

Primo Water Corporation**Fireside Chat With Nik Modi From RBC Capital Markets**

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CORPORATE PARTICIPANTS

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Primo Water Corporation — Chief Financial Officer

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PRESENTATION

Operator

Welcome to Primo Water Corporation's Fireside Chat. As you know, the call is being webcast live on our website at www.primowatercorp.com and will be available for a playback there for two weeks.

This call contains forward-looking statements including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with Cautionary Statements and Disclaimers contained in the Company's Annual Report on Form 10-K and quarterly reports on Form 10-Q and other filings with U.S. and Canadian 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.

I'll now turn the call over to Nik Modi of RBC.

Nik Modi — Analyst, RBC Capital Markets

Thanks, Jarrod. Thanks everyone for joining in and clicking onto this webinar.

On today's call we have Primo Water's CEO Tom Harrington and CFO Jay Wells, and of course current IR and future CFO of the Eden Springs division, Jarrod Langhans.

I'll be conducting a virtual fireside chat with the team based on the many questions I've been getting from the investor community.

Thanks, Tom, Jay and Jarrod for taking the time to hop on this call. I know it's a crazy time and I really appreciate you being visible. Before I start, I just wanted to ask how all of you are doing personally just during all of the chaos that we're seeing right now.

Thomas J. Harrington — Chief Executive Officer, Primo Water Corporation

Thanks for asking, Nik. My immediate family is cocooned in Tampa. My extended family is in good shape, and frankly, my larger family of about 10,000, fortunately as of early this morning we only had one positive case, and that person actually is not exhibiting any meaningfully challenging symptoms. So, in the scheme of everything happening, I'm quite happy about that.

I presume and hope that your family is well.

Nik Modi — Analyst, RBC Capital Markets

Yes, they are. Thank you for asking. Going a little stir crazy with the little rascals in the house, but making do.

Let's get started. Maybe just kind of if I look at what's going on, obviously stock prices are going all over the place depending on the day, but there is no legitimate analysis that I have done that would suggest the stock, where Primo is trading right now, is anything close to where it should be trading. This clearly seems to be a disconnect between what your business does and what the market believes your business does, so maybe you could just start by simply walking through each of the different components of your pure play water business and then we can take it from there.

Thomas J. Harrington – Chief Executive Officer, Primo Water Corporation

Thanks, Nik. I'll go through in a pretty detailed fashion and give you a flavour for what it is we do, because I think you're right. The market is confused about certainly what we used to be and certainly clearly some confusion about what we are today.

Before we get started on providing those details on the current business and why we're confident in the business model, particularly as we transition to a water company, I think a few highlights are relevant in today's environment.

While we have implemented a work-from-home option for our inside work teams in many locations, every production centre and every distribution centre is open and fully operational across all markets. Our route sales reps are out guys, and our service techs are running their routes every day. I think it's important to note that water is an essential food product in these times of need and we fully expect to operate throughout this crisis and do our part to help. We are following all appropriate protocols and focused on the safety of our associates, customers and suppliers. Frankly, Nik, I'm inspired and in awe of what the Primo team has been able to accomplish.

Let me now shift to the business. Our total revenues are approximately \$2.1 billion. If you aggregate our revenues, residential customers or at-home consumers generate almost 60 percent of the \$2.1 billion in revenue. North America, our largest business with \$1.1 billion in direct water, or what we used to call HOD is not dependent on large commercial offices.

Nik, you've heard us talk about our focus on small commercial customers over the last two or three years. These are customers where we capture higher prices and these customers stay with us longer. I don't remember ever discussing large corporate customers because it is and has not been in our strategy to compete for these customers.

Our commercial business is more a collection of small businesses such as doctors, dentists, barber shops, tire repair and the like, and we don't have any foodservice customers such as bars and restaurants. Less than 10 percent of revenue in North America is generated from key accounts. In this segment, there are large manufacturing customers who are still working today, and of course, both our in-store booth programs at Costco and our online efforts are focused on generating new residential customers.

Our direct water business is a direct to consumer and direct to customer delivery business focused on large format returnable bottles in North America and 19 other countries. Our North America business mix is—customer mix, sorry, is 46 percent residential and commercial mix is 54 percent.

We do have a retail water business where we sell 1 gallon and 2.5 gallon products to retail customers in North America whose end consumer is residential. This business is roughly \$150 million.

Our newest business, let's call it the legacy Primo business, generates roughly \$300 million in revenue and consists of three segments: water exchange, where consumers exchange an empty bottle for a prefilled bottle sold at retail; water refill or self-serve sold inside and outside retail locations; and water dispensers sold through retailers. These revenues are predominantly sold to residential customers in North America.

Our Mountain Valley Premium Water brand generates roughly \$70 million in revenue, sold to retail and residential direct water customers, or that old HOD business.

Our water filtration business, commercial and contracted, represents \$65 million in revenue.

In Israel, our business is largely residential, 70 percent of the customer base, and a large retail PET business, the largest brand by market share in country. This business will continue to operate during the crisis as an essential food product, and is roughly \$100 million in revenue. Eighty-four percent of this business is either direct to residential customers or to the end consumer through retail.

Our European direct water business is roughly \$300 million in revenue and largely commercial. Of course, there are differences as you move from West to East; the further east you go the lower the percentage of commercial customers.

In total, the Eden customer base is 85 percent commercial and 15 percent residential.

We do own a food co-packing manufacturing business that sells products such as hot chocolate, instant coffee, coffee creamer and porridge to retailers across the U.K. It's the remaining leg of our legacy Cott business and it's roughly \$120 million in revenue. The bulk of these products are sold to retailers.

As consumers spend more time at home and perhaps cocoon more in the future, I believe we are well positioned to satisfy that demand as we already generate almost 60 percent of our \$2.1 billion in revenue from the at-home consumer.

I know it's long, Nik, but I want to give everybody a flavour about what it is we actually do in our water business as opposed to what some people might think we do. Hopefully that's helpful.

Nik Modi — Analyst, RBC Capital Markets

Yes, that's very helpful to understand the breakdown.

Now that we've covered the basics of each of the components of your business, can you just walk through how each of these channels are performing in the various geographies and in which you operate from a sales and volume perspective? Where are you currently seeing growth? The pressure points and any areas that you think could be impacted by government shutdowns.

Thomas J. Harrington — Chief Executive Officer, Primo Water Corporation

That's a handful of questions there. Let me start with performance through the first couple of months of the year, and I'll focus on revenue.

We've delivered top line revenue growth consistent with our previous guidance, which, Nik, you'll know is between 4 percent and 5 percent. If you think about our model, we're carrying the momentum from last year into the early part of the year.

As we've begun to consistently deliver that top line growth, we also exceeded our EBITDA margin expansion objectives in 2019 and we see this trend—better said, momentum—carrying into January and February. Our strategies are in place and are working. We have more customers paying higher prices, drinking more water. Internally, we often refer to it as the trifecta.

If you think about March, business has changed, and for us, it's frankly changed positively. I think (inaudible) water demand has increased. Our teams are working to satisfy significant increases in demand in North America. We are flat out in terms of producing and delivering water, and it hasn't slowed down as of this morning.

We are enjoying meaningful customer growth compared to prior year and working to solve for the large number of new residential and commercial customers that want the service that we haven't set up yet.

As an example, month-to-date through Tuesday, the 17th, our North American 5 gallon volume was up 12 percent. Our water PET case water was up 45 percent. Our 5 gallon water exchange business, up 50 percent. Water refill, self-serve, up 30 percent. Then that retail business, that water retail business which is 1 gallon milk jugs and 2.5 gallons, the 1 gallon is up 19 percent and the 2.5 gallon business is up 51 percent. Mountain Valley, plus 30 percent.

In North America, we're busy and satisfying high demand for our products across the entire water category of all of these segments in business.

Our European water direct business is flat in March (UK and continental Europe) compared to prior year. Our water filtration business is delivering high teens revenue growth, and our Israeli business is operating similar to North America with growth of over 60 percent in our retail water business and growth of the overall business close to 30 percent for the month.

We are starting to see revenue declines in our coffee products and services business across the markets as many customers have viewed it as nonessential. We are also experiencing headwinds in Europe based on the shutdowns and are taking actions to adjust our model to compensate for these headwinds and have contingency plans in place, frankly, in action.

One point I want to make about this notion I read about no-contact delivery in the last day or two. Our 5 gallon returnable business was a no-contact delivery before that phrase was recently coined. Think about it. You put your empty bottles outside your door, we pick them up and replace them with full bottles. It's been part of our business from the very beginning.

Our investments in the customer experience is to enhance the experience by ensuring that customer can communicate with us without shaking hands.

Hopefully that gives you a flavour for we're pleased with the first two months in terms of revenue and EBITDA margin expansion, and then March has been just an incredible experience, frankly, with—I'm so proud of the team. If you can imagine the order of magnitude of growth and as guys go out every day in a tough environment, and they're out today, as an example, Nik.

Nik Modi — Analyst, RBC Capital Markets

Super, super helpful, Tom. So, it looks like things are going pretty well in a pretty difficult time and I can understand why you're so happy right now with what's going on and inspired, as you said earlier.

Maybe this is for you and Jay, from a contingency perspective you talked about you're putting contingencies and tactics in play. Can you talk a little bit more about that? If you see more pressure on the business in certain areas. Can you maybe talk about also some of the variable versus fixed costs of your business? Just so people have an understanding of how much control you have over your P&L if things do get a lot worse.

Thomas J. Harrington – Chief Executive Officer, Primo Water Corporation

Yes. I think one of the key points about our business is the senior managers and the next level managers were running and operating and working in these businesses in 2007 and 2008, so we have a lot of experience in the good times and the bad, if you will. I think that helps, frankly, position us and we continue to work. I'll let Jay through some of the specifics about where we are, but it's important to know that, to coin a phrase, it's not our first rodeo as a business.

Jay Wells – Chief Financial Officer, Primo Water Corporation

Thanks, Nik. As I've talked to shareholders over the last couple of days, I found the best way to really go through this is, as Tom started, what happened and what took place during the last downturn. As Tom said, much of the management is in place and we're implementing the same tactics we implemented back then.

Starting with the U.S., we're—back during the downturn, revenues were down about 10 percent over a three-year period, and EBITDA was also down about 10 percent. We own our plants in the U.S., so those are really the only fixed costs we have during times like this, and it represents about 25 percent to

30 percent of our revenue. But when you move to SG&A, during the last recession Tom quickly cut 800 routes and rerouted our customers to cut costs and maintain route density, and we'll do the same as we see orders decline over the coming months, if we see that decline.

We also reduced our sales and marketing expense as you generally don't get the return during times like this, and we also reduced support staff and functions as needed. In addition, we're currently evaluating all of our CapEx projects in place and on hold, anything that is not essential projects. But things like customer experience and CX, we're continuing to invest in behind this time because it's key to keeping our customers through this process and we'll have a much better customer base as we get through it.

In Europe, it was a little different. EBITDA was stable during the last downturn because when you look at Europe, we were able to cut more costs because over two-thirds of our products are contract manufactured, so we're not carrying the fixed costs of the plants and Europe has the similar ability to cut routes, consolidate them, reduce sales and marketing spend and support functions. So, if you look at the last downturn and the recession, you can see that a lot of costs that you might consider fixed really turn to more variable because we do cut routes, we do consolidate routes, we do continue servicing our customers but we're really able to take out most of our costs except for the plants that we have in the U.S.

Nik Modi — Analyst, RBC Capital Markets

Very, very helpful. Jay, can you just talk about oil and how—remind everyone how it works as oil price and gas prices come down, just how do the whole process works? Just to remind everyone.

Thomas J. Harrington – Chief Executive Officer, Primo Water Corporation

Oil.

Jay Wells – Chief Financial Officer, Primo Water Corporation

Oil, sorry. We're having a little trouble, sorry about that. Tom had to interpret for me.

As we discussed Nik, we have an energy surcharge in place across most of our regions, so we'll be able to pass the benefit through to our customers, which although not significant, it will provide some relief during these difficult times.

Nik Modi — Analyst, RBC Capital Markets

Excellent. Then, Jay, then maybe just sticking with you, looking at the balance sheet and the leverage, what was your pre-COVID leverage? What does your liquidity look like? What covenants do you monitor as part of your debt instruments? Then kind of just as ancillary to that, what are the due dates of some of your longer term unsecured debt instruments, so people understand the maturity schedule.

Jay Wells – Chief Financial Officer, Primo Water Corporation

Thanks, Nik. I've been getting this question a lot and Primo, we're in pretty good shape when you look at this. For the leverage metrics, I've been excluding the debt you put on them with the lease accounting because we're not excluding the rent from EBITDA, but under that assumption our leverage is currently around 3.5 times EBITDA.

With respect to liquidity, I'm very comfortable where the Company is currently at. As Tom reviewed, we're performing very well, generating cash. We also have over \$60 million of cash on our balance sheet and we've converted our ABL into a cash flow revolver and currently have in excess of \$200 million of availability on that revolver.

Overall on the liquidity I feel very comfortable where we are to get through our current crises and come through in much better shape than we came in.

On debt, you look at our €450 million Euro notes, they're due in July 2024, and our \$750 million U.S. notes are in April 2025. We don't have anything coming due in the near term at all. As we get through this, as markets stabilize, we'll look to see if we can refinance those tranches of that debt at lower rates.

Nik Modi — Analyst, RBC Capital Markets

Very helpful because I know this is a topic people have been asking us about so I think that clarity certainly helps.

Maybe if I can just kind of follow-up on just sticking with the balance sheet. The current situation, obviously a lot has changed from just three weeks ago. How do you kind of think about capital allocation at a time like this?

Jay Wells – Chief Financial Officer, Primo Water Corporation

As always, we'll continue to pay our stable dividend, that will not change. We do have a 10b-5 in place so we have been purchasing some stock at a very good price, so we have been taking advantage of the market decline. Year-to-date, we've done several tuck-in acquisitions and we continue to have a good pipeline. We'll be opportunistic as we come out of the travel restrictions in some of the regions where some of the other more regional players might be in distress. We're really not changing our capital deployment strategy on a go-forward basis. We're very comfortable with our liquidity, so basically nothing has changed from what we're executing behind.

Nik Modi — Analyst, RBC Capital Markets

Excellent. I just got a question coming in that I thought I'd ask you, just kind of more of an understanding of demographics. The question really is, share any demographic data that you have on the consumer business, and any additional granularity and commercial customer types or industry concentration, I guess, just trying to get a better understand of the exposures on the commercial side.

Thomas J. Harrington — Chief Executive Officer, Primo Water Corporation

It's a broad question. We've got a lot of customers in a lot of countries, but if I think about the residential customer in the U.S., and frankly, this was a key learning when we came out of 2008 and 2009, is that we credit check, we look for a higher quality customer. The customers we acquire from Costco, think about the Costco member and I'd say it probably needs to be refreshed but I think about two people and over \$100,000 in annual income, so we like our residential customer base. We're pretty persnickety about the quality of the people that come in, so that really is what the residential base looks like.

In Israel, I think it's the same. Our mineral water in Israel is part of the DNA of the consumer, right? When you think about our base, it's like a 40-plus market share of the retail water business in Israel, and those are really the two places where we have a large residential customer base, although we are seeing some positive performance today in Europe, so we are cautiously optimistic about improving that 15 percent to some higher number I referenced earlier.

In terms of the small office, I can't give you a number about how many doctors and dentists offices I have, but I have a lot. It will be interesting to see. I got a note from my dentist yesterday that said still open, if you have an appointment keep your appointment; if you have the symptoms, please stay home. So, while there's lots of places that are closing down, they're not, right? Our guys will service those customers, if you will, right? Hopefully that helps give you some sense of it.

Our AIMIA is a little different, right? Think of large retailers, for sure, and we do porridge, we also cereal, right? We're a co-packer for a large cereal business and that plant is flat out, if you think about it, right? It's very similar to the demand, maybe even greater, frankly, in the U.K. on that particular \$120 million business to what's happening in the U.S.

Hopefully, Nik, I give you a little flavour. The old legacy business, back in the day had one customer that did something like 60 percent of the revenue back years ago. We don't have anybody like that. Right? We are still a collection of your house, your barber, your dentist, your doctor, right, in our biggest businesses.

Nik Modi — Analyst, RBC Capital Markets

Excellent. Well, that was certainly very instructive in terms of the backdrop as well as kind of what's going on with the last few weeks.

Gentlemen, we're at time. Tom, Jay, Jarrod, I very much appreciate you taking the time to do this. I think the people on the line listening are certainly—I think this helps them a lot as well. Good luck and hope to talk to you when you guys have flipped the next quarter.

Thanks a lot for dialling in and, gentlemen, thank you again and please be safe out there.

Thomas J. Harrington – Chief Executive Officer, Primo Water Corporation

Thanks, Nik. Appreciate it.