FINAL TRANSCRIPT

Primo Water Corporation

Second Quarter 2022 Earnings Release Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Primo Water Corporation's second quarter 2022 earnings release conference call.

At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, August 11, 2022.

I would now like to turn the conference call over to Mr. Jon Kathol. Please go ahead.

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

Welcome to Primo Water Corporation's second quarter 2022 earnings conference call. All participants are currently in listen-only mode. This call will end no later than 11:00 a.m. Eastern Time. The call is being webcast live on Primo's website at www.primowatercorp.com and will be available for 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 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 on the day that it's capable of being estimated, is included in the Company's second 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 a 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 second quarter and our progress on Primo's strategic initiatives. Then Jay will review our segment-level performance and will discuss our second quarter performance in greater detail and offer our outlook on the third quarter and full year 2022, before handing the call back to Tom to provide a long-term view ahead of Q&A.

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

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Thank you, Jon, and good morning, everyone. I'm pleased to announce, on behalf of all Primo associates worldwide, the results of another strong quarter for Primo Water.

As we continue to transform and reshape our company, we are a fundamentally stronger and more streamlined business than ever before. We have made significant strides over the past couple of years to focus on our core competency as a pure-play water company. As a result, we have a healthy balance sheet, a compelling long-term, top-line growth outlook, and at an attractive margin profile.

We are confident in our outlook for 2024, which includes high single-digit organic revenue growth, annualized adjusted EBITDA approaching $525 million, and adjusted EBITDA margins of 21 percent to 22 percent. The Primo team is delivering results.

This supports our planned multiyear dividend step-up, which will return an incremental $36 million to shareholders through 2024, in addition to the opportunistic share repurchase program of $100 million announced yesterday. This is on top of our previously announced plans to invest in opportunities that support our growth outlook and EBITDA margin expansion.

Turning to the second quarter. We delivered robust revenue and adjusted EBITDA growth, punctuating a solid first half performance, that give us confidence to increase our full year guidance—our full year 2022 guidance on revenue to 12 percent to 14 percent growth, and adjusted EBITDA to between $415 million and $425 million.

Our business, like others, is facing macro headwinds. Our team is resilient, and our commercial execution establishes a firm foundation for ongoing success. Some of these challenges include the translational effect of a significant devaluation of the euro and the unprecedented inflationary environment. We remain focused on what we can control as we continue to build on our core competencies to achieve our multiyear objectives.

In addition to our strong financial performance in the quarter, we exited our single-use bottled water retail business in North America, published our inaugural ESG report, and exited our operations in Russia.

In the second quarter, consolidated revenue increased 9 percent to $571 million, driven by strong consumer demand, price increases, particularly in our North America Water Direct business, increased dispenser revenue through strategic initiatives with retailers, robust growth with Mountain Valley, and continued improvements in the customer experience.

Adjusted EBITDA in the second quarter increased 9 percent to $108 million, supported by higher volume, increased pricing, and effective expense management that helped offset the impact of inflation. Consolidated revenue, excluding the single-use bottled water retail business in North America and the impact of foreign exchange, grew 16 percent.

In the global Water Direct business, our customer base increased over 3 percent to more than 2.3 million for the second quarter. This was an increase of more than 75,000 customers compared to the same quarter last year, through a combination of organic customer additions, customer-based acquisition through our tuck-in strategy, and an adjusted customer retention rate of just over 86 percent on a trailing 12-month basis.

Our Water Exchange business is also performing well. We are increasing distribution across several large key accounts, expanding our product offering with our alkaline product called Primo Plus, as well as improving the customer experience through our increased delivery frequencies.

In our Water Refill business, we're beginning to see improved performance. Revenue increased in the quarter, and we're seeing this improvement continue into the third quarter. We believe this progress is a result of improving machine uptime, coupled with new points of distribution.

We are pleased with the performance of our Water Dispenser business this quarter, with sell-through volume of more than 225 dispensers. We continue to see growth in volume through increased promotional activity, successful initiatives with retailers, and increased penetration with our existing customer base. We are on target to exceed dispenser sell-through of over 1 million units in 2022.

We continue to optimize our digital operations in Europe, with the goal of being the number one e-commerce water dispense provider across our 21-country footprint. While selling water dispensers is not the key driver of our growth, it is a key enabler of our future growth. Water dispensers are an entry point to the bottled water category that drives our household penetration, where we can capitalize on our recurring razor/razorblade model. The recurring purchase behaviour generates organic water revenue and remains one of our key strategic advantages.

Speaking of dispensers, we continue to monitor the potential for tariff relief, and we believe there is a high likelihood that we’ll see a roughly 90 percent reduction in tariffs in bottled water and filtration dispensers. A reduced tariff should enable us to lower the average selling price of dispensers, thus accelerating dispenser sell-through and water connectivity. In other words, we plan to pass through most of the benefit from lower tariffs to our customers to buy a water dispenser. We believe the reduced prices will result in an increase in household penetration that would provide incremental water sales in the years to come.

A lower tariff would also reduce CapEx on water dispensers that we purchase, and rent to Water Direct and water filtration customers. Any benefit related to reduced tariffs and refunds are not included in our outlook at this time.

As it relates to the cost environment, inflation continued at an elevated rate during the second quarter with increases in fuel, freight, and labour cost. To address the higher costs during the quarter, our commercial teams implemented pricing actions in North America, in addition to the two price increases taken in the first quarter. Given what we are seeing today, we believe that these pricing actions are sufficient to cover the higher operating cost and incremental investments in the customer experience.

In addition, we have recently implemented price increases in our European operations. The benefit of these actions will be realized later in our third quarter, and the full benefit will be realized in our fourth quarter. These pricing actions, along with improved service metrics, put us in a better position to offset the unprecedented inflation we are facing and support our decision to increase our revenue and adjusted EBITDA outlook for 2022.

Importantly, as it relates to price elasticity, customer pushback related to the higher pricing has been minimal. We monitor this closely through a combination of metrics, including customer growth, close interactivity, and customer retention, all of which remain healthy.

In addition, we continue to invest in route optimization to improve customer service, enhance the customer experience, and better manage costs. We are at our targeted staffing levels and continue to be staffed at more than 98 percent in route delivery in North America. We believe the long-term benefits, including any improved customer experience and increased customer retention, outweigh any short-term investments we choose to make.

With the macroeconomic uncertainty, we want to highlight the recession resilience the bottled water industry and our business. Slide 9 in the supplemental deck shows overall bottled water consumption growth and resilience to economic downturns. The chart shows a consistent increase over time in terms of gallons of water sold and per-capita consumption increases. Generally, the long-term health of the industry has been unaffected by periods of recession.

As we continue to transform our business, we have shed the overwhelming majority of our commodity-linked exposure by exiting our former soft drink, juice, and coffee businesses, as well as a single-use bottled water retail business in North America. We have also increased energy and delivery surcharges to pass through increased operational and delivery cost.

Finally, I want to reiterate that our strategy is working. We are confident in our ability to deliver our 2022 guidance and achieve our long-term 2024 outlook of high single-digit organic revenue growth, with adjusted EBITDA approaching $525 million.

I'll now turn the call over to our CFO, Jay Wells, to review our second quarter financial results in greater detail.

Jay Wells — Chief Financial Officer, Primo Water Corporation

Thank you, Tom, and good morning, everyone. Starting with our second quarter results. Consolidated revenue increased 9 percent to $571 million, compared to $526 million. Excluding the impact of the exit of our single-use bottled water retail business in North America, and foreign exchange, revenue increased by 16 percent. These gains were largely driven by growth in our Water Direct and Exchange businesses, through decreased demand in both the residential and B2B channels, pricing, and the continued return to work across our footprints.

Consolidated organic revenue, excluding the impact of FX and adjusted for the exit of the single-use bottled water retail business in North America, increased 14 percent in the quarter.

Adjusted EBITDA grew 9 percent to $108 million. Excluding the impact of foreign exchange, adjusted EBITDA grew 11 percent. As Tom discussed, the effect of price increases, volume growth, and strong demand drove profitability.

During the quarter, we maintained targeted staffing levels and have more than 98 percent of our route delivery positions filled in North America. We are confident that the incremental investments in our people will enable us to deliver our increased full year 2022 revenue grow target of 12 percent to 14 percent.

We also experienced inflationary cost pressures in other areas of our business. The major buckets of higher cost included materials associated with our single-use bottled water retail business in North America, which we have now exited, fuel, freight, and labour. The additional pricing action taken in the second quarter has offset these increased costs.

Before I review our second quarter segment-level results, I wanted to mention that we are changing our segment structure to include North America and Europe. The former Rest of World segment is now going to be divided, and European water operations will be recorded in the Europe segment, and results of operations for Israel and EMEA, as well as our corporate costs, will be labelled as Other. The new segment classifications are in alignment with US GAAP.

In July, we completed the planned exit of our operations in Russia. As a result of the Russia exit and realignment of our segment structure, we performed a fair value assessment during the quarter. As a result, we recorded a pretax, non-cash impairment charge of $29 million.

Turning to our segment-level performance for the quarter. North America revenue increased 10 percent to $437 million, compared to $397 million. Excluding the impact of foreign exchange, and the exit of the single-use bottled water retail business in North America, revenue increased by 17 percent. The increase was driven by 21 percent growth in our Water Direct and Exchange businesses, which included 15 percent price mix, 5 percent volume, and 1 percent acquisition growth. Adjusted EBITDA in North America increased 15 percent to $97 million.

Turning to our Europe segment. Revenue increased by 9 percent to $70 million. Excluding the impact of foreign exchange, revenue increased by 22 percent. The increase was driven by our Water Direct business, with growth in our residential customer base, and in B2B volume as Europeans returned to work.

Adjusted EBITDA in the Europe segment decreased 8 percent to $12 million, as the devaluation of the euro to the dollar more than offset the benefit of higher revenues. Excluding the impact of foreign exchange, adjusted EBITDA increased by 3 percent.

As Tom mentioned, we have recently implemented price increases in our European operations to mitigate the increased cost of inflation in these markets. The benefit of these actions will start to be recognized later in our third quarter, and the full benefit will be recognized in our fourth quarter.

As I mentioned, we have officially completed the exit of the single-use bottled water retail business in North America. In 2021, these products accounted for revenue of approximately $142 million. Through the first half of 2022, we recorded revenue of approximately $41 million, as we efficiently wound down the business.

Turning to our Q3 and full year outlook. Revenue and adjusted EBITDA is off to a strong start through the first half of the year and the beginning of Q3, with strong customer demand and price increases to offset cost increases in fuel, freight, and labour. We're also confident in our ability to offset the completed exit of the business in Russia, which will create a one-time headwind as we lap $14 million of revenue and $3 million of adjusted EBITDA from this business on an annualized basis.

Based on the information we have available to us as of today, we expect consolidated revenue from continuing operations for the third quarter to be between $570 million and $590 million, and that our third quarter adjusted EBITDA will be in the range of $115 million to $120 million.

For the full year 2022, overall revenue growth is projected to be 12 percent to 14 percent, adjusted for the exit of the single-use bottled water retail business in North America. We expect full year 2022 adjusted EBITDA to be between $415 million and $425 million.

For the year, we expect around $10 million of cash taxes, $60 million of interest expense, as well as capital expenditures of approximately $200 million. The capital expenditure forecast includes incremental spending, as we discussed during our Investor Day last November, which is being used to support our growth outlook and EBITDA margin expansion.

In addition to earnings generated from normal course of business, we are exploring an opportunity to sell a few parcels of real estate in California that have seen significant appreciation of value. Preliminary estimates indicate a combined selling price of approximately $125 million. Net proceeds will be used to fund share repurchases.

Turning to capital deployment. As of yesterday, our Board of Directors authorized a quarterly dividend of $0.07 per common share. Our growth outlook and increased free cash flow generation can fund our growth, as well as an increase in our annual dividend. Our path to a multiyear dividend [audio gap] with an increase in our dividend per share by $0.01 in 2022, another in 2023, and another in 2024. This increase in dividend will return over 6 million incremental dollars to shareholders in 2022.

Additionally, our Board of Directors authorized a new $100 million share repurchase program which expires on August 14, 2023. The authorization of the repurchase program reflects the board's confidence in our future performance and our continued long-term cash flow generation, and demonstrates our ongoing commitment to providing fundamental value for our shareholders.

Other aspects of capital deployment include continuing our tuck-in M&A. For 2022, we continue to target $40 million to $60 million of tuck-in and remain focused on executing our robust pipeline of tuck-in opportunities.

Our long-term organic growth outlook has not changed. We remain confident in our outlook for 2024, as we forecast high single-digit percentage organic revenue growth, targeted adjusted EBITDA approaching $525 million, adjusted EBITDA margins of 21 percent to 22 percent, adjusted earnings per share of $1.10 to $1.20 per share, net leverage of less than 2.5 times, and return on invested capital greater than 12 percent.

I will now turn the call back to Tom.

Tom Harrington

Thanks, Jay. Looking ahead, as we continue executing our differentiated Water Your Way platform and focusing on a few key priorities, we will leverage our pure-play water model to drive revenue growth of 12 percent to 14 percent in 2022, adjusting for the exit of the single-use bottled water retail business in North America. We will deliver organic revenue growth in the range of 10 percent to 12 percent. We will continue to execute our razor/razorblade model with growth in the number of dispensers sold, driving top line and earnings growth through the sale of water products.

We are more than pleased with the first half of the year's results and are excited about our future. With so much uncertainty in the markets, we think the Primo Water investment thesis is compelling. We are the only public pure-play consumable water platform with leading national and local brands, both North America and Europe, with a predictable, recession-resistant revenue base and attractive, high single-digit, long-term organic growth targets, supported by multiple favourable tailwinds, such as increased consumer attention to health and wellness and aging water infrastructure.

I want to reiterate we are a fundamentally stronger and more streamlined business than ever before. We've made significant strides over the past couple of years to focus on our core competency as a pure-play water company. As a result, we have a healthy balance sheet, a compelling long-term top line growth outlook, and an attractive margin profile.

We are confident in our outlook for 2024, which includes high single-digit organic revenue growth, annualized adjusted EBITDA approaching $525 million, and adjusted EBITDA margins of 21 percent to 22 percent. The team (phon) is delivering results.

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

With that, I'd like to turn the call back over to Jon for 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. If you have additional questions, please reenter the queue. 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. If you have a question, please press *, followed by 1 on your touch-tone phone. You will hear a three-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. One moment for your first question.

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

Tom Harrington

Morning, Dan.

Daniel Moore — CJS Securities,

Thank you. Good morning, Tom. Good morning. Good morning, Tom. Good morning, Jay.

Jay Wells

Hey. Good morning, Tom

Daniel Moore

Thanks for taking the questions.

Tom Harrington

No worries. Good morning.

Daniel Moore

So start with the updated guide. Just maybe talk about the volume growth assumptions underpinning your updated revenue guide? And then, qualitatively, just the confidence in the level of the updated annual outlook? What are you seeing so far in Q3? Any clouds at all on the horizon as it relates to the consumer? Just a little bit more detailed colour there would be great.

Tom Harrington

Yeah. I'll take the qualitative and leave the quantitative to Jay. Obviously, a very strong Q2, right? So customer growth, customer retention, buy-in growth, pricing elasticity, customer base is steady, chains are executing or managing expenses. We are seeing that same performance in Q3, which only further builds my confidence that we'll deliver on this guide as well as, frankly, the 2024 outlook.

So everything is going according to what we would expect. It continues through the month of July, which really puts us in a good place to deliver on our commitments.

Jay Wells

Yeah. I think Tom said it well. You look at what I called out in my prepared remarks, that our Water Direct business in North America is what's driving about growth 21 percent growth, 15 percent price mix, but 5 percent in volume—organic volume—and 1 percent acquisition. We have continued to see that performance in this part of our business into Q3.

On top of that, Tom mentioned, our refill business has shown good growth, and it has also continued in the quarter. As we're seeing ocean freight goes down—225,000 of dispenser sales in the quarter are sell-through in the quarter, and we're seeing growth in that area. So we'll sell more dispensers this year than we sold last year which, as Tom said, is key to driving our water growth so, really, are continuing into the third quarter very similar to what we reported in Q2, if not a little better.

Daniel Moore

Perfect. Very helpful. Any more colour on the commercial B2B volume recovery, particularly in Europe, and the momentum you're seeing there?

Tom Harrington

Yes. So we're seeing pretty consistent growth across the board. I think Jay's got some more detailed colour on how it's breaking down by segment.

Jay Wells

Yeah. I mean you look at both in North America and in Europe, we are seeing good return. You look at B2B volume over in Europe, our revenue was at 8 percent, our pricing was relatively flat, so that was mostly volume-driven. Residential—which we continue to add good residential—that revenue was up 14 percent. So that's very good.

And if you look at in North America, I've talked about our growth. Our B2B revenue was up 23 percent, year over year, with our residential up 14 percent. So as we talked about, we are seeing things normalize on the B2B side while continuing to grow our residential side. As we said, we don't think it's a one-for-one swap as things return to normal, and our numbers are showing it.

Tom Harrington

So both channels on both sides of the Atlantic enjoying good volume growth and pricing growth.

Daniel Moore

Excellent. I'll sneak one more in and jump back in queue, but just timing questions. One on the timing of potential benefits on the tariffs. And then two, it's some nice property you've got there in California. Any sense of timing of when those sale or sales might be completed? Thanks.

Tom Harrington

I'll take the tariff, and I'll give the real estate to Jay. We're cautiously optimistic that it'll move from the 25 percent, frankly, down to a 2.7 percent, as (unintelligible 29:15) as opposed to tariff. That could happen any day. We are not forecasting it. So it will be upside to us. And then, as we referenced in our comments, we want to convert that into the sale of more dispensers to fuel our future growth.

Jay Wells

And lower CapEx—

Tom Harrington

And—

Jay Wells

—than what we've—

Tom Harrington

So then a flip side is we'll also get some reduced CapEx investment for the ones that we rent. So we're optimistic, but until it's signed and sealed, Dan, we're not counting on it. We obviously pay a great deal of attention to this and are, in fact, cautiously optimistic.

Jay Wells

And on the real estate sale, we have one large parcel under contract, we'll hopefully close and plan to close this quarter, with the remainder being probably later in the year or beginning of next.

Daniel Moore

Perfect. Thank you again.

Jay Wells

Thanks, Dan.

Tom Harrington

Thanks, Dan. Appreciate it.

Operator

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

Jay Wells

Hi, Andrea. So—

Tom Harrington

Hello.

Andrea Teixeira — JPMorgan

Good morning and thank you for—how are you?

Tom Harrington

Very good. Good morning.

Andrea Teixeira

So I have a question and a—good. Good. I have a question and a follow-up, please. On that guidance, you beat EBITDA by $3 million and, I guess, you raised by $5 million. You raised top line almost $70 million, from a zero, and it beat second quarter by around $20 million.

So I'm just trying to see how it's not flowing through. Is that because of the incremental profitability that you may see headwinds with the euro depreciation? Or maybe you were just baking in some conservatism into the estimates in the back end? And then I have a follow-up on Europe, please.

Jay Wells

Want me to—yeah, I'll take that.

Tom Harrington

Yeah. There's multiple factors that we're dealing with. Number one, there is inflation. So part of our price increase, as we talked about, is to offset increased cost of fuel, freight, and labour. So that's number one.

Number two, the euro to the dollar has significantly weakened. So we have not changed our full year guidance on EBITDA as we have seen the weakening of the euro. We've also exited the Russia business which, as I said early on, that it's $3 million of EBITDA that we were lapping. So we are lapping a lot of headwinds that have come up since the beginning of the year and upping our guidance. So that's really how you've got to do it.

Andrea Teixeira

Mm-hmm. No, that's fair. And then on Europe, I guess the one thing is the exit rate. Of course, you're very positive in the answers to the first question. Right? The numbers speak for themselves. But I'm just thinking, as you exit the quarter with energy prices the way they are and, potentially, you're lapping the easy comps at some point, are you seeing any signs of elevated churn? Any deceleration on new customer adds? Or anything we should be aware of?

Tom Harrington

No.

Andrea Teixeira

Or maybe just calm about it?

Tom Harrington

Yeah. The way I think about it, despite—put Russia to the side, push—the Ukraine is real—the reality is we're still recovering on our commercial business in Europe. It's still on its way back. So we would think that that is, frankly, a tailwind for us as more people go back to work in the B2B or commercial segment in Europe. We're seeing that manifest itself with good revenue and volume growth, and Jay referenced largely volume growth.

And then we continue to generate new customers on the residential side. So clearly, the tailwind of high-quality drinking water matters on both sides of the Atlantic, and we're beginning to unearth that residential opportunity, and we would expect that that would continue.

Jay Wells

And keep in mind, our customers over in Europe are predominantly contractual-based customers, unlike we have over here in North America, so it has taken us more time to put the pricing through to offset the costs. So our results for Q2 really have no price to offset the cost increases, as you see in our just 3 percent EBITDA growth. But we have taken the pricing through at this point. So we will have that additional benefit of the pricing to offset the cost inflation in the back half of the year.

Tom Harrington

And then the only other small question that was inside your question was customer retention in Europe is equal to or better than it has been in the past. So we're not seeing any changes in the churn that give us any worry.

Andrea Teixeira

Mm-hmm. That's super helpful. Thank you. I'll pass it on and then come back for more.

Jay Wells

Thank you.

Tom Harrington

Thanks, Andrea.

Operator

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

Tom Harrington

Good morning, Kevin.

Kevin Grundy — Jefferies

Great. Thanks. Hey. Good morning, everyone.

Jay Wells

Hey, Kevin.

Kevin Grundy

Just to follow up on—hey. Good morning, Tom and Jay. So a follow-up on the sales of land and thoughts on buybacks in general. So number one, just ability to monetize any other holdings, other than what you have outlined, I think would be of interest.

And then number two, maybe just help me a bit with the recently announced 100 million share repurchase program from the board. That would seemingly be financed largely from the real estate proceeds as sort of setting aside the opportunity to deploy free cash flow, post a dividend, post tuck-in M&A. Maybe just help me with that. Is there an opportunity above and beyond what the board has already outlined?

Tom Harrington

Yeah. I'll start with your property question, and I'll give the second part of your question to Jay. We own roughly, in North America, 72 locations. Right? So this is a small number that we focused on in California, like four to be specific. And part of our team is working on a view that it is—yes, it's about taking advantage of this meaningful appreciation of these properties. But we're also looking at where should our distribution centres for the future be to maximize or minimize—depending on how you look a lot, right? Is get the logistics, minimize our cost, and have distribution centres that better match our current and future customer base.

So the work that we started in California, we will extend the cost to US over time. It's a thorough, thoughtful process that gets to what's the right footprint for the next five or seven years, if you will. So that's in real time. California's the first piece, and the team will now move on to other markets.

Jay Wells

Yeah. And, Kevin, not sure about your second half, but we saw an opportunity. We didn't have a share repurchase program in at this time. We believe our stock is at a very good value. I saw the inflow of cash started in this quarter that we have available, and we talked to the board and made a decision, the best use of that inflow of proceeds from the sale of land is to do share buybacks. And that's why we got approval to do so this quarter.

Kevin Grundy

Okay.

Tom Harrington

And importantly, we'll continue with our other uses of capital. So it's not instead of; we're going to take advantage of this logistic change, right, better management of our real estate portfolio, which is what this is. But we're going to continuing to make the investments we articulated back in November of last year at our Investor Day about how we grow the top line, high single-digit, and get that EBITDA margin expansion that we promised.

Kevin Grundy

Okay. Very good. I'll follow up offline as well. But thank you, guys. Congrats again on the quarter.

Tom Harrington

Thanks, Kevin. Appreciate it.

Operator

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

Tom Harrington

Morning.

Cheryl Zhang — TD Securities

Good morning. This is—good morning. This is Cheryl calling in for Derek, and thanks for taking my question. So maybe just a follow-up on Europe. We're just curious if you have seen any pressures on volume, routes, or even supply chain, particularly in countries that may be neighbouring Ukraine?

Tom Harrington

Well, if you think about our footprint, plants are in local countries. And we didn't have any meaningful raw materials sourced from the Ukraine, so that we've avoided that with no dependence on that market. So other than ocean freight and elevated—the impact of inflation, we're in good stead in terms of raw materials and our ability to supply our customers.

Jay Wells

No. And if you look at Europe, it's a little bit different than North America. The fuel cost over there has a significant amount of excise tax in it. So as fuel costs go up there, it's actually a lower percentage of cost increase than it is here, relative. So that's really the main thing that could have been affected by what's going on in Ukraine, but it actually—because of the significant amount of excise tax they put on their fuel, it's actually a smaller percentage than you would think effect on our business. And as I said, we've taken price to cover that now and will benefit us in the back half of the year.

Cheryl Zhang

Okay. Thanks so much for that. And then maybe as a follow-up on capital allocation. Just curious how you think about balancing the return of cash to shareholders and your commitment on progress towards lowering your leverage.

Tom Harrington

Yeah. So it's two parts to that question. So again, this is an opportunistic share repurchase based on two opportunities, what we believe is a—meaningful from the lower stock price today, so to do a share repurchase, one, based on that and, secondly, because of our work on our real estate portfolio, which creates the ability to do this share repurchase.

We'll continue to invest on the incremental capital to drive growth and support the high single-digit revenue growth we've committed through 2024, and also invest on other ways to enhance our

EBITDA margins. So it's—again, it's not instead of, it's in addition to, based on our ability to monetize some of these valuable assets.

Jay Wells

So we are—as Tom said, we are not changing the plan we had at the beginning of the year to deleverage under our plans. The leveraging, we were just using this incremental proceeds from the sale of our land. And we believe, based on where our share price currently is, that was the best deployment of that incremental cash that we're getting from the land sales.

Cheryl Zhang

Okay. That's very helpful. Thanks so much for taking my questions.

Jay Wells

Thanks.

Tom Harrington

Thank you.

Jay Wells

Thank you.

Operator

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

Jay Wells

Morning, John.

John Zamparo — CIBC

Good morning, guys.

Tom Harrington

Hey, John.

John Zamparo

I wanted to ask about net customer growth. And I think you mentioned the number, year over year in Q2, was 75,000. I think that was 100,000 in Q1, so I was wondering if you could share what it was quarter to quarter? And is there typically any seasonality on net customer adds? I know you have a few different initiatives on that, so just wondering if you could add some colour there?

Tom Harrington

Yes. There is certainly seasonality. So Q2 and Q3 would be higher quarters historically for customer adds. So there is real seasonality to that. Obviously, there's the add side, and that is all around customer retention. So we continue to make progress in investments on the customer experience, whether it's digital, whether it's what we call on time and full, which is always delivering on time and better than you asked for. So those initiatives are in place and will impact net growth historically—or as we go forward.

Jay Wells

Right at my fingertips, John, I don't have the movement from Q1 to Q2. I can get back to you. But I know it's sequentially higher; I just can't give you an exact sequential new growth at the top of my head. Sorry, John.

John Zamparo

Yeah. That's okay. Appreciate the colour there. And then as my follow-up, I wonder if we could get an update on your plans for Primo Fresh or on-the-go. How close are you to launching this service in the US? And anything you can share as you're developing this program?

Tom Harrington

Yeah. So I think in the last while, we've talked about finding the supply chain and the appropriate manufacturing footprint. We've made good progress there. I would expect sometime in Q3 that we'll have units in market. I would call it tests. Right? So this is units, frankly, both in Europe and North America on the on-the-go solution.

This is the opportunity to make sure that it does exactly what it does, mechanically and from a tech perspective. And then, once we have comfort that the solution does what we need it to do, then we'll begin to scale it.

So we've made progress. We'll plug some units in before Q3 is over. We remain bullish about where that can bring us. But again, I got to get the units in the field to really understand the opportunity here. But we're excited about it and happy that we can execute some in Q3.

John Zamparo

Okay. Understood. Thank you very much.

Tom Harrington

Thanks, John.

Operator

Ladies and gentlemen, as a reminder, if you do have any questions, please press * 1.

Your next question comes from Graham Price with Raymond James. Please go ahead.

Tom Harrington

Morning.

Graham Price — Raymond James

Hi. Good morning. Thanks for taking my question. First one, maybe on the just regulatory front. Now that California has voted to start regulating single-use plastics, was wondering if you anticipate any boost to demand from that market? Or just general read-through from that?

Tom Harrington

Yeah. We would expect that it moves to more of a tailwind for us because people are looking for solutions. We have the appropriate one in terms of the ability to refill, reuse, and recycle ours. And frankly, this legislation supports our decision to have exited the North American bottled water retail business. Right?

So this just further supports our strategy to move to more environmentally friendly and sustainable solutions, and we think that becomes a tailwind for us over time.

Graham Price

Got it. Got it. Good to hear. And then for my follow-up, I know we're seeing more and more businesses looking into or actually purchasing electric trucks, which seem like a great use case for your business as well. Just curious if you're looking at that? And maybe, just more broadly, kind of trends you're seeing on fuel costs?

Tom Harrington

Yeah. So we've continued to execute our conversion of our larger North American fleet from diesel to propane. And it certainly has a positive impact on greenhouse gas emissions, but also it's a significant reduction in nitrous oxide. So that's a positive. We'll continue that action.

We haven't found an economical electric solution yet for the larger route truck side. We continue to look. We're actively in that space. But the capital cost so far is at least 3X. What we are, though, however, working through is how do we convert the smaller assets? So think about service vans as an example, both in North America and in Europe, about how we can convert those to EV. And that's in our—I call it early stage planning for that—that would be our intent, to begin that migration.

And then fuel cost is it depends on where you are, right, so and it has not moved down as much as unleaded, if you look at it. And the good news is our energy surcharge just goes up and down, so it covers that cost. So we're a bit insulated from that, but I'd prefer that it went down for the record. But we have insulated ourselves with what we do with our energy surcharge and, frankly, delivery cost—delivery fees, excuse me.

Graham Price

Got it. Makes sense. Thank you very much.

Tom Harrington

Thank you.

Jay Wells

Thank you.

Operator

Your next question is a follow-up from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira

Thank you for taking my follow-up. So I was just hoping if you can elaborate a little bit more on the initiatives that drove more water sales and connectivity. I know you have the app, and you also have some redeemable coupons on coolers. And I guess the coolers numbers that you gave are also encouraging. So I was wondering if you can talk about marketing dollars and how you are seeing this as an opportunity? And also, kind of the promotional environment going forward? And—

Tom Harrington

Yeah. I—

Andrea Teixeira

—and—yeah. Go ahead, please. Thank you.

Tom Harrington

No. I'm sorry, Andrea. Look, we're confident in where we're going to grow our dispenser business. We'll sell over a million units this year. What we've begun to now execute is that, as an example, you could walk in some retailers, and you'll see the coupon on the box in many of the retailers that sell our dispensers. And that is—we've begun to see some increases in connectivity. We have not conquered the connectivity curve yet.

When we talk about building out our digital plan and our investments, this is one of the areas that we are working on and need to do more work on, is to drive that connectivity from where it is today to a new number tomorrow. Why? Because we know those water dispensers convert into the razor/razorblade and drive our future growth. So it's core to our future marketing plans, and we've got to work out all those details. We've made progress. We haven't made enough, or there's more to do, the better said, perhaps.

Andrea Teixeira

And if I interpret the way—and it's quite encouraging to hear that. In terms of when you come back to the great financial crisis or the last recession—and hopefully, we're not going to get into that point—but just to give investors some comfort. Should we see—can you inform us how it happened and what was the impact, at least at that point, in terms of your engagement and attrition? Or anything that you may help us gauge?

Jay Wells

Want me to—

Tom Harrington

Yeah. I'll give you a piece of it, and then I'll let Jay elaborate. One of the key actions we took out of the recession that happened back in the late 2000s was we implemented the energy surcharge. We reap the benefit of that today. And I was here then, so before that recession, diesel was $2.50 a gallon and went to, I remember, a high of $4.56, which is actually not the high today. But we put the energy surcharge in place, which insulates us from that spike in fuel, and our charge goes up and down. So that was a key learning that makes it different because, back then, I had no reason (phon), right? We didn't take the action that we—it was a key learning, coming out. So that's a key change in terms of from, to.

The other thing we did is—look, we also tightened our credit policy, right? Which matters. And we've had that same credit policy in place, so that's an important number in our business. It's a cost. And we mitigated that by the changes we made a decade ago, frankly, that has worked to insulate us from downturns in terms of people who forget to pay their bill. Yeah.

Jay Wells

Now if you want to look at the numbers, if you look at our US business from 2007 to 2010, so the heart of the recession, our Direct business, the revenue went down 3 percent over that period of time. If you look at purely organic, it went down 4 percent, so it was benefitted by some acquisitions.

But more importantly, when you look at coming out of the recession, and you look at 2010 to 2013, our revenue CAGR for growth was 7 percent and, again, 4 percent organically coming out. So we did very well going [audio gap] and even better coming out of the last recession.

So that’s why we say we are recession-resilient or resistant because, yes, we are affected, but it’s not a material effect, and we do rebound quickly. And as the chart on, I think it was Slide 9 of our deck—it really shows, overall, the bottled water industry is resilient during these macroeconomic events.

Tom Harrington

And I’d just—I’ll add on or pile on, if you will. We had this thing called a pandemic. And I think this company exhibited the highly variable nature of our cost structure, and we acted in a month. Right? So hopefully, investors have the confidence, say we have the ability and the agility to adjust in real time to these challenges when we’re faced with them. So we have the tale of what happened back then, and we have more recent experiences, the actions that the Company took during the pandemic.

Andrea Teixeira

Super helpful. Thank you and congrats again.

Tom Harrington

Thanks, Andrea. Appreciate it.

Operator

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

Jon Kathol

This concludes Primo’s second 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.