FINAL TRANSCRIPT

Primo Water Corporation

Fourth Quarter 2023 Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Joanna, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Primo Water Corporation's Fourth Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

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

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

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

Welcome to Primo Water Corporation's fourth quarter 2023 earnings conference call.

All participants are currently in listen-only mode.

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

This conference call contains forward-looking statements, including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with 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 10-K and quarterly reports on Form 10-Q, and other filings with securities regulators.

The Company's actual performance could differ materially from these statements, and the Company undertakes no duty to update these forward-looking statements except as expressly required by applicable law.

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

We have also included a deck on our website that was designed to assist you throughout our discussion.

I am accompanied by Robbert Rietbroek, Primo Water's Chief Executive Officer, and David Hass, Chief Financial Officer.

With that, I will now turn the call over to Robbert.

Robbert Rietbroek — Chief Executive Officer, Primo Water Corporation

Thank you, Jon, and good morning, everyone. I'm excited to speak to you today as the new CEO of Primo Water and to be a part of what I believe is the premiere and only publicly traded pure-play water company.

I joined Primo Water in January of this year, bringing more than 25 years of leadership experience at Fortune 200 consumer goods companies, including PepsiCo, Kimberly-Clark, and Procter & Gamble. For the past five years, I served as Senior Vice President and General Manager of Quaker Foods North America, a reporting segment of PepsiCo.

The team has been tremendous in their welcome, and their pride of Primo Water is abundantly evident. I would like to extend a personal thank you to all our associates as well as our board for their warm hospitality and openness.

I would also like to thank my predecessor, Tom Harrington, for his efforts and guidance as a dedicated leader of Primo Water. Including CEO for the last five years, he should be recognized for delivering strong 2023 results, and we wish him all the best in his well-deserved retirement.

With that, let's shift gears to the topics for today's call. I'll provide some initial observations from my ongoing onboarding, including where we have strength as well as high-impact opportunities. After that, David will cover the highlights of our recently completed transaction. Then he will review our financial performance in greater detail and outline our 2024 outlook. Then I'll be back to share my priorities, or what I call our must-wins, which have been developed to capture embedded opportunity and further enable profitable growth delivery. We'll then open it up to your questions.

Since arriving seven weeks ago, I've spent quality time with our valued associates and customers. I have also connected with members of the financial community in addition to reviewing last year's perception study. I look forward to hearing from more of you in the next several days and in the coming months as we begin to attend investor conferences and events.

I'm of the opinion that Primo Water is set up for growth, as I've had the opportunity to learn more about our company's assets, resources, and practices across five broad areas, specifically one, our associates; two, the scale and breadth of our offerings; three, our brands; four, our water stewardship practices and sustainability; and five, our production and distribution capabilities.

These observations support the ability to fulfill our growth potential as a pure-play water company in the large, highly fragmented, and growing North American water markets.

First, let's talk about our associates. They're passionate about what we do. They're embedded in our communities and live where we serve our customers. In the last several weeks, I've met with numerous associates while visiting branches and distribution facilities in some of our largest markets in

California, Texas, Georgia, and Florida. I observed firsthand that our associates take the idea of serving the customer to a level which I believe sets us apart in the marketplace. Continuing to empower our associates will be critical to providing superior service to our customer base across our water offerings.

Second, our constantly expanding scale and breadth in North America is quite impressive. Leveraging our geographically diverse footprint, we can serve customers at an individual delivery address in our Water Direct business or work with leading retail partners to provide direct-to-retail distribution. This allows Primo Water to supply a broad array of water solutions efficiently.

I believe we can use our scale to drive a higher level of operating rigour that will allow us to further differentiate us in the highly fragmented marketplace.

Starting with our water dispensers, our Water Your Way platform connects customers to our hydration solutions by either renting a dispenser directly from us, or buying online, or at one of our 10,900 water dispenser retail locations. Both are means to drive recurring consumption of water, whether it’s through our Water Direct, Exchange, or Refill channels.

We have over 1.5 million Water Direct customers, 17,500 Water Exchange locations, 23,500 Water Refill stations, and over 12,000 locations that sell our Mountain Valley premium spring water. Additionally, we service more than 100,000 customers in our growing Water Filtration business.

These services, in aggregate, sold more than 1 billion gallons of water last year. With a total addressable market of nearly 29 million North American households, we have an opportunity for additional organic growth in both residential and commercial channels.

We support our ongoing marketing and customer recruitment efforts through direct-to-consumer connections with our websites, mobile apps, and partnerships with major club stores, retailers, and prominent grocery stores. We target quality customers through in-store events, customer referrals, and old-fashioned door knocking.

In addition to organic growth, M&A is a key part of our DNA and integral to our long-term strategy. My initial impression is that our ability to successfully integrate synergistic acquisitions is a core competency. Our research indicates that customers acquired through M&A have high retention rates because they understand the benefits of our services and have accepted hydration solutions as an important part of their lifestyle.

Third, as a career consumer-goods leader, I recognize our portfolio of brands has a long history and legacy. In fact, it’s one of the reasons for my interest in coming to lead Primo Water.

Our portfolio of 14 brands includes some of America’s most long-standing and beloved beverage brands, dating as far back as 1871 with Mountain Valley, 1888 with Hinckley Springs, and 1925 with Sparkletts. These brands are shining examples of water products that benefit the health and wellness of our customers.

I believe we have the potential to be even more impactful with the right combination of customer marketing, communication, and connectivity. We own amazing assets like water.com, agua.com, our mobile My Water+ app, and other brand and domain names with direct-to-consumer and retail access that enables a connection with our consumers.

Fourth, a truly unique aspect of our company is our commitment to sustainability, ESG, and being good stewards of the environment. I love our company’s commitment to accountability; for example, reducing plastic in the environment. One of our bottles replaces as many as 1,500 single-use plastic bottles from entering the waste stream. By reusing and recycling our large-format bottles, we can help close the loop on plastic waste.

By sourcing and processing responsibly, we aim to protect the planet we inhabit.

To achieve this, we are implementing an environmental strategy that is focused on three priorities: first, reducing climate change impacts through greenhouse gas emissions management; second, sourcing water responsibly; and third, integrating circular economy principles in our business models.

We thank all our associates for their continued hard work and dedication and our investors for their ongoing support as we continue our sustainability journey.

The fifth area of observation relates to the footprint of our manufacturing and supply chain operations, which put us within reach of the majority of the population in North America. The vast network has grown significantly over the years through a combination of organic and inorganic growth.

While our expansive production and distribution network sets us apart in terms of our ability to meet our customer’s needs, I see opportunity to optimize this footprint to improve operating efficiencies, better serve our existing customers, and reach new customers across North America. This includes investing in physical production assets, distribution capabilities, and technology suites to support more efficient planning.

Let me discuss each of these in a bit more detail.

First, we continue to upgrade and automate our production facilities, further ensuring the safety and well-being of our associates and delivering enhanced growth and efficiency over the long term through manufacturing best practices.

I recently had the opportunity to see this technology in action at our largest bottling facility located in Los Angeles. This new bottling line is remarkable. It nearly doubles the production, reduces waste, and improves the safety for our associates through robotics. We will have six of these lines installed at various locations by the end of this year.

Second, fleet enhancements and upgrades are an important part of what we do. We are in a continual state of recycling out the oldest portion of our delivery fleet and replacing them with new, environmentally friendlier, propane-powered vehicles and benefitting from improved efficiency and lower repair and maintenance costs from this transition and increase our own primary fleet.

Third, to embed digitization efforts throughout the organization, we are leveraging artificial intelligence and data analytics in areas like forecasting as part of our planning processes for production and sales and operational planning, also known as S&OP.

Utilizing tools like salesforce.com and Tagetik, we can take real-time information and do things like employing precision marketing to generate customer context as part of improving the overall customer experience. These tools are part of a broader effort that will allow us to reduce cost, increase working capital efficiency, and improve our return on invested capital.

I hope you can understand why I'm excited about the growth potential in front of us. We have a unique combination of associates, assets, and resources that are capable of delivering results that benefit all our stakeholders.

I will now turn the call over to David to review our financial results in greater detail and provide our 2024 outlook.

And once again, I would like to thank all our Primo Water associates for their support and contribution to the excellent performance of the business.

David Hass — Chief Financial Officer, Primo Water Corporation

Thanks, Robbert. On behalf of all Primo Water associates, I would like to welcome you to the team.

As you likely saw, last quarter, we announced the sale of a significant portion of our international businesses. I am pleased to report that the sale of these assets closed, as expected, on December 29th of last year.

Highlights of the completed European transaction include $575 million gross proceeds in an all-cash purchase price, which represents an attractive premium valuation multiple of approximately 11 times trailing 12-month Q2 adjusted EBITDA for the business.

Upon closing the transaction earlier this quarter, we repaid the outstanding balance of our cash flow revolver of $132 million, resulting in net leverage ratio of approximately 2.1 times adjusted EBITDA.

Longer term, we expect our net leverage ratio to remain under 2.5 times.

After the repayment of the cash flow revolver, we have $508 million on our balance sheet and $283 million of availability under our revolver, with the balance of the $350 million revolver supporting standby letters of credit.

Additionally, the board authorized an incremental $25 million on top of the previous $50 million share repurchase program for an aggregate authorization of $75 million.

This deal is the first of several transactions that will occur in 2024 as we execute our plan to sell the remainder of the international businesses, which includes Aimia Foods in the United Kingdom, our water business in Israel, and our Water & Coffee businesses in the United Kingdom and Portugal.

At the completion of the transaction to sell our European businesses, we have begun the pivot from a global enterprise of more than 2.2 million Water Direct customers to a North American-focused business that includes a Water Direct customer base of over 1.5 million.

As a reminder, on a go-forward basis, these businesses will remain in discontinued operation and, for 2024, will be actively reported as such until they are sold.

I will now transition from the sale of our European business and into our Q4 and full year 2023 results.

To provide clarity to our investor base, in addition to the exhibits in the press release, which specifically address the new or go-forward Primo Water results, we are providing a breakdown of the combined performance for both continuing and discontinued operations in aggregate.

Beginning on Slide 6, I would like to provide a quick highlight of three key financial achievements before going into greater detail on our financial performance and our 2024 guidance.

In 2023, on a combined basis, we delivered revenue of $2.35 billion, adjusted EBITDA of $477 million, and adjusted free cash flow of $184 million, with all three results exceeding our most recent guidance.

For each financial item, the presentation helps break out the results between continuing and discontinued operations.

First, we are very pleased with the overall combined financial performance, including record results with our adjusted EBITDA margin and significant improvement year over year in our adjusted free cash flow generation.

Second, within our continuing operations we have a much stronger financial profile for future success and remain excited about our focus going forward solely within North America.

And last, to provide clarity on the financial profile of the remaining businesses held for sale within discontinued operations, their aggregate full year 2023 revenue was approximately $333 million, with adjusted EBITDA of approximately $34 million.

With that, let me transition into the financial performance for both the fourth quarter and full year 2023 in a bit more detail.

The fourth quarter results of our combined, continuing, and discontinued operations included revenue increasing 10 percent to $585 million, adjusted EBITDA increasing 11 percent to $119 million, with adjusted EBITDA margins of 20.4 percent.

The fourth quarter results of our continuing operations, which aligns with our go-forward businesses, included normalized revenue increasing 8 percent to $439 million, adjusted EBITDA increasing 7 percent to $95 million, and adjusted EBITDA margins of 21.6 percent.

For the full year 2023 the results of our combined continuing and discontinued operations included revenue increasing 6 percent to $2.35 billion, adjusted EBITDA increasing 13 percent to $477 million, and adjusted EBITDA margins of 20.3 percent.

Excluding the impact of foreign exchange, normalized revenue increased 8 percent for the year. Normalized revenue excludes the exit from the single-use retail bottle water business in North America and the exit of our business in Russia.

Combined adjusted free cash flow was $184 million.

For the full year 2023, the results of our continuing operations included revenue increasing 5 percent to $1.8 billion, adjusted EBITDA increasing 11 percent to $381 million, with adjusted EBITDA margins of 21.5 percent.

Excluding the impact of foreign exchange, normalized revenue increased 8 percent for the year, driven by a 7 percent increase in price and a 1 percent increase in volume.

Within continuing operations, we had strong revenue growth of 8 percent in the Water Direct and Exchange, and an 18 percent increase in our Water Refill and Filtration channel. This offset the expected revenue decline in our Water Dispenser business related primarily to lower wholesale prices due to the elimination of tariffs, with Dispenser unit sales relatively steady on a year-over-year basis.

During 2023 our Water Dispenser sell-through was approximately 1 million units, with 264,000 units selling through in Q4.

Our razor/razorblade business model includes two approaches of selling the razor: the rental of water dispensers to residential and commercial customers in our Water Direct business and the sale of water dispensers through retail partners and online. Both approaches enable growth in water solutions and contribute to our predictable and recurring revenue growth.

We have been particularly focused on growth within our brick-and-mortar retail partners where we have greater visibility into the connectivity to our water solutions and where the connectivity is higher than through E-commerce.

As discussed in previous calls, our Water Dispenser category was previously under a 25 percent import tariff but was reclassified last year, and a refund process from the US Government was initiated. We have recorded the refunds in the same manner as the original transactions.

Through the end of 2023, we have received approximately $8.2 million of tariff refunds. Of the $8.2 million, approximately $4.5 million is reflected in year-end adjusted EBITDA related to the water dispensers sold to retail; $3.1 million is related to the water dispensers that we rent as CapEx; with the residual value, an approximately $587,000, related to interest income for the tariff balance paid to Primo Water.

Through year-end approximately $8.2 million is reflected in our adjusted free cash flow that we will discuss in a moment.

As we look further into the operational metrics, our commitment to improving the customer experience continues to result in improved on-time, in-full, or OTIF rates. The ability to serve our customers in the most efficient manner possible is a critical driver of both our short and long-term profitability and our automated route optimization, ARO tool, continues to yield efficiency.

In North America units per route per day increased approximately 5 percent compared to Q4 of 2022, and revenue per route increased more than 8 percent compared to Q4 of 2022.

Our scale and leverage are becoming more evident as we service more customers with higher volume per route.

Additionally, North America Water Direct customer retention increased to approximately 85 percent, slightly higher than last quarter and the fourth quarter of 2022.

As part of our ongoing efforts to optimize our operating network, at the end of the fourth quarter, we sold our Irvine, California property, which did not have any active distribution or business activity. This sale generated $21 million in net cash proceeds in 2023. The proceeds further bolster our cash on balance sheet and is available for capital deployment. Taxes on the sale of this property will be due in 2024 and are reflected in our 2024 cash tax estimate.

Shifting to adjusted free cash flow, our combined continuing and discontinued operations for 2023 full year totalled $184 million, outpacing our previous guidance of $160 million, driven by increased earnings, improved working capital, incremental tariff receipts, and lower capital expenditures.

Within the combined adjusted free cash flow of $184 million, continuing operations contributed approximately $158 million, and discontinued operations was $26 million.

We will discuss our 2024 adjusted free cash flow outlook in a moment.

As I transition into our 2024 outlook, as a reminder, any forward guidance will be strictly for continuing operations or what we refer to as the new Primo Water. Discontinued operations will not be covered.

To help bridge our 2024 guidance, a table of 2023's financial results by quarter has been provide in the appendix of our supplemental earnings slide.

We are forecasting first quarter revenue guidance for continuing operations to be between $435 million and $445 million.

We expect Q1 adjusted EBITDA for continuing operations to be between $85 million and $91 million with an implied adjusted EBITDA margin of 20 percent. The 20 percent adjusted EBITDA margin represents a 170-basis point improvement from the year-ago period.

For the full year 2024 forecast of continuing operations, revenue is projected to be between $1.84 billion and $1.88 billion with revenue growth in the range of 4 percent to 6 percent.

We expect full year 2024 adjusted EBITDA to be between $402 million and $422 million with an implied adjusted EBITDA margin of 22.2 percent at the midpoint.

Neither guidance figure includes Water Direct tuck-in acquisitions that may occur across the year.

We are forecasting 2024 CapEx guidance of approximately 7 percent of our revenue guidance range, plus an incremental $22.5 million of strategic CapEx.

As a reminder, 2024 is the last year of our previously announced strategic growth investment program, and the $22.5 million represents the North American amount within our previously communicated $30 million for 2024. We expect to return our total CapEx spend of approximately 7 percent of revenue in 2025.

The initiatives to be funded from our 2024 CapEx plan include installing high-efficiency water production lines, reducing waste and increasing productivity, building a more environmentally friendly fleet, and expanding our private fleet to improve the efficiency of our product distribution, still (phon) driving organic growth through digitization, accelerating dispenser innovation, and driving growth in refill infiltration with refreshed signage and branding of our existing units.

Full year 2024 cash taxes are expected to be approximately $30 million to $40 million. This anticipates utilization of US net operating losses, or net NOLs, of which we have approximately US$46 million NOLs available for 2024. We expect the amount of NOLs available to be approximately $16 million in ’25 and $10 million per year in 2026 through 2029.

For full year 2024, we expect cash interest of approximately $30 million to $50 million. Our interest expense is tied to our two senior note debt facilities with very low interest rates of approximately 4.2 percent, with maturity dates of 2028 and 2029.

The year-over-year reduction in our interest expense is primarily from two items.

First, no contemplated usage of our cash flow revolver in 2024, which on a year-over-year basis is a reduction of approximately $13 million in interest expense, which will be offset by unused withdrawal fees; and second, our ability to earn interest income on the proceeds we received from our European sale. We do not currently anticipate drawing on our cash flow revolver.

Additionally, we will take steps to maximize the interest income yield throughout 2024 but could experience reduced income opportunity, if market available rates decline related to any macro, Fed, or bank rate environment decision.

We currently expect M&A tuck-ins to be toward the higher end of historical ranges during 2024.

Our cash flow and balance sheet enable us to simultaneously return value to shareholders through regular quarterly dividends and opportunistic share repurchases, while continuing to invest in internal and external opportunities that will further strengthen our operations and drive long-term growth.

Combining all of these factors along with the core health and cash generation capacity of our business model, we are forecasting adjusted free cash flow of between $170 million and $180 million in 2024. This figure represents adjusted free cash flow solely from our continuing operations. This outlook also targets our commitment to replace the adjusted free cash flow that was tied to the assets sold, and those held for sale in our discontinued operations.

The following three items have not been included in our 2024 guidance due to the uncertainty and timing with each discrete outcome.

First, benefits from the previously announced business optimization program targeting $20 million improvement on a run-rate basis by the ending of 2024; second, benefits from additional tariff refunds due to the uncertain timing of the government refund process; third, the sale of discontinued operations, which will be reflected independently from our continuing operations.

With respect to our share repurchase program, we repurchased $21 million of common stock across 2023. Share repurchases from our increased authorization will continue across 2024.

Additionally, yesterday, our Board of Directors authorized a quarterly dividend of $0.09 per common share, a 13 percent increase over last year, which continues our path to the multiyear dividend step-up, with an increase in our quarterly dividend per share of $0.01 for the third consecutive year.

In closing, we are very pleased with the financial performance and the future prospects of the continuing operations of Primo Water.

And with that, I will now turn the call back to Robbert.

Robbert Rietbroek

Thanks, David. With that, let me now preview our must-win priorities.

Over the next several quarters, we will provide an overview of the specific initiatives that support each of these focus areas and the progress we're making to deliver on our goals.

The first must-win is to provide a superior customer experience with the goal to yield net organic customer base growth and units consumed across our water solutions. We will focus on increasing the number of high-value customers and driving annual unit growth of our gallons and delivered hydration solutions.

I realize that in order for us to reach our full potential, we must have a consistent path towards increasing our net organic base. Activities to deliver this include delivering a frictionless end-to-end customer experience where it is easy to do business with us.

We will be enhancing many aspects of consumer touchpoints in order to improve the customer experience, including upgrading our water.com website to a one-stop shop where you can learn, shop, and buy within our water solutions. We will be providing consistent enhancements to our My Water+ app, the mobile version of water.com, and digitizing and empowering our customer experience centre with imbedded voice, chat, and social capabilities with a 24/7 customer-centric approach.

The second must-win is to be the preferred water solutions partner. We meet the end consumer across numerous channels like direct-to-consumer delivery or through one of our retail partners with our exchange locations or refill stations. We have an offering to meet each of our customers' needs and budgets or what we call Water Your Way.

Simply put, we want Primo Water to be their preferred water solutions partner. We embrace our partnerships with top-tier retailers like Wal-Mart, Costco, Home Depot, Lowes, and other prominent grocery chains throughout North America. These relationships present an opportunity through joint business planning to increase both our presence as well as increase household penetration and resulting volume, all creating meaningful connectivity across our portfolio.

The concept of partnering stretches across all aspects of our business, including associates, suppliers, and customers. Sustaining and enriching these partnerships means we can win for the long haul. I've seen this successfully done in other companies, and I see the same opportunity here.

The third must-win is operational excellence, specifically, ensuring that we have the ideal organization structure and operating system to guarantee our associates safety and well-being, delivering the highest-quality product and service, and scale efficiently as we continue to grow organically and through acquisitions.

The Primo Water team is focused on delivering the previously announced business optimization program that will enhance not only our productivity, but also lower our overall cost to serve, while continuing to offer customers an exceptional experience.

We have a clear plan, and we remain committed to delivering the annual run rate savings of $20 million by year-end 2024.

In closing, our improved financial profile and flexibility, along with a compelling long-term growth outlook, are a strong foundation for continued success. We are deeply focused on our must-wins and embracing the renewed energy in the organization.

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

Jon Kathol

Thanks, Robbert. 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 then 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 the *, followed by the 1 on your touch-tone phone. You will hear a three-toned prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any key.

Your first question comes from Nik Modi at RBC Capital Markets. Please go ahead.

Nik Modi — RBC Capital Markets

Thank you. Good morning, everyone, and Robbert, welcome. It'll be great to work with you going forward.

So I wanted to just get a sense from you, with a fresh pair of eyes, having all the experience you've had at prior organizations like PepsiCo and Quaker, any best practices you believe to be leveraged from your experiences at those organizations into Primo? So that's the first question.

Then just the second question, or follow-up if you will, is given the momentum in the business, the guidance does look a bit conservative. So just wanted to get any context from you or David on that. Thank you.

Robbert Rietbroek

Yeah. So thank you, Nik, for that question.

To the first question, in terms of best practices, I think what I would say is that we need to think about ourselves as a growth company. And we have great growth opportunities across our Water Direct, Exchange, Refill, and Retail business. And that growth should be underpinned by three key priorities, and they are based on best practices that I've seen before.

The first one is really to put the consumer at the heart of all we do. That means superior customer experience. And what that really means for us is a frictionless experience. Every contact that anyone has with one of our associates or our water.com website or app, which are a big part of our business because people place orders, adjust their schedules, may ask for more or less water or some bottled water in addition to the jugs, that needs to be an exceptional experience. So really think of every product experience, every associate experience as an exceptional experience. That would be a best practice.

The second one I would say is really thinking of ourselves as a partner of choice. When you really put the associates, the communities where we live and where we serve the customer and consumer, the investment community, the owners of our stock, our retail partners at the centre of all we do, we really have a winning model. And specifically for our retail partners, they're incredibly important. I've met several of them in the last couple of weeks, in person or on the phone, had many conversations. And with the rapid growth that we are currently experiencing in the Exchange business, these retail partnerships are critical, and that's definitely best practice from my previous roles.

And the third, I would say, is this notation of operational excellence; forecast accuracy, being very clear on the demand signals, getting really clear on production planning, procurement. We source a lot of our dispensers out of Asia, and making sure we have the right mix and the right forecast there is critical. Transportation and what David referred to earlier as the automated route optimization. Quality of our products and on-time in-full delivery; getting that right, Nik, day in, day out will be a critical driver of growth.

To the second part of your question. I understand the question. We had a really strong fourth quarter; 8 percent growth, 2 percent unit growth, and 6 percent was pricing.

Now if you look at the unit growth and you contrast that with some of the other leading beverage companies out there who primarily are seeing reductions in units, we're definitely in a strong position going into this year. But we're taking a patient approach for 2024 forecasting 4 percent to 6 percent revenue growth with a midpoint of 5 percent and a revenue projection of $1.84 billion to $1.88 billion. And pricing is the majority of that. It's 3.5 percent of that 5 percent midpoint is pricing, and 1.5 percent is volume.

We do see a little higher numbers in the beginning of the year because the price lap on refill will run out in the second half. And it's important to note that this does not include any M&A tuck-ins.

Nik Modi

Great. Thank you.

Operator

Thank you. The next question comes from Dan Moore at CJS. Please go ahead.

Justin Bergner — CJS

Hi. This is Justin on for Dan. Robbert, I appreciate your background given in the beginning. Perhaps you can tell us a little more about what attracted you to the opportunity at Primo and talk a little bit about what strength and capabilities that you can bring that can enhance the outlook, whether it be top-line growth, operations, margins, capital allocation. Something like that.

Robbert Rietbroek

Sure. Thank you, Justin. Thanks for that question.

I've been very privileged. I've had a long career, 25 years, working for some of the best consumer goods companies in the world. And when I looked at the Primo Water opportunity, one of the things that inspired me is the fact that the product is squarely placed in health and wellness sector. Everybody drinks water. In fact, if you look at younger consumers, they drink more water and less other beverages than any generation before them.

In addition to that, this is a company that may be one of the most sustainable companies in the industry, with a strong track record around sustainability and ESG. For every jug that we sell, we save 1,500 single-use plastic bottles from going into the ocean, going into landfill, or in river systems. As we look at the future, that inspires me to be part of a company that was built by a group of incredible leaders, with a view to sustainability.

I also see—to your points around top-line margin and capital—I see a great opportunity here, Justin. If you think about the last couple of years and the macroeconomic environments with all the inflation that we've experienced, a lot of consumer products have become more expensive. And that includes single-use bottled water and case packs. So our product, whether you get it delivered direct or you go to the retail outlet and get it from the exchange or you get it from a refill station, is more affordable relative to the alternative than it's ever been before, with high quality.

We also play in a premium water segment with Mountain Valley, which is a very large and growing part of the water business, both still and sparkling.

Margins are great. You've probably seen that our gross margin has expanded by 400 basis points last year. That's really all about productivity. When you look at the productivity, we are benefitting from having both direct delivery and exchange business and we use the same assets, the same trucks, the same branches. And we deploy capital, really, to drive increased productivity and better use of automation, robotics, all of those things, digitization.

So I think we're really well positioned for the future, Justin. Thank you for your question.

Justin Bergner

I appreciate the colour there. And then one more, if I may.

You mentioned the macroenvironments. I'm just wondering how does the macroenvironment affect your view of cost inflation in the business overall.

Robbert Rietbroek

Yeah. That's a great question.

So we forecast low-single digits inflation for '24, which means that we will not have to take as much pricing to offset that. And given the compounded inflation over the last couple of years, the value of our water, given the elasticity we're seeing in the consumer goods sector, is really well positioned. So I think the macroenvironment for us in terms of inflation, post-inflation, let's call it, environment is great.

I think, David, can talk a little bit more later around the interest rate situation, but that's what I would say, Justin.

Justin Bergner

I appreciate the answers and look forward to working with you. Thank you.

Robbert Rietbroek

Thank you, Justin.

Operator

Thank you. The next question comes from Andrea Teixiera from JPMorgan. Please go ahead.

Drew Levine — JPMorgan

Hey. Good morning, this is Drew again on for Andrea. Thank you for taking our questions and, Robbert, congratulations and welcome.

So I wanted to ask on the EBITDA guidance, I think it's around 8 percent growth on a like-for-like basis, apparently not including the tuck-in M&A or the optimization of the overhead. Can you talk maybe about how you're thinking about, one, the sort of cadence of the M&A pipeline and taking cost out as you look through '24?

And then where you see the areas of leverage translating that 4 percent to 6 percent into call it 8 percent EBITDA growth?

Robbert Rietbroek

Thank you, Drew. Well, I'll take those in order of how you asked them.

EBITDA projection is $402 million to $422 million, and 22.5 margin at the midpoint. Last year that was $380.7 million from continuing operations with a 21.5 margin. So that would represent a 70-basis points EBITDA margin expansion.

And we do think we're going to continue to expand our gross margins. And that's on the back of production investments, the automation I referred to earlier, like the one in Los Angeles and reducing inefficiencies, reducing cost, and rightsizing.

With regards to the productivity, the $20 million run rate, we'll have achieved that by the end of the year. And there's cadence to that through internal reorganizations and other productivity drivers that we're looking at and we've identified already.

So gross margin will really truly benefit from leverage and scale in our case. As we grow both direct delivery, exchange, refill, and premium water, we're just seeing better utilization of assets, whether that be production facilities, the wells we own, or the trucks that we own that drive around.

Yeah. I think I tried to cover most of your questions there. I hope that answers your question, Drew.

Drew Levine

Yeah. Super helpful. Yeah. I guess the point being that, in addition to the ongoing leverage, it does seem like the EBITDA guidance is conservative to some extent, as you said, on the top line as well. But following up on the top line outlook, thank you for kind of giving what's imbedded in the guidance, 3.5 pricing, 1.5 volume.

As you think about looking ahead over the next couple of years, the guidance or the target that was given previously was sort of the high-single-digit organic growth aspiration. Obviously, you're coming off of a pretty high inflationary environment and more pricing that went through over the past couple of years.

As you look past '24, you went through what excites you at the business. But just can you maybe talk about your confidence in being able to achieve high-single digit organic growth in the coming years in a more normalized inflationary environment? Thank you.

Robbert Rietbroek

Yeah. Great question, Drew. I'll also touch a little bit on M&A, which was part of your question there, but that's not included in our guidance.

The way we built our forecast is more pricing in the first half and then the volume acceleration in the second half. And that's really on the back of increased net organic customer growth and the demand that we see in the exchange business, which is really growing at an accelerated high double-digit pace.

So the way that I would think about this is it's going to be a combination of unit growth. But, also, as we identify our customers, we're going to focus more on what we call high-value or high-impact customers. There’s a big difference between household or a commercial customer that orders ten jugs every two weeks versus somebody who orders one. And we are going to be more focused on unit sales going forward and gallons sold as opposed to any individual underlying metric because the true driver of growth is the number of gallons we sell.

And on top of that, we’re going to continue to acquire. We do about $20 million to $30 million of M&A a year in tuck-ins. And I think we were slightly ahead of that last year, but we’re going to be on the very high end of that this year and likely the year after as well. We have a full schedule identified of transactions.

Operator

Thank you. The next question comes from Derek Lessard at TD Cowen. Please go ahead.

Derek Lessard — TD Cowen

Yeah. Thanks for taking my questions. Congrats on the strong quarter, strong year, and, Robbert, good luck in the new role.

Maybe I’m just going to start from bottom and maybe just hit on if you could walk us through your free cash flow guidance. It seems to have that guidance come in well ahead of Street expectations. So just maybe curious on the guide and sort of what your assumptions mostly around working capital as well.

Robbert Rietbroek

Yeah. The adjusted free cash flow in quarter four grew to $67.2 million versus the adjusted cash flow in the same quarter year before of $55.9 million. So a significant improvement.

But I think the primary driver was increased earnings growth along with improved capital spend. But let me pass that to David for some additional clarification.

David Hass

Yeah. So, Derek, what we were really pleased with was obviously finishing the year strong with our adjusted EBITDA outperforming that guide. That helped drive a large contribution of the increased free cash flow.

Second, we had moderated CapEx at the end of the year, which provided, again, additional enhancements to sort of the ability to achieve the $184 million.

And then when our 10-K is filed, you'll see some nice benefits across both inventory control as well as AR, where both of those activities really were a nice tailwind to finish the year.

When you transition now into '24's outlook, again, the operating performance and operational scale that comes through the business model with the volume Robbert has talked about, both the 1.5 percent overall volume as well as the double-digit kind of expectations within exchange, that provides, obviously, the EBITDA margin enhancement that you see: 170 basis points in Q1, the 70 basis points overall at the end of the year with our midpoint of guide.

The offsets to that are some small increases in cash tax estimates and a little bit of the CapEx that increases in '24 versus the '23 on a continuing operations basis.

And as of now, as we head into each year, we have some working capital usage as we focus on the organic customer expansion. But really, that's where we'll be able to focus and continue to drive greater activity.

Again, as a reminder, the $175 million free cash flow midpoint does not yet contemplate the approximate $9.5 million of tariff money that might start to flow toward Primo. And when you take that into consideration, that would get us all the way back fully to par to 2023's consolidated outcome. And that's really how we're looking at the walk.

Derek Lessard

Okay. Thanks for that. And, David, just to be clear, you're still enjoying some of the working capital tailwinds that you've come out of the quarter with?

David Hass

Yes. That's correct. And a lot of it, as you remember, coming out of the supply chain challenges, we would've been a little over in terms of dispenser inventory. We've managed to work through that well with our retail partners. That allowed us to sell into the channel; get, again, very close to that $1 million in sell-through target.

And then you'll see some nice enhancements. And so our AR cycle and really the continuing operations really allows the benefit of our cash conversion cycle to shine. Whereas the domestic entity we are here, we have a much tighter and more rapid cash conversion cycle than our international side of the Company would have had.

Derek Lessard

Okay. That's helpful. And just in terms of your top line across 2023, maybe just talk us through sort of where your customer base ended.

And then maybe more specifically, could you just talk about the Costco initiative and sort of the progress or the ramp-up there?

Robbert Rietbroek

Yeah. Let me talk Costco first, and I'll pass it back to David then.

So we had a significant ramp-up in '23 around our Costco program. And if we look at '24, we will have a full program in place, fully staffed, and with all the events that we want to execute across all the geographies that we want to execute. And Costco's a critical partner for us in recruitment of new customers.

I'll pass it over to David.

David Hass

Yeah. On the customer side, Derek, we finished strong with Water Direct. Again, normalizing things for folks for the continuing operations side, we mentioned we are at about $1.5 million Water Direct cust base on a run rate going forward. And really where we saw nice volume lift there, as Robbert mentioned, the 2 percent that came through in Q4.

As we transition in 2024, again, we'll have that Costco benefit for the entire calendar year, whereas last year would have been a ramp period.

And then complementing that business is the strength that we continue to see in the health of our retail consumers. And that retail health is exhibiting itself through both the Exchange, which continues to produce significant growth in units, as well as Refill for the first time in several quarters turned back to volume positive in Q4 of last year, which means that the consumer there has now cycled through the price increase impact and that volume is now back net positive on a year-over-year basis.

And again, when you look at all three legs of our water business, that really showcases the health. We have the premium customer in Water Direct, where our customer growth will expand. And then on the two retail sides it's a different economic price point between Exchange and Refill, providing customers an alternative in this sort of environment. And Robbert talked about the great value that we provide sort of in our bulk category.

Derek Lessard

Absolutely. Good work there. And maybe one last one for me is on the North American EBITDA margin. In Q4, in particular, it was down let's call it 25 bps year over year, but you've got all these efficiency initiatives on the go. So any colour there would be helpful.

And I'm also asking the question because I assume that you're including corporate overhead in there, so I was curious what we should be modelling going forward.

David Hass

Yeah. Yeah. Great question. It does show on the page as a decline in basis points. Most of that is related to the repatriation of our shared services overhead that would have been distributed across our global platform.

When we talked to folks in November about the announced sale, we talked about how 2024 would have to absorb some of that overhead that previously would have been allocated to the international businesses. That is what you see there.

But what I'd like to direct you to is immediately in the Q1 guide of our EBITDA where you see, with the exhibits we've provided to help rationalize each quarter for continuing operations in '23, you see that 170 basis point expansion in Q1's EBITDA margin. And then you see the overall 70 bps, again, at the full year level; both of those starting to exhibit our ability to reduce cost, drive scale.

And again, that's prior to what Robbert mentioned will be the ramp rate of our business optimization program that gets to sort of full bright (phon), if you will, by the end of the year.

Derek Lessard

Okay. That's helpful. Thanks, David.

Operator

Thank you. The next question comes from John Zamparo from CIBC.

John Zamparo — CIBC

Question's on route optimization. And is there anything you can say to frame the remaining opportunity on ARO over the next few years?

And just to be clear, is it completely separate to or incremental to the $20 million in business optimization savings you've referred to?

David Hass

Yeah, John. Thanks. This is David. It is. So ARO would be a natural outcome of the business model gaining the volume metric growth that comes either from the Water Direct side of the business or the Water Exchange growth that comes out through our retail relationships.

There is a natural ceiling, but, as a reminder, inside that, that is a route average on a roughly 2,000-route basis. So there always are opportunities to bring sort of the lower end of that optimization toward the mean.

Again, it is not contemplated in necessarily the $20 million of network optimization we're seeking, as that might be more about should we be in this branch or that branch and should we have sort of these connections to our communities where the demand is.

But, again, while it does have a natural ceiling, we're always looking at it on a route-by-route basis and working sort of anything below par more toward that mean.

John Zamparo

Got it. Okay. That's helpful. And then my follow-up is on the debt target. You're saying net leverage of sub 2.5 times. I guess you want to be conservative there. But that provides for meaningfully higher leverage than what you have currently, especially relative to the '24 outlook. That accounts for the higher buyback. That accounts for the dividend increase. And that's especially true when you factor in some proceeds for the businesses you've committed to selling. So I'm wondering what else you're baking into that 2.5 times number.

David Hass

Yeah. I guess maybe it should be better said is that's a long-term ceiling we hope to remain below. We have no immediate needs in this year, 2024, of sort of walking that backward.

But as we start to acquire things, including sort of what might be a larger Water Direct tuck-in year, obviously, the cash will go out. The EBITDA will come back in. And then that EBITDA synergizes down on its first anniversary and second anniversary.

So that's just really more of the little stuff that would be at play within the leverage. But at no time this year do we really anticipate heading back toward the 2.5. We were just kind of giving folks a longer-term sort of outlook to—obviously, we've done great steps and taken great steps to improve the balance sheet. And we'd like to keep it there.

John Zamparo

Understood. Thank you very much.

David Hass

Thanks, John.

Operator

Thank you. The next question comes from Pavel Molchanov from Raymond James. Please go ahead.

Pavel Molchanov — Raymond James

Thanks for taking the question. Going back to the M&A topic, obviously, it's always opportunistic. But are there any geographies within North America where you feel like you need some additional help to kind of penetrate the market?

Robbert Rietbroek

Yeah, Pavel. That's a very, very good question.

We have identified ready-to-sell businesses, usually family-owned operators, across the nation that are highly complementary geographically to our current footprint. So what we wouldn't do is go buy a branch that's within 25 miles of an existing branch. But really, we are looking for new places to go serve new customers with their existing customer base.

But we're also overlaying that with geographic trends, migration trends. There's definitely some areas that are growing in population, certain states, certain cities, that we are definitely looking at improving our footprint in. And even within certain states, within the network of branches, we may need to open new branches as well in the middle of certain geographies where we're just currently driving too far.

So it's going to be a combination, but there is a pre-identified, multiyear list of owner/operators, Water Direct service companies, that we have identified, that we have relationships with, and we are the preferred buyer for right now.

Pavel Molchanov

That's helpful. Following up, the multiple at which you sold the European business is paradoxically higher than the multiple at which the stock trades today on the North American business. Bearing that in mind, is there an opportunity to accelerate share buyback further? Maybe even do a leveraged buyback, just given the spread between the public market and the private?

David Hass

Yeah. Thanks. Our approach has been so far to increase that share authorization, as mentioned, to 75 million. We were able to deploy approximately 2 million of that new authorization in the end of ’23 and then have that sort of as an evergreen usage across ’24.

Our board’s always looking at opportunities at future discussions depending on where we are with our capital deployment. Again, we’ve talked about the enhanced M&A pipeline this year, but our board is consciously and actively considering, each and every quarter, what’s best to do and sort of direct us there.

Part of it was obviously to step up our dividend with the 13 percent increase to $0.36 annualized payment this year. But I understand the question, and we consistently look at that across the year.

Pavel Molchanov

Thanks very much.

David Hass

Thanks, Pavel.

Operator

Thank you. There are no further questions.

I will now turn the call back over to Robbert for closing comments.

Robbert Rietbroek

So thank you, all, for attending today’s call and for your continued interest in Primo Water.

As I hope you can tell, I’m excited to be part of the Primo Water team. The path started as the right one to build on, and, overall, we have the tools to win.

We have a lot of work ahead of us, and I, along with our team, are committed to taking Primo Water to the next level.

Thank you for joining us on our exciting water journey. And I look forward to meeting many of you at upcoming events.

Operator

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