FINAL TRANSCRIPT

Primo Water Corporation

2021 Virtual Analyst and Investor Day

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CORPORATE PARTICIPANTS

Jon Kathol
Primo Water Corporation — Vice President, Investor Relations

Tom Harrington
Primo Water Corporation — Chief Executive Officer

David Hass
Primo Water Corporation — Chief Strategy Officer

Jay Wells
Primo Water Corporation — Chief Financial Officer

PRESENTATION

Operator

Good morning. Welcome to the Primo Water Corporation Investor Day Webcast.

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

I'm Jon Kathol, Primo's Vice President of Investor Relations. Welcome to the Primo Water Corporation's 2021 Virtual Analyst and Investor Day. The event is being webcast live on Primo's website at www.primowatercorp.com and will be available there for playback.

This webcast contains forward-looking statements, including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with cautionary statements and disclaimers contained in the safe harbor statements in this morning's presentation, and the Company's annual report on Form 10-K, and quarterly reports on Form 10-Q and other filings of 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.

The 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 slide deck on the Investor Relations section of the Company's website at www.primowatercorp.com.

I am accompanied by Tom Harrington, Primo's Chief Executive Officer; Jay Wells, Primo's Chief Financial Officer; and David Hass, Primo's Chief Strategy Officer.

As part of this conference call, we have included a deck online at www.primowatercorp.com that was designed to assist you throughout our discussion.

Questions should be submitted in the online queue. I will assemble like questions and ask Tom, Jay, and David to provide their views.

On Slide 3, we have outlined our agenda. Tom will provide you with an overview of our pure-play water model; David and Tom will discuss our strategies to deliver growth; and Jay will review the long-term growth outlook and financial model, before turning the call back to Tom for a summary before we move to a Q&A session.

Although we won't be taking live questions, you are welcome to submit your questions over the web, and we will answer as many as we can in the time allotted during our Q&A session.

I will now turn the presentation over to Tom.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thanks, Jon, and good morning, everyone. Thank you for joining our webcast today.

Before we start the presentation today, I wanted to take a moment and acknowledge the efforts of our entire team as they've continued to work tirelessly throughout the pandemic, servicing our customers. I remain inspired by and in awe of what the Primo team around the world has been able to accomplish and cannot thank them enough for what they have done.

Please turn to Slide 5. While our journey continues, we're well on our way to transforming into a pure-play water company. Our purpose, the reason we exist, is inspiring healthier lives through better quality water. We do this in several ways: diversifying our product offering through innovation, partnerships, and acquisitions; meeting evolving consumer trends; building trust and consistency in all we do; and driving sustainable innovation by harnessing the expertise of our associates, suppliers, and partners.

On Slide 6, our stated vision is to become the leading brand in the pure-play water category with a unique portfolio of sustainable drinking water solutions that appeal to a broad spectrum of consumers across multiple channels in consumption occasion.

Now let’s turn to Slide 7, which provides a high-level overview of our company today. We operate in 22 countries in North America, Europe, and Israel, where our brands are widely recognized and locally relevant. Our team of approximately 8,800 associates serve nearly 2.7 million residential and B2B customers and more than 42,000 dispenser, exchange, and refill locations.

Our strategic pillars include Water Your Way, category-leading innovation, our Customer for Life promise, operational excellence, ESG leadership, and inspiring our associates. These strategic pillars serve as a compass for all that we do.

Our portfolio includes several iconic brands within the bottled water industry. Primo has established a stable of leading water brands across a large format in premium water categories.

While Primo’s current pure-play water focus is just over a year old, many of our water brands are regional and national favourites and have been enjoyed for decades. A few of our iconic regional brands, which include Crystal Springs, Hinckley Springs, Kentwood Springs, and Sparkletts, provide our customers with water they’ve known and trusted for much of their lives. Our premium brand offering, Mountain Valley, continues its growth trajectory that surpasses category averages.

Looking at our organic growth outlook for 2024 on Page 8, the outlook includes high-single-digit revenue growth; adjusted EBITDA of $500 million to $525 million; adjusted EBITDA margin building to the high-21 percent range, driven by investments in efficiencies, increased scale, and density; and the 100 basis-point benefit from exiting our North America single-use, bottled water retail business; adjusted EPS of $1.10 to $1.20 per share; a net leverage ratio of between 2 times and 2.5 times; return on invested capital of more than 12 percent. In addition, our growth outlook will form the multiyear dividend increase of approximately 15 percent per annum.

We have a portfolio of hydration solutions for consumers including Water Direct, our water exchange program, water refill machines, water dispensers, water filtration solutions, and our latest offering for on-the-go consumption.

Slide 9 highlights our razor/razorblade model. We sell and lease dispensers that enable consumers to enjoy our products across multiple solutions, including our 3- and 5-gallon bottles through water direct and exchange, as well as our self-serve refill stations. The opportunity for consumers to acquire high-quality water whenever, however, and wherever they want drives our recurring and predictable revenue.

Slide 10 illustrates our water filtration service, which satisfies consumer demand for high-quality, filtered drinking water. Filtration options include our water dispensers, a countertop version called BIBO, and our recurring-service program that includes real-time monitoring.

The latest addition to our recurring revenue model is what we refer to as on-the-go consumption, or Primo Fresh, shown on Page 11. The line of small-format half-litre and 1-litre refill machines enables consumers to satisfy their hydration needs in high-traffic areas like schools, commuter stations, sporting events, and outdoor recreational sites.

Sipple, originally developed in the United Kingdom, allows users to select free municipal water or a purified and chilled premium offering for a fee. Early test results indicate that roughly 60 percent of the users select the premium offering.

One of the primary benefits to these machines is the ability of the consumer to purchase an insulated and eco-friendly reusable bottle. Every sale of these bottle eliminates a single use plastic bottle, which may end up in our landfills and potentially creates an environmental issue.

We are currently in the process of sourcing the manufacturing capacity to scale the offering of these machines on a global basis. We plan to call these machines Primo Fresh.

Turning to Slide 12. The US bottled-water market is a large and growing market. Across all formats, the industry is expected to achieve a growth CAGR of approximately 5 percent and reach $27 billion by 2025. While the largest portion of the market is in the single-serve format, there is likely to be continued pressure due to consumer concern with single-use plastics.

When speaking to the addressable audience, we believe there is approximately 30 million households in the United States. This is prior to calculating the full potential of the B2B opportunity.

So what’s driving this growth in household potential? As one might suspect, consumers have undergone a large transformation in their health and wellness journey. This trend was undoubtably accelerated by COVID. Bottled water consistently meets the demand for several consumers trends, including health and wellness, premiumization, increased beverage variety, while our products are simultaneously good for the environment, offering no-contact delivery and benefitting from the increasing emergence of digital commerce.

Looking at the environment detailed on Slide 13, we are poised to benefit from positive tailwinds. In addition to the consumer tailwinds, the market has several factors driving consumers to bottled and filtered products. These macro factors remain largely unchanged and are likely to persist for the foreseeable future.

The aging infrastructure of municipal tap water systems continues to decline. Any remediation efforts that are planned to address the municipal tap system are unlikely to materially correct the situation to a point where infrastructure will no longer be a concern.

As we turn to Slide 14, I'd like David to provide us with a closer look at some of our strategic pillars, which represent our guiding principles and provide a roadmap to our success for 2022 and beyond. David?

David Hass — Chief Strategy Officer, Primo Water Corporation

Thanks, Tom, and, good morning, everyone.

Starting on Slide 15 and over the course of the next several slides, we'll spend time taking you through the specific tactics that inform our strategies and, thus, shape our financial objectives.

In detail, our 2022-and-beyond focal items are as follows. First, it starts with Water Your Way, our portfolio of connected water solutions around both bottle-based dispenser and filtration devices.

Second, we remain innovative in products and services. This supports continued growth in our customer base.

Third, Customer for Life promise. Our goal is to retain customers, which drives financial returns while providing customers with products to meet their health and wellness needs.

Fourth, operational excellence. As our scale builds, we are able to drive efficiencies and better productivity within our network, which provides the financial capacity to reinvest in growth.

Fifth, ESG. Our offerings are environmentally friendly, and we are further strengthening our position by exiting our North America single-use retail small pack and 1-gallon and 2.5-gallon businesses.

Sixth, inspiring associates. As an on-trend company with a clear purpose, we believe we will attract a strong associate base to help us achieve our goals.

Looking at Slide 16, this page recaps our platform that creates predictable and recurring revenue and financial growth. Dispensers provide an important vehicle for our consumers to enter the category of bottled water consumption, as illustrated on Slide 17.

We know that 60 percent of dispenser buyers are new to the bottled water category and are likely to utilize one of the services we provide to enable the use of their dispenser. Our bulk water consumption solutions offer multiple value tiers for the consumer. Water Direct offers the convenience of a home or B2B delivery. Exchange provides a value-based solution that enables the consumer to enjoy the same great-tasting and high-quality water. And finally, our Refill solution provides the best value for consumers who are cost conscious but still want to enjoy all the benefits of healthy hydration.

Dispenser sales have the potential to lower customer acquisition costs versus traditional methods used in Water Direct today. After selling nearly 1 million dispensers in the last year, we are working to increase the number sold over the next three years. Our tactic is to increase the sell-through of dispensers from the shelf or website to homes and businesses. That is what generates the recurring revenue streams.

We remain agnostic on the consumer's choice of service, since we have comparable margins across all services lines.

Turning to Slide 18. A path we are executing on over the next few years is to significantly leverage water.com, our primary URL, to help create a water marketplace. As leaders in the water space, Primo must improve its communication to current consumers and customers on how our products can help meet their health and wellness needs.

The future water.com site will create a connected system to drive acquisition, self-service, E-commerce, lead generation, loyalty, brand advocacy, and support all of our business lines—Water Direct, Refill, Exchange, Dispensers, Filtration, Mountain Valley, and others.

The digital world moves fast. Fortunately, we are ready to move with it. Cate Gutowski has joined our team as Chief Operating Officer after spending several years in sales and operational roles with several companies, most recently with Amazon Web Services. Cate and her team will be focused on providing our customers with a best-in-class digital experience.

Please turn to Page 19. As part of our brand evolution after the acquisition of Legacy Primo, we have invested in learning about our current and potential customer set, specifically, what drives their need states, attitudes, and purchasing behaviours. When we better understand them, we can offer solutions that drive them to purchase our products on a recurring basis.

With our water offering among Water Direct, Exchange, and Refill, we know we have a largely complementary customer set that rarely switches between these offerings. Because our combined product offering spans a wide variety of price points, we're attractive to a broad demographic of consumers, from the value conscious to those who seek the convenience of a home-delivered product. This full suite of product offerings provides stability during both strong and challenging economic times.

Looking at Slide 20, you'll see that, beginning in 2022 and continuing over the next few years, we'll be harmonizing our Company brand and giving Primo a new look and feel. With that refreshed look, we will begin to drive Primo-style consistency along with our purpose and brand positioning. With our water offering that is highly complementary and an option for all types of customers, we're enhancing our messaging, tag line, and brand tone of voice.

In addition to our regional brand, our 150-year-old Mountain Valley brand, displayed on Slide 21, remains our premium offering, maintaining a high growth trajectory since our acquisition in 2018. Mountain Valley provides a premium look and feel with its spring, sparkling, and flavour-essence sparkling waters. It has developed a nationwide following and continues to expand its reach and satisfy its passionate fan base to demand fresh, high-quality, and great-tasting drinking water.

Turning to Slide 22, when we execute on our strategic pillars, customer acquisitions begin the reinvestment cycle, as displayed in our flywheel. We'll showcase elements of this on a few slides across our strategic playbook.

On the right side of the chart, we detail several of the components of our plan, including activating dispenser sale growth, not only selling more, but selling from more points of distribution through retail and E-commerce; enhancing dispenser and bulk water connectivity; driving Water Direct customer addition; increasing bulk water locations; optimizing pricing architecture; reinvesting a portion of these efficiencies to retain existing and acquire new customers; and innovating dispensers, water, and service.

As shown on Slide 23, we have a strong track record of bringing new innovations to market that assist in growing unit sales of our dispensers or helping us attract new Water Direct customers. While the core of our sales is the sweet spot of our lineup in the opening price point top and bottom-load units, we have opportunities to attract new users.

On Slide 24, we highlight the new branding image of our current refill units as well as our new on-the-go units. The current refill units consist of indoor and outdoor units; ability to pay at machine or via a retailer's cash register as part of a normal shopping trip; coin, bill, credit card, and mobile payment options; vend options of 1 gallon through 5 gallon; and empty bottles available for sale in 1-, 3-, and 5-

gallon sizes. The dispensed water is typically used at home or in a small business via a bottled water dispenser client and goes through a five-step filtration process centred around reverse-osmosis technology.

And introducing our latest innovation, on-the-go, small-format refill units that address the opportunity of consumers on the move. The prototype of this machine was created by a company in the UK. Our purchase agreement allows Primo to participate in the growing UK market and to expand the hydration stations to other markets in Primo's footprint globally.

Customers can use their own bottle to refill, or they can purchase an insulated and eco-friendly reusable bottle from the hydration station along with one free half-litre refill. These hydration stations are a convenient way to offer an affordable, plastic-free alternative to consumers, meeting a key environmental and hygienic need by supplying great tasting, purified, chilled, quality water on the move without the potential waste of traditional, single-use plastic bottles.

These machines fulfill our vision of reducing plastic waste while increasing the consumption of safe, high-quality water. This investment furthers our vision of providing pure-play water solutions beyond traditional retail and into high-traffic areas.

On Slide 25, additional innovations planned to launch in 2022 with investment in years to come, including a countertop filtration system called BIBO that dispenses hot and cold water. This unit is currently being distributed in the United Kingdom and in the Netherlands and will roll out to other geographies.

Lastly, we are introducing an alkaline product offering in both a 3-gallon Water Direct and Exchange solution as well as a retail option. Product is in test and initial interest is very positive.

Turning to Slide 26, it is rewarding to receive validation of our innovation efforts. At last month's Zenith Global Drink Awards, Primo was awarded with two category-winning products, with our Aqua Barista as Best Technology Innovation and our Mountain Valley Key Lime Twist sparkling water as Best Flavoured Water. Two of our other sparkling waters were named category finalists in the Best Flavoured Water category.

Moving to Slide 27. The key focus of our Customer for Life promise is meeting the needs of consumers and, increasingly, that means in a no-contact way. Proof that we are making progress is shown in our retention rate. In recent years, we have consistently maintained retention rates of approximately 84 percent in the US. Our retention rate compares favourably with most subscription-based service companies and supports our ability to retain residential customers that started the service during the pandemic.

Slide 28 demonstrates that everything we do affects our customer and their perception of us and the value we provide. Each part of the customer-retention journey affects the others. That's why we are always trying to do it better, faster, and to meet customer expectation.

Service consistency is key, as shown on Slide 29. From the initial order to the on-time, in full, recurring delivery, and in the event of an issue, satisfactory resolution impacts the customer's opinion of us and the value and service we provide. Our goal remains to achieve flawless execution.

I'd like to turn the call back to Tom for some additional thoughts.

Tom Harrington

Thanks, David. Let's turn to Slide 30. Regarding operational excellence, a sense of rigour needs to be at the top of our list. The addition of Cate, along with Jeff Johnson, a 30-year former UPS veteran, coupled with Primo's seasoned associates in the bottled water industry, provides us with a best-in-class team. It's been invigorating to watch Cate and Jeff's onboarding and their approach to root-cause analysis and Jeff's asking the simple why questions and the conversations it spawns.

Turning to Slide 31. The result of improving our structure and processes will drive improvements in route density, network optimization, drivers' efficiencies, and reduce waste.

We've talked in the past about our highly variable cost structure. In looking at our cost structure, most of our costs fall within route delivery, sales, marketing, and the back shop. Said another way, it is primarily labour, which will be flexed up or down depending upon market conditions.

Within operations and leadership, we've taken actions to consolidate groups, reduce decision layers to minimize overlap, duplication, and improve speed of execution. Our plan is to enhance 2024 adjusted EBITDA margins, driving approximately $50 million of incremental EBITDA because of our investments in driving greater efficiencies.

A portion of our labour costs are back office. We begin the process of centralizing shared service centres and combining back-office functions in both North America and Europe. As shown in Slide 32, during the past year we've consolidated three different areas of our organization; centralized our shared-service operations in Western Europe; consolidated our North American operations and leadership; centralized our shared-service centre in North America; and have also utilized the services of third-party consultants to analyze our operations for improved savings and optimization.

In the area of technology, you'll see on Slide 33, we are focused on a few areas that are key enablers for our business from a technology perspective. From a customer perspective, we continue to direct resources and invest significantly in our digital platforms to drive the customer experience and improve our visibility of the customer behaviour and trends. We are deploying a global E-commerce platform that consolidates, streamlines, and significantly enhances our capabilities. In addition, we are building a new mobile application that will also serve our 22-country footprint and provide even more capabilities to our customers.

To drive operating excellence, we're investing in our ERP, in supply-and-demand planning, and in data analysis and analytics. We've seen increased value in leveraging our consolidated reach to drive efficiency within our operations and will continue to simplify our environment through fewer platforms.

Finally, we will continue to leverage advanced technologies like artificial intelligence and machine learning to gain insights from our customer data to inform future innovations and investments in the customer experience.

On Slide 34, the fifth strategic pillar relates to our ESG leadership. We believe in leading all aspects of ESG—environmental, social, and governance.

Starting with environmental, we are committed to supporting efforts to creating a healthier planet. We continuously invest in technology and practices that improve water quality and water conservation. Bottled water's footprint is the lowest of any packaged beverage, and research shows that it is an environmentally responsible packaged drink choice.

Slide 35 shows our advances in environmental stewardship are moving forward at a rapid pace. We will achieve global carbon neutrality by the end of this year. We will elevate our water stewardship initiatives through compliance with Alliance for Water Stewardship International Standards by 2025. Our large-format 3-gallon and 5-gallon bottled water products are very environmentally friendly. On average, the bottles are sanitized and reused approximately 40 times.

Earlier this month, we took an important step toward further reducing our environmental footprint by announcing the planned exit of the traditional retail single-use plastic-bottled water category in North America. Exiting this category will reduce our annual single-use plastic bottle production by 400 million bottles. We expect to be out of the category by the end of Q2 2022.

Estimated annual sales in this category are approximately $140 million, and there is very little EBITDA associated with the category. In fact, the category has been especially challenging with resin and freight cost increases of approximately $6 million year to date. We will stay in the small format retail category with our Mountain Valley brand, which is sold primarily in glass bottles.

And finally, our first sustainability report will be issued in 2022. We expect the results of this report to improve transparency and visibility to enable further investment from ESG-based funds.

Turning to Slide 36. Diversity includes all the ways different characteristics bring different backgrounds and attributes for the benefit of our business. Equity is fair treatment, access, opportunity, and advancement for all people, while at the same time, striving to identify and eliminate barriers that have prevented the full participation of some groups within our company. Inclusive environments are places in which any individual or group is and feels welcomed, respected, supported, valued, and able to fully participate. Full participation enables a more fulfilled associate experience.

Our efforts have ramped up considerably across the DEI spectrum this year, thanks in part to the efforts of our new Chief DEI Officer, Shayron Barnes-Selby. Shay is a proven leader in our company and industry, and I share her commitment and passion around improving our workplace for the benefit of all.

Our leadership team, pictured on Page 37, is experienced and diverse, as well as a complementary blend of veterans and new-to-the-company associates. This group constitutes an impressive blend of varying backgrounds, and all of us are team players and interested in making Primo the best we can be.

On Page 38, we highlight the members of our Board of Directors. Like our leadership team, it is an impressive mix of diverse backgrounds, business experience, age, and tenure. During 2021, we added our newest board member, Miss Archana Singh, giving us a total of 12 members. During 2022, we will have two, long-tenured board members that will be retiring. We do not intend to replace these positions, as we believe 10 is an optimal size for our board.

Turning to Slide 39. Creating healthier lives is at the heart of what we do. When disaster strikes, public water sources can be compromised. Bottled water is often the best option to deliver clean and safe drinking water into these affected areas, and we dedicate ourselves to helping these first responders and affected communities.

Our last strategic pillar, starting on Slide 40, is inspiring our associates. The ways in which we live our values says a lot about who are we. We value how we work as much as what we achieve. We hold ourselves to the highest standards, and when we make mistakes, we own, fix, learn, and grow from them. At Primo Water, we believe in healthy living with a standard of excellence, respect for all, and a commitment to do the right thing, always.

Our behaviours are demonstrated in the ways we lead. Slide 41 lists the basic tenets we seek to lead with by being: inclusive, by welcoming and embracing different perspectives to inform decisions, and intervene if someone is being marginalized; innovative by challenging prevailing assumptions and suggest new ideas by thinking strategically and taking smart risks while acting with a sense of urgency; empowered by taking accountability and making tough decisions when needed with authenticity and transparency; curious by asking why and why not, we can seek to understand customers' needs and possibilities in the markets we serve; and to use teamwork by trusting our team, collaborating, and listening to those around us.

Turning to Slide 42. One of the most critical functions of my job is developing the next generation of leaders and creating the framework for succession planning. Accordingly, we have spent considerable time defining the attributes that will help us to identify, train, and promote successful leaders in our company. We've identified the behaviours, critical skills, and the core competency that ensures success today and in the future.

At this point, I'd like to turn the meeting over to Jay, who will walk through our financial outlook, starting on Slide 43. Jay?

Jay Wells — Chief Financial Officer, Primo Water Corporation

Thanks, Tom, and good morning, everyone.

As Tom indicated, Primo has begun the next phase in our journey to become a pure-play water company. In 2020, we successfully carved out a large portion of our coffee business and reinvested the funds to purchase the Primo Water Corporation. While successfully navigating the challenges of the global pandemic, we were able to rightsize our organization and integrate our operations to better align with our vision for the future.

Now, as we begin the next phase, we are updating our long-term growth outlook by establishing financial targets and what our plans are to achieve them.

Turning to Slide 44. Our future state is based on enabling the investment in accelerating our growth. As Tom mentioned earlier, our 2024 organic growth outlook includes, high single-digit revenue growth; adjusted EBITDA of $500 million to $525 million; adjusted EBITDA margin building to the high 21 percent range, driven by investment in efficiencies, increased scale and density, and a 100 basis-point benefit from exiting our North America single-use bottled water retail business; adjusted earnings per share of $1.10 to $1.20 per share; a net leverage ratio of between 2.0 and 2.5 times; return on invested capital of more than 12 percent. In addition, our growth outlook will fund a multiyear dividend increase of approximately 15 percent per annum.

Turning to Slide 45. The enhancements to drive our increased adjusted EBITDA over the next few years can be broadly split into two buckets that Tom and David have detailed earlier—growth and efficiencies. Our outlook projects that approximately $75 million of increased adjusted EBITDA will come from growth, and approximately $50 million of increased adjusted EBITDA will come from efficiencies and scale.

Turning to Slide 46. As we look at the various capital levers, you will see a commitment to growth through a combination of increased CapEx and M&A, along with creating value for our shareholders with deleveraging and a committed multiyear step-up in our dividends.

Slide 47 details the growth drivers including our base CapEx investment of approximately 7 percent of revenue. The base CapEx is roughly two-thirds growth CapEx, including procurement of water dispensers that are part of our cooler rental program, and reusable 3- and 5-gallon bottles. And roughly one-third is maintenance CapEx.

In addition to our base CapEx, over the next three years, we plan to invest an incremental $50 million of CapEx annually, targeting growth and efficiency projects. Key initiatives to be funded from the incremental CapEx include, driving digital growth; leading dispenser innovation; building a more environmentally friendly delivery and service suite; installation of more efficient water production lines which reduce water usage and increase productivity; and to drive growth in the Primo Fresh on-the-go units and new filtration innovation like BIBO.

Slide 48 illustrates our M&A profile. Tuck-in mergers and acquisitions are part of our DNA. The acquisitions build scale, acquire innovation, and expand geographies. We will continue to fund highly accretive tuck-in acquisitions which total between $40 million to $60 million annually in our key geographies of North America and Europe. These deals average $3 million to $3.5 million and are highly accretive, as we target a post-synergized multiple of approximately 3 times EBITDA in North America and roughly 4 times in Europe.

Our tuck-in M&A is predominantly customer list acquisitions, with most of our synergies coming from the combination of delivery routes with our own increased route density as well as back-office consolidation. Another important attribute to these deals is the relative stickiness of the acquired seasoned customer base. As the acquisitions are assimilated, we seek to find new product adjacencies to expand our Water Your Way offering.

Aside from our tuck-in M&A, we are prepared to execute acquisitions that we consider to be midsize. These acquisitions range from $20 million to $100 million, and post-synergy EBITDA multiples tend to range from 5 times to 7 times.

Often, I'm asked whether we can accelerate the number of acquisitions we do in a year. The short answer is that the governing factor is the number of deals rather than the size. While these tuck-ins are part of our DNA, we must integrate timely, effectively capturing the synergies and ensuring a seamless transition for our customers and associates from the acquired business. If we can target a larger acquisition, we may at times be able to increase the targeted dollars dedicated to M&A.

Aside from our normal tuck-in and midsize M&A, we remain ready to execute a larger, more transformative acquisition if an appropriate target becomes available. Please note that the benefit from these acquisitions have not been included in our 2024 organic growth outlook discussed earlier, as the benefit will vary based on the amount, scale, location, and timing of these acquisitions.

Turning to Slide 49. Our plan is to reduce our net debt-to-adjusted EBITDA level to between 2.0 and 2.5 times by 2024, with a relatively small amount of debt available to be repaid on our revolver and some financing leases. The primary means of deleveraging will be from the growth and earnings.

The chart on the left-hand side of this slide shows a listing of valuation multiples for our peer group. Evidence shows a correlation between leverage and valuations. Within this group, lower leverage correlates to a higher valuation multiple.

On Slide 50, you will see the multiyear plan step-up in our dividend policy. Our growth outlook and the increased free cash flow generation can fund our growth and a multiyear increase in our annual dividends. Our path to a multiyear step-up includes an increase in our quarterly dividend per share by $0.01 in 2022, another in 2023, and another in 2024. A compound annual growth rate of the increases equal nearly 15 percent.

As summarized on Slide 51, our investment behind growth will move our key financial metrics closer to the upper end of our peer group, with revenue growth of high single digits; 2024 adjusted EBITDA in the range of $500 million to $525 million, with tuck-ins being additive; ending 2024 with adjusted EBITDA margins in the high 21-percent range; adjusted earnings per share of $1.10 to $1.20 per share; ending 2024 with leverage between 2.0 and 2.5 times adjusted EBITDA; and return on invested capital in excess of 12 percent in 2024.

As always, we will provide our outlook for 2022 on our next earnings call in late February.

With that, I will turn the call back to Tom for closing comments before taking questions.

Tom Harrington

Thanks, Jay. As you’ve heard, we have a lot of exciting things happening here at Primo Water. As we transform into a pure-play water company, we have successfully combined the companies; divested a portion of our noncore assets; captured sustained organic growth; achieved higher EBITDA margins with predictability and consistency; demonstrated an ability to grow our customer base, improve route density, and capture cost synergies; executed accretive tuck-in M&A transactions; made important strides across ESG spectrum (phon); have an experienced management team that are proven operators; and bolstered our team with new sales and operational excellence to set the stage for improved financial performance, all while navigating the pandemic.

I'm proud of all of our associates for all the work they've done and how they've done it.

Now let's turn the call back to Jon where we will accumulate your questions and try to answer them in the time we have left.

Jon Kathol

Thanks, Tom. Please submit your questions through the online link. I will try to combine similar questions and ask them in a manner to get as many topics covered as possible in our remaining time. Give me a minute to assemble the queue.

Okay. Our first question, I guess this could be for both of you. Tom, what gives you the confidence in your forecast of high single-digit revenue increases?

Tom Harrington

Right. Thanks, Jon. There's a number of reasons why we're confident about our current outlook. First is the razor/razorblade model. So as we combine the Legacy Primo with the new Primo, we understand the opportunity that we articulated in the presentation of 30 million addressable households. That's the opportunity for us to sell dispensers and then to leverage Water Your Way, be it through Water Direct or Exchange, through Refill, as opportunities to satisfy consumers' hydration needs.

We certainly have other tailwinds that we believe will benefit us: the continued shift to health and wellness; an increase for beverage variety; ongoing concerns with municipal and/or tap water and its infrastructure; environmental concerns with single-use plastic. So those are really tailwinds from the market that we think we'll take advantage of.

And then, clearly, we're beginning to develop new products to unearth new opportunities for water consumption that could come through the introduction of alkaline water, both in a 3-gallon container for use at home, B2B, and exchange, as well as development of an alkaline solution for our large-format refill machines. So we're excited about that.

And then, the opportunity on Sipple, or what we will call Primo Fresh, and BIBO are opportunities for us to go down along the filtration line with BIBO, which is a small office residential solution, and Sipple or Primo Fresh, which we think is a single-use plastic replacement alternative.

We also know that digital and eCommerce is a developing opportunity for us. We've shared previously our results in Europe with the developing residential business. We're quite pleased with what we were able to accomplish in 2020 and thus far in 2021. So, we think the residential growth opportunity in Europe is real, and we'll continue to invest there, and digital will be a big part of that.

So, hopefully, that gets to the—Jay, anything you want to add on that?

Jay Wells

I think you're spot on, Tom.

Tom Harrington

Thanks. Jon?

Jon Kathol

Okay. Our next question. Will any of the administration plans that we're hearing about for water infrastructure improvements temper your outlook?

Tom Harrington

Yeah. I think, clearly, there is a need to address the municipal water supply and its infrastructure. The challenge is is that we think that it's a long road before that's accomplished completely across the US, and, of course, this doesn't contemplate the connection of the pipe from the municipal supply to your home or office. So that is arguably the most challenging part is, how do you finish that last 50 feet from the street, if you will, to my home. So we think this is going to continue to be a tailwind for us for the foreseeable future.

Jon Kathol

Okay. Our next question is can you re-cap the base CapEx with the types of CapEx where you're spending the incremental money on?

Jay Wells

Sure. I'll cover this. I said a lot of this in my prepared remarks but let me give you a little bit more detail. So you can assume our base CapEx is approximately 7 percent of revenue, with two-thirds of that really being the normal growth CapEx of having to buy coolers, bottles, as we grow, and a third of the CapEx being maintenance of our plants, depots, fleets, and so on.

On the incremental $50 million, as I talked out, two buckets—growth and efficiencies. So looking at growth, it's really digital, improving the customer experience via digital, it will be a key area of investing. Increased innovation to drive dispenser growth, as Tom just talked about, is part of our razor/razorblade-type philosophy. New technology, whether it be an app, trackers, artificial intelligence, machine learning, or also (unintelligible) go-to-market-type machines that Tom talked about, whether it be BIBO or—formerly known as Sipple—machine. So really invest behind growth in that area.

Spring wells and well-source acquisitions, to continue to own the right water in the right area to have growth the opportunity. Upgrade our customer care centre to continue our building on the customer experience. And then finally, invest in efficiency projects that increase productivity, reduces waste like ejection waterline versus gravity, robotics, inventory rack consistence. So really, it's a combination of growth for sure, but then also a lot of efficiency opportunities.

Jon Kathol

Okay. Our next question relates to can you talk about share buybacks?

Tom Harrington

Jay? You want to take that one?

Jay Wells

Sure. Our transformation into a pure-play water company is also, as we talked today, transforming into a high single-digit growth company. And we really believe the best value for our shareholders is to invest in a top-line growth and also continue to expand our EBITDA margin and invest behind efficiencies.

So for example, if we use funds to acquire a new dispenser customer, that's a reoccurring revenue stream that will have a very high-value annuity come from (phon). Other capital levers that we talked about, including efficiency CapEx. But also, I did mention paying off a little bit of a revolver and some finance leases (phon) with the view of getting to 2.0 to 2.5 leverage.

And then lastly, the multiyear plan to increase dividends; that is almost a 15 percent CAGR over the term of our plan. So that's really our focus going forward.

Jon Kathol

Okay. I've got a couple other questions along that same line. Can you talk about the logic of reducing your leverage targets?

Jay Wells

I put a slide up in my presentation that I think is pretty clear of our view that companies in our space do get better valuations at lower points of leverage. And as I just said, it's not that we have a lot of debt to pay down; it's a small amount of revolver and some financing leases (phon). Really what's going to drive our deleveraging is our EBITDA growth. And as we talked about throughout the call, we're committed to growth, and that's what we're going to invest on.

Jon Kathol

Okay. We've got another question still in the capital deployment area. Can you explain the thinking behind the higher dividends?

Jay Wells

One, we haven't changed our dividend policies for many years, and I think this shows the confidence in our go-forward plans for growth and generating free cash flow. And this allows us to commit to increasing our dividend by $0.01 per quarter; $0.05 per year for the next three years. And this will improve the stream of income to our shareholders.

And for many of our investors, dividend is an important part of what we provide. And our plan will give them confidence of the trajectory and plan of increasing the return over time.

Jon Kathol

Okay.

Jay Wells

I think there was one question on tuck-ins too.

Jon Kathol

Yes. Yeah. You want to go ahead and—

Jay Wells

—that one too. So the question related to, we're currently in 15 European countries, will our tuck-ins continue in Europe, (unintelligible) those countries or other international opportunities. And basically, as I said in prepared remarks, the key focus is in North America and Europe.

When you look at Europe, there are adjacencies. For example, we just went into, organically, into Belgium because there are other opportunities in Belgium. We did an acquisition in Hungary a couple years ago. And we also picked up some good technology that will help us carbonate our bottled water coolers. And we will look at other adjacent countries within Europe. But those are the main areas that we're looking at right now, North America and Europe, with a potential to add some additional European countries through tuck-ins.

Jon Kathol

Okay. Here's another question in the capital allocation area. Does your capital allocation plan allow for a major or a transformational acquisition?

Jay Wells

Should I—to the final capital allocation plan? I'll take that one—

Jon Kathol

No guarantees.

Jay Wells

Okay. The answer to the question in a word is yes. When you look at our balance sheet, it has strength to lever up as necessary for a transformational deal. Again, keep in mind any increase in debt would be temporary, and we'd look to quickly delever to the targets we talked to today. And our focus on lowering our leverage on (unintelligible) really makes our balance sheet better and more capable to do a transformation deal.

But please keep in mind, we'll maintain our disciplined approach as we have, bolster for our financial metrics as we've done in the past. It's important to note that our capital allocation plan isn't about pulling one lever or another lever, but it's rather the flexibility to adjust as opportunities come up.

Jon Kathol

Okay. Here's a question related to the exiting of the single-use plastic business. A, can you sell it? And I guess a tag-on to that is, can you redirect those sales to other divisions like Refill or Exchange?

Tom Harrington

Yeah. I'll take the second part of that. So as we've articulated, we'll plan to exit this business by the end of Q2 2022. It will enable our sales teams to work with our retail customers to focus on selling more dispensers, which is an important part of our growth strategy, and then extending our current penetration or the number of locations that have products like Exchange and Refill.

So, it would be our hope that we can convert some of the attention from that business, certainly on our part from a focus perspective, to better represent our line of healthy hydration solutions to consumers with our retail customers.

And the first, Jay, you want to take the part on the exit, or the sale? Proposed question on the sale?

Jon Kathol

Yeah. Why not sell it, is the question.

Jay Wells

Yeah. The thing is, please keep in mind that we've talked about this. This is not a business that generates EBITDA. So it's not that it would be a lot of value to a disposal but there are assets within it that do have value. So to the extent we have an opportunity to leverage certain parts of the business to get value out of it, we would certainly look to do so. But the key thing is, by the middle of next year is when we'll be out of the business one way or the other. And if we can generate some value exiting it, we certainly will hope to do so.

Jon Kathol

Okay. Just a reminder, if you have any questions just submit those online.

Next question. Do you expect your attractiveness to ESG investors to increase?

Tom Harrington

Yeah. We think so. We've made significant strides over the last several years. Importantly, next year, we will file our first sustainability report. And as we communicated in earnings release, we just hired Mukesh Jha, and that is his primary responsibility is to put together the effective public communication of where we're at and where we hope to go.

We would also expect that communication to be investment grade. And, of course, we've taken actions around exiting the retail single-use plastic business, which we think makes us, obviously, makes us the more environmentally friendly option. We continue to focus on Alliance for Water Stewardship certifications. And frankly, just yesterday, we received certification for two more sites, as we'd previously committed to. So we're quite happy about that; one in Arkansas and another in Georgia.

Shayron Barnes-Selby is leading our efforts on DE&I. And we're going to, as we referenced regards to the board, is that we think the right size is 10, and we'll have some retirements that will happen next year to get the size down from 12 to 10.

So we think that the story is improving. We think that the effective communication through the report next year will be a meaningful support for us in terms of what we do and what we hope to do over time.

Jon Kathol

Okay. Here's a somewhat of a modelling question. Is the improvement in the adjusted EBITDA linear?

Jay Wells

And the key is, keep in mind, we are stepping up our investments behind these projects starting next year—behind those starting next year. And keep in mind, these are projects that we've been doing, but, also, we have not been doing the investment we could to really advance the growth, advance the efficiencies. So it's similar to what we've talked about, but it's really taking the dollars to investing behind to moving the needle on these types of opportunities.

And as you would think, by starting the investments in 2022, the overall benefit of the EBITDA margin expansion will ramp up. That's why we use the term build to high 21 percent in our prepared remarks, because you start the investment, sort of be it at the lower end of the range that we talked about as part of our earnings, and it will build. And I would not model it where you take our earnings, our revenue for 2024 times a high single-digit because it is going to be building throughout even 2024 as for investing more and more behind efficiencies and growth over the time. So that's how I would look at the ramp-up of our EBITDA margin expansion.

Jon Kathol

Okay. We've got a couple modelling questions here. Can you explain the makeup of the adjusted earnings per share calculations in the slide deck? And got a few questions around tax levels, specifically, our effective tax rate versus cash taxes.

Jay Wells

Thank you for that question because there's always confusion behind both tax and cash taxes, which for us is significantly different.

So, for purposes of the earnings per share, we use a 25 percent effective tax rate. In no way does that mean that's our cash tax rate. We're running about $10 million to $15 million of cash taxes currently and really don't see that moving much. And you look out over the next five years, we still have significant NOLs in the US, and credit's available. So we really can see that type of cash taxes continuing on through this period. So it is a true 25 percent effective book, I'll call it, tax rate versus our true cash tax. So please view that differently.

And on share count, looking at that modelled in as probably right around fully diluted of about 164 million, give or take, in 2024, is the denominator we use in that equation.

Jon Kathol

Okay. Got a lot of interest around the alkaline product line that was in our slide deck. So I guess, to you, Tom, where do we source our alkaline products? What's the premium you get for it, say, versus natural water? And are these new consumers versus a premiumization of our existing ones?

Tom Harrington

Yeah. Thanks. Thanks, Jon. The alkaline category in the US is a billion-dollar category. And it's still, in my opinion, early-stage development. So we've made some investments, regionally at this point, to be able to produce a 3-gallon, 9.5 pH at the time of bottling, alkaline product. It's a purified or distilled base. Obviously, we add minerals.

I think the first place we plan to roll that out later this year is in Northern California. So we're pretty excited about that. We'll begin to offer it to our residential customers, certainly to our Exchange customers. And we think we can participate in the growth of this category, which has been a significant growth over the last couple of years.

At the same time, we're in test on adding an alkaline water solution to our refill machines. So we're currently in tests with a couple of machines today. In that particular case, it has proven to be incremental volume on a daily basis. We actually do get a premium for it. And we're excited about how we add that to the portfolio next year. It'll be a slow rollout, but we do have the technology. And again, in that case, it'll be consistently dispensed at 9.5 pH, which we think is important in terms of the key sweet spot for alkalinity from a consumer perspective.

Jon Kathol

Okay. Another innovation-type question here. When do you expect to start rolling out the Primo Fresh offering? What are the challenges involved with that? Specifically, are there sanitation challenges?

And I guess, as an extension of that, what differentiates our offering from other companies who tried the vending-of-water option?

Tom Harrington

Okay. That's about six questions but I'll—

Jon Kathol

Yeah. Sorry. I packed them in.

Tom Harrington

Thanks. Thanks, Jon.

Jon Kathol

I'm happy to repeat.

Tom Harrington

We're excited about the Primo Fresh on-the-go solution. Let's talk about both our retail platforms in terms of quality and sanitization. The best way to think about it is, inside each machine is a small bottling facility, in that we process and clean the water; it includes UV light, so that we disinfect at the point of dispense. And we have a long record on our Refill business of dispensing high-quality water that goes through regular quality checks. So we don't see that as an issue, and we're very focused on making sure we deliver the quality.

What's different about the solution is the ability to dispense a reusable container so that a customer can get it. And then that will ultimately replace single-use plastic, and they'll use it over and over again.

The current state, as we said during the earnings release, is that we are in the find-the-manufacturing capacity in both Europe and the US, so that we can scale this product. We haven't landed on those solutions yet, but we're actively working with potential suppliers. And that sourcing will dictate, frankly, when we roll it out and the quantities we roll it out in 2022. But we would expect to be early stages by the second half of the year, if everything lines up the way we plan.

We will sell the products direct, but we'll also look for partner networks to sell some of these products or channels that we're not as developed in. So, the education channel, as an example, there's a number of alternatives for people that do business there that we could likely partner with because we think this is a real innovation for consumers on the go, and that the most environmentally sensitive are going to seek out these solutions over time.

I think I got all those questions.

Jon Kathol

I think you did.

So here's a question about our digital offering. How does digital facilitate your residential and commercial growth?

Tom Harrington

Can you say that again, Jon? Sorry.

Jon Kathol

Yeah. How does the digital arena facilitate our residential and commercial growth?

Tom Harrington

Oh yeah. It's a platform for advertising for us to effectively communicate with consumers looking for a hydration solution. And everybody searches the internet, so our job is to make our products more broadly available on the platforms most used by consumers. And our investments will broaden our reach and, frankly, frequency that we think will attract more residential customers to the fold.

Our growth in our European residential business was driven 100 percent by online activity with not the most developed website. So we have firsthand experience where we can drive residential growth just through digital. And it's early stage and not as mature as it will be over the course of the next year or two.

Jon Kathol

Okay. Jay, here's a question for you. In addition to our leverage target, is there a particular credit rating that we aspire to?

Jay Wells

Yeah. First, before I answer the specific question, keep in mind that, if you look at our senior notes, they are traded a notch or two better than where we are rating. So we're seeing some benefit with that improvement in rating. But you look at our journey on becoming both qualitatively a better company and now quantitatively with the leveraging a better company. I'm not going to speak to the rating agencies, but I do believe we are at a better rating than we currently are as we move through being a predictable, dependable company. So qualitatively correct when you look at where our leverage is moving. Quantitatively, we would be at a better rating than we are now.

Jon Kathol

Okay. This is basically a confirmation-on-modelling question. Jay, can you confirm the 2024 targets do not include tuck-ins or acquisitions?

Jay Wells

Thank you for that clarification. I think it's footnoted on a couple slides, and I called it out in my prepared remarks, that this our organic growth targets through 2024. And our plan is to spend between $40 million and $60 million a year on tuck-ins. But on the timing, the location, the scale, we do not know exactly what they're going to be until we get to them. So it will really be dependent on that. So it will be additive on top of the guidance we have provided.

Jon Kathol

Okay. Still jumping back to the digital area here, when will the new app roll out? And what are the key metrics you're monitoring and hoping to see improvements in to know if the app is a hit?

Tom Harrington

Yeah. So we are expecting to roll it out at late Q1 ’22 in the US and Canada and then, in the back half of the year, extend that solution into Europe. It is one of our planned digital investments. This will be—the number of downloads is important. I want to say we’re somewhere in the ballpark of 800,000 right now in the US. And it really is how many are active users. And to us, that’s the key metric. So if you’re using the app, you’re not calling the centre. And we’ve got to add a few key enhancements to the app that makes it more user-friendly and relevant to what the consumer wants; so easier to pay your bill, as an example, easier to schedule an order, easier to buy more products, easier to upsell, if you will. So all that is part of the new app, which we think will drive more users, more adopters, which we think is important.

Jon Kathol

Okay. I’m going to try to combine a couple of different questions here. They centre on Europe. Will Europe be the focus of our M&A targets? And how big can this business, meaning the European business, be in 2024?

Tom Harrington

Well, our focus in Europe is really to address the dependence on the historical commercial base. And it’s, one, how do we build out the residential business, which would be a primary focus in Europe. We’ve seen a year-and-a-half of good success. So as we develop our digital capabilities, we will extend them into Europe and hope to accelerate growth there.

We think participation in Sipple in the UK is an important component of our growth story. We think the rollout of Sipple or Fresh across other markets in Europe is an important component of our growth story.

We have had early successes with the Exchange business, particularly in Russia and the Baltics. So we would look to extend our Exchange business over the life of this outlook into those markets to further diversify the revenue stream.

So it really is, think about how we take what we've done very well in North America and bring those solutions to Europe. And then, frankly, in the case of Sipple and BIBO, take those solutions from Europe to North America so that we benefit from innovations on both sides of the Atlantic.

Jon Kathol

Okay. Here's a question regarding—it's labelled California. Will a California referendum on regulating single-use plastics in November next year—how do you envision the role of public policy pushing more consumers to shift away from the single-use model?

Tom Harrington

That's a landmine. But I think that first staying aware, where we know that there's been legislation is in Europe. So we focus, as an example, the elimination of plastic cups in France, which has created some short-term headwinds. And what is the solution for people to actually consume water? Well, we think Sipple, actually, is one way to do that, so that they can have a reusable container. And that will help us bridge some of that gap.

Obviously, our reliance on single-use plastics by the end of Q2 is significantly lower when we eliminate the 400 million bottles we produce. So from our perspective, as we become more environmentally friendly, ESG responsible, we think it's a tailwind for us no matter where this goes.

Jon Kathol

Okay. We've just had a quick question come in on the Primo Fresh. Do we have a targeted number of units to produce that product?

Tom Harrington

Yeah. It’s really going to come down—I think about it, narrowly for the year, and we haven’t given any guidance on anything yet, specifically, about the quarter. We’d do whatever ’22 looks like when we get to our February earnings release. It really comes down to capacity, right?

So it’s a difficult question to answer until we work out the time that a potential producer could deliver finished product for us to execute. So you really have to think of this as a phased approach. I won’t be linear over the three years of this outlook.

Jon Kathol

Okay. Here’s a really broad-based question. What’s the part of the story the markets are misunderstanding about Primo?

Tom Harrington

Well, we’re early stage. I think we’re now, officially, about a year-and-a-half old. And the better part of that entire year-and-a-half, we acquired the Legacy Primo business and three weeks or four weeks later, the pandemic hit. So it’s been a rollercoaster ride.

I think we’ve done good work simplifying our story. It was more complex when we were combined. And historically, with the legacy S&D business, I think that exit of what we would call a noncore asset helped us. And I think people are beginning to understand what we are as opposed to what we might have been. And we’ve done a pretty good job transforming to a pure-play water.

I also think that people have misunderstood the growth opportunity. And when we did our first investor day for Primo, I want to say that we put our forecast at that 6 percent organic growth when you combine those companies. And we’ve managed to generally hit approximately 5 percent or 6 percent organic growth. That’s part of a new company and the new story.

We’ve always thought about ESG and environmental-friendly as being in our DNA. We had previously not done a good job communicating what it is we do. And I think that the addition of Mukesh will just take us to another level in terms of the environmental-friendly story of our company.

And then, during the pandemic, early on, there was concerns about our cost structure going into the top-line volatility. And I think it’s pretty clear that we confirmed that we have a highly variable cost structure that we can flex up and down, that our cost is mainly labour, and that we flexed that pretty good in the pandemic.

And then, of course, it’s how do you put the whole story together? And that really is what today is. We’re a growth story. We’re committed to investing in growth. We’re going to invest in the topside. We’re going to invest in being environmentally friendly. We’re going to invest in efficiencies. And 19 months ago, I don’t think you could get that story from this company, and today, you are.

Jon Kathol

Okay. It looks like we’ve hit all the topics. With that, Operator, I’ll send it back to you.

Ladies and gentlemen, this concludes our call for the analyst investor webcast for Primo Water Corporation. Thank you for attending.

Operator

Ladies and gentlemen, this concludes your webcast. We do thank you for attending. Have a great day.