

Company Name: Primo Water Corporation (PRMW)
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<<Clay Crumbliss, Analyst, ICR>>

Clay Crumbliss with ICR investor relations. This morning we have the pleasure of hearing from Primo Water Corporation. It's a company that's undergone a lot of change over the last few years. So, we're excited to hear from CEO, Tom Harrington, and Chief Strategy Officer, David Hass. So thank you guys for being here.

And with that I'll turn that over to Tom.

<<Thomas Harrington, Chief Executive Officer>>

Thank you, Clay, and good morning everyone. Thank you for joining David and I this morning. Of course, please visit our website. Our website to review our Safe Harbor languages event is being webcast.

Our purpose is to inspire healthier lives, reward your way by delivering healthy hydration to consumers whenever, wherever, and however they want it. Let's get started with a short video. [Video Presentation]

We execute a razor/razorblade strategy and enjoy market leadership in Water Dispensers, Water Direct, Water Exchange, and Water Refill. As part of our recent transformation, we have created the only pure-play water platform with leading brands in North America and Europe. We have a predictable recession-resistant revenue base, an attractive high single-digit organic growth targets.

We are a fundamentally stronger and more streamlined business than ever before with a healthy balance sheet, a compelling long-term growth outlook, and an attractive margin profile. Our long-term view estimates high single-digit organic revenue growth supported by favorable tailwinds. We have built structural advantages that drives adjusted EBITDA margin and dollars, resulting in accelerating free cash flow generation.

I'll now turn the presentation over David Hass, our Chief strategy Officer. David?

<<David Hass, Chief Strategy Officer>>

Thanks, Tom. Let's review the growth opportunity for the water industry itself. The tailwind supporting that growth. Bottle water in large format sits at the intersection of a number of macro and consumer factors. Notably tailwinds include consumer concerns with tap water quality, the estimated \$1 trillion to fix the water transmission infrastructure, and then consumer shifts between both elimination of single serve and healthy hydration. All factors shape a generational opportunity.

Large format has defined as water delivery or what we call Water Direct, Exchange or Refill in three gallon or greater sizes. The current active large format marketplace in the U.S. for residential is approximately seven million homes using consumer research and market data is estimated that the total addressable market is approximately 29 million. These estimates do not consider the B2B addressable audience, across commercial or industrial channels or the European market potential for the 18 countries were present. With that as a backdrop, our estimates likely remain highly conservative.

Annually, we run intercept surveys helping understand the path to purchase for consumers. We frequently ask dispenser buyers, is this your first dispenser? Or are you replacing a unit? This shapes our market penetration. Then we ask their large format water preference and purchase sequence. This provides a guide on how we think about their purchase journey.

Dispensers are the gateway or the razor for consumers to acquire our water solutions. In November of 2022, the U.S. government eliminated a 25% tariff on the import of Water Dispensers. It is important to note that we strategically sell our dispensers at breakeven. The benefit being our water market leadership and the ability to connect consumers to one of our water solutions. As we and our retail partner's work through the tariff impacted dispenser inventory, we will pass these savings on to consumers.

A key question we often receive is, how will our business perform in a recession? This chart demonstrates the resilience of the total bottle water industry through various economic cycles. Overtime, the line consistently moves up and to the right. Bottle water has moved from a nice to have to a need to have and large format provides the appropriate value for the water volume received. Our customer base remains sticky.

Now, let's talk for a minute about some of our investment highlights. First, beginning with connectivity and in particular our dispensers. You've all heard about the razor/razorblade model we've talked about. For us, that means connecting the water dispenser our razor to one of our water solutions, thereby generating recurring revenue opportunity. Each executive leader and team in the company works towards ensuring our structural advantage by enhancing the items listed. These are difficult to replicate and provide us with significant point of differentiation across our offering.

An element we're incredibly proud of is bringing dispenser innovations to market. Primo prices offering, for all economic profiles starting as low as \$9.99 for manual pump with additional price points for other advanced offerings that include hot and cold water, as well as brew single cup beverage options. Our innovation drives feature changes consumers seek and helps secure our market leadership. This is why our dispensers sell through on an annualized basis approximately one million units.

The benefits of our market leadership in razor/razorblade model comes to life here. Selling more dispenser units allows us to create more customers for our water solutions. This provides density and leverages our scale. It also allows us to provide our suppliers with more units decreasing our

input costs, passing those savings on to consumers, accelerates penetration and starts our cycle all over again.

To fulfill our connectivity goals, we drive awareness both through our Water Direct and retail channels. Specific to Water Direct, we are the exclusive Costco in-club booth program and online signup provider for the Water Direct experience and it also provides a connected experience for the Costco member. Additionally, our dispenser, rental and Water Direct offering on a non-Costco basis ensures a connected experience. Specific to retail, our advantage comes from our market leadership. This is a category typically with a single vendor that allows us to connect our dispenser to either our exchange or refill offering through free water coupons in aisle signage and online awareness.

We are able to offer customers and consumers a choice of either buying or renting a dispenser. Customers that rent typically pay about \$7 a month. The dispenser is an asset on our balance sheet and its part of our annual CapEx of approximately \$40 million. The subsequent rent is recognized as revenue and this, the benefit becomes the high connectivity opportunity for our Water Direct solutions.

Consumers that want to buy outright pay for the dispenser, generating revenue and cost of goods sold at that time, consumers fund the dispenser investment thereby allowing us to save the CapEx investment. Based on last year's sales, the elimination of the tariff would result in approximately \$16 million in lower CapEx or cost of goods sold.

We view filtration as a key growth opportunity. Our current filtration customer base is approximately 220,000 customers with growth plan in all markets. The concept of a filtration dispenser is targeted towards the B2B channel. With our solutions allowing for technicians to monitor, filter status and change outs and margins are similar for our bottle based solutions. In 2023, we'll be introducing our latest innovation in Europe and North America, including a countertop unit called Vivo, the unit is designed as a direct-to-consumer solution with enhanced connectivity. Also, in 2023, we'll be introducing an on the go solution. The primary target is everyday consumer usage, refilling their small format water bottles. Early results have us excited about the potential.

Let's talk for a minute about our customers and water solutions. During our research, we asked those that identify as a primary large format user, what was their previous water source. This research helps us understand potential migration patterns as people leave tap water and move between sources of bottle and filtered products. Additionally, it helps us identify opportunities for targeted customer acquisition. Further differentiation for our business and product lines include how our water solutions stack up against two simple attributes, price and convenience. Primo has the unique ability to attract water customers at each stage of their lifecycle and economic circumstance. Consumers have the ability to balance their own time and value equation for the water they need.

On the bottle based side, we have approximately 10,000 retail locations selling our dispensers. This supports our water solutions for our 2.2 million global Water Direct customers, 17,500 Water Exchange locations and approximately 23,500 Water Refill machines. We remain the

market leader in North America for these solutions. In addition, we have approximately 220,000 water filtration customers I just mentioned globally and an exciting high growth business in Mountain Valley with over 9,000 retail locations.

From a digital perspective, we are excited about investments in our mobile app My Water+. Currently rated at 4.9 and 4.8 respectively on the iOS and Android platforms. Customers are pleased with the ability to connect digitally with our water delivery service. Our Google “Online Reputation” score has increased dramatically over the past year and our attention now shifts to various websites, including our own property water.com utilizing internal and third party experts to further enhance their effectiveness.

We acquire our Water Direct customers through four primary methods, digitally through marketing activities, in-store and online with affiliate partners like Costco, and our infield teams, including sales associates and route representatives.

Our premium offering is Mountain Valley Spring Water. This iconic water brand has been bottled at its source in the Ouachita Mountains of Arkansas for more than 150 years. Water types include spring, sparkling and sparkling essence flavors. The product is sold at retail Water Direct and in high-end restaurants typically in glass. Recently we acquired another on-site water source to further the growth of the business. As investors and consumers, we think you’ll really like this product.

And with that, I’ll turn it back over to Tom.

<<Thomas Harrington, Chief Executive Officer>>

Thanks, David. We’ve made serious changes and improvements in our ESG story. During 2022, we hired a proven ESG leader. We published our inaugural sustainability report. We appointed a Chief Diversity and Inclusion Officer. We exited the single use bottled water business at retail, which saves or reduces roughly 50,000 metric tons of CO2 annually and cemented our efforts in the area of water stewardship.

We are implementing the reporting systems that provide investment grade reporting detailing our progress on our journey for ESG leadership. We will be updating our sustainability reports for 2021 and 2022 later this year. We source our water from a combination of municipal, onsite well and spring sources across our footprint. Of the 81 sources we use, 30% or 37% of these sources are company owned. Our approach to sourcing enables us to ensure adequate supply and to meet varying consumer water preference.

Our board is a combination of individuals with diverse backgrounds, tenures in valuable areas of expertise. Over the course of the past five years, we have refreshed our board with five new directors. As board positions open, we seek to add directors with specific expertise to further strengthen our board.

Let’s discuss several key operational improvements we’ve made. The significant scale of our operation drives improving margins and is a key driver of the connected dispenser strategy that

David discussed. We operate in 21 countries with approximately 450 distribution centers with about 3,400 routes satisfying customers every day. In the route delivery business, customer and route density matters, we benefit from both.

Importantly, we click – we quickly reacted a pandemic in April of 2020 by right sizing our operations to adjust to changing volume demand. As volume recovers, we began to add back routes to our infrastructure. Importantly, we did so efficiently with roughly a 14% improvement in productivity when you compare 2022 to 2019. Our highly variable cost structure allows us to flex as necessary to meet the changing economic landscape.

During our November 2021 Investor Day, we shared our plan to invest in operational efficiencies. This page details some of the investments underway to create value for our customers, our associates and our shareholders. OTIF or on-time in-full is our measure of daily success by route, by location. Did we deliver to the customer on the day they expected with the products they ordered? Good performance in this area is critical to maintaining improving customer retention over the long-term.

This page further highlights, initiatives and investments underway and support our enhanced EBITDA margins through the use of current technologies as well as to reduce our reliance on common carriers for our distribution from plant locations to distribution centers.

Turning to the financials, our long-term growth algorithm is a combination of organic and inorganic growth that creates value by deleveraging our balance sheet, increasing dividends to shareholders and executing opportunistic share repurchases.

As part of our long-term organic growth algorithm, we expect high single-digit organic growth and increased free cash flow generation from the organic growth, operating leverage and moderating CapEx. M&A is in our D&A. The majority of the 127 acquisitions we've executed since 2014 are quickly synergized valuations in a three to four times EBITDA range. In 2023 and 2024, we will moderate our M&A activity to approximately \$20 million to \$30 million as we take it in conservative approach based on the current macroeconomic headwinds.

We will continue to invest to capitalized on route-based water filtration, unbranded opportunities that provide significant synergy and growth opportunities. We will deleverage through earnings growth to under three times by the end of 2023. This is an important milestone as it should attract some shareholders that require under a three times number. We plan on increasing our dividend to \$0.04 per year in each of the next two years, ultimately rising to \$0.36 per share annually in 2024. This increase equates to a 15% CAGR.

And finally, our board authorized an opportunistic a \$100 million share repurchase in our third quarter of last year. At the end of Q4, we had acquired \$24 million of shares leaving an incremental \$76 million available for purchase in 2023.

This chart details the revenue from the two businesses we exited during 2022. It's a single-use plastic bottled water business in North America and the exit of Russia. The numbers are provided

for you to remove them from the 2022 – to 2022 revenue base as you compare them to our 2023 outlook.

Despite the uncertain economic uncertainties over the near term, more specifically surrounding inflation, our 2020 full year organic revenue outlook between \$2.3 billion and \$2.35 billion is on target with our long-term algorithm of high single-digit organic growth after adjusting the base for the exclusion of the exited businesses.

Adjusted EBITDA is expected to grow to a range of \$450 million to \$470 million. Looking ahead to 2024, we maintain our previous expectation of high single-digit organic growth and adjusted EBITDA to a level approaching \$530 million.

We're excited about our future and pleased with our progress, creating the only pure-play public water platform with the predictable recession-resistant revenue base, a highly variable cost structure, and attractive high single-digit organic growth targets supported by multiple tailwinds, such as increased consumer attention to health and wellness and the aging water infrastructure.

We are a fundamentally stronger and more streamlined business than ever before. We've made significant strides over the past couple years to focus on our competency as a pure-play water company. As a result, we have a healthy balance sheet, a compelling long-term growth outlook and attractive margin and accelerating free cash flow generation.

Thank you for your interest in Primo Water and I can encourage you to connect with us to learn more about the opportunity. Thank you for listening.