the cash outflow of that dividend is muted based on the ability to sort of repurchase some shares.

Q&A

<Q – Pavel Molchanov>: Okay. Questions? Yes. In the back.

<Q>: [Question Inaudible]

<A – David Hass>: Yeah. Let me repeat the question for the online audience, the question is, outside of Culligan, who's your primary competitor? And we have, in addition to all those local owner operated home and office delivery company, we do have another competitor that is a private equity owned company called BlueTriton. And we obviously compete with the large beverage manufacturers that manufacture case-backed water. And all that together is a $27 billion water category that grows at a 4.4% compounded annual growth rate in North America.

<A – Robbert Rietbroek>: Yeah. In addition to that, if you monetize tap, which is still a large consumption source, that would be a multibillion dollar industry on its own. But obviously it's paid through your utilities and how that works. And that market share and market size also does not include things like Brita or fridge filters as alternative choices. So today, as a consumer, when you decide to move beyond tap, you have a number of formats to consider. We're very proud of the formats we have and the leadership we have. And again, think we provide the best value, sort of, with that bulk orientation.

<Q>: [Question Inaudible]

<A – Robbert Rietbroek>: Correct. Yeah. So for the online audience, the question was taking out bottled water is BlueTriton a key competitor? And the answer is yes. Correct.

<Q – Pavel Molchanov>: Used to be Nestlé?

<A – Robbert Rietbroek>: Yeah. It used to be Nestlé Waters.

<Q – Pavel Molchanov>: Any other questions? Yep. In the back?

<Q>: [Question Inaudible]

<A – Robbert Rietbroek>: Yeah.

<Q>: [Question Inaudible]

<A – Robbert Rietbroek>: Yep. So, for the online audience, there is a question about what are the key opportunities for the next three to five years? Volume, pricing, M&A. Here's what I

would say the immediate priority is. Number one, we have to grow our net organic customer base. So we have to continue to recruit new users into the home and office delivery category, primarily through the rental and sale of dispensers, then signing them up for our Water Direct services, and then doing whatever it takes to make that experience frictionless. It means water.com will be upgraded this year.

It means our, My Water + mobile app will be the mobile version of that website, which will house all of our 14 brands. It means we work harder to retain our current subscribers and reward their loyalty. If we do that well, we will then increase our revenue by holding on to our new users and current subscribers longer. And as David said, the average tenure is four and a half years. The average retention rate is 85%. But that excludes the first year where we see a six-month period when consumers tend to drop off after they've gone through their trial period. That is an immediately addressable opportunity for us as a company.

The second thing is that we have to be the partner of choice for everyone. First of all, with all of you here, our investors, our owners of our shares. Secondly, our associates, very important. Our associates are incredibly important. We're a company of people that deliver water, okay? That's primarily our workforce. And make water, produce water, or pull it out of the well and bottle it. We have communities that we're members of over 200 branches locally. So we have to engage positively and be contributors to those communities, importantly with our retail partners, and I've personally in the last eight weeks, been to three of our key retailers already.

We're trying to set up the next appointment to do top to top joint business development planning sessions, understand their needs, understand the opportunity, and explain the category, we explain the category, which is growing rapidly and often misunderstood. And the third priority, thank you for asking question is operational excellence. Talked a lot about this yesterday with our investors. We can do a better job in our planning cycle so entirely. Going from volume forecasting, demand forecasting, to production planning. And that results in on time, in full delivery, we can automate our operations.

David and I have talked about the fact that we will be completing our 6th robotic automation project in North America by the end of this year. We're also embedding digitization throughout the supply chain in the S&OP or sales and operations planning. We're currently rolling out Tagetik, which is a software package that uses machine learning, which is also referred to as artificial intelligence, to look at the historical data to be able to have predictive value for forecasting.

And then Salesforce.com with the consumer and segmentation, so we can better analyze who we serve? What their needs are, and do what we call precision marketing? We'll then also open it up to a 24/7 customer experience. So we're going to move from today, five days a week call center to a seven days a week, 24 hours. And there will be some labor arbitrage in that as well, where we're going to use different time zones to better serve our customers.

So those are the three core strategies. They're based on market analysis, but also feedback from our leadership, from our board, and from our investors. We will be addressing those and I think they will stay in place for at least the next two to three years.

Thank you for the question.

<<Pavel Molchanov, Analyst, Raymond James>>

All right. We will wrap it up. We'll have a breakout session downstairs right after this. Robert and David, thank you very much.

<<Robbert Rietbroek, Chief Executive Officer>>

Thanks, Pavel.