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<<Pavel Molchanov, Analyst, Raymond James>>

Good morning everybody. Welcome to the first session of this Raymond James Conference. I'm Pavel Molchanov, Research Analyst. So this session is with Primo Water, PRMW. We have Thomas Harrington, CEO; and David Hass, CFO. We'll have a fireside chat and got some questions at the end.

So, first thing I want to ask about is, when we hosted you a year ago, there were basically four big distributed drinking water players in North America, and probably Europe was kind of similar, there was Culligan, you guys, there was Nestlé Water and Waterlogic. So since then Waterlogic has been acquired, Nestlé Water has been acquired, taken private by a private equity firm. So what's the competitive landscape like today in sort of your food chain?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. So good morning everyone, and Pavel, thank you for having us inviting us here to Orlando. In the U.S. ReadyRefresh, which is part of the BlueTriton company, which was the acquisition by One Rock private-equity from Nestlé. Frankly, has spent the last year or two focused on their integration and development of those respective businesses. They have two businesses. One is ReadyRefresh, which emulates our business, which is think of Water Direct primarily. They also have a large single-use plastic business that, as you know, we exited a year and a half ago.

Culligan and Waterlogic's acquisition merger is less than a year old. So, I think they're working on those solutions was approved roughly six months ago. So that hasn't developed into any real meaningful changes in the marketplace. In Europe, while we're the largest player, when you aggregate a Pan-European, it still is a market with lots of smaller competitors in each country. So there is the benefit of Culligan and Waterlogic clearly happens in two countries mostly the UK and France with a small footprint elsewhere.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. And to the extent that market share means anything given, as you said, different distribution models, and yeah, and so forth, what is Primo's kind of percentage to the extent that you can estimate it?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. So there is no Nielsen data or IRI data to record that. In the U.S. we would have approaching 40% revenue share, and a little bit less on volume. We've managed over the years to continue – to continuously increase our shares, its measured by Beverage Marketing

Corporation. So, we're pleased with our long-term performance in terms of share growth. In Europe, we're roughly 28% Pan-European, but again, it's an aggregation of various shares in the 18 countries in Europe we competed.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. And you obviously going through the pandemic, it's affected the commercial space, probably first and foremost some impact perhaps on residential in the other direction. So three years since the pandemic started, what's been kind of a net-net effect on Primo as a company?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. So you have to bifurcate that into the impact in Europe and in the impact in North America. In Europe, our business was predominantly commercial and upwards of 90%, 92% of our revenue came from commercial. That business was most impacted by the pandemic, but it's now not back to pre-pandemic levels, but we're enjoying solid growth as Europeans return to work. So that today is now a tailwind for us in terms of growth of both our customer base, most importantly revenue and therefore profit.

On the North American side, our residential business is higher than pre-pandemic levels. So there was some worry that the spike of residential during the pandemic, that those customers would not be sticky while our revenues are higher today than they were when we went in, which I think is a good indication that once you start the service you stack. Commercial business is not yet back to pre-pandemic. So in North America it is also we believe a tailwind for future growth as we get closer to a 100%.

<<Pavel Molchanov, Analyst, Raymond James>>

And part of the – so you talked about demand maybe touch on also what's been happening with the supply chain, including labor availability. I remember again was more a year ago with Omicron, you had, correct me if I'm wrong, corporate executives driving trucks, because there was nobody drive them, hopefully that's kind of in the rear view mirror.

<<Thomas J. Harrington, Chief Executive Officer>>

It was a really bad idea, but he did.

<<Pavel Molchanov, Analyst, Raymond James>>

So, what's the status on that now?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. So if you think about our input costs, it's labor fuel and freight. Freight largely impacted if you think about ocean freight and everybody's read the supply chain challenges, freight went well over \$20,000 of container at the peak of the supply chain. It's now back to pre-pandemic

levels. So that's a benefit for us in terms of long-term our capital and the dispensers that we buy from China, that's helpful. In the U.S. clear that the wage inflation is here to stay. We took actions in 2022 to address that, whereas something on the order of 98%, 98.5% staffed on our route sales position, which is the key interaction between ourselves and our customers. So, we think we've taken the actions, the waging – we're not going to give the wages back, but we begin to see some moderation in other areas of cost inflation.

<<Pavel Molchanov, Analyst, Raymond James>>

Understood. One of the other kind of trends we're watching sort of more macro from Primo as a company, but certainly affecting you as the regulatory landscape vis-à-vis plastics. We've seen a crackdown on single-use plastics in California – in European Union that's now a few years old. The single-use plastics directive, more of a new thing in California, Canada and the UK is on deck for later this year is all of this inferior demand tailwind for a company like Primo, given that you're displacing single-use plastics?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. We think it's a clear tailwind for us. So if you think about our business model. We sell or rent a dispenser to people that want to come into the category that's supported as people migrate away at varying speeds from single-use plastic. It's absolutely faster in Europe. It's faster in California, in the East Coast than it is in the bread basket, but we think that's a clear tailwind. And then if you think about our services, I can give it to you direct, which is more premium service where my route person will deliver to your home or office. You can go to a supermarket or a DIY and pick it up yourself or frankly you can go to one of our refill machines and fill it yourself. So, we think that these concerns and consumer migration away from single-use plastic are frankly a meaningful headwind for our tailwind for our company in terms of growth of the various services we have.

What's unique about us is that we participate in those three areas, unlike some of those competitors you mentioned earlier who don't have all three of those platforms to get to that changing consumer dynamic.

<<Pavel Molchanov, Analyst, Raymond James>>

In that context, let me ask you another sort of ESG type question. Little more than a year ago, you became one of the very few small cap companies to become carbon neutral, which for a lot of businesses that's a 2050, kind of story. So you guys are already there. Several questions about that. Number one, how did you accomplish that given that you still have some plastics, you have trucks driving around, how are you carbon neutral?

<<Thomas J. Harrington, Chief Executive Officer>>

So our European business has been carbon neutral for approaching a decade. So it was clearly very important on the European side first. We made the investment and did the analysis of our 2020 performance, and we do buy carbon offsets, but we're very specific about where those

offsets are invested. So, we invest in water solutions in Africa. We've invested in solutions in Guatemala. Our offset cost comes down. Our objective is zero offsets to do it through our own efforts internally. And I'm frankly quite pleased with our efforts today.

We've converted much, we've begun a conversion process from diesel to propane in the U.S. You'll see us make a move from gas to electric on our smaller assets, particularly in Europe first. So, we're taking the types of steps that make this a true sustainability story and a story that's, I think missed by many.

<<Pavel Molchanov, Analyst, Raymond James>>

So when you say go from gas to electric on smaller assets, you're talking about delivery vehicles?

<<Thomas J. Harrington, Chief Executive Officer>>

So, we have two types of service. So, we have the larger beverage bodies that would deliver to your home or office, and then we have a service fleet that would service the refill machines or our filtration business. That fleet will be the first part of our asset base that we convert to electric as the assets are available and proven frankly.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. Maybe a little bit more of a CFO question, David, when you speak with investors and you're fairly new in your role, I'm curious, do you think there is sufficient awareness that Primo is a carbon neutral company?

<<David Hass, Chief Financial Officer>>

Definitely not. I think there's a couple of different paths of awareness. One simple awareness of what we do often that's lost. I think obviously Primo can be connotated with the Legacy Primo business caught. Then company that took the name Primo could be connotated with sugary soft drinks for contract manufacturing. So, I think there's two parts of the awareness story. One, getting out ahead and explaining what we do, just as Tom articulated our multiple formats that allow customers to make their own choice. And then it comes as a second awareness point to then learn we're carbon neutral and then the steps we're taking to continue that environmental journey. So, I think few forms of awareness that really put us on the forefront of trying to explain the story and the carbon neutrality part helps compliment, what they learn about us as a company and our environmental standards.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. Maybe sticking with sort of what you're hearing from investors. So you guys reported year end results, and updated guidance about two weeks ago. What kind of feedback have you heard since that time?

<<David Hass, Chief Financial Officer>>

Yes, two parts to the story. I think part of it is that we are, of course, ESG friendly and responsible, but I think much of the market missed the fact that in 2022, we had a very good year. So, we add what we call normalized revenue growth of 16%, excluding FX, normalized revenue takes out the businesses I exited. We exited single-use plastic and we exited a business of Russia. So that's the definition of normalized, 16%, 2022. Our EBITDA grew 11%. We're pretty proud of that. We also managed to expand our EBITDA margins by 70 basis points from 18% – 3% to 19% with two consecutive quarters over 20. We did manage to have consumers did buy a million dispensers.

So that bodes well for our future because those people who bought those dispensers will start one of the services, preferably one of ours. But it could be Water Direct, could be exchange or refill. So, I think part of the story is that we missed that solid performance in 2022. We think it sets the stage for our commitments, frankly, for 2023 and beyond, which is 6% to 8% revenue growth, EBITDA margin expansion, our approach to deliver our 2023 targets with competence, frankly.

<<Pavel Molchanov, Analyst, Raymond James>>

So kind of zooming in on that, the fact that you have this, way above trend growth in 2022, does that kind of reverse – revert to the mean in this year? In other words, is it going to be slower, because you're lapping this really strong year?

<<David Hass, Chief Financial Officer>>

Yeah. I think, traditionally the delivery business would've grown at sort of the rate of inflation. But what we have as a compliment with sort of strategic razor/razorblade model and thinking is those dispenser sales eventually pick up one of our services, and that creates a volume tailwind. Tom also talked about a couple areas of volume tailwinds where Europe's not fully back in terms of their consumption per customer, but rising the – same with the U.S. side wall residential remained above pre pandemic levels.

So when you take all that together, plus the fact that this year we annualize into the exclusive water delivery provider for the Costco member, we have probably above market – above average volume growth tailwinds then the industry has seen in a few years. So yes, 2022 was a nice double-digit factor, but we still think that our high single-digit rate is complimented with volume, right? It's not just price. It is consumer and business to business volume demand. And that's a nice, that's a nice thing, largely missed I think, again in the quarter, right? Several consecutive quarters of 5% plus volume growth, which has, it's been outside compared to the trends in the past.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. And you also, as part of the year-end announcement, you raised the dividend, just like you did a year ago. So your dividend is how much now?

<<David Hass, Chief Financial Officer>>

\$0.32 on an annualized basis, right. So \$0.08 a quarter.

<<Pavel Molchanov, Analyst, Raymond James>>

So 2% yield, give or take. And that does not come even close to taking up all of your free cash flow. Right. So obvious question is, what's the use for the remainder of the free cash flow that you have at your disposal?

<<David Hass, Chief Financial Officer>>

Sure. So, we've talked about our capital expenditures and our trajectory there. We did take on an incremental couple of \$1 million, about \$30 million in this year, in this year's proposed sort of plan with the long-term goal of moderating back towards 7%. So that eats up the majority. We'll pay interest anywhere between \$70 million and \$75 million interest expense. And then we have, sort of room for cash taxes around sort of our – what we would say is diminishing NOLs due to sort of some of the successful property or land sales that we've sort of taken on in the last year and project some potentially this year as well.

And then on a year-over-year basis, because the tariff has been removed. We believe a lot of the working capital benefits of those dispensers being brought in will be reduced, right? So in calendar 2022, as we brought in coolers for both retail sale as well as our own asset for inventory purposes to rent customers, those would've been marked with a 25% tariff. So, that's another tailwind as that tariff has been removed, lowering sort of our costs, as part of our working capital.

<<Pavel Molchanov, Analyst, Raymond James>>

So you walked through some of the drivers of free cash flow, but I guess the – what I'm trying to get to is if you – you have a certain amount of free cash flow, you subtract the dividend, and you're still going to have a lot left. So will that go to M&A, share buyback or both?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. It's a good question. I think one of the parts of our communication on 2023 is if you do the math, we actually generate more free cash flow in 2023 than people realize. It's a significant increase versus 2022, 2022 largely impacted by David's reference to what happened on working capital, during all the supply chain issues plus the tariff. We do have an announced \$100 million share repurchase in place. We've purchased as of the 20th of February, something on the order of \$30 million in total. So that is a significant use of our free cash flow.

We've also announced in 2023 that we will look to do \$20 million to \$30 million of our typical historical tuck-in acquisitions. That's a little bit lower than we'd announced in prior years. So, we're being judicious if you will, and let inflation do its work. So, we think now's the time to be more patient, not less patient, and let that inflation work on those smaller operators, which we

think, there's a fertile pipeline. We just want to be patient when we do that. So those are two significant uses of our free cash flow.

<<Pavel Molchanov, Analyst, Raymond James>>

And just a reminder, when you talk about M&A, how small are these kind of retail distributors that you're gobbling up?

<<Thomas J. Harrington, Chief Executive Officer>>

Typically the size, typically about \$2.5 million of revenue would be the average – of an average of, well over a 100.

<<Pavel Molchanov, Analyst, Raymond James>>

Right. So tuck-in.

<<Thomas J. Harrington, Chief Executive Officer>>

Tuck-in, true, tuck-in, we did a small one this weekend, right? So, it's not anything that hits the radar, but it's, thousand customers and we're happy to take them.

<<Pavel Molchanov, Analyst, Raymond James>>

And are these, because you are already, the largest player, right? You are in practically every geography imaginable. So is it just to bolster a footprint in? Or are there some new markets that you're not in?

<<Thomas J. Harrington, Chief Executive Officer>>

Yeah. If you think in North America, it's largely overlap. So those are the most synergistics. So it's about customer – it's really a customer list acquisition on our infrastructure. Same in Europe, although we'll look at one or two adjacent countries over time. So there's a couple opportunities, but right now we're sticking, in 2023, I would expect us to stick inside our footprint to maximize the return and, work through inflation, as inflation, continues hopefully mitigates over the balance of the year.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. We have time for some questions. Yes.

Q&A

<Q>: Good morning.

<A – Thomas J. Harrington>: Good morning.

<Q>: [Question Inaudible]

<A – Thomas J. Harrington>: Yeah. So, we're ahead of schedule on some of the targets that we put out for 2020, and we're very proud of that. We will publish a book for 2021 and 2022, hopefully in the second quarter. And frankly we'll look at how we need to adjust or be more aggressive on those targets. We're very, very focused on carbon reduction, right? So it's about, we drive a lot, so it's about those assets. So, we'll spend a lot of time thinking about how we invest in those reductions over time.

We have targets around zero waste in our plants, right? So we're, that'll start in a couple of years, but that's a 2030 target where we're confident we can achieve. And then water management is critical, right? So, we're very focused on how we waste less water, right? That's not just about what you do in a watershed. It's very important what you do in the plants. So one of our capital investments is around plants, so that we can use current technology to reduce water waste as part of the filling process. So those are things I think you'll see us communicate once we publish the 2021 and 2022 updates.

<Q – Pavel Molchanov>: Yeah, there are questions. Yes.

<Q>: [Question Inaudible]

<A – Thomas J. Harrington>: Yeah, it's a good question. So, I was in France last week in our operations, and you cannot use a plastic cup. So that's a plastic cup right here. That's illegal in France, right? So, we have a bio cup as an example. So you need to work on your supply chain to provide solutions. So if you have the solutions, an hour five gallon container is the single-use plastic replacement, right? So as there's more regulation about do less elimination, France will be first, my guess, UK will be second, my guess.

That's a platform for us where consumers will naturally migrate to a larger format container and find ways to dispense it. We're also investing in different solutions on our Refill business. So, we made investment in small UK business to get to a vending machine that can replace 16 – half a liter, 20 ounce containers on the go, right? So it's early stage, but that's another way for us to advantage ourselves of our footprint to provide solutions for consumers that are running away from frankly, single-use plastics.

<Q – Pavel Molchanov>: Maybe a follow up on that of bio-based plastics, still kind of a nascent market. Are you experimenting or talking to any suppliers of bioplastics with a view to perhaps adopting over time?

<A – Thomas J. Harrington>: Yeah. We're not there yet. And we're very focused on some of the solutions as example of this investment in this UK business. Bioplastics are interesting, but we need a hard material in our large format container because part of the story that I think people miss is the ours refillable, reusable, recyclable. So the more trips I got out of a bottle, frankly the more responsible I am. And I think many consumers forget that or don't understand that.

So, I can have a bag of water, but I'm going to use it one time. So if I can get a bottle that lasts multiple trips, it's good for our investment perspective, but it's also really responsible in terms of closing that loop and then ultimately back, frankly back into a bottle. So that's really where what we try to get it.

<Q – Pavel Molchanov>: Great. Any other questions? Yes.

<Q>: [Question Inaudible]

<A – Thomas J. Harrington>: You want to take that one?

<A – David Hass>: Sure. So, starting with Water Direct, the largest piece of the business, you'll see tendencies where again, employees in office, employees not in office residential, you'll see a mix shift occasionally, but in general, the bottled water market has been resilient through all prior economic or other crises. And we see the ability to watch customer consumption, that gives us confidence again that we have still a tailwind there, when you switch over to the retail side of our business at both exchange and refill. And then most notably the, KBI we track there is dispenser sell through.

So not what we sell into the channel, but what sells from the shelf to a customer. 2022 had high inflation pressures potentially shrinking discretionary income, yet customers chose to buy close to one million dispensers at retail, which would've been within a few 100, within about a 100,000 of an all-time record for the company. When you then shift into exchange and refill ways that they buy product at stores, those have been in significant growth trajectories basically since inception. So that I think speaks to the large addressable market that despite maybe a wobble occasionally in the economy or with consumer choice, those businesses have performed, very strongly. And through sort of most previous sort of experiences of economic disruption.

<A – Thomas J. Harrington>: And I think that I'll pile on the tailwinds matter, right? So healthy hydration is more important today than it's ever been. So that is a real tailwind in our business. And then there's the whole aging water infrastructure, right? So that's real, Flint was real and then it didn't go away, it's still there and Jackson, Mississippi is real. It's still going on today. So those are also reasons why we think the cyclical is less, because there's real tailwinds in our business that says, I need to find a better solution for my high quality drinking water and we provide it.

<A – David Hass>: Yeah. And that's a total compliment. The regulatory question asked earlier, those transitions are switching from single use is just one form of probably two or three tailwinds that are concurrent at any moment, depending on your geography, country or regulatory sort of environment.

<Q – Pavel Molchanov>: Time for one more question. Yes.

<Q>: [Question Inaudible]

<A – Thomas J. Harrington>: Yeah. That's basically a Water Direct is a subscription model, right? And that's roughly 65% or 70% of revenue. I could be wrong on that. So give me a caveat on that one. The exchange business is sell a dispenser and consumers make a choice about where they buy that bottle. We have customers like Walmart, Home Depot, Lowe's, so that isn't a subscription, but that's, you buy a dispenser once you have a bottle you need to go to and fro with that bottle. And in Refill isn't subscription, they're open market refill vending machine. So, I think of it about two-third subscription one third not, pricing is a lever that we successfully pulled the offset inflation in 2022.

So the averagely much higher than normal. Our revenue comes really from a couple of sources. It comes from absolute pricing actions that we take with the customer, and then it comes from volume and or customer growth, right? So you get the tailwind, two tailwinds there, right? So I'm going to drink more, and once you have a dispenser with the water in your home or office, you will drink more. So we benefit from that consumption and then you benefit from the growth from new customers.

So David reference Costco will have a meaningful increase of new customer growth in Water Direct in 2023 directly from Costco. We'll get the full benefit of that frankly in 2024. Right? So you don't, we don't wake up in all of it's here, right? So you build a quarter-over-quarter. So we'll also get the flop, if you will, of the volume growth and the revenue growth associated with those customer.

<<Pavel Molchanov, Analyst, Raymond James>>

Okay. And I believe we're not doing a breakout that's correct session today. So we will conclude it there. Thomas, David, thank you very much.

<<Thomas J. Harrington, Chief Executive Officer>>

Thank you.