Primo Water Corporation

2020 Investor and Analyst Day: Pure-Play Water Strategy and Modeling Presentation

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PRESENTATION

Jarrod Langhans — Vice President of Investor Relations and Corporate FP&A, Primo Water Corporation

Good afternoon, and welcome to Primo Water Corporation's investor presentation. I'm Jarrod Langhans, Primo's Head of Investor Relations, and I am joined here today by Tom Harrington, our CEO, and Jay Wells, our CFO.

Before we begin, could everyone please look at the Safe Harbor statement on Slide 3 and keep this in mind as we cover various materials during our presentation.

On Slide 4, we have outlined our agenda. Tom will provide you with an overview of our pure-play water strategy and an update on the current operating environment. Jay will then review the long-term growth algorithm of our new company and financial model, which excludes the impact of the coronavirus. Tom will then review our current strategic plans and close with a few words before we move to a Q&A session.

Unfortunately, as you know, we had to change our in-person investor day to a webcast only, and so we will not be taking live questions. You are welcome to submit your questions over the web, and we will answer as many as we can in the time allotted during our Q&A session.

I'll now turn the presentation over to Tom.

Tom Harrington — Chief Executive Officer, Primo Water Corporation

Good afternoon, everyone, and thank you for joining our webcast today. We hope that you and yours are all safe and healthy.

Before we start the presentation, I wanted to share that we remain confident in our strategies and our ability to weather the challenges presented by the coronavirus as well as any potential downturn in the economy. We believe the decision to transition to a pure-play water company is the correct strategic action, and we're more convinced today than ever.

We, of course, are keenly focused on the health and well-being of our associates, customers, and suppliers. We are doing the right things; for example, working from home when possible, social distancing, incremental sanitization and hygiene protocols, and adjusting shifts. We have crisis management teams across each of our business units in coordination with the team in Tampa. These teams are acting and reacting to the ever-changing situations, market by market, customer by customer, associate by associate. Unfortunately, we've had several more positive tests across the Company internally, and I wish those teammates a speedy recovery.

As a food product, we are designated as an essential product in most, if not all, of our markets and, therefore, continue to operate our business throughout the crisis. Every production centre, every distribution centre, every route, every day. We continue to do our part to supply a much-needed product in these challenging times. I remain inspired by and in awe of what the Primo team around the world has been able to accomplish and can't thank them enough for what they have and will continue to do.

Now let's turn to Slide 5, which provides a good overview of our investment thesis. We have created the new and improved, albeit sometimes misunderstood, Primo Water Corporation, a pure-play water company focused on healthy hydration solutions. We are positioned to benefit from sustained growth expected in the bottled water category. We have a 21-country footprint across North America, Europe, and Israel, where our brands are widely recognized and locally relevant.

We have a portfolio of hydration solutions for consumers including Water Direct, a water exchange program at retail, water refill machines, water dispensers, and water filtration solutions. We execute a 4R business model: recurring, razor, and razorblade revenue. We are positioned for top-line growth and higher EBITDA margins with predictability and consistency, and we have a demonstrated ability to grow our customer base, improve route density, and capture revenue and cost synergies.

We have a proven track record of accretive, tuck-in M&A transactions. We are an ESG leader, where sustainability and carbon neutrality are core beliefs and part of our DNA. And we have an experienced management team that are proven operators who have been operating these businesses for a significant number of years.

Slide 6 is a good representation of the products we offer to consumers and customers. Today, our total revenues are approximately $2.1 billion. If you aggregate where our revenues are generated, residential customers or at-home consumers generate almost 60 percent of this $2.1 billion in revenue.

We define the residential home consumer as sales either direct to a consumer's residence or sales to other channels where consumers purchase our product and then consume at home. The new Primo operates largely under 4Rs: recurring razor/razorblade revenue model.

First is our dispenser business, which we consider to be the razor in our recurring, razor/razorblade revenue model. We sell a full lineup of innovative and stylish dispensers through major retailers and online at various price points. These dispenser sales help increase household penetration, which then drive recurring purchases of our higher-margin water businesses.

Our razorblade offering is comprised of Water Direct, water exchange, and water refill businesses.

Our Water Direct business is the market-leading, direct-to-consumer and direct-to-customer delivery business, focused on large-format returnable bottles in North America and 19 other countries.

Our market-leading water exchange program is where consumers can exchange their empty bottle for a prefilled three- or five-gallon bottle of purified water at approximately 14,000 locations across the US and Canada in leading retailers such as the Home Depot, Lowe's Home Improvement, Kroger, Safeway, and the recently added Albertsons locations.

Our market-leading water refill business incorporates a multistep filtration process for consumers to refill their own empty bottle in multi-gallon formats for approximately $0.35 per gallon. Our machines are placed at over 23,000 stores both inside and outside throughout the US and Canada across a variety of retail locations.

We're also a top-five player in water filtration across our footprint and compete in a very fragmented market, and there is no single significant market leader. And we have the top American premium brand of spring water, Mountain Valley, which sells to retailers and residential Water Direct customers.

Slide 7 details sales by channel and geography. Today, our total sales are approximately $2.1 billion. If you aggregate where our revenues are generated, residential customers or at-home consumers generate almost 60 percent of this $2.1 billion in revenue and 75 percent of our revenues are generated in North America.

Our Direct business generates approximately $1.4 billion in revenue and is a direct-to-consumer, products delivered to your door, and direct-to-customer, products delivered to a place of business. Delivery business primarily focused on large-format returnable bottles with our North American direct business contributing $1.1 billion in revenue.

Commercial customers represent approximately 40 percent of total revenues. Within this customer base, we do not have a high concentration of large commercial offices, and our performance is not dependent on these customers.

Over the last few years, we've talked about our investment in sales headcount to increase our new customer acquisitions of small commercial customers. The small commercial customer base has longer average lives than other customers.

Large corporate customers are not a key element of our strategy. Our commercial business is more a collection of small businesses such as doctors' and dentist offices. We do not have any foodservice customers, such as bars and restaurants, in our water business. And less than 8 percent of revenues in North America are generated from key accounts. Of course, both our Costco booth program as well as our online efforts, are focused on generating new residential customers.

In addition to Water Direct in North America, we do have a retail water business where we sell 1-gallon and 2.5-gallon products to retail customers whose customer is the at-home consumer. This business is roughly $150 million in revenue.

Our newest business in North America, the legacy Primo business, generates roughly $300 million in revenue and consists of three segments: water exchange, where consumers exchange an empty bottle for a prefilled bottle sold at retail locations; water refill, sold inside and outside retail stores; and water dispensers, sold through retailers. These revenues are predominantly generated from at-home consumers in North America.

Our Mountain Valley American premium water brand generates roughly $70 million in revenue from retailers and residential Water Direct customers.

Our water filtration business, commercial and contracted, represents $65 million in revenue, of which approximately half is in North America.

Moving across the ocean. In Israel, our business is largely a residential business, which represents roughly 70 percent of the customer base and has a large retail case-pack water business. This business will continue to operate during a crisis as an essential food producer and is roughly $100 million in revenue. Eighty-four percent of this business is either direct to residential customers or to the at-home consumer through retail.

Our European Water Direct business is roughly $300 million in revenue and largely commercial. Of course, there are differences as you move from Western Europe to Eastern Europe; the further east you go, the lower the percentage of commercial customers.

We own a food co-packing manufacturing business that sells products such as hot chocolate, instant coffee, coffee creamer, and cereal to retailers across the United Kingdom and is approximately $120 million in revenue.

As consumers spend more time at home and, perhaps, cocooned more in the future than today, I believe we are well positioned to satisfy the demand, as we already generate almost 60 percent of our revenue from the at-home consumer.

Now that we've given you an overview of the products we offer and the sales by channel and geography, let me provide more detail on the residential and at-home water consumer.

Through research compiled by both the legacy Primo and DS teams, we now know much more about our consumers, why they buy our products and what drives the long-term relationship we form with them. We classify these consumers across a spectrum of traits that allow us to understand more about their needs and how to retain them. The residential bulk water consumer typically has concerns about tap water and then begins a journey to learn about alternatives to satisfy their household needs.

The products we offer fit centre cut within their needs as they believe our bulk water provides the quality and trust they seek from tap water alternatives. Once they commit, we typically become the primary source of water consumption for their household.

Because our combined new product offering spans a wide variety of price points, we're attractive to a broad demographic of consumers from the value-conscious to those who seek the convenience of a home-delivered product. This full suite of product offering provides better stability during both strong and challenging economic cycles.

Shifting gears on Slide 10, let me recap revenue performance for year-to-date February. We've delivered top-line revenue growth consistent with our previous guidance, which you will recall was between 4 and 5 percent. We have begun to consistently deliver top-line growth through a mix of organic growth and small tuck-in acquisitions.

We exceeded our EBITDA margin expansion objectives in 2019, and this trend, or better said, momentum carried into January and February. Our strategies pre-coronavirus is in place and are working. We have more customers, paying higher prices, consuming more water; the trifecta, as we say internally.

The legacy Primo water business, which was acquired at the beginning of March, had excellent performance in January and February, and the refill business, which had been a headwind, has performed quite well in 2020.

Turning to Page 11. Our teams are working hard to satisfy the significant increase in demand in both North America and Israel thus far in the month of March. We're flat-out in terms of producing and delivering water. We are enjoying meaningful customer growth compared to prior year and are working to solve for the large number of new residential and commercial customers that have signed up for Water Direct.

Let me share a few volume numbers for the month to date through Tuesday, March 17 in North America. Our three and five-gallon volume was up 12 percent; case pack water, up 45 percent; five-gallon water exchange, plus-50 percent; water refill, plus-30 percent; one-gallon bottled water, up 19 percent; 2.5-gallon bottled water, up 51 percent; and Mountain Valley, plus-30 percent.

While our European Water Direct business is up marginally in March compared to prior year, our water filtration business is delivering high-teen revenue growth. And our Israeli business is operating similar to the North American business with growth of over 60 percent in our retail case-pack water, and growth of the overall Israeli business is close to 30 percent for the month.

We are beginning to experience revenue declines in our coffee businesses as many customers have curtailed purchases of coffee products and services. But this is a relatively small part of our business, particularly in light of the recent divestiture of S&D Coffee.

We're also experiencing pressure in many of our European markets based on the lockdowns and are taking actions to adjust our operating model to compensate for these headwinds and are executing our contingency plans as we speak.

Our business in Q1 has performed better than expected, driven by the North American and Israeli business and the impact of the significant demand for our water products, offset by developing headwinds in Europe. As we will share in a few moments, we are implementing contingency plans to adjust our operating model to address the pressures we are experiencing in Europe.

We expect to finish the first half of the year with an adjusted EBITDA decline of approximately 8 million to $10 million versus prior year on a pro forma basis, or roughly deliver 135 million to $140 million of adjusted EBITDA. This estimate excludes S&D Coffee and January and February of the acquired Primo business. We will update you further on our Q1 earnings call on May 7th.

Jay will walk through our current liquidity and compliance with covenants that indicate we are in a solid financial position to weather the impact of the coronavirus and a potential downturn in the economy.

Moving to Slide 12. We participate in a critical infrastructure industry in the US and several other countries across our footprint. As I mentioned in my opening comments, we will continue to operate and do our part.

On the next slides, we share some of the details on our go-to-market actions in the current environment that includes growth opportunities as well as cost and cash management plans. We see a clear opportunity to build on our direct-to-consumer delivery model for the residential and at-home consumer.

For the residential consumer, we plan to satisfy their needs through our Water Direct route business, and for the at-home consumer, through our water refill and water exchange businesses. This is the 4Rs at work, recurring, razor, and razorblade revenue.

We believe we can bolster our existing residential base in North America by executing a series of tactics consistently. We also believe that growing online solutions and home-delivery solutions are likely to accelerate during the crisis and likely after the crisis is over. We will accelerate our efforts to market to residential consumers in Europe to reduce our reliance on commercial customers and to expand water filtration, water refill, and water exchange programs sooner rather than later.

Now let’s talk about our highly variable cost structure on the next page. I think it’s important to note that many of our senior leaders, including myself, were operating this business during the last downturn. We successfully executed a blueprint like what you see on this slide. Our operating costs are largely variable and will be adjusted based on local market conditions.

In looking at our cost structure, a majority of the costs fall within route delivery, sales, marketing, and a back shop. Said another way, is primarily labour, which will be flexed up or down depending upon market conditions.

Let's start with our production cost.

In Europe, we source approximately two-thirds of our finished goods water products from third-party copackers. As a result, our production costs in Europe are largely variable. As revenues change up or down, our cost of goods sold go up and down in line with those changes.

In North America, we generally own our plants and work hard to offset the higher fixed cost with headcount reductions, overtime reduction, shift adjustments, and disciplined daily management.

Moving to route operations. If we lose customers and/or revenue, we will eliminate routes as needed to reduce the infrastructure and work to preserve our margins, albeit on a lower revenue base. The route sales representative would be eliminated, and the management infrastructure that supports the route sales infrastructure would be reset to match the new route counts. As we own a high percentage of our route trucks, we would idle the trucks, thereby reducing investment in new trucks until a future date. This would then impact other departments such as fleet and warehouse. You would see the same execution in other departments such as sales.

How do I know this works? Because I and other members of the senior leadership team did this in 2008 and 2009. During the 2008/2009 recession in the US, we lost approximately 10 percent in revenues and lost only 10 percent of adjusted EBITDA over the three-year time period and performed even better in Europe during their recession. In Europe, the team eliminated sales and marketing cost, and, after the initial impacts of the recession and having flexed the cost structure as described, they began to aggressively execute on small, tuck-in opportunities. At the appropriate time, based on performance and liquidity, we would look to also increase our small, tuck-in activity.

From a CapEx perspective, we've already deferred any nonessential investments until we have a better understanding of the current situation. Of course, we'll continue to invest in items like dispensers and bottles to maintain the revenue stream.

On working capital, if we have reduced sales, working capital will come down to reflect those changes, and we're implementing plans to further reduce working capital needs over the short term.

I'm hopeful that I have provided a clear view of who we are, a water company, as well as give you the confidence that we are focused on executing plans that successfully shapes the Company as we move through these turbulent times.

At this point, I'd like to turn the meeting over to Jay, who will walk through our financial model. Jay?

Jay Wells — Chief Financial Officer, Primo Water Corporation

Thanks, Tom, and good afternoon, everyone. Starting with Slide 16, as a pure-play water company, we are the North American market leader in water direct-to-consumers, water refill, water exchange, water dispensers, and a leading player in the water filtration category. In addition, we are the market leader in water direct-to-consumers in Europe as well as a large player in the European water filtration category.

Our new company is a water-focused company, positioned to excel in the higher-growth and higher-margin water categories, where we offer a full range of hydration solutions to consumers when and how they want it.

This combined company will grow through continued product and service innovations, marketing partnerships, and highly synergistic tuck-in acquisitions, as well as the opportunity to reach more consumers through more channels than either Cott or Primo could have reached on their own. We also expect to expand Primo's products and services across our European footprint and will deliver $35 million of cost synergies, which we plan on capturing over a three-year period.

And looking at other financial impacts, we expect the transition to drive reduced leverage, targeting approximately 3 times post-synergy EBITDA compared to today at 3.5 times.

On Slide 17, we have provided a summary of 2019 financial results for the new Primo business going forward. We see these results as a base case and expect synergies to greatly improve these results in addition to ongoing growth and margin expansion. One item of note is that the CapEx in 2019 was higher than our expected run rate of capital requirements as the legacy Primo business was investing in a number of assets, such as credit card readers, that won't impact the capital expenditures on a go-forward basis. Even without any synergies, you can see the improved return profile of our new pure-play water business is very compelling.

Turning to Slide 18. Our water business has many growth drivers that will assist in growing the Company for many years to come, including industry trends and the shift away from sugary, sweetened beverages toward healthy hydration solutions continue to grow average consumption. There is opportunity for better penetration with existing customers through upselling and cross-selling with our improved portfolio of products, solutions, and technologies.

Synergies, route density improvements, and enhancements will help drive better margins across the business. (unintelligible), marketing, and promotional campaigns are expected to result in the ability to sell more water dispensers or, said a different way, razors, to grow our water business, our razorblades, the 4Rs Tom mentioned. We are diversified across a variety of channels and price points. Our technicians have better tools and visibility into optimizing our assets and reducing down time at key locations, and we are implementing best-in-class customer service initiatives to drive retention.

On Slide 19, we have provided some key trends that a recent beverage marketing company report provided as it relates to our industry. Our business encompasses all of these items. As a provider of safe, healthy hydration, we are meeting the health and wellness goals of the consumer. Our products come in many shapes and sizes, and we also offer premium products such as our Mountain Valley brand, spring water in a five-gallon bottle, and state-of-the-art technology around our filtration offerings. And we are very focused on sustainability and waste and improving the environment around us.

Slide 20 provides the category growth forecast through 2023, pre-coronavirus, with a bottled water category revenue growth CAGR of 6 percent and HOD water revenue growth of approximately 2.6 percent. Post-coronavirus, we anticipate growth in the category, the direct-to-consumer options we provide, and we are working hard to ensure a seamless online experience, and have ramped up our fulfillment capabilities to ensure continued no-contact deliveries.

Moving to cost synergies. We have developed a plan, which will capture $7.5 million in 2020, $17.5 million in 2021, and $10 million in 2022; for a total of $35 million. With that said, we would expect to have completed our efforts by the end of 2021, but due to timing of when we will complete our projects, we will see the final $10 million come through in 2022.

Most of our synergy capture will come from G&A, and around the back office, such as finance, and credit and collections as well as such areas as the call centre and public company costs. Many of these efforts have already been put in place and we are progressing well. We also expect to capture cost synergies through the consolidation of our water filtration business and the legacy Primo water refill business as well as through procurement, where our businesses have similar purchasing requirements, such as coolers, with expected purchases in excess of 1 million units in 2020 and the acquisition of five-gallon bottles and other packaging materials. We remain confident in realizing the cost synergies that we have outlined, given the overlapping nature of our businesses.

As you can see on Slide 22, we have created a very robust approach to capturing these synergies. Prior to closing on the legacy Primo acquisition, we created teams and assigned responsibilities and targets so that we could begin to capture synergies once the transaction closed. I was personally on-site the day after we closed, and we've already eliminated a significant amount of G&A costs and are well on the way to eliminating $15 million of costs by the end of 2020.

On Slide 23, we have outlined the long-term growth algorithm and financial metrics of our new business. This is a picture of normal expectations without the disruption caused by the coronavirus. Over the long term, we would expect our business to grow its top line by around 5 percent. As we look forward, we would expect to group our revenue into five key buckets with Water Direct and Water Exchange being the largest. In addition, we will provide Water Refill and Water Filtration as a group, and Water Dispensers as its own group.

We will then look to classify other water retail separately with a final grouping being our noncore assets. Excluding synergies, our pure-play Water business is expected to drive 20 to 30 basis points of EBITDA margin expansion per year under normal circumstances, and we would expect our business to grow EBITDA organically 12 million to $15 million annually, with our tuck-in program being expected to contribute an additional 5 million to $10 million annually.

From a cash perspective, we would expect our free cash flows to grow as a result of increased EBITDA and EBITDA margin expansion.

On this slide, we have also provided our long-term expectations around cash interest, CapEx, and cash taxes. As you can see, by this summary of our go-forward, long-term growth algorithms, our company possesses better top line and organic growth potential, higher EBITDA margins and enhanced free cash flow generative capability, and sets us up well for long-term value creation for all stakeholders.

Turning to Slide 24. We are well positioned from a debt and liquidity point of view as our senior notes first maturity date is July 1, 2024, with operating cash on hand of 60 million to $100 million and a new cash flow revolver with over $200 million of availability.

After the sale of S&D and the acquisition of Primo, the borrowing base for our ABL was greatly reduced. So we wanted to ensure that we had sufficient liquidity, and, therefore, we chose to replace our ABL with a $350 million cash flow revolver.

We are also in good shape and have significant room as it relates to our debt covenant. The main covenant that we are required to maintain is an interest coverage ratio of greater than three to one, EBITDA to interest, and this ratio is currently around 4.5 to 1. We expect interest costs of 75 million to $77 million. That would mean that we would need to maintain adjusted EBITDA of 225 million to $230 million, a significant cushion based on our current EBITDA expectations. We also have a consolidated secure leverage ratio covenant, another nonfinancial and occurrence-based test that we are all in compliance with.

I will now turn the presentation back to Tom.

Tom Harrington

Thank you, Jay. Throughout the remainder of the presentation, we will focus on six core areas of our business.

Water Your Way, water solutions for our diverse customer base whenever, wherever, and however they want it.

Our Customer for Life promise. We continue to improve the customer experience and deliver on our promise, which translates into improved retention, an important catalyst to the growth algorithm.

We are leveraging innovation and scale to enhance and expand our margins. More customers, higher pricing, and increasing consumption, plus the addition of small tuck-ins creates operational leverage.

ESG leadership. Our business initiatives are grounded in being a fundamentally environmentally friendly solution with returnable, refillable, and reusable bottles at the core.

Fostering highly engaged associates and making Primo a great place to work by enhancing the associate experience.

And lastly, our strategy of pure-play, market-leading water company with an unmatched portfolio of water solutions, customer reach, technologies, products, and services.

Moving to Slide 27 and Water Your Way. We discussed the topics on this page during my opening. The 4Rs, recurring, razor/razorblade revenue model. Our growth is about increasing the points of distribution and the customer base by meeting the growing demand for water.

On Slide 28, we outline our offerings versus our primary competitors. As you can see, we’re the leading player across most of our offerings, indicated by the larger check. In addition, you can see there is an opportunity in Europe with no meaningful development of water refill, water exchange, or water dispenser sales programs. We now plan to accelerate extension of these programs to Europe.

Moving to Slide 29. Our portfolio of razors or dispenser dispensing products is unmatched. We are the leading dispenser sales company in North America. Our R&D team is continuously innovating to expand household penetration. More razors will generate more sales of razorblades.

On Slide 30, we're the market leader in the Water Direct segment across our footprint, where we have 90 percent coverage of the US population with a number one position in this segment, the number one player across our European footprint, as well as the number one player in bottled water in Israel. We service approximately 2.3 million customers, have no large customer concentration, have strong regional brands and a growing customer base, which drives margin expansion through operational leverage.

Moving to Slide 31. We are the North American leader in water exchange where we sell prefilled bottles in thousands of locations to retail customers across North America. This is the business where DS Services and Primo had the strategic alliance.

The most economical solution for consumers is our water refill business, where consumers can fill their own bottle, ideally purchased from us, for around $0.35 per gallon. While consumers must do the work in terms of filling the bottle, because of the pricing architecture, this business is recession resistant as its performance improved from 2008 to 2010.

Moving to Slide 33. As a top-five performer in water filtration, we're not only innovating in the areas of dispensers but also within our filtration portfolio, where we have created our PureFlo filtration division, which incorporates cutting edge filtration technology into its product offerings.

Slide 34 provides some examples of what our consumers can learn by scanning the QR code. The one in the presentation is active, the machine is in use in our Tampa office, including late detection and water temperature. In addition, it provides real-time monitoring, which provides critical information for us to continuously improve solutions, service, and customer satisfaction.

We also benefit by the high-growth category of premium water with America's premium spring and sparkling water, Mountain Valley. This business delivered pro forma growth of 20 percent in 2019. We look to continue the significant growth by utilizing this product across our platform and by growing the channels and locations that carry the product.

Slide 36 outlines the strategies for our refill, exchange, and dispenser businesses. We are focused on our Customer for Life promise and ensuring we retain our existing customers through sales and service excellence. With the combination of the legacy Primo business and our DS Services business, we see a significant opportunity to drive location growth through the combined efforts of a well-trained team of sales professionals utilizing all products available in our portfolio.

These initiatives should lead to improved density and leverage across our footprint and will drive additional organic growth opportunities that the legacy Primo and DS businesses were not able to capture prior to the combination.

Slide 37 breaks down the Water Direct customer acquisition sources across our business. In North America, we have enjoyed continued success from our route sales representatives or drivers in addition to our Costco booth program, where we market our product to customers on-site at Costco locations across the US.

In recent years, we have added sales associates to focus on driving small commercial customers as well as continued growth in our online activities where, amongst other resources, we benefit from our ownership of water.com.

In Europe, we focused our efforts more on telesales agents, key account managers, and improving performance through the internet, where we have benefitted from investment in our web infrastructure. We have also extended the Costco booth program to our UK operations, which has delivered good results. As I noted earlier, by shifting our European focus to more internet and telesales, we will begin to capitalize on a residential opportunity in Europe.

Slides 38 and 39 show a couple of new revenue growth initiatives that we have in our customer acquisition pipeline. Currently, we include a coupon in our water dispenser retail packaging that offers the consumer the ability to acquire a water bottle through water exchange or water refill. This helps attach the customer to these solutions. And we believe that around 20 percent of the customers purchase a water bottle through water exchange or water refill.

A number of these customers also utilize Water Direct. And although we likely get our fair share as a leading Water Direct business in North America, we would like to capture even more of these opportunities. We're going to do just that by including a coupon offer to join our Water Direct family within the dispenser packaging. We believe that this is a revenue synergy opportunity as a result of combining the legacy Primo business with our DS Services business.

On Slide 39, we're also working with Amazon on our Water Direct solution. As many of you know, we're currently test marketing in Georgia and Florida, and we plan on rolling this program out to other states later this year.

Moving to Slide 40. Consumers are demanding optionality and real-time access to the services they use, and we're enhancing the consumer experience through ease-of-ordering improvements, as one example as a part of our Customer for Life promise. These activities are driving improved retention rates and customer loyalty.

As depicted on Slide 41, consumer expectations are increasing, and they're demanding greater transparency in communication with their service providers. Consumers want to experience the same great service and experience whenever they want it.

Slide 42 depicts the customer journey. As part of our Customer for Life promise, we've mapped out this journey and are dedicated to improving each and every customer touchpoint while developing the capability to do so from a technical, service, and sales perspective.

Moving to Slide 43, we've shared the template we use in improving upon a continuously evolving customer experience and, in turn, the expectations of that consumer. This constant feedback loop helps us identify weaknesses in the experience and develop best-in-class practices.

One example of improvements that we've made is the My Water app found on Slide 44. This program allows customers to stock inventory, order new products, review order histories, pay bills, and immediately contact Customer Care. We are continuously refining and improving this app.

In addition to the mobile app, on Slide 45 we show improvements we've made on our website and online login portal. We've greatly improved the ease of ordering, reduced the number of clicks, and improved aesthetics to provide the customer what they want, when they want it, faster, and seamlessly.

We've also started to track our net promoter score or NPS. NPS measures how likely you would be to recommend our service to a friend or colleague. As you can see on Slide 46 with our North American example, with all of our service and customer experience efforts, this score has gradually been improving. In addition, we tested our full customer experience model in nine piloted locations and saw our NPS improve by 20 points, or over a 50 percent improvement. It's working.

Slide 47 provides an additional measure beyond the NPS that shows that the efforts we are making on our Customer for Life promise are yielding material and significant results as our customer retention and, in turn, customer life, is improving. We believe that there is still significant runway for improvement in this area, and with 1.3 North American Water Direct customers at an average invoice price of $40 per month, being able to keep our customer for just one extra month is accretive to our margins and bottom line.

Moving to Slide 48. As the market leader in our water channels, we take great pride in utilizing our scale and core competencies to produce innovative solutions to drive customer growth and, in turn, enhance margin across our businesses. Through the combined efforts of our marketing team monitoring changing consumer demand, our partnerships with large, innovative manufacturing operations, in-house R&D, and the acquisition of relevant intellectual properties, we're able to combine the best resources and technological solutions to drive innovation and, in turn, grow our customer base and top line as well as leverage our cost structure.

Slide 49 provides a window into some of the initiatives we're working on including innovative filtration and loading technologies, which make use easier and ensure quality. We are acutely focused on sustainability and reusability. Our three-gallon and five-gallon bottles are reused, refilled, and recycled. We offer glass within our premium Mountain Valley offering, and we're launching premium spring and sparkling water in a can.

In addition, we're testing a boxed water product that is designed to be a product that consumers can utilize as part of disaster relief or for businesses that are not able to receive recurring deliveries or access water easily, such as oil tankers and the military. This is part of our Customer for Life promise and drive to provide customers with the service and product they desire.

On Slide 50, we are utilizing several technological solutions to improve our business. Our ClickSoftware is designed to assist our filtration team in optimal route management of our filtration operations. Our i-Deliver technology provides handheld technology which incorporates easy-to-use customer data, real-time monitoring, and continuous updating to our information systems. Omnitracs is being utilized across most of our footprint to drive efficient routing, territory planning for our distribution centres based on customer-based shifts, thereby reducing mileage, improving density, and driving margin improvement. And the new credit card readers and telemetry within our water refill business is driving reduced downtime, technician route efficiencies, and improved customer experience.

Moving to our ESG initiatives. We've been integrating ESG into our daily operations and risk management approaches for many years. Our European operation has been carbon-neutral for eight years running, and we've implemented sustainable water practices across our footprint through highly respected organizations, such as the International Bottled Water Association. Sustainability is truly at the heart of our operations.

In addition to working with a variety of organizations on our sustainability practices, we joined the Alliance for Water Stewardship, or AWS, in 2019, and we'll start the certification process on our Pennsylvania spring. We believe it is important to focus first on our springs and drive sustainability within these bodies of water in order to ensure that we are effectively and efficiently utilizing these resources for many years to come.

We pride ourselves on having what we believe is one of the most sustainable packages within the beverage industry. One single jug is sanitized and reused up to 50 times before being recycled, preventing the need to dispose of around 1,500 plastic 500-ml water bottles. When a bottle reaches the end of its useful life, it is recycled back into the process to create another bottle or it is used to create other products.

Turning to Slide 55. Natural Capital Partners has helped us achieve carbon neutrality in Europe, where we've been carbon-neutral for the last eight years. And with their help, we'll be carbon-neutral in North America in 2021. Our associates are at the centre of everything we do. We have been and will continuously strive to provide an unmatched place to work for our associates, through competitive pay and training, as well as opportunities for growth. We will strive to balance our associates' experience between quality of life, pay, incentives, rewards, training, and recognition.

At Primo, we focus on the acronym, REAL, which stands for respect, excel, act, and lead. It is these values that we ask our associates to live by, and we believe this focus and mindset will assist in the development of not only a satisfied customer base but also a strong and dedicated workforce.

In closing, Primo Water is in a strong position to capitalize on expected growth in the water category. We have a 21-country footprint across North America, Europe, and Israel, where our brand portfolio is widely recognized and regionally strong. We offer a full portfolio of options to satisfy consumers' needs. We care about our customers and are driven to improve the customer experience through our Customer for Life promise.

We execute the consistent and predictable 4Rs, recurring, razor, and razorblade revenue model. We can expand our business by introducing water refill, water exchange, and water dispenser sales to markets outside of North America. We possess better top-line and organic growth potential, higher EBITDA margins, and an enhanced free cash flow generative capability.

We are committed to long-term value creation for all stakeholders. We have a proven track record of accretive tuck-in M&A transactions. We've demonstrated our ability to grow our customer base, enhance our route and coverage density, and capture revenue and cost synergies.

We are an ESG leader. Sustainability and carbon neutrality have been core beliefs of ours. We have the liquidity to weather this storm, and we have an experienced management team of proven operators.

Safe, healthy hydration is something that everyone wants and needs.

I want to thank you for listening and your ongoing support of our efforts. We remain confident in our ability to accomplish our long-term objectives.

With that, I am going to pass things back to Jarrod to provide us with our first question.

Q&A

Jarrod Langhans

Thank you, everyone. Give me just a few minutes here. We appreciate all of the questions you've submitted. I've gotten dozens and dozens of questions. So I've done my best to group them all together so that we can cover as many as possible over the next 30 minutes.

Again, we apologize for having the Investor Day over the phone, but we do appreciate all the participation that we've seen from you all thus far.

With that said, I've gotten a number of questions on the EBITDA guidance for the first half of the year. Many of the questions say that the EBITDA guidance overall sounds better than the market's expecting. Can we please assist on bridging that? Is this pro forma? What exactly is involved with that guidance? And the fact that we're having a strong first quarter, so what does that indicate for the second quarter?

So I'm going to hand over to Tom and Jay to give a little bit more clarity on that.

Tom Harrington

Thanks, Jarrod. So you have a few questions in one. So it's just like a regular Q&A. So I appreciate that.

Our first half guidance is 8 million to $10 million on EBITDA on a pro forma basis. Jay will walk through the details in a few minutes. And it's really a tale of two stories. First and foremost is we're assuming the current environment and the pressures that we are experiencing, particularly in Europe with shutdowns of countries, is embedded in our second quarter. And it possibly could be worse. So let's chat first about lockdowns.

So we have lockdowns in Italy, France, Spain, and the United Kingdom. We are not in Italy, so we're not impacted by that. But yesterday, as many of you are aware, the UK shut down. And for us, it's a different process in every country. So what we attempt to do and what we will do is adjust the cost base against the revenue. And the revenue comes down faster than we can take the cost out in Europe because it's a country-by-country decision and process.

So as an example, we are completing the paperwork to make changes to the infrastructure in Spain, France, and Switzerland. We expect to submit that in the coming days so that we can get at the cost-down structures in countries that are locked down, assuming that they stay locked down for an extended period of time, which is embedded in our Q2 forecast.

The first quarter has been rock solid. And you'll see, particularly in North America, I can give you an update. We posted some numbers, but our business has actually strengthened since the 17th of March. So our total Water Direct business, and this is a US number, is up 25 percent. Our Retail Water business, which we articulated in the presentation, is also up 25 percent offset by the impact of lockdowns, which frankly are accelerating.

So I wanted to give you a flavour for the context of how we're thinking about Q2. The teams are working to, again, balance that. But we thought it appropriate to assume that this continues because we don't have a crystal ball about when the crisis is resolved at this point in time.

Jay?

Jay Wells

Just to provide a little bridge, since we really haven't provided consolidated numbers, if you look at the first half consolidated top business numbers from last year, we had 146.9 million of EBITDA. Within that number, S&D coffee and tea represented 18.5 million. So the balance, if you would take that out, is 128.4 million. So that's our starting point for adjusted EBITDA.

And looking at Primo in the prior year, they generated approximately 17 million of EBITDA from March through June. That's the period we have owned them, and that's what will be included in our results in the first half. As a result, the pro forma adjusted EBITDA balance that we're comparing against would be $145.4 million.

And as we noted, we see exposure of around 8 million to 10 million in the first half. Therefore, we'd expect the first half EBITDA to be approximately 135 million to 140 million. So I hope that bridge helps.

Yes. And please note we have been working on capturing synergies related to the Primo acquisition. But all of our forecasts currently still have that benefit falling in the second half of the year. So no synergy benefits are included in the numbers we provided.

Jarrod Langhans

Thank you, guys. Next question up, you know, we did talk a little bit on the call about the business in a recession. But can we kind of walk through that strategy again? Tom, you did mention, with the lockdowns, our focus on taking out cost in terms of some of our European businesses. But kind of walk through a quick view on the strategy again.

Tom Harrington

Yeah. So if we go back to our history books, in the DS business in ‘08 and ‘09, we experienced about a 10 percent revenue decline and about a 10 percent EBITDA decline, peak to trough, over a three-year period. That’s what happened here when, frankly, I was running the DS business.

In Europe, basically, the revenues were flat and the EBITDA was flat as well, same time period, a couple years later when the European recession occurred. What was different in Europe is that the European team made the decision of slashing sales and marketing cost and invest those resources in small tuck-in activity in Europe to bolster their business as there was lots of pressure on smaller operators across the continent in that point in time. So that’s the history lesson of how we think about the recession.

And in terms of our revenue performance now, our first half forecast has a revenue decline of 1 to 2 percent and a little bit higher on EBITDA. And that’s really around the lockdowns and our ability to catch up, to going through the appropriate process, and the process is different in every country. So there’s no EU solution for multi-country solution. And that hopefully gives you a flavour how we think about the recession.

Jay, anything you want to add?

Jay Wells

No. I think the key thing here is, and I’ve said it before, I mean start at the last recession, you immediately took out 800 routes in the US business. And that was a key for cost-cutting. And as you said, over in Europe, even though we have to take some time to have the people actions put in place, over two-thirds of our product is co-packed. And that just moves automatically down as our volumes move down.

Tom Harrington

Yeah. And I just want to reiterate this assumes that the worst possible outcome, frankly, in Q2. So we're hopeful it's better than that, but we want to be completely transparent and articulate what we think. And while we're working on the paperwork, we're making decisions in real time about actions that we've had frankly already taken. But this is primarily a labour business, so we have to work through the appropriate rules and regulations to do this. And I just said, I know many of you have read what the UK has done. So we have to understand what's the impact of the furlough and what's the best solution for our team in the United Kingdom at this point in time.

Jarrod Langhans

All right. Kind of mentioned tuck-ins there, so maybe this is a good spot to roll that in. From a tuck-in perspective, what is our current mindset? Are we still looking to do 40 million to $60 million of tuck-ins? Are we in an environment that tuck-ins are easier? Harder? What about big acquisitions?

And since we're talking about spending, doing the money for purchasing companies, what would we look at from a cash flow perspective?

Tom Harrington

Okay. A couple of questions here. I'll leave the liquidity portion of this and free cash flow to Jay. We had already decided in North America that we would likely take the summer off on tuck-ins. And I think I've shared that. Really because we're focused on the Primo synergy capture and the $35 million that we've committed to, and you remember that that's a full-year capture this year of 15 million. That translates into 7.5 million in the back half of the year, in half two, so that we would slow down there unless there was just some incredibly compelling tuck-in.

Clearly, while we have a good pipeline of activity, with the virus, particularly in Europe, we're not going to be able to do any diligence on tuck-ins at this point in time. So from a business perspective, it's not practical. Hopefully this ends and we can just go back to normal tuck-in activity. If it doesn't end and it extends, then we would look, in the future, at some future date, about how tuck-ins play a role in our growth model in a recession or a downturn.

Now, I'll turn it over to Jay, who'll give you a sense of how we think about it from a cash perspective.

Jay Wells

Yeah. Just one more add on the tuck-ins before I go onto the free cash flow, is as we get through this we do believe some of the smaller players will be under distress and with the liquidity we have, with the capacity we have on our cash flow revolver, over 200 million, with our ability to still generate significant free cash flow during this period, we will definitely be opportunistic on tuck-ins as we get through this.

Now on the free cash flow question, let me first start with the math that we provided on our last earnings call. In a pre-coronavirus, if you did the math, our free cash flow guidance was 145 million to $155 million. So the lower EBITDA we discussed will reduce this free cash flow guidance. But at the same time, it will be offset by lower CapEx as reducing any discretionary CapEx in order to reduce the free cash flow effect of lower EBITDA. But please keep in mind, we'll continue to invest CapEx in growing areas, and we'll continue to invest in our customer experience because we don't want to lose momentum through this process.

Jarrod Langhans

Okay. Guys. Moving on to another multi-part question. I think I've combined three or four on this one. So let's start with we've seen really good, strong, residential growth, especially in North America. In terms of our small commercial businesses, are we seeing, you know, even with the (phon) essentials, like the doctors' offices, the dentists' offices, what are we seeing with the commercial businesses? Let's start within North America. Obviously, we know that it's very restricted from the countries that are shut down, but how are the European countries that aren't locked down—how are they doing?

Tom Harrington

Okay.

Jarrod Langhans

It's kind of a two-part question.

Tom Harrington

Yeah. Maybe three. But okay, Jarrod. So let's start with North America. We're obviously seeing peak demand in our residential customer base and that's multi-package in terms of what they want. So there's clearly increases in our 5-gallon returnable bottle business. But there's also pretty meaningful increase in our case-pack water, which I think I referenced last week at plus 45 percent. It's actually a tad higher than that today.

We're also seeing an increased demand in new customer additions, and it's customers who want the service to start, frankly, both residential and commercial, surprisingly. You might be surprised. I was. But it's pretty significant demand. So the residential business is pretty solid, and, of course, we can do the no-contact delivery if you think about our business. Right? So it's you put your two empties out; I replace them with two fulls. And many of our front-line associates are doing that no-contact delivery today.

The commercial business in the US is it's a tale of multiple cities. So if you are in New York City and it's shut down, you've seen a bigger impact. If you're in San Francisco, you see a bigger impact. But, ironically, like in Seattle, Washington, the growth in residential has meaningfully offset the decline in commercial. And that's probably the longest tale of information that we have because they were impacted first and longest. So we're seeing a pretty good offset for decline in that market. And then there's plenty of cities where you don't have the same level of restriction and more commercial offices are open. Do remember that this is a small commercial business in the US and not the big corporate offices, which are typically all pretty much shut down and working from home. So it's a little different—a different model.

When we go to Europe, it again depends. Right? So you have a list of businesses that have been identified as essential. We are one of those. Our IMEA business in the UK, which is a food manufacturer, is another. So we have customers in the UK, as an example, that will continue to stay open. And frankly, we are seeing in many, many instances where the volume is increasing there because of the demand on their product or their service.

We see demand in things like the national health organization in the UK who are putting in stand-up hospitals. So we see that grow.

If you go to Spain, you're seeing a pretty meaningful shutdown. And that's where we're working to offset the decline in that revenue, which is real.

Now, Western Europe is different than Eastern Europe. Right? So the further east that we go, the less impact we see. So that's why our plan has got to be a market-by-market program. So Russia is essentially business as usual and our business is in pretty good shape. I mentioned that Poland is in pretty good shape. And if you look at our overall business on returnables in Eton (phon), it's up 1 percent in

March. So the good guys are kind of offsetting some of the bad guys today. And again, our Q2 forecast says it's pretty much worst-case view of what we expect to happen in Europe.

So it's a longwinded; I think I got to your multi questions there, Jarrod. But check me.

Jay Wells

Yeah. We've gotten a follow-up question on the recession that I think it's worth revisiting on. I mean, we're talking about how we worked against the recession, but really, when you look at the last recession we had, '08, '09, '10, that was a severe recession. And I do not, I'm sure, Tom, you can comment more, do not see that we would perform similarly or as badly in another recession because this was an area where homes were being foreclosed on significantly. So part of a 10 percent headwind as part of the recession was residential, as you see now, is a significant part of our business. And when we were seeing foreclosures, it definitely provided a heavier type of headwind on construction than we normally would of.

Tom Harrington

Yeah. I think the—it is. I remember it now like it was yesterday. But we did have fewer headcount in commercials. So you felt some consumption. But we did have the mortgage crisis, and we have a lot of customers in California, Arizona, Nevada, Florida, even Illinois, which were the states that were hit. So it was double witching hour, if you will, in terms of those challenges.

I also think that the acquisition of Primo is a solution that gives us multiple price points. So in a challenging economy, people might say, I'm going to go pick it up at one of the Primo customer locations in exchange, or I'm going to bring my own jug and go to refill. The refill business actually grew in 2008 and 2010. So if you go back to our strategy as water, we think we've strengthened our position going into another recession. We referenced 2008 and 2009 because those are the facts we had it in that configuration of a company.

And also, I think E-commerce will be a growing business. So I think that there'll be more people who use it for products and services. And as we've mentioned and we mentioned in the presentation, as we build out our water.com solution, we think we'll participate in that growth greater than in the past and certainly better than we did in '08 and '09.

Jay Wells

Thank you, Tom. And I'll turn it back to you again in a second here. I have one other follow-up question that I've had come across my screen. I just want to be clear. We did talk a lot about first half of year EBITDA expectations, and Tom did spend a lot of time talking that really the reduction we're talking about is expecting further and further shutdowns throughout Europe is what's providing the headwind there. For Q1, though, the guidance we gave on our last earnings call, we are still confirming that we will meet or beat that guidance.

Jarrod Langhans

Great. Thank you, guys, for that one. Let's see. This is kind of a supply chain question. Kind of a two-sided question. Just overall—

Tom Harrington

Could I just get back to Jay's comment on the—

Jarrod Langhans

Sure.

Tom Harrington

—meet and beat. So I just want to score the point. It's working. So pre-coronavirus, our top-line growth of 4 to 5. EBITDA margin expansion we had in 2019 has continued. We think the Primo business, if you look at the refill business pre-corona says that problem is solved. It was up pretty significantly compared to trends in the last year. So it's nice to say if, pre-corona, we would have been a meet and beat or a beat and raise, but that's (unintelligible) at. So I just want to make sure we score that point on Q1 was—it's going to be in pretty good shape.

Jarrod Langhans

And that's—just let me throw a different question out then that kind of jumps into that. Can you guys kind of—and this might be a good one for Jay—can you kind of clarify what debt instruments we actually have outstanding? And how the process worked in terms of selling our S&D Coffee business, acquiring Primo, and how that cash movement worked.

Jay Wells

Yes. Actually, thank you, Jarrod. I've gotten a lot of questions where people have assumed we incurred debt as part of buying Primo and then paid it off with the sale of S&D. But the reverse actually happened. The reason why—there's multiple reasons why we extended the tender by a couple of days on the acquisition of Primo. One was to allow us to close S&D before we closed on Primo.

So in the end, we closed on S&D on a Friday. It generated the cash we needed on Monday to complete the tender offer. So we did not incur any debt. Our existing euro debt, our existing US debt, first maturity isn't until 2024, is all the debt we incurred. The only thing we did was convert our ABL to a cash flow revolver, purely because the asset bases of the business we were selling were greater. They had more working capital. Therefore, with every sale, we were losing borrowing based on the ABL. We wanted to make sure we had a sufficient liquidity, so we did, weeks ago, convert our ABL to a 350 million cash flow revolver. Does that cover the question, Jarrod?

Jarrod Langhans

Yup.

Jay Wells

Okay.

Jarrod Langhans

Very good. So let's move to global supply chain. Can you just give a brief update on the global supply chain? At the same time, was the outside demand and some pantry loading potentially in North America, what are we doing so that we don't build too much inventory?

Tom Harrington

Okay. Let's start with water. We are flat-out on significant demand that the team is scrambling to meet here and largely in the US, but also in Canada. And we are tight on supplies. So we have a number of our suppliers, frankly, that would likely say the same thing we're saying is we're flat-out. So if you're the bottle manufacturer of one of ours, we buy every bottle that comes off the line and use multiple suppliers to do that. So we feel some pressures on that.

In terms of coolers, we're in good shape. So we have had a one- or two-week delay originally based on the extension of the Chinese New Year. But we have products now flowing into the country. We also have a third-party warehouse that has significant inventory of dispensers for our Primo business.

So teams are working hard, clearly, to meet the demand in North America. I don't envision that we'll have a stockpile of unnecessary increased working capital related with that inventory because what we get goes right out, and we have orders for an extended period of time in North America, so.

And certainly as part of our Q2, and we talked about it; I mentioned it in my prepared comments that we are going to be watching working capital very closely. So inventory, obviously, is a big component of that.

If you go to Europe, obviously, demand has changed. So we haven't had significant changes in our volume and don't feel those same pressures other than, frankly, masks and gloves. So we have lots of customers on our route; sales representative makes a delivery, they've requested that they wear gloves and masks. So like many others, we have been scrambling to find those supplies. We happen to have them today, but we're moving those around.

If you go back to pantry-loading in the US, certainly, there's some of that that's occurred. But I can use the example of my house. So my wife and daughter are cocooned in the house, and I don't have a—I go through the water like crazy. So I suspect that's happening in many other places, and if I get the water in the house, they will drink it. We're going to likely benefit from that. So we don't see, on our HOD or Water Direct business, a big change coming out of this.

I think our retail business will return to normal levels at some point in time, right? So we're experiencing I said 25 percent growth. We wouldn't expect that to continue through the quarter. That'll settle out. If it doesn't, we'll continue to sell it. My preference is it returns to normal, which means that people is going back to work.

Jarrod?

Jarrod Langhans

Just looking for a bridge that we'll help with in a minute. In terms of the retail locations across North America, especially with our Primo business, can you elaborate more on what types of locations these are in terms of the risk that they could be shut down?

Tom Harrington

Sure. Grocery stores, food supply, food manufacturing have generally been classified as essential services. And if you think about our exchange business, it's largely in the Home Depot, Lowe's Home Improvement, Kroger, Safeway, Albertsons and the like. We expect them to stay open. And that business was up, I think, plus 50 percent. So we'd expect they'll stay open, and our guys and gals will continue to service them.

Our refill business is an inside and an outside business. So what's that mean? So the large part of the refill business is outside, so it's very same locations. Not all of them, but largely outside supermarkets and the business is largely outside. There's some inside. So the inside will be fine. The outside is fine, and we're experiencing meaningful growth in refill. So we would expect that, assuming they stay essential, which is my best guess today, that we will continue to service the surge in both exchange and refill businesses.

And frankly, it's the same in Canada. Right? Where we have both of those businesses.

Jarrod Langhans

Okay. I've got a couple questions on E-commerce. Can we talk about kind of our Amazon relationship? But also how we can use E-commerce during this time period to assist with residential growth and maybe even growth in Europe?

Tom Harrington

Yeah. It's a good question. So we continue in Amazon. I actually think there's been a few expanded ZIP codes. So we're in Georgia and Florida, and I think right now, we might be in Texas. And Amazon had, frankly, taken down all of the services, just call it a week ago, but very quickly put our service back up as the only one inside their home services. And that's because one, we've been articulated as essential; and two, because there's demand from the Amazon consumer to have the water delivered. So we're encouraged by that. It's a bit of us doing our part and working with Amazon. So we both do our part because we do that last mile in the heavy container. So that part continues.

We are working on web development as we speak, frankly, in our European business. And that's really to make sure that we're offering that consumer, who's now at home in a number of countries, the opportunity to have water delivered to their door in a no-contact execution. So it's not been a big piece of our business, but we are working really hard to accelerate that so we can give those consumers optionality.

We will continue to work on our web infrastructure. We'll continue to work on our mobile app. We'll continue to work on water.com. All of that, if the consumer purchase behaviour changes and moves to E-commerce, we need to be a part of it. So that's part of our CX investments, and we hope to participate and get more than frankly more than our fair share of that business over the coming years.

Next question. Do you have any more?

Jarrod Langhans

Yeah. (unintelligible)

Tom Harrington

I think Jarrod is enjoying firing questions at me.

Jarrod Langhans

This is over the fuel. Can you kind of walk through how fuel will impact our business?

Tom Harrington

Yeah. Well, it impacts us in a couple ways. And it's still not yet determined, although some is flowing through. So we do have an impact on resin. Right? So we would expect polycarbonate to come down. But it hasn't manifested itself yet because the fuel drop just happened, frankly, in mid-March. Right? So we won't see it come down in the indexes. So it's hard for me to articulate what that would be.

And then as you know, we have an ESC that generally goes up and down with fuel. So there is no big operating expense reduction associated with that because that goes up and down. So it'll come down a bit to reflect the change in the fuel price, so.

Jarrod Langhans

And ESC, for those who might not get the acronym, energy surcharge?

Tom Harrington

Energy surcharge. Yeah.

Jay Wells

Just to make sure.

Tom Harrington

My apologies. Yeah.

Jay Wells

So, Jarrod, there has been a question on what is Q1 2019 pro forma, excluding S&D. Is that the question that's come across?

Jarrod Langhans

So what are we looking to—for the analyst to grow the EBITDA number on Q1 on? What should be their starting point?

Tom Harrington

You got something for me while Jay digs that out? Or you got it? You got it close?

Jay Wells

Yeah. Why don't you throw out one more while I dig that out?

Jarrod Langhans

Well, it's actually another for you, Jay.

Jay Wells

Okay. Well, you can put that—

Jarrod Langhans

Tom can probably cover it. Capital allocation. What's our capital deployment strategy at this point in time?

Tom Harrington

We'll continue to pay our staple dividend. We'll obviously continue to pay our interest. We mentioned on tuck-ins that we'll be judicious and thoughtful about that as we work through the coming months. And it's a tale of two stories. So if they come available, we have enough liquidity to do that.

We did buy back shares in the first quarter, and that is filed in a 10b-5.

Jay Wells

Yeah. So we bid automatic purchasing under our 10b-5. One does not get the price it did. So we have gone through the current quarter allocation under which we did spend about $25 million on share buybacks. And we're evaluating what we do going forward now that we're through the current 10b-5 election that we had in place.

Going back to Jarrod's question, if you look at last quarter's EBITDA and you minus out F&D, you have approximately $54 million of EBITDA. When you look at Primo, which will have one month of, March, they had $42 million of EBITDA in March.

Jarrod Langhans

4.2.

Jay Wells

Sorry. 4.2. Sorry. Yes. Thank you. 4.2 million of EBITDA in March of last year. So you add the two together. That's what our pro forma EBITDA is for the quarter.

Jarrod Langhans

We kind of covered some of this stuff, but it's just to go through it again. When we're looking at the consumer, when we're looking at the residential versus the commercial, more specifically, Direct Water, can you kind of walk through the profitability of those two different buckets? (unintelligible)

Tom Harrington

Sure. Because our commercial customer base is largely small office, small commercial, the consumption, or better said the volume delivered, it's pretty close when you compare the two. So if you think if one is three point—I'll be wrong on these numbers. So we'll call it approximately if one is 3.7 bottles per 28-day period, the other one is 4.1. So it's not a meaningful difference in the volume.

The difference in profitability over the long haul is that the commercial customer stays with us longer. And we generally have better pricing power with that customer. So it's about the length of the customer life that drives the profitability of that customer. And that was what drove us to invest a couple years ago in the small commercial sales force to drive that customer base as a percent of the mix.

We like both. They both produce good terms. And frankly, because we service both that they provide us, they give us the ability to drive density into our routes. Right? So it's the combination of both of those.

Jarrod Langhans

Okay. And one last quick question for Jay, just because it's a common question that we've been getting frequently. What is the current share count?

Jay Wells

And you can correct me, Jarrod. I believe it's approximately 161 million the last I looked. So that is the answer.

Jarrod Langhans

All right. Well, thank you all for joining us this afternoon. I apologize if I missed some of your questions. We appreciate all of the questions that we got, and we look forward to speaking with you in the future.

Have a great week, and I'm sure we'll be talking to you soon. Thank you.

Tom Harrington

Thanks, everyone.