Primo Water Q3 2024 Earnings Call Transcript

Participants

- Robbert Rietbroek: Primo Water Chief Executive Officer
- David Hass: Primo Water Chief Financial Officer
- Jon Kathol: Primo Water Vice President, Investor Relations
- Daniel Moore, CJS Securities, Inc.
- John Anderson, William Blair
- Andrea Teixeira, JPMorgan Chase & Co.
- Derek Lessard, TD Securities

Prepared Remarks

Operator
Good morning. My name is Elbus and I will be your conference operator today. At this time, I would like to welcome everyone to Primo Water Corporation's Third Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press star and then the number two.

Thank you. Now I'll turn the call over to Jon Kathol, Vice President, Investor Relations.

Jon Kathol
Welcome to Primo Water Corporation's third quarter 2024 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 regarding the company's future financial and operational trends and results, the BlueTriton transaction, the anticipated benefits of the BlueTriton transaction, including estimated synergies and related matters. 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 third quarter earnings announcement released earlier this morning, or on the investor relations section of the company's website at primowatercorp.com.

In addition to slides accompanying today's webcast to assist you throughout our discussion, we have included a copy of the presentation in a supplemental earnings deck on our website. The supplemental deck will be broken into two sections: the current continuing operations of Primo Water and information related to the transaction between Primo Water and BlueTriton brands.

I am accompanied by Robbert Reitbrook, Primo Water's Chief Executive Officer, and David Hass, Chief Financial Officer. Today's financial results represent Primo Water's third quarter standalone results from continuing operations. To start their prepared remarks, Robert and David will discuss the Q3 performance of Primo Water followed by Robbert's thoughts ahead of the proposed transaction with BlueTriton Brands. Please note that BlueTriton's third quarter financial information was posted earlier this morning on their website at bluetriton.com.

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

Robbert Rietbroek
Thank you, Jon, and good morning, everyone. Before I begin, I want to take a moment to extend my sympathies to those impacted by the recent hurricanes in the Southeast and the extreme loss of life and property. First and foremost, our thoughts are with those still suffering, and we hope for a speedy recovery for those affected.

The efforts of our associates to deliver high-quality drinking water to people in these hard-hit areas was admirable, and I want to personally thank them. We are working with local charities and transport companies to donate water and have so far been able to provide hundreds of thousands of bottles of water to those affected across the Southeast. There is strong demand for our water, and it serves a critical need during natural disasters like wildfires, floods, and hurricanes. Our commitment to aid those in need is unwavering.

The resilience of people and associates in these affected communities is remarkable, and we are proud to support them. Earlier this week, we held a special shareowner meeting for the purpose of approving our transaction with BlueTriton Brands. The shareowners approved the transaction with strong support, and obviously recognized the strategic rationale of combining two great companies, allowing us to better serve our stakeholders. We have now received all necessary approvals, including court approval of the plan of arrangements for the transaction, and aside from a few remaining customary closing conditions, we are ready to begin operations as the new Primo Brands Corporation, with closing expected to occur tomorrow, November 8th.

The Primo Water stock will continue to trade throughout the day on the 8th, and we expect the new company, Primo Brands, to begin trading with the new ticker symbol of PRMB on the New York Stock Exchange next Monday, November 11th.

I'll share more of my thoughts on the transaction later, but first I wanted to take you through the details of Primo Water's third quarter. Another great quarter marked by robust, balanced growth and continued strength across the business organization. Total revenue of $511 million increased 8.8%, consisting of volume growth of 5% and pricing growth of 3.8%.

Revenue gains were driven by organic growth of 7.4% and inorganic growth of 1.4%, demonstrating the strength across our water solutions offerings and the health of our consumer and category. Revenue exceeded the high end of our previous guidance by $16 million, and compared to the broader beverage category, I am pleased that we continue to grow revenue with balance between volume and price.

Adjusted EBITDA was $125 million, up 11.4% versus the prior year, and increased faster than the rate of revenue growth and matched the high end of our guidance. The resulting adjusted EBITDA margin was 24.4%, a 60-basis point increase over last year's margin of 23.8%.

From a macro perspective, our consumers remained resilient when compared to other consumer packaged goods companies, including, notably, other beverage companies. We continue to see accelerated demand for our products and services as consumers focus on healthy hydration and high-quality beverages. We remain frontline focused, as it has allowed us to achieve our commitment to grow the business profitably. The results are a direct reflection of the efforts of our associates and their commitment to our customers and our must-win priorities.

With that, let us discuss the specific progress of each of our must-win priorities that I identified at the start of the year. The first must-win is to provide a superior customer experience, with the goal to yield net organic growth and units, or gallons, consumed across our water portfolio. We are focused on acquiring and maintaining high-value customers and driving annual gallon growth.

A relentless focus on fulfilling our customers needs and desire for high-quality drinking water is successfully driving increased consumption. We are seeing strong demand from our consumers across all channels from our value offering of water sold at a refill station, to our super premium Mountain Valley spring water delivered in multi-format glass, PET and aluminum bottles direct to their door or sold at retail and at various on-premise locations. Our continuing focus on Mountain Valley, which I spoke about in past quarters, continues to deliver impressive results. During the third quarter, we more than doubled our Mountain Valley retail revenue, driven by sales of our convenient 9-pack single-serve 16-ounce aluminum bottles which are selling at Whole Foods stores throughout the country.

We also sold more to our water direct customers, where we continue to see high levels of Mountain Valley demand for our 5-gallon, 2.5-gallon, multi-serve and single-use products. In addition, we've expanded our distribution for Mountain Valley in grocers such as HEB in Texas and will continue to expand in 2025 as we anticipate strong consumer demand continuing.

We are consistently enhancing various touch points to improve the customer experience. Our upgraded MyWaterPlus app, now also available in Spanish, has a refreshed design and enhanced features such as easier access to customer support.

We have expanded our Customer Experience Center coverage to offer support six days a week and we have increased our availability to assist customers through our chat functionality, making it even easier for them to reach us. The reaction to our improved customer experience is encouraging. Our Google Business and Trust Pilot scores have improved year-over-year. We're always seeking to expand the ways we reach and interact with consumers.

In Q3, we tested reaching potential consumers through the social platform Nextdoor, connecting the Primo Water delivery service to the platform you use to stay informed about your community. We are seeing high levels of engagement and planning to launch additional test markets to understand conversion rates before rolling out nationally.

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 and satisfy each of our customers' needs and budgets. Customer and volume growth starts with increasing the number of customers and locations in water direct, exchange, refill, and the sale of water dispensers at retail, which drives connectivity across our portfolio of water solutions. The increase in customers and locations across our channels will drive future volume growth. During the third quarter, we were able to add water direct customers and secure additional display racks within our exchange channel and retail stores to support capacity growth, resulting in 8% growth in the channel for the quarter.

Our refill and filtration channel continues to show steady and consistent performance, with 7.1% growth in the third quarter. This provides further evidence that our product is critical for our customers to satisfy their needs for daily sustenance of high-quality drinking water. Meeting the customer where they are includes offering high-quality water in a format that fits their needs and lifestyle.

The third must-win is operational excellence. Specifically, we're focused on building an optimized organizational structure and operating systems that prioritize our associates' safety and well-being, deliver the highest-quality products and services, and support efficient scaling and automation as we continue to grow. Maintaining a safe environment is our top priority, as it's essential for our associates to thrive and for them to continue delivering exceptional service to our customers.

During the third quarter, we continued to implement six and seven day delivery schedules as we moved into our traditionally busy period of the summer. Our on-time, in-full rate of 93% in our water direct and exchange channel was up from 89% in the prior year.

Our refill channel maintained machine uptime of 98%, ensuring product availability for our customer base. Production capacity and efficiency are vital to supporting the growth of our business. In the past two years, we have invested in a full upgrade to five of our production lines, yielding higher efficiency and lower cost per unit. We have a clear plan to deliver growth and profitability with a good balance of volume and pricing.

Our resilient business model has a unique combination of associates, assets, and resources that are capable of delivering results that benefit all our stakeholders. We are well positioned for future success as we step into the next phase of our business combination with BlueTriton Brands to create Primo Brands Corporation.

Before I turn the call over to David, I would like to once again thank all of our Primo Water Associates for their support and contribution to the excellent performance of the business. Their dedication reflects the culture we have built that is centered on customer service and a commitment to operational excellence.

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

David Hass
Thanks, Robbert. Before I cover our third quarter results, I would first like to quickly reflect on the past year. Just a year ago, we were updating investors on the sale of the majority of our international businesses.

This was a catalyst to drive improved free cash flow and enhance the margin profile of our business. It also helped set the stage to renew our focus on the North American market where we have ample runway for growth. We are very excited for the pending transaction with BlueTriton, as this will provide the necessary scale to further our transformation as a company. A tremendous thank you to all parties involved during this journey, and we look forward to communicating on behalf of Primo Brands in the near future.

With that, let me transition back to the financial results of Primo Water.

The third quarter results of our continuing operations included revenue increasing 8.8% to $511 million, adjusted EBITDA increasing 11.4% to $125 million, with adjusted EBITDA margins of 24.4%. All metrics were above or at the high end of our previous guidance, and the adjusted EBITDA margins reflect our focus on driving optimization and efficiencies in the business. Within the 8.8% revenue growth, approximately 7.4%, or approximately $35 million, came from organic growth activity with the balance 1.4%, or approximately $6 million, coming from inorganic or acquired sources.

Primo Water's definition of inorganic contribution includes any acquired businesses that were closed less than 12 months ago. After 12 months, any acquired business becomes part of our normal contribution base.

Separately, the 8.8% revenue growth, irrespective of organic or acquired means, can be split into approximately 5% related to volume activity and approximately 3.8% related to pricing activity. Volume contribution in this case comes from both new customer additions or additional gallons consumed from existing customers or additional retail traffic in our exchange or refill businesses where actual customer counts are not directly known.

Volume activity in the quarter was strong across all our water solutions, indicating strength in our bulk-oriented offering as well as the complementary nature of our different price tiers. A table of our channel disclosure results is included with our supplemental earnings deck. You will notice that volume gains occurred across each of the water channels and price improved, except for the welcome price decline in water dispensers. Within our channels, we had strong revenue growth of 8% in water direct and exchange and a 7.1% increase in our water refill and filtration channel.

The other water channel, which is primarily the retail and on-premise portion of Mountain Valley Premium Spring Water, was up 102.2%. The water dispenser business, representing the sell-in of our units to the retailer, increased 13.3%. The other channel decline is reflective of our remaining non-core office coffee services, which is not a point of emphasis in our current model. Water dispenser sell-through, or those items sold from the retailer to the end customer, was approximately 238,000 units in the quarter, down approximately 5.6%.

As a reminder, our business model includes two approaches of selling the water dispenser: the rental of the water dispenser to residential and commercial customers in our water direct business and the sale of water dispensers through our retail partners and online. Both approaches enable growth in our water solutions and contribute to our predictable and recurring revenue growth. This quarter's sell-in results help confirm the category strength in the eyes of the retailer, while timing variability will exist quarter to quarter between sell-in and sell- through. We have been particularly focused on growth with our brick-and-mortar retail partners, where we have greater visibility into the connectivity to our water solutions and higher connectivity compared to e-commerce channels.

As discussed in previous calls, our water dispenser category was previously under a 25% import tariff, but was reclassified last year, and a refund process from the US Government was initiated. When we receive funds, we record them in the same manner as the original transaction. During Q3, we did not receive any refunds, reflecting the inconsistent nature of the government refund process. When including last year's payments, cumulatively through the third quarter of 2024, we have received approximately $10.8 million, inclusive of interest income.

Total funds outstanding are approximately $7.1 million. We remain confident that refunds will be received, but we cannot predict the timing of receipt. As we look further into the operational metrics, and as Robbert mentioned earlier, 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 efficiently is a critical driver of both our short- and long-term profitability, and our Automated Route Optimization, ARO tool, continues to yield efficiencies.

During the third quarter, we increased our revenue per route by 2%, while units per route declined by a single unit as a result of expanded route coverage to support our water exchange business and maintain high service metrics. Additionally, Water Direct customer retention remains at approximately 86%, slightly higher than at the end of last year and the third quarter of 2023.

Shifting to our balance sheet and cash flows, our net leverage ratio at the end of the third quarter on a trailing 12-month basis stood at approximately 1.5x our adjusted EBITDA, a 60-basis point improvement from year end. Similarly, our liquidity remains strong, with approximately $667 million of cash on the balance sheet, approximately $671 million when considering the cash within our discontinued operations, and a fully unused cash flow revolver.

We remain on target to complete the sale of businesses in Israel and the UK by year end.

Our adjusted free cash flow results for the third quarter totaled $60 million, a year-over-year decline of $32 million. The decline in adjusted free cash flow was driven by lapping last year's positive, one-time step-up in improved AR collections as we shifted billing closer to the time of delivery, as well as an increase in cash taxes totaling approximately $15.8 million due to fewer NOLs as we shift to a net taxpayer relative to prior years, and change in net working capital attributable to growth.

More importantly, for the nine months ended September 28, 2024, adjusted free cash flow totaled $162 million, a significant year-over-year increase of $41 million, driven by increased earnings, reduced net interest expense, and improved working capital, offset by higher cash taxes, and slightly increased levels of capital expenditures.

Regarding the pending transaction with BlueTriton Brands, we plan to communicate our financial outlook for the new Primo Brands in early 2025 as we work to bring these two great companies together well ahead of our originally estimated schedule. As of the closing of the transaction, Primo Water, in its current form, will no longer be publicly held, and we will begin the migration of our accounting recognition standards to match those of BlueTriton, the accounting acquirer of record in the transaction. When we report full year 2024 results for Primo Brands in February of 2025, we will also provide supplemental disclosures to show how both Primo Water and BlueTriton Brands separately performed during 2024. As the remaining 2024 full year guidance values of Primo Water are directionally relevant to the new company, Primo Brands, we remain confident in affirming that Primo Water is on pace to achieve all previous financial estimates across revenue, adjusted EBITDA, and adjusted free cash flow.

This would also confirm that the full year adjusted free cash flow of continuing operations would have fully offset the adjusted free cash flow divested from our international businesses even with the outstanding tariff receivables that we still anticipate receiving from the US Government.

No shares were repurchased in the third quarter, and on a year-to-date basis, we have acquired approximately $15.9 million worth of our shares. On October 15, we announced a special dividend of $0.82 per common share to Primo Water share owners of record on November 5, 2024, payable on November 21, 2024.

In closing, our improved financial profile and flexibility, along with a compelling long-term growth outlook and the growth potential from our transaction with BlueTriton, are a solid foundation for the future success of the new combined company, Primo Brands.

With that, I will turn the call back over to Robbert for his thoughts on the pending transaction with BlueTriton.

Robbert Rietbroek
Thanks, David. I look forward to leading the new Primo Brands Corporation with its team of world-class associates.

Earlier this week, Primo Water shareholders decisively approved the transaction with BlueTriton Brands.

The combination of these companies creates a leading branded beverage company that is well-positioned to drive growth with a highly competitive portfolio of brands and a unique, vertically integrated manufacturing and distribution network to deliver superior deliver superior customer service. As demonstrated by the respective Q3 financial results, both companies enter this transaction from a position of strength. Next Monday, November 11th, we expect to begin trading on the New York Stock Exchange under the ticker symbol of PRMB, leveraging complementary aspects of both legacy companies, Primo Water and BlueTriton Brands. The new company will be US Domiciled as a Delaware corporation.

I am pleased that as the progress in defining the new Primo Brands organization has taken place, teams have been diligent in their integration planning efforts to hit the ground running upon closing. After the transaction was announced, we created working teams from both organizations that were tasked with identifying opportunities and planning to create an optimized structure to capture value across the organization once we close.

We believe Primo Brands is positioned for success as a leading branded beverage company in North America with a leadership position in retail, residential, commercial, and away from home. We believe the combined companies positioned to deliver long-term growth, transform efficiencies, and generate superior financial returns with premier Brands, a unique platform, diversified assets and operations, an experienced executive team with representatives from both companies.

We also have an exceptional board of directors led by our new chairman, Dean Mitropoulos. Primo Brands will have an iconic portfolio of brands, including two established billion-dollar brands, Pure Life and Poland Springs, and is well-positioned to be the leading player in the US bottled water category. We will have an array of brand offerings that includes regional leaders such as Arrowhead, Deer Park, Ice Mountain, Ozarka, and Zephyrhills, and other purified brands like Primo Water and Sparklets. We also have a mix of flavored water brands, including Frutitas and Splash.

In our retail business, our established beverage brands are part of the fabric of America with six brands over 100 years old and four dating back to the 1800s that are responsibly sourced with packaging materials that include industry-leading recycled plastic content, aluminum, glass, and available in large format reusable bottles.

We also have a strong direct-to-customer platform which includes which includes the sale and rent of dispensers, commercial, residential, and away-from-home beverage delivery services, water exchange, a program where consumers can purchase and return their multi-use bottles directly, our in-store water refill self-serve business, where consumers can fill their own bottles using our dispensers inside and outside stores, and water filtration, where consumers can have a unit installed at their residential or commercial location. As a combined company, we will be able to provide even more branded beverage solutions anytime, anyplace, anywhere. We will be positioned to benefit from highly attractive market dynamics in US bottled water.

Our scale will allow us to become a stronger strategic partner with our retailers, helping them manage the bottled water category for growth. Positive consumer trends include healthier lifestyle choices, more frequent consumption occasions, a preference for premium and functional products, a growing demand for quality and value, and an increased adoption of digital engagement.

As a vertically integrated company, Primo Brands sources from numerous springs, wells, and municipal water supplies. We manage water resources for long-term sustainability, helping to protect more than 27,000 acres of watershed and wetlands area owned by the company for preservation and to help assure a steady supply of clean, safe drinking water.

Beyond its products, Primo Brands will actively support local communities through charitable efforts, particularly during natural disasters. The company's broad geographic presence and strong local ties will enable it to make a tangible impact nationwide. Consumers continue to care most about quality, taste, safety, and convenience. Beyond the stable and attractive commercial backdrop, we believe the company will have the resources and scale to accelerate growth with multiple levers across our combined platform, including growing our existing and new customer base and expanding retail locations across our footprint in North America.

Our channel mix will be well diversified and balanced between retail, residential, commercial, and away from home. We plan to expand into new channels and high-potential geographies. As access to safe, high-quality drinking water becomes a challenge in more areas across the country, we are committed to expanding to meet growing demand. We plan to compete in the high-growth areas of the functional, flavored, and premium segments within the branded beverages category, either through innovation or acquisition.

We will apply best practices from both companies and utilize machine learning and analytics to optimize our demand forecast, production planning, network, and route design, all while enhancing the customer experience.

Additionally, we plan to implement several optimization initiatives across various business functions, positioning us to realize an estimated minimum $200 million of cost synergies on a run rate basis within three years of closing or earlier. Overall, we are well-positioned to enhance margins, accelerate free cash flow, and utilize our capital more efficiently. We are committed to reducing our net leverage ratio in the medium-term following closing.

The new company that we're building is truly competitive and differentiated compared to our peers. It's well-positioned to both generate sales with our valued retail partners as well as direct-to-customer last-mile delivery to residential, commercial, away-from-home, and small- format customers, leveraging our vast national branch network and company-owned fleet.

We are not dependent on the declining carbonated soft drink segment, as our focus is on healthy hydration solutions across multiple price points and packaging formats. We believe we are positioning ourselves to remain resilient during times of economic volatility and a persistent inflationary macroeconomic environment.

Across both companies, we have continued to deliver sustained volume and revenue growth across our combined portfolio, demonstrating strength and resilience of demand for our brands and breadth and depth of our offerings.

We will share more information in the coming months regarding Primo Brands, and I am excited to report our integration progress. I intend for us to move decisively with speed, agility, and a focus on results while maintaining high levels of customer service.

With that, I will turn the call back to Jon to take us through the Q&A.

Jon Kathol
Thanks, Robbert.

In order to address as many of your questions as possible, we would ask for a limit of one question and one follow-up. if you would like to ask additional questions, you are encouraged to rejoin the queue, and we will address as many questions as time allows. Operator, please open the line for questions.

<u>Q&A</u>

Operator
Thank you.

Ladies and gentlemen, we will now begin the question and answer session.

One moment, please, for your first question. We have Daniel Moore from CJS Securities. Please go ahead.

Daniel Moore, CJS Securities
Thank you, Robbert. Thank you, David. Thanks for the color and taking the questions.

Maybe, Robbert, just jumping off from where you just left off, can you talk a little bit about not only the merger highlights, but strategic initiatives you're planning for the first, say, 12 months of the new company? When you think about the $200 million, as you described, minimum cost synergies over the next three-plus years, I'm wondering if you can rank order them in terms of timing and which of those synergy buckets you plan to attack early on.

Robbert Rietbroek
Yeah. Well, thanks, Dan. Great question. So, I'm feeling very,very good about the merger.

Just to recap, we're going to create a leading branded beverages company. We'll have a very competitive portfolio of brands in a variety of formats. We'll play across different price points. I also want to say we're vertically integrated, and we have a really strong coast-to-coast manufacturing and distribution network across North America.

I think, as you look at strategic priorities, we're positioned to accelerate growth, deliver superior products and services for our customers and consumers. And we will aim to be a best-in-class US beverage company. We have a very iconic brand portfolio. We have recognized brands, billion-dollar brands like Poland Spring and Pure Life that we'll be driving growth behind.

We have high-growth premium brands like Saratoga and Mountain Valley, which have great distribution opportunities. We have other valuable brands in the spring, in the purified space with significant growth potential.

So, when it comes to strategic initiatives, our goal would be to drive sustainable, long-term shareholder value creation as we capture these transformative operational efficiencies and achieve those synergy goals that you refer to while still delivering strong financial results. I think the deal is compelling for customers, for the consumer, for the associates, for the investors.

It's really good for all the stakeholders, and as you know, the access to high-quality drinking water sources is increasingly important because of drought, aging infrastructure, municipal water emergencies. And with our brands that are, six of those are over a hundred years old, there'll be seven next year when Sparkletts turns 100, and we'll have four brands dating back all the way to the 1800s. And they're part of the American fabric.

So, the brand portfolio is incredible, and that's going to be a big part of the drivers of our growth.

Also, our production facilities are in excellent shape. The assets have been well- maintained. Systems are in good shape.

And if you look at the strategic initiatives for the first year, it really is quite simple. We want to ensure a strong leadership organization and a very strong frontline team with the winning culture, a safe and secure work environment for our associates. And we want to ensure the same or better level of customer service to the end customer. We'll work on routes, fleets, and production optimization.

These are the key components of the synergy and value capture. And as I said, we're going to leverage the portfolio of brands to drive revenue synergies and grow market share. And we'll let more once the deal is closed after tomorrow.

Now, with regards to the synergies, we've communicated $200 million in the first three years.

And obviously, everybody is asking whether we can get them faster. Well, since receiving the regulatory approval, we have been actively working together on non-commercial synergy opportunities. And upon close, we will begin the review of commercial revenue opportunities. And then we expect to communicate further about the progress.

But certainly, our goal would be to get more than that and to get them faster. But right now, we're committing to $200 million in the first three years. But we want to make sure we're prudent in understanding all the technical attributes involved. And we intend to set the company up for long-term success.

And we'll define long-term targets and articulate those in time.

Thanks, Dan.

Daniel Moore, CJS Securities
Really helpful. And then maybe one follow-up.

I believe BlueTriton reported sales growth of 4% and double-digit EBITDA growth. Obviously, solid momentum. Maybe just compare the momentum you're seeing there over the last three to six months to what Primo's been able to accomplish? Obviously very different, mix and geographic concentrations.

But any comment in terms of their standalone momentum as we go into the merger would be helpful. Thank you again.

Robbert Rietbroek
Sure, Dan. I'm happy to speak to that.

Well, as, we can't speak directly to the details of their business until the deal is closed. BlueTriton released results this morning. And they were very strong. And you can go to their website, www.bluetriton.com, to see those results.

Now, both companies had an excellent Q3. Both companies have strong momentum. And following closing, we'll release a combined website tomorrow night. And the pro forma of both companies' Q3 results will be part of filings released tomorrow and on the new website, which will be ir.primobrands.com.

Now, BlueTriton had a very strong quarter. From what I saw, revenue was up 4.2%, volume was up 1.7%, EBITDA was up 11%. Year-to-date, 28 actually. Really strong results.

Our quarter was very strong with balanced and broad-based growth, strength in all water channels, volume growth. As David said, we had 8.8 revenue growth, and it was driven by 5% volume, which is a really good performance in the context of the other beverage manufacturers. We got 3.8% in price. Organic growth was 7.4.

And we're really excited about the performance of Water Direct and Exchange, which was up 8%. Refill, which was up 7.1%. And then Mountain Valley doubled versus a year ago because of the distribution we're driving.

So yeah, I think the last thing I'll say about that, we both have very strong results.

Our must-win priorities have been working. We'll stay focused on key metrics, like service, retention, organic sales growth, ensuring our customer touchpoints are great, and improved net promoter scores. For Primo, we've seen our Google and Trust Pilot scores go up significantly over the last six months. So, we know we're doing something right.

Thanks, Dan.

Operator
Our next question comes from John Anderson from William Blair. Please go ahead.

John Anderson, William Blair
Hi, good morning, everybody. Congrats on a good quarter and the pending close of the transaction.

Robbert, you mentioned in the prepared comments that part of the benefit here of the combination will be an opportunity to look at expanding into new channels or high-potential geographies. And also build out a greater presence in functional or enhanced water areas where you may not have as big of a presence today.

Could you talk just a little bit more about, and add some color to how you're thinking about kind of the channel and geographic opportunity, both from a sales perspective, and then how you support that with the combination of the capabilities of the two companies? And then also just where you see the biggest white space from a functional or enhanced water perspective. Thank you.

Robbert Rietbroek
Thanks, John. Very good question So the business combination will have presence in over 150,000 retail outlets with bottled water.

Our exchange program, the big bottles that you can buy in front of the store, will be present in over 26,500 outlets, and our refill machines will be present in over 23,500. So that's an incredible starting point for growth.

Now, with regards to value capture, there are so many opportunities to drive distribution, and I'm a big believer that distribution is the gift that keeps on giving. So if you think about the spring brand portfolio of BlueTriton, and having the ability to bring those spring brands onto our trucks and distribute those alongside our purified brands like Sparkletts and Primo Water is a huge opportunity in serving over three million customers direct to customer.

The second one, obviously, we have strength in DIY with Primo. There's a great opportunity to drive caseback sales in that channel. We are strong with Mountain Valley Natural, and there's definitely brands that Triton has that can come there. Triton has strengths in mass where we have opportunities to distribute our Mountain Valley brand. The away from home channel is going to be increasingly important. Think about restaurants and schools and hospitals, and small format is a true opportunity for both businesses. So we're going to have to be very diligent and disciplined in determining the size and the price of those opportunities, and then go after them with great executional excellence, operational excellence to drive accelerated growth and win market share.

John Anderson, William Blair
That's very, super helpful.

Could you, just one follow-up, talk a little bit more about how you're organizing to project manage the integration activities? I guess that involves not just the identification of the synergies, which I think you've already done to some extent, but fleshing those out and ultimately the execution side of that. Just from an overall integration project management standpoint, how you're kind of organizing that internally, and then how you see that kind of playing out going forward. Thanks.

Robbert Rietbroek
Yes, I'll definitely speak to that, John.

So we're working with world-class consulting companies and advisors to ensure we follow best practice. And we've put together an integration management office, an IMO, that consists of two IMO leads on both companies. They've identified 12 work streams and over 65 value capture initiatives. We've been able to identify the new executive committee. We'll be announcing that executive committee on our website tomorrow.

And we have put together a Board of Directors, which will be announced as well on the website tomorrow. That integration management office has gone through three stages of planning. They identified in the first stage at the conceptual level where we would be able to capture synergies. We then worked out very specific plans and we're now at the pre-execution stage to be able to hit the ground running from day one.

We'll be executing synergies starting this quarter in the remainder of Q4. So really, organized through IMO, work streams, and multi-stage from conceptualization to execution with the help of the best consulting firms in the world.

John Anderson, William Blair
Thanks so much.

Operator
Our next question comes from Andrea Teixeira from JP Morgan. Please go ahead.

Andrea Teixeira, JP Morgan
Good morning, everyone. I'm sorry, good morning, everyone. It seems like afternoon for all of us.

Just as we think about the rebranding of the company to Primo Brands, you called out you want to be a leading branded beverage company, focused on hydration, functional organic, and inorganic. What sort of category adjacencies that the company could be looking or the right to win in extending brands and thinking of potentially to take leverage to make more acquisitions as we go?

And then just a clarification, obviously in the midst of this transaction, the guidance for the standalone company kind of takes a back seat. But just to think about how we should be thinking of the fourth quarter and as well as a last one that I want to ask in terms of like Mountain Valley drove about a third of the growth, what is the potential to the brand, especially in the context of a bigger distribution? And where do you see the business going long-term at the growth profile that you see for the brand? Sorry for all of this.

Robbert Rietbroek
No, very good.

So there's three parts to your question, Andrea. And thank you for your question. I'll start with the first part and then I'll hand it over to David. Our current brand portfolio will get initially, we'll have to go through some brand consolidation.

So we're about 25 brands in the combination. We need to really understand which brands will be the priorities. And then we'll transition and migrate some of those over the next couple of years. And then we'll be driving distribution into white space opportunities on our existing strong billion dollar and other brands.

So that is the key source of growth to drive a very strong core business before we do anything else. And we'll stay focused in year one on the integration success before we get distracted with other things and shiny objects. So we'll be focused on customer service. We'll be focused on integration, value capture, and then revenue synergies, which will primarily be distribution gains in white space channels.

Now, as we look beyond that, obviously there are branded beverage opportunities that we can either grow ourselves or acquire as part of our capital allocation strategy. We would consider, we'll always consider looking at acquisitions and inorganic growth opportunities.

Where we probably wouldn't play is the carbonated soft drink segment because that is in decline and very, very occupied. And it's a busy space, but there are other segments of the markets, whether that's hydration, whether it's isotonic, whether that's energy, that would definitely be interesting for us to look at.

And we also think that on our existing brands, we can innovate into additional spaces because we have the strongest brands in the water category. So that's where we are.

Now, let me pass it to David with regards to guidance. Let me say one more thing about Mountain Valley before I do that. The obvious one for Mountain Valley is to get into the mass channel. That is a very, very big growth opportunity. When we say mass, we refer to big box retailers like Walmart. So that would be a key priority going forward to gain distribution.

All right, David willl take it from here.

David Hass
Yes, maybe to build for a minute on the Mountain Valley part within the quarter, which was part of your question tied to some of the guidance and financial items. Heading into the quarter, we believed Mountain Valley was going to grow about 80%. So you can see that even with our pretty accurate ability to forecast the company and its success, Mountain Valley still outperformed even our lofty expectations.

And so we continue to not fully be aware of what the ceiling is there. And that's exciting for us. And we've taken the opportunity to obviously secure more water rights to improve and increase our capacity and our ability to produce to meet that demand. And we're very excited about what that will become in addition to when you pair that with Saratoga to provide our sales teams the opportunity to expand that both in retail, on-premise, and other sort of tablecloth opportunities.

With regard to the guidance, your note this morning actually hit on it perfectly. So the transaction supersedes any ability to really communicate our own financial merits for the balance of the year. As this deal closes on Friday and then opens on Monday with regard to a new ticker and company name. Within the revenue line, there's really no changes in the accounting architecture but after that you'll see nuances of again things like the empty bottles and things that Primo used to previously capitalize will move the cost of goods.

We remain incredibly confident in where we are in Q4 as well as where we would have been if we were talking today as a sovereign company updating guidance. So there should be no takeaway that we are not communicating that from any position of weakness.

Again with both BlueTriton's communicated results this morning and ours, we are incredibly pleased with the momentum and the pace of which both companies are producing results and notably on the volume line. So again I think we remain incredibly confident heading into year-end.

We will disclose and update and clarify activities with how Primo would have performed as a sovereign entity which bridges back to the accounting that we are on today even though that will change tomorrow and that should help everyone be reassured that when we communicate full year results in February we're doing so highlighting where Primo organically finished with its strength as well as BlueTriton.

Andrea Teixeira, JP Morgan
That's super helpful. David if I can squeeze one which appears to be one of the reasons why perhaps there is a regulation for some of the investors who were Canadian and cannot own a US-listed stock. It may explain why this stock opened down and even more down than it is now.

Is there anything you can share with the investors to understand like what are the puts and takes from a regulation and regulatory standpoint? It might be just an accommodation of that specific restriction for some investors who cannot own US-isted?

David Hass
Yeah so I won't be able to perfectly attribute everyone's own regulatory or investment policy but we did have a very small and when I say small far less than 5% even maybe two or three my last record of Canadian explicit shareholders. As we delist they might have their own reasoning or policy that precludes them from owning either an American domestic or other opportunities outside of their home country. We are unaware of why there was the volatility at the open. It's clearly not related to our results nor BlueTriton's nor any pending disruption because obviously we are on track to close this deal far ahead of schedule.

So that's the best I can communicate today as what I know. Obviously with our banking partners and equity desks we'll look into maybe what had happened but to our knowledge again we remain incredibly confident and proud of the quarter and the momentum we have ahead of us. But it's a great question and potentially part of the disruption this morning.

Andrea Teixeira, JP Morgan
Thank you, I'll pass it on. Congrats again.

Operator
Thank you. Our next question comes from Derek Lessard from TD Cowen. Please go ahead.

Derek Lessard, TD Cowen
Hey good morning, everybody, and I echo the congratulations on the quarter and the closing of the deal.

I'll stick to the legacy, Primo. Where are you in terms of your efficiency projects, and how much can we expect, I guess, for you to squeeze out, whether it's from automatic route optimization, your new delivery schedules, and the upgrades to your production lines?

David Hass
Yes, absolutely. Let's touch on that in a few different parts. We completed our fifth line this year, and then as we look at network, we will be leveraging best practices of manufacturing, network, and route to market between the two companies.

And so, what's nice about that opportunity is it's allowed us to maintain and improve efficiency ratios, reduce labor and water waste. So, everything that we communicated as a sovereign company for the goal we wanted to achieve on production efficiencies has occurred.

What is nice is that when we look between ourselves and BlueTriton, both companies could be more efficient today in how they manufacture a five-gallon. Clearly, BlueTriton is in a tremendous position of strength with regard to the efficiencies, manufacturing know-how, and superior sort of insights of the team that we're bringing together to help run the sort of North America manufacturer for whether it's small format or five-gallon.

So, that's with regard to the lines. On ARO, you'll notice this quarter we still drove revenue productivity per route, but we were down one unit. And that was a conscious choice. We were seeing as we headed into Q3 strength and volume of which this was our third quarter with significant volume momentum.

And if you look across the last four quarters, each of those have sort of been north of two and a half or 3% with both Q1 and Q3 of 5% volume achievements. We wanted to be conscious of our routes and our ability to serve both the exchange racks as well as our customers. Immediately after the quarter, we took steps to reduce route counts, which is typically the driver of ARO. Not only do we have the appropriate optimized routes on the road, but we also run them with less miles per route delivery.

And so, we took a conscious choice again inside the quarter to make sure we could sustain and fulfill the sort of peak summer demand and then take the appropriate steps heading into the back half of the year to sort of reduce those routes and rationalize that.

Lastly, with regards to the business optimization program, which would have been a sovereign Primo activity irrespective of the synergy capture, we remain on track to deliver a run rate balance of 20 million. Between a few items we took in the end of Q3 and activities that will take place in late Q4, that will have achieved basically about $6 million in calendar year which across its different optimization times on an annualized basis gets just to a full 20 million that we were committed to for 2025

And again that does not preclude us from achieving any of the previously communicated synergy targets. So we come into the deal closed with great momentum both of making ourselves more efficient which is you can see in our EBITDA margin for the quarter but as well allow us to find and fulfill the synergy capture as we look to see how we can exceed our original guidance on that

Derek Lessard, TD Cowen
Thanks for that David really good-good color.

Maybe just one last one for me and I just wanted to touch on again just as it pertains to Primo your organic growth sorry your customer ads any I guess initiatives that you would be able to highlight on the organic, the strong organic growth you're getting there? I'm just wondering have your customer gains from the Costco contract largely stabilized or is that still a meaningful driver?

David Hass
So let me quickly address that across the few of our channels. So in water direct yes Costco remains and will continue to be a great driver of in-club and other web activity gains in our water direct space.

More importantly we are seeing customer retention so as we've always talked about we can bring in as many as you want on the top, but they need to be the right value-oriented customers that want and seek this service. With our better service to them we're maintaining and retaining more of those customers as you can see in our customer retention rates

Quickly on exchange, there really is no ceiling to this business we are incredibly pleased with it we cannot wait to add the brands on the regional spring water side from BlueTriton as well as their over 8,000 locations to our current 18,000 count there. And then when you get to refill clearly we have a great product that's resonating with the value-oriented consumer in this high inflationary environment that still provides them access to great purified water at a great entry price.

So we really are coming into the deal with great momentum on all of our price points, all of our brands and then only can get better with regard to BlueTriton joining the family and their brands. So I feel very confident there and clearly Mountain Valley speaks for itself as with Saratoga and their business

So again I feel very confident that the organic side of our business is doing great and has the continued momentum.

A quick item on the inorganic. Andrea had mentioned and more in adjacencies, we continue to have the opportunity to acquire tuck ins in the water direct space. We will continue to prioritize our capital allocation toward that. And you'll hear more over time, but that's an exciting sort of ability to keep that pipeline working for us.

Derek Lessard, TD Cowen
Awesome for that, and good luck on the next chapter.

David Hass
Thank you, Derek.

Operator
There are no further questions at this time. I'd now like to turn the call over to Robbert Rietbroek for final closing comments.

Robbert Rietbroek

Well, thank you all for attending today's call and for your continued interest in our company. The closing of the transaction will mark an exciting new chapter as we bring together the strengths of both legacy companies to create Primo Brands.

I'm pleased with the tremendous progress that we've made in shaping the future of the company. Our teams have been intensely focused on ensuring we hit the ground running post- close. We've been working across both organizations to identify opportunities, build an optimized structure, and unlock synergies throughout the combined business. Thank you for your interest in joining us on the next step of our transformation.

Operator

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