FINAL TRANSCRIPT

Primo Water Corporation

Third Quarter 2021 Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Pam, and I will be your conference Operator today. At this time, I'd like to welcome everyone to the Primo Water Corporation's Third Quarter 2021 Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, please press *, then the number 2. Thank you.

I'll now turn the conference over to Jon Kathol, Vice President of Investor Relations. Please go ahead.

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

Welcome to Primo Water Corporation's third quarter 2021 earnings conference call. All participants are currently in listen-only mode.

This call will end no later than 11 o'clock a.m. Eastern Time.

The call is being webcast live on Primo's website at www.primowatercorp.com and will be available for a playback there for two weeks.

This conference call contains forward-looking statements, including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with cautionary statements and disclaimers contained in the safe harbor statements in this morning's earnings press release and the Company's annual report on Form 10K and quarterly reports on Form 10Q and other filings with securities regulators. The Company's actual performance could differ materially from these statements, and the Company undertakes no duty to update these forward-looking statements, except as expressly required by applicable law.

A reconciliation of any non-GAAP financial measures discussed during the call with the most comparable measures in accordance with GAAP, when the data is capable of being estimated, is included in the Company's third quarter earnings announcement released earlier this morning, or on the Investor Relations section of the Company's website at www.primowatercorp.com.

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

Tom will start today's call by providing a high-level review of the third quarter and our progress on the strategic initiatives. Then Jay will discuss our third quarter financial performance in greater detail and offer our outlook for the fourth quarter and the full year 2021 before handing the call back to Tom to provide a long-term view ahead of Q&A.

With that, I'll now turn the call over to Tom.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thank you, Jon, and good morning, everyone. Before we review our performance for the quarter and update our progress against strategic initiatives, I wanted to welcome both Cate Gutowski and Jeff Johnson to the team.

Cate has joined as our Chief Operating Officer, and with experience in both sales and operational strategy, Cate will strengthen our management team and drive innovation, accelerate growth, and propel operational excellence of our differentiated Water Your Way platform.

Jeff joins our team as Senior Vice President, Global Operational Excellence and Service Optimization. Jeff's leadership in the logistics and transportation industry will be leveraged to enhance margins and improve our return on invested capital.

We welcome both Cate and Jeff to the team.

Our third quarter financial results demonstrated the strength of our pure-play water offering, as demand for our products and services continued to increase during the quarter.

Our global cooler quit rate improved by 240 basis points compared to prior year, and the increased demand has continued through the month of October.

As we previously communicated, we have implemented a series of pricing actions to address current inflationary costs across the entirety of our customer base, and we continue to benefit from the energy surcharge and delivery fees that mitigate the increases in energy-related costs, especially fuel.

As Jay will outline later in his remarks, we remain comfortable with our full year adjusted EBITDA guidance of between $390 million and $400 million.

As we continue to transform our business, we announced earlier today our plan to exit the North American single-use retail bottled water business, primarily 1 gallon, 2.5 gallon, and case pack water, as part of our overall strategy to increase profitability and further reduce our environmental footprint.

This exit will take place over the next several quarters and does not include our large format exchange, refill, and dispenser businesses, nor our Mountain Valley brand, which sells products primarily in glass bottles. Jay will cover the modelling effects of this decision later in his remarks.

During the quarter, revenue increased 6 percent to $551 million compared to $518 million, 5 percent excluding the impact of foreign exchange. And adjusted EBITDA decreased 4 percent to $106 million compared to $111 million driven by higher operating costs.

The operational challenges we faced during the quarter were largely a result of an increase in COVID-19 infections across our workforce. We did not forecast, nor expect that hundreds of route drivers would be adversely impacted by COVID-19. This created operating pressures as we worked tirelessly to fill the short-term openings caused by route sales representatives missing work.

Where possible, we deployed a series of tactics to service as many routes as possible, including hiring temporary labour, increasing overtime, and had managers and corporate staff going into the field supporting route operations. These route openings and our efforts to fill the opening short term resulted in a higher cost of service.

Our teams have once again responded to the challenges presented by the pandemic, and I'm proud of the efforts of the team and pleased with everyone's commitment to safety and customer service.

As we exited the quarter, we started to see a decline in the number of COVID cases across our operations that has continued through October and are returning to normal service levels and expected operating costs as we work hard to meet the current levels of elevated demand, especially in our North America Water Direct and Exchange business.

Globally, our customer base grew to nearly 2.7 million in the third quarter. As I mentioned last quarter, the addressable 3-gallon and 5-gallon water market of US residential households alone is estimated to be between 22 million to 29 million and growing.

The residential opportunity for increased sales of 3-gallon and 5-gallon returnable water remains a top priority as the category has 2 to 3 times the market potential versus today's installed base.

We are focused on increasing household penetration through execution of our razor/razorblade model.

Our water dispenser sales provide an important entry point to access these households and capitalize on our 4R, recurring razor/razorblade revenue, model. The attractiveness of the recurring purchase behaviour is the ability to continually generate sales as part of our customer-for-life strategy.

Our internal research indicates that among last year's North America dispenser sell-through sales of roughly 1 million units, 60 percent of respondents are new to the category. Of those likely to become a future dispenser household, research indicates their sourcing preference as 45 percent for Water Direct, 30 percent prefer Water Exchange, and 25 percent prefer Water Refill.

We should continue to capture at least our fair share of this growth as our 4R model remains one of our strategic advantages.

While Q3 dispenser sales were negatively impacted by the extraordinary cost for ocean freight, as well as the burden of tariffs implemented in January, we're hopeful that we will gain an exemption from the tariffs imposed as we move through Q4 and into 2022 and that ocean freight costs moderate over time.

As it relates to our efforts in ESG, we remain focused on elevating our position on environmental issues and finding new ways to honour our commitment to clean water and sustainability. That is why earlier today, we announced our intention to exit the category of single-use plastic bottled water sold in retail channels in North America.

We expect that exiting this category will improve our profitability, enable us to provide more focus on our razor/razorblade revenue model, and lighten our environmental footprint.

Our progress in ESG improvement is ongoing. Within the last year, we achieved carbon neutrality in our US water operations, and our European water business has remained carbon neutral for the last 10 years.

In December 2020, we became the first company to certify a spring water source under the Alliance for Water Stewardship standards and added a second in January. We expect to certify two additional locations before the end of 2021 and remain committed to achieving carbon neutrality across our global water operations by the end of this year.

In addition, we welcomed Mukesh Jha as our Vice President of ESG. He is an accomplished ESG professional with a 20-year track record of success in leading ESG programs of four global organizations.

Our year-to-date results, coupled with our confidence in our pure-play water model, have driven our decision to maintain our full year adjusted EBITDA outlook between $390 million and $400 million.

We expect to grow organically by approximately 6 percent, plus some additional revenue from our tuck-in M&A strategy. We remain on track to achieve the higher end of our targeted $40 million to $60 million range of M&A tuck-ins in 2021.

I'd like to turn the call over to Jay to review our third quarter financial results in greater detail.

Jay Wells — Chief Financial Officer, Primo Water Corporation

Thank you, Tom, and good morning, everyone. Starting with our third quarter consolidated results, revenue increased 6 percent to $551 million compared to $518 million. Excluding the impact of foreign exchange, revenue increased by 5 percent.

The gains were largely driven by growth in our Water Direct and Exchange businesses, partially offset by declines in our Water Refill and Water Dispenser channels.

Adjusted EBITDA decreased 4 percent to $106 million compared to $111 million. As Tom discussed, the decrease was driven by higher operational costs related to COVID-19 as staff and driver availability during the Delta peak, along with the increased demand for products and services from residential consumers and B2B customers, challenged our normal high levels of service.

We were also adversely impacted by the effects of Hurricane Ida in September, losing as much as a week of operations in Louisiana and smaller outages as the storm tracked up the East Coast.

Fortunately, all of our associates are safe and operations have fully resumed. These costs were partially offset by increased pricing and the benefit from continued operating leveraged improvements.

Turning to our segment level performance for the quarter. In North America, revenue increased 5 percent to $413 million compared to $393 million. The increase was driven by strong volume and increased pricing in our Water Direct business, partially offset by lower revenue from our Water Refill and Water Dispenser channels.

Revenue from our residential consumers grew by 2 percent during the quarter and North American B2B revenue was up 12 percent as we are seeing steady progress on the lifting of restrictions across the channel.

Adjusted EBITDA in North America decreased 3 percent to $88 million due to the operational challenges I just discussed.

Importantly, we exited the quarter in better shape and are now closer to achieving our service level targets.

Turning to our Rest of World segment. Revenue increased by 11 percent to $138 million. Excluding the impact of foreign exchange, revenue increased by 7 percent. The increase was driven by growth in residential consumers, with revenue from residential consumers being up 24 percent.

Revenue from B2B customers was flat for the quarter as the performance of our Water Direct B2B customer base remains high to the relative level of the return to the office in each of the countries we serve.

We continued to work toward an efficient and low-cost rollout of our products and services for residential consumption in Europe to further diversify our customer base and better balance the customer mix.

The key highlight in the Rest of World segment is the measure of organic cooler adds in the quarter. When coupled with improved retention rates, we are beginning to see the benefits from our ongoing efforts to improve operating performance in this region.

As we have discussed in past quarters, we believe that our existing footprint and knowledge of the water services market in Europe leaves us in a great position to capture the revenue opportunities we've identified.

Adjusted EBITDA in the Rest of World segment decreased 10 percent to $23 million, as government-subsidized furlough programs are ending in many European markets.

Turning to our liquidity position and balance sheet. We ended the quarter with a cash balance of $125 million, an available net borrowing capacity on our cash flow revolver of $141 million, for a combined total liquidity position of $266 million.

Our net leverage ratio is 3.7 times, and as we will discuss in greater detail during our upcoming Investor Day, we are now targeting a net leverage ratio of less than 2.5 times by 2024.

Looking to the fourth quarter, based on the information we have available to us as of today, we currently expect consolidated revenue from continuing operations to be between $540 million and $550 million. We also expect that fourth quarter adjusted EBITDA will be in the range of $108 million to $118 million.

As part of our overall strategy to increase profitability and further reduce our environmental footprint, this morning we announced the plan to exit our North American single-use retail bottled water category consisting primarily of 1 gallon, 2.5 gallon, and case-packed water. The plan does not affect our large format Exchange, Refill, and Dispenser businesses, or our Mountain Valley brand, which sells products primarily in glass bottles.

On an annualized basis, these products have accounted for revenue of approximately $140 million. After exiting these product lines, we expect that our overall adjusted EBITDA margin will improve by roughly 100 basis points. We expect most of the effects to begin in 2022, and we do not expect the cost from exiting these businesses to be material.

For the full year 2021, revenue is still projected to grown organically by approximately 6 percent, and we are maintaining our outlook for adjusted EBITDA to be between $390 million and $400 million. We also expect around $10 million in cash taxes, $68 million of interest, as well as capital expenditures of around $150 million.

The CapEx figures reflect an increase versus our previous forecast of $135 million, primarily because of the higher cost of ocean freight and tariffs for our dispensers. We do expect these factors to abate at some point, which will enhance future free cash flow.

Turning to other aspects of capital deployment. We purchased approximately 1.8 million shares for $29 million during the third quarter as part of our $50 million share repurchase program. And earlier this week, our Board of Directors authorized a quarterly dividend of $0.06 per common share. The dividend is payable in cash on December 3, 2021, to shareholders of record at the close of business on November 23, 2021.

With respect to M&A, we have maintained our disciplined approach and have been focused on accelerating the robust pipeline of tuck-in opportunities in front of us. During the quarter, we announced the acquisition of Earth20 in Oregon, Health Waters of PA, and the Get Fresh business in Poland, and remain on track to achieve the higher end of our targeted $40 million to $60 million of tuck-ins this year.

In terms of our growth outlook after 2021, we are looking forward to our Investor Day scheduled for November 17th when we will provide details behind our forecast for high single-digit organic revenue growth; continued execution of $40 million to $60 million of highly tuck-ins annually; enhanced EBITDA margins of 40 to 60 basis points per year in addition to the one-time benefit of approximately 100 basis points from our planned exit of the single-use retail bottled water business; targeted annualized adjusted EBITDA in excess of $500 million by 2024; and net leverage of less than 2.5 times by 2024.

I will now turn the call back to Tom.

Tom Harrington

Thanks, Jay. We remain focused on executing on differentiated Water Your Way platform, and we will leverage our pure-play water model to drive organic growth by approximately 6 percent in 2021. We will continue to enhance the customer experience to improving customer-facing tools by building out more diverse E-commerce solutions and improving the customer experience through flawless delivery.

We will continue to execute against our razor/razorblade model, with growth in the number of dispensers sold driving top-line growth through the sale of water products.

In Europe, we're accelerating our Water Refill, Water Exchange, and Water Dispenser businesses to diversify our customer base and capture growing demand in the residential market.

Additional focus areas include leveraging our predictable and reliable top-line growth while protecting our efficiency improvements and maintaining our highly variable cost structure, identifying and executing highly accretive tuck-in acquisitions across North America and Europe, and seeking new ways to further enhance our standing as an ESG and sustainability leader.

Supporting our initiatives are more structural and thematic tailwinds that are driving consumers towards healthy hydration solutions. The growth in the health and wellness category continues to support our prospect of gaining share of the broader beverage category.

COVID continues to elevate the health and wellness conversations, and consumers are increasingly conscious of their overall health and well-being. In addition, the perception of the declining quality of municipal tap water is well documented, which supports the growth of our products and services. Tap water as a primary drinking source is expected to continue to decline for the foreseeable future.

As Jay noted, we expect our consolidated fourth quarter revenues to be between $540 million and $550 million and for our adjusted EBITDA to be between $108 million and $118 million.

For full year 2021, we are forecasting revenue growth of approximately 6 percent and are maintaining our adjusted EBITDA forecast to be between $390 million and $400 million.

We continue to see the elevated demand while our staffing has begun to return to normal, with COVID cases reduced by approximately 80 percent from mid Q3.

We expect to see sustained strength from our Water Direct and Exchange residential customer base and improvement from our Water Direct B2B customer base as we progress through the fourth quarter and into next year.

We're also maintaining a strong pipeline of tuck-in M&A candidates, which we expect to execute during the remainder of this year.

Lastly, as a reminder, we are hosting a virtual Analyst and Investor Day on November 17th at 9 a.m. Eastern Standard Time and hope you will join us. Registration instructions are located on the Investor Relations section of our website.

At the Investor Day, we will provide details behind our multiyear forecast for high single-digit organic revenue growth, continued execution of $40 million to $60 million of highly accretive tuck-ins annually, enhanced EBITDA margins of 40 to 60 basis points per year in addition to the one-time benefit of approximately 100 basis points from our planned exit of the single-use retail bottled water business, targeted annualized adjusted EBITDA of more than $500 million by 2024, and net leverage of less than 2.5 times by 2024 as well.

Once again, I'd like to thank the Primo Water associates across the business for their tireless efforts to serve our customers.

And with that, I'll turn the call back over to Jon to move us to Q&A.

Jon Kathol

Thanks, Tom. During the Q&A, to ensure we can hear from as many of you as possible, we would ask for a limit of one question and one follow-up per person. Thank you.

Operator, please open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by 1 on your touch-tone phone. You will hear a 3-tone prompt acknowledging your request, and your questions will be polled in the order they are received.

Should you wish to decline from the polling process, please press *, followed by 2. And if you're using a speakerphone, please lift your handset before pressing any keys.

Your first question comes from Kevin Grundy with Jefferies. Please go ahead.

Kevin Grundy — Jefferies

Great. Thanks. Morning, everyone.

Tom Harrington

Morning, Kevin.

Kevin Grundy

Two questions for me, if I may, first on the quarter and then a follow-up on the long-term guidance. So first, I think it'd be helpful just maybe spend a little bit more time on some of the pain points from a cost perspective around labour and route and inefficiencies from the pandemic, how that progressed during the quarter; what you saw in October in terms of some of these costs improving, particularly around labour and availability that gives you comfort on the guidance for the year. And then I'll follow up with the long-term guidance. Thanks.

Tom Harrington

Sure, Kevin. This is Tom. In the middle of the quarter, I think late July, early August, we began experiencing a spike from the Delta variant. In order of magnitude would be roughly 10 percent to 15 percent of our route sales associates were infected. And if you think about that, there is a couple of days before they get tested where they're not feeling well. Then they get tested. They're positive. They're sidelined for at least two weeks.

And of course, this didn't happen randomly one in each building. It happens in buckets. So I'll give you an example. Denver, Colorado, I have something like 20 routes. Seven routes were open. So we don't have the available workforce, obviously, if we don't carry that kind of incremental headcount to cover, so we scrambled. And then that then put us behind on our ability to effectively service the customer. We missed customers. We missed revenue.

And then we incurred the incremental cost of temporary labour, which are not properly trained. We incurred lots of overtime, which is short term. It's not long term a good solution. And then we flew people in from all over.

I'll use Jay as an example. Jay was on a route in Denver to help out, as an example. So we put everybody available to address the openings.

As we moved through September the cases began to drop and in October, as an example, current cases are 80 percent lower than what they were at the peak. So we've now begun to return to more normal operations and, therefore, we're beginning to see more normal operating costs as we're not flying people all over and we're properly serving our customers.

So hopefully that gives you a flavour for the impact of the variant. Obviously, we wouldn't have forecast that and happily in October it's behind us, and we're pretty much back to normal at this point in time.

Jay Wells

Yeah. And you could even see it in our September results. As you look at September stand-alone, we were at 11 percent revenue growth. EBITDA growth at 12 percent. So you can see, as we came out of the quarter, even if it wasn't quite back to where it should be, but it showed up at our results in September and it, frankly, continued on into October.

Kevin Grundy

Got it. Thank you, both. And then just if I could follow up on the long-term guidance. And I know you will be spending more time on this at the Analyst Day, so I think we can appreciate that. But maybe just for purposes of this call spend a little bit of time on the high single-digit organic sales growth guidance, which is great. Maybe just talk broadly about how you see the building blocks for that across your business and geographies. And then the margin outlook is also encouraging. Maybe just talk about the key factors driving it. How that compares? I think, historically, particularly on the HOD, side it's been 10 to 20 basis points of margin improvement and now you're looking for 40 to 60 across the business. So quite a step-up. And pretty encouraging in the cost environment where a lot of companies are obviously struggling. So I think that would be helpful.

And then sorry for being a bit verbose here, but just the last one I think would also be helpful for folks, just looking at the EBITDA guidance now, looking at the 2024 and incorporating your new leverage target of 2 and 2.5 times. Maybe talk about uses of free cash flow, particularly around share buybacks because you've provided the commentary around the tuck-in deals. I think we can assume reasonable levels of CapEx, et cetera. But just trying to get a better feel for what you're thinking about and what's included in the multiyear outlook around buybacks just to kind of make the math work here I think would be helpful.

So thanks for all that, guys, and then I'll pass it on.

Tom Harrington

Okay. Let me start with the top line.

Jay Wells

You basically took our Investor Day agenda, Kevin. So we might answer some, but not all. How about that?

Kevin Grundy

That's entirely fair. Entirely fair. Thank you, guys.

Tom Harrington

Let me give it my perspective on high single-digit growth. So we have been delivering and articulating approximately 6 percent organic growth. When we exit the retail business, that number will move to 7 percent and it's a high degree of confidence because we've been delivering that number.

You also know that we recently hired Cate Gutowski and Jeff Johnson and there's two prongs. We're skilling up so that we can make real investments in future growth around digital. Cate has some experience there.

And then to your question about EBITDA margin expansion, we think that Jeff will help us enhance, improve our operational efficiency across the operations to give us that step-up in EBITDA margin enhancement.

So that's really the high-level approach on why we think it's there. And of course, we're going to have to invest in growth. And though we've invested in the mobile app and some of the websites, we're going to have to accelerate that investment to push it to the higher end of the single digits.

Jay Wells

Yeah. And on the leverage that you asked, it really is a function. We have a small amount of debt that we can repay on our cash flow revolver, some financing leases, but we don't have a vast amount of debt. So there is paying off that debt, but it's predominantly it's the leverage of the increased EBITDA that drops our leverage ratio versus EBITDA down.

So that is how we're getting to below 2.5 times by 2024 on the leverage.

Kevin Grundy

Okay. I'll pass it on and take some questions offline. Thank you for the time, guys. And good luck. I appreciate it.

Tom Harrington

Thanks, Kev.

Operator

Your next question comes from Derek Lessard with TD Securities. Please go ahead.

Jay Wells

Hi, Derek.

Derek Lessard — TD Securities

Yes. Thanks. And good morning, gentlemen. How are you doing?

Tom Harrington

Good. Derek. How are you?

Derek Lessard

Good. Thanks. Maybe I just wanted to hit on the, I guess, what segments—sorry. Let me just rephrase that because, again, thanks for giving us the revenue impact from the exiting of those businesses. I was just wondering maybe if you could break it down a little bit further in a couple of areas. Which segments do we find those revenues? And number two, what's the split, I guess, between North America and the Rest of the World? And thirdly, when do you expect to be fully exited of that business?

Jay Wells

Want me to—

Tom Harrington

Yeah. So that's the retail question? Sure.

Jay Wells

Yeah. So first off, if you look on our channel segment reporting, it's Other Water.

Derek Lessard

Okay.

Jay Wells

And really, the Other Water is just retail water and it's located in North America and Israel is where it is. In Israel, we have the number one premium retail brand. So it's a very good, very profitable brand.

Here, when you look at the business that we're exiting, it's about $140 million. That was my prepared remarks. And we've talked about this business since previously. It's basically a zero EBITDA or basically zero EBITDA business that we've run for fixed-cost leverage. So that's the EBITDA effect. And it really is just removing basically zero EBITDA-type revenue is what's improving our margin.

A couple other points on that. I'm not sure if Tom said in his prepared remarks, but this will eliminate 400 million single plastic bottles that we're selling from our portfolio with us working with the retailers to replace it with our exchange machines, with our refill machines. So it's really an effort to remove single-use plastics from our overall product line. So that's the key part of it.

And the last thing, I know I'll get an inflation question at one point, do might as well knock it out. The biggest inflationary pressures we've seen is part of this business too where we have resin that we're buying, we have freight that we're shipping, and we've seen about $6 million of inflationary-type headwinds within this business on top of everything this year. So it will also be eliminating a part of business that does have the commodity-type movement. And then you have to put the pricing through the large retailers, which as we all know, takes much longer than our ability to take pricing across our other 2.7 million on most customers.

Derek Lessard

That's very helpful, Jay. Thanks for that. And maybe just one last one for me. In terms of the Delta variant impact, I was just wondering how it impacted you guys in terms of quit rates or short-term quit rates and maybe customer service complaints?

Tom Harrington

Yeah. So we would have, obviously, not serviced to our normal level, which would drive incremental cost to the call centre. We deployed every available human to us to solve for that.

Encouragingly is our customers can be very forgiving when we respond to them that we're taking efforts to address the issue and evidenced by that reduction in the cooler quit rate. So the 240 basis points lower than the same time a year ago is indicative that we still made good progress retaining the customers and we responded appropriately, or as best we could in what was a pretty wild six or eight weeks.

Derek Lessard

Okay. Thanks for that, guys.

Jay Wells

Yeah. Derek, including the CFO knocking on your door with a 5-gallon jug thanking them for being a customer.

Derek Lessard

Would have liked to see that.

Tom Harrington

It's priceless.

Operator

Your next question comes from John Zamparo with CIBC. Please go ahead.

Jay Wells

Morning, John.

John Zamparo — CIBC

Good morning, everyone.

Tom Harrington

Hello, John. Good morning.

John Zamparo

Morning. I also hope to see a picture of Jay driving a truck at the Investor Day coming up.

Jay Wells

They didn't give me a full truck. They just gave me a van is all they would trust me with, John. Trying to limit the downside.

John Zamparo

Fair enough. I want to ask about the dispenser business, and I know there's going to be noise quarter to quarter and it seems like tariffs have an impact here, but it's the second consecutive quarter we've seen a decline. Is there anything that you can add on this business?

Tom Harrington

Well, you have a couple of things that have happened. Obviously, like everybody else, freight costs are higher, right? So we've seen significant inflation in the cost of the freight to get it here, which leads to price increases, which take us a while, obviously, to flush through because this is the retail sector.

The current levels of ocean freight have abated a little, but they're still meaningfully higher than a year ago, or be it better in Q3 and moving into Q4 than Q2 and early Q3. We have had delays in the timing of those shipments, but right now we're in a pretty good position from an inventory perspective.

So my team has done a very good job managing when they get here so that we believe we'll open in 2022 in very good position.

As it relates to tariffs, we weren't given a window when they expired at the end of 2020. Tariffs have been in place since the first of the year. We now have the ability to request exemption from those tariffs. That process ends on or about December 1st, and then we'll await government decision. When we went through this process the first time in, I want to say 2016, we ultimately received the exemption. So we're cautiously optimistic, but we'll have to wait and see.

Once that comes back, then we would expect the dispenser business to get back in shape and continue to grow. And even though it was choppy, I think we'll still sell something on the order of 800,000 coolers this year, which there's still plenty of new users to the category that we'll service, hopefully, with our Water Direct, Exchange and Refill business.

Jay Wells

And the one point you didn't mention, we did see last year some inventory loading by retailers as they were seeing these headwinds come. So technically when you look at the million we sold last year, there was a little bit of pull-forward of purchasing by the retailer. So that's given us a little bit of headwind on a year-over-year comparison this year also.

John Zamparo

Okay. That's helpful. Thanks. And then my follow-up's on the ESG side and I think you're making really tangible efforts and progress on this front and the investment community probably, or should be well aware of it. But I'm wondering about it at the customer level and are there ways that you're making customers aware of the efforts you're taking and the benefits? And ultimately, can that bring in more customers? Or do you view it as a retention tool? Just I'd like to get your thoughts on the ESG efforts from the consumer's perspective.

Tom Harrington

Yeah. I think it's a good point, John. We need to be better communicated, though, on I'll call it the three Rs: refill, reuse, recycle. And that's the real benefit of our large format bottles. And it should become a bigger part of our marketing customer/consumer communication. And I think you'll see us move further down that path in 2022.

And then, frankly, the exit of the retail business gives us the opportunity to reengage and open that communication with the customer, which once we're completely out of this call it midyear '22, you'll see us kick up that communication.

John Zamparo

Got it. Okay. That's helpful. Thank you very much.

Jay Wells

Thanks, John.

Operator

Your next question comes from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira — JPMorgan

Thank you. Good morning. And hope you and your logistics team are well now. And Jay deserves a lot of the respect. I guess the stock has a little bit of—

Jay Wells

Thank you—

Andrea Teixeira

—right there, right?

Jay Wells

Tom left out that he was sweeping floors down in Orange County, so let me knock it off the glory. He was out in the market too.

Andrea Teixeira

Oh, here you go.

Tom Harrington

Thanks, Andrea.

Andrea Teixeira

So my question is on I think you alluded to it, but I just want to make sure that we get all the pieces together. So your EBITDA margin for the fourth quarter kind of implies 20 to 21.5. So it's a big step from the prior year and could be even above the three quarter '20 level, which we think it's probably the highest ever. So what do you think is driving the step-up in profitability especially as, I guess, you think labour and third-party rate also kind of continues to be elevated? I mean, obviously, the retail water business exit is not until, as you said, mid next year, but there's some improvement that in the mix that you carry over. So anything we should be aware of? Any additional pricing or lag?

Tom Harrington

Yeah. Andrea, there is. We'll get a full quarter benefit of pricing. So we were very aggressive to pricing in Q3, but it wasn't in for the totality of Q3. It will be in for the totality of Q4 across pretty much all of our customer base. So we'll get the benefit of that.

And then Jay referenced September revenue up 11 percent. We are enjoying good demand for our products into October, which will also give us the leverage from the volume down to the EBITDA margin.

Andrea Teixeira

Okay. No, that makes a lot of sense. And everything falling into the quarter, which by the way, is pretty unique for everyone else in CPG, so that's impressive.

Tom Harrington

Thank you.

Jay Wells

It's the benefit of having a very diverse customer base where we have said we do have the ability to take pricing because our average customer bill is $50. We don't have the large, large retailers that have the ability to RP. And that gives us the ability to take price and we're taking it.

Andrea Teixeira

Mm-hmm. Yeah. Perfect. Direct to consumer. Thank you so much.

Tom Harrington

Thanks, Andrea.

Operator

Your next question comes from Nik Modi with RBC Capital Markets. Please go ahead.

Filippo Falorni — RBC Capital Markets

Hey, guys. This is Filippo Falorni on for Nik. One quick question on the labour issues. You've mentioned clearly things are getting better and already kind of returned to normal. But if you think a bit longer term about the potential longer-term impacts from COVID, have you seen any difficulties finding employees, given the rise of the gig economy and having more options for people to find alternative jobs? Is that something that you're thinking about longer term on the labour front?

Tom Harrington

Yeah. And in terms of the route labour force, we have taken appropriate steps market by market in terms of what our starting wages are. And that has always been baked into our expectations. And we don't see huge challenges. That doesn't mean there isn't a town somewhere in North America where there's a particular issue. But overall, we think we're in a pretty good spot in terms of our ability to fill and keep filling those routes subject to no future variants that causes these spikes.

And then the other biggest area for us is in our call centre. So we have competitive wages in our Lakeland facility. And frankly, the entire team is focused on retention, right? So part of this is once you can attract the people, when we get them, are we doing all the right things to keep them? And it's a pretty big focus of the Company to onboard people appropriately and to make them feel part of the team so that they'll stay with us.

Filippo Falorni

Got it. That makes sense. And on the ESG front, maybe you could give some metrics how the exit of the North America bottled water business helps improve the ESG profile of your company from an emission standpoint? And longer term, you've made a lot of progress on the topic. What other initiatives are you thinking about going forward?

Tom Harrington

I'll give you one of the other initiatives, and then I'll hand the larger retail question over to Jay. You would have read last quarter we invested in a company called Sipple. Sipple is a refill vending machine that will vend containers of 1 litre or less. So we actually believe it'll be a single-use replacement. We're currently invested only started in the UK. We have global rights for that. It will be part of our growth story over the course of the next three years, which we think it is a real environmentally friendly solution with pretty good growth potential.

Jay Wells

And when you look at ESG, I mean, our primary product is about the most environmentally sensitive packaging we can use. We pick it back up. We sanitize it. We reuse it up to 50 times. So that is it. But when you look at our portfolio, it was this one way small part of our business, but we were still utilizing over 400 million single-use containers and that’s going to go away.

So you look at greenhouse gas, by the end of this year we will be carbon neutral globally and work through carbon credits, but working on reducing the amount of greenhouse gas we generate for our routes. We’re a member of Alliance of Water Stewardship, and we are really focused on really taking care of the aquifer and water sources. This will get us to the same place on packaging because this one-way package was the one area that didn’t meet our strategy.

So you really look at the E part of ESG, this was really the final step we needed to really be on every one of those three categories really moving in the right direction as a company.

Filippo Falorni

Great. Makes sense. Thanks, guys.

Tom Harrington

Thanks, Filippo.

Jay Wells

Thank you.

Operator

Your next question comes from Derek Dley with Canaccord Genuity. Please go ahead.

Derek Dley — Canaccord Genuity

Yeah, guys. Congrats on a—

Jay Wells

Good morning, Derek.

Derek Dley

Hey, guys. Congrats on a strong quarter and, obviously, good guides near and long term.

Tom Harrington

Thanks, Derek.

Derek Dley

So one of the things I want to talk about was just the acquisitions. So you mentioned that you're going to continue to focus on the $40 million to $60 million in tuck-ins. Can you just talk about what you're seeing in terms of multiples? I know you guys have kind of given a range in the past. Are the multiples still in that range on the private side? And is there anything larger or maybe medium-sized out there? And finally, will these be predominately focused in the US?

Tom Harrington

Generally speaking, the multiples are about the same as historically. The size of the ones we're doing might be a little bit bigger than average. So I think our average over the years is like 2.5 million. These might be 3.5 million, if you will. Maybe a little bit bigger than that. So there's a little bit more scale.

You'll see a number in North America early and the Get Fresh was a good-sized acquisition in Poland. So we've got some work to do to make sure that we integrate that business properly. That was something on the order of 20,000 customers if I remember correctly.

We think there's a good runaway. And hence, we said the $40 million to $60 million. So we think there's still plenty in our sweet spot, if you will, at reasonable multiples historically. And then there are a few bigger ones out there. We'll wait and see how they develop over time.

Derek Dley

Okay. And then I guess just switching gears a little bit, you guys, you mentioned some cost inflation you're seeing in terms of labour, in terms of shipping. Wondering what you're seeing just in terms of packaging, I guess, on the plastic side? I mean, is this something that you can pretty easily price through or pass the price on? Or how are you doing that?

Tom Harrington

Yeah. It's a good question. If you think about our business, excluding this retail business, that there is a little of inflation in the cost of either a polycarbonate or a PET 5-gallon container, but because we use them 50 times, it's really not a very large impact. And that becomes the largest material that we buy, frankly, at the end of the day.

So as we exit retail, we'll be less stressed by cost inflations, resin, and fuel as it relates to packaging. We won't buy any corrugated. We'll buy a lot less shrink wrap. All of that will be some hidden benefits that are environmentally friendly, not just the plastic bottle.

Derek Dley

Yeah. That makes sense. Okay. Then the last one for me, just in terms of the residential business in Europe. I know it's still early days, but you referenced that 24 percent year-over-year growth. How are you viewing the performance of that business in the early days? And is it still sort of located in a select group of larger cities?

Tom Harrington

Yeah. We’re quite pleased with the performance of the residential business. We’re now, I think the last site we stood up was in Russia, and we’re quite pleased with the early days in Russia. We would have sites now up across Europe. So everyone has a basic transactional side. It’s an area that we need to develop over time. It’s one of the growth areas as we enhance the digital experience. But we’re quite pleased with the growth.

It tends to be a little bit more Eastern Europe at this point, but we’re very happy with where this can grow and it’s had pretty significant growth in calendar ’21.

Derek Dley

Okay. Great. Thank you very much.

Tom Harrington

Thanks, Derek.

Operator

Your next question comes from Daniel Moore with CJS Securities. Please go ahead.

Jay Wells

Good morning, Dan.

Tom Harrington

Hello, Dan.

Daniel Moore — CJS Securities

Good morning, Tom and Jay. You covered a lot of ground, so maybe just talk a little bit about the cadence of the reopening in Europe on the commercial side of the business, how is that starting to come back through the quarter and early into Q4? Thanks.

Tom Harrington

Yeah. I think that that business has really essentially flattened out in terms of return. So our operating approach now is this is the new normal and firms, remember, that customer base for us is more large commercial, larger offices. It's a balance of work from home and when European businesses reopen. So it's been slow to recover and it's been, frankly, pretty static over the last month. Hence, the reason why our focusing growth on residential becomes more important as, one, we diversify the customer base, but as those consumers are spending as much time at home that this is an important point for us to drive growth across the continent over time.

Daniel Moore

Perfect. And then lastly on the capital allocation front, good colour and appreciate it. This quarter indicated a little bit of a desire to step up or continue to step up on the share repurchase front or just being opportunistic. And number two, the leverage ratio. Simple math, so pretty straightforward, but does that preclude you from exploring larger strategic M&A? Or is that just assuming it doesn't happen? Thanks.

Jay Wells

Dan, I think you answered your own question on the share buyback. It was opportunistic. And on the dips, we did buy up a good portion of our stock, some 28 million shares in the quarter. So that was the purpose and we went through the majority of what's been allocated to us from the board. So that covers that.

And on the balance sheet, we do have a good balance sheet. We have the ability to do larger-scale transactions, if needed. But in the interim, our goal is to grow the business, grow EBITDA, and I talked earlier about the deleveraging that will naturally happen with the organic growth we're targeting over the next three years.

Daniel Moore

All right. Looking forward to the Investor Day. Thanks for the colour.

Jay Wells

Thanks, Dan.

Tom Harrington

Thanks, Dan.

Operator

Your next question comes from Pavel Molchanov with Raymond James. Please go ahead.

Pavel Molchanov — Raymond James

Thanks for taking the question. Let me zoom in on Europe as well. Cases in Europe in contrast to the US are up close to 50 percent in the last 30 days in UK, Germany, and I think particularly Eastern Europe are really in a fourth or a fifth wave now. Is that having the analogous impact on your route operations that you discussed vis-à-vis the United States a little bit earlier?

Tom Harrington

I think the way to think about it, since it's the fourth or fifth wave, it's pretty normal course, right? So we don't have the impact on route operations, or on the associates in Europe that we've experienced in North America. So we haven't had a big spike of folks that got infected.

Pavel Molchanov

Okay.

Tom Harrington

And we track it every week by market, so we know where people have been negatively impacted and we just don't see it on that side.

Pavel Molchanov

Okay. Good to hear. Sipple. You mentioned in the original Sipple announcement that you would be deploying their mini kiosks across your European asset base and also bringing it across the Atlantic to North America. Do you have a timetable in mind for deploying this technology across your asset base?

Tom Harrington

Yeah. I'll tell you exactly where we are today is finding the appropriate manufacturing in North America and Europe so that we can scale, right? So we're in active discussions with Solution.

So that's kind of we have the technology. Now we have to scale it. I don't want to ship it around the world, so I'd rather produce it in continent, if you will, based on the last year. So that's active in process right now. And then that'll dictate when we can actually plug them in and turn them on. But we would expect to deploy some before the year is out in '22.

Pavel Molchanov

Got it. Thank you very much, guys. Congrats.

Tom Harrington

Yeah. Thank you.

Jay Wells

Thank you.

Tom Harrington

Appreciate it.

Operator

Your next question comes from George Doumet with Scotiabank. Please go ahead.

Tom Harrington

Hello, George.

Jay Wells

Hi, George.

George Doumet — Scotiabank

Hi, guys. Good morning. I'd like to talk a little bit about pricing. Maybe if you can talk to the quantum of the price increases that we took for the Q3 quarter. And maybe looking at your longer-term algorithm of high-single digits, is that still going to be a third of that? Or do you expect maybe pricing to maybe be a little bit higher than what we've historically taken?

Tom Harrington

In the quarter we had a 6 percent increase in pricing, Water Direct and Exchange, the bulk of our business. So we're quite pleased with that. And then we expect that to continue obviously as we've implemented this.

The longer-term algorithm is it's always going to be a piece of how many customers we get and their contribution from a buying perspective. We've been very disciplined on regular price increases, so that will be part and parcel to our growth story.

Customer retention is a part of our growth story. So it's not just bringing new ones in, but keeping the ones you have, which are quite valuable to us.

Jay Wells

I mean, if you look at that part of our business that Tom talked about, 10 percent of the quarter, about a little over 1 percent was customer growth, a little over 2 percent was volume growth, and then the 6 percent was pricing. That rounds up to the 10 percent.

We feel with investment behind growth we can increase the amount of growth from customers. Consumption will continue to grow. And I think we are demonstrating the ability to take price within our customer base.

So those are still the three prongs we're focused on.

George Doumet

Okay. Great. And you're shipping Europe to Israel, which has been more immune than most of our jurisdictions. Just wondering what have you seen there in terms of volume per customer? Has that at all increased? Has that been stable in the last couple of months?

Tom Harrington

Yeah. The business has been quite stable and growing. The retail side of our business, as Jay referenced, we're the number one brand in country, so we are seeing increased volume and consumption there. Our home and office, or Water Direct business has been quite solid and experienced pretty significant growth in this calendar year.

And their return from COVID has been different than others, right, in terms of timing. So they've been back a little bit longer. So although they did have a little bit of a spike, it was short-lived compared to what we saw with the Delta here in the US.

George Doumet

Okay. And just one last one, if I may. It seems that the cadence of our bolt-on M&A has been well above kind of the 40 to 60, at least on a run rate basis lately. I'm just wondering is that something that you guys can maybe maintain and maybe end up having a higher contribution if you look at it from a 12-month period?

Jay Wells

I mean, George, I mean, the key is if you look at the years where we've gone above the 60, it's where we've probably done a $30 million or a $40 million larger-type tuck-in. I mean, Mountain Valley would be an example of it and that's what put us at the higher end. To the extent we continue to do the, as Tom said, average $2.5 million, $3 million, maybe some bigger, some little, I think the range is the right to go, but we do continue to look for larger-scale ones. I'm not talking strategic, but at the $30 million, $40 million, $50 million.

Those will obviously get us above the range, but if we continue with the average that we talk about, $40 million to $60 million is the right way to look at it.

George Doumet

Okay. Thanks for your answers, guys. Good luck.

Jay Wells

Thanks, George.

Tom Harrington

Thanks, George. Take care.

Operator

There are no further questions at this time. Please proceed.

Jon Kathol

This concludes Primo's third quarter results call. Thank you, all, for attending.

Operator

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

Have a great day.