FINAL TRANSCRIPT

# Primo Water Corporation

## First Quarter 2021 Results Conference Call

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## PRESENTATION

**Operator**

Good morning. My name is Felicia, and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Primo Water Corporation First Quarter 2021 Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

I'll now turn the call over to Jon Kathol, Vice President, Investor Relations. Please go ahead.

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

Welcome to Primo Water Corporation's first quarter 2021 earnings conference call. All participants are currently in listen-only mode.

This call will end no later than 11:00 a.m. Eastern Time.

The call is being webcast live on Primo's website at www.primowatercorp.com and will be available for a playback there for two weeks.

This conference call contains forward-looking statements, including statements concerning the Company's future financial and operational performance. These statements should be considered in connection with cautionary statements and disclaimers contained in the safe harbor statements in this morning's earnings press release and the Company's annual report on Form 10-K and quarterly reports on Form 10-Q and other filings with securities regulators. The Company's actual performance could differ materially from these statements, and the Company undertakes no duty to update these forward-looking statements except as expressly required by applicable law.

A reconciliation of any non-GAAP financial measures discussed during the call with the most comparable measures in accordance with GAAP, when the data is estimable, is included in the Company's first quarter earnings announcement released earlier this morning or on the Investor Relations section of the Company's website at www.primowatercorp.com.

I am virtually accompanied by Tom Harrington, Primo's Chief Executive Officer, and Jay Wells, Primo's Chief Financial Officer. As part of this conference call, we have included a deck online at www.primowatercorp.com that was designed to assist you throughout our discussion.

Tom will start today's call by providing a high-level review of the first quarter and our progress on the strategic initiatives we are currently focused on. Then Jay will discuss our first quarter financial performance in greater detail, provide an update on ongoing synergy work, and offer our outlook for the second quarter and the full year 2021 before handing the call back to Tom to provide a long-term view ahead of Q&A.

Within the prepared remarks, Tom and Jay will be discussing our continuing operations, which incorporates the Legacy Primo business and excludes the S&D business, which was sold in February of 2020.

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

**Tom Harrington** — Chief Executive Officer, Primo Water Corporation

Thank you, Jon, and good morning, everyone. This morning, we reported a solid start to 2021 as our financial results were at the high end of our expectations on both revenue and adjusted EBITDA.

Our revenue of $478 million grew 1 percent compared to last year, and adjusted EBITDA increased 8 percent to $76 million. Our strong results are impressive, given that we were cycling the effects of pantry loading that we experienced during the early days of the pandemic.

A large portion of our revenue decline was from our noncore coffee service business. Our purified water businesses performed well and, once again, validates our strategy to focus on water solutions.

During the quarter, the extreme winter weather events in February created a brief but challenging operating environment in several markets. I’m incredibly proud and appreciative of the way our teams in these markets responded, continuing to deliver healthy hydration solutions directly to the front door of our customers during a real emergency. Our commitment to providing customers with high-quality water whenever, wherever, and however they want it remains at the centre of who we are.

The demand for our at-home products and services remains elevated more than one year from the onset of the pandemic as we’ve continued to deliver for our customers. During the first quarter, revenue from our residential or at-home customers was 25 percent higher than the prior year as reported and up 7 percent on a pro forma basis.

While revenue from our commercial customers was lower by 23 percent compared to last year, we’ve generally seen a slow but steady improvement from our commercial customers over the past 12 months, and we are optimistic that continued reopenings in the markets we serve will lead to incremental revenue from these customers.

As a reminder, our commercial business is centred around small businesses, not large offices. In the March release of the ADP Small Business Report, small businesses in the US, as defined by having 1 to 19 employees, are near full recovery when compared to pre-pandemic employment levels. US businesses with 20 to 49 employees are at an index of 115 when compared to the low point of COVID employment levels in April 2020.

In short, the small business, small office environment is beginning to return to work, and the segment is likely to grow further from here.

Even as we expect improvement on the commercial side, we are confident that the new residential customer signups will remain loyal Primo customers even as local economies reopen and people return to work. In other words, our customer base is not subject to a one-for-one trade-off or a zero-sum game as commercial segment activity recovers.

As evidenced by trends in the do-it-yourself retail channel and residential real estate, we expect consumers to continue to do more dining, working, and entertaining from their homes, which will drive growth in our residential customer base and at-home consumers who use our Water Direct and Exchange or Water Refill and Filtration services.

We have seen consumer purchasing behaviour change significantly during the pandemic. Consumers are buying more of their products online and having more of those goods and services delivered directly to their doorstep in a safe, no-contact way. This includes everyday essentials like healthy, clean drinking water. We are well positioned to benefit from these trends as our overall digital and E-commerce efforts continue to progress and our Water Your Way offering remains highly complementary.

It is also clear that the investments we have made to improve the customer experience are yielding positive results, increasing the likelihood that these new sign-ups remain satisfied with our service. Our global cooler quit rate for the first quarter was 19.8 percent, which is slightly higher than prior year.

Our net promoter score declined from its record high of a year ago, driven by service disruptions in markets that experienced new lockdowns and the short-term impact of the US weather events. On top of all of that, we believe there are more structural and thematic tailwinds that support the retention of these customers and the continued growth of our overall business.

The growth in the health and wellness category continues to support our prospects of gaining share of the broader beverage category at the expense of sugary sweetened beverages.

COVID continues to elevate the health and wellness conversation, and research and customer behaviour continues to drive increased water consumption. In addition, the perception of the declining quality of municipal tap water is well documented, which supports the growth of our products and services. Tap water as a primary drinking source is expected to continue to decline.

Consumer demographics also favour bottled water, as Gen Zers and millennials have demonstrated their preference for bottled water versus tap.

In addition to retaining new customers, we're also diligently focused on adding new customers. The addressable bulk water market of US residential households alone is estimated to be between 22 million to 29 million and growing as younger generations have adopted bottled water as their primary method of water consumption in the home.

Our dispenser sales provide an important entry point to access these households and capitalize on our 4R recurring razor/razorblade revenue model. Our internal research indicates that among last year's North American dispenser sell-through sales of 1 million units, 60 percent of respondents are new to the category, 30 percent are replacing their previous dispenser, and the remaining 10 percent are adding an additional dispenser to an existing or secondary residence.

Additionally, of those likely to become a future dispensary household, research indicates their consumer preference as 45 percent for Water Direct, 30 percent prefer Exchange, and 25 percent prefer

Refill. We should continue to capture our fair share of this growth, as our 4R model remains one of our strategic advantages.

Improving trends, favourable tailwinds, and execution against our strategic initiatives provide the confidence to raise this year's adjusted EBITDA outlook to between $380 million and $390 million and to reiterate our long-term expectation of 5 percent organic revenue growth annually plus the incremental benefit from our regular tuck-in M&A activity.

Our plan is to accelerate M&A activity, and we expect to be at the high end of the range of $40 million to $60 million of investment in 2021. We maintain a robust pipeline of tuck-in opportunities that we plan to execute against this year and beyond.

Yesterday, we announced that our Board of Directors authorized a new $50 million share repurchase program, which expires on May 9, 2022. Following our successful transformation into a pure-play water company and effectively navigating the pandemic over the last 12 months, we have sufficient liquidity to fund our tuck-in acquisition program in addition to implementing an opportunistic return of capital plan in 2021.

Our new share repurchase program reflects our confidence in the consistent and recurring nature of our model, our continued long-term cash flow generation, and demonstrates our commitment to creating value for our shareholders.

On the ESG front, we continue to elevate our commitment to sustainability leadership. Last year, we achieved carbon neutrality in our US operations, and our European water business has been carbon neutral for nine consecutive years.

In Europe, we've sourced 100 percent renewable energy to cover the electricity consumption of all of our European operations, which have achieved carbon-neutral electricity consumption.

In December, our Diamond Spring site in Pennsylvania was certified by the Alliance for Water Stewardship, AWS, and we became the first company to have a spring-water source certified under AWS standards. We subsequently obtained that same certification for the second of our spring wells, our Wekiva Spring site in Florida, during the first quarter.

This year, we are introducing our latest sustainability goal of becoming 100 percent carbon neutral in our global operations by the end of this year.

I will discuss our priorities and outlook for 2021, but first I would like to turn the call over to Jay to review our first quarter financial results in greater detail.

**Jay Wells** — Chief Financial Officer, Primo Water Corporation

Thank you, Tom, and good morning, everyone. Starting with our first quarter consolidated results, revenue increased 1 percent to $478 million compared to $474 million. The increase is due to the Legacy Primo acquisition, increased demand for products and services from residential customers and at-home consumers, as well as foreign exchange, partially offset by lower revenue from coffee services and our Water Direct commercial customer base, both in our North America and Rest of the World segments.

Global revenue from residential customers and at-home consumers grew 25 percent, and global revenue from commercial customers declined by 23 percent in the quarter. A major portion of the commercial decline was from our office coffee services business, which was down roughly 50 percent.

On a pro forma basis, global revenue decreased by 7 percent, driven by lapping last year's surge of volume caused by pantry loading and the effect of lower volume in our commercial channel.

Adjusted EBITDA increased 8 percent to $76 million compared to $70 million. The increase was driven by demand for products and services from residential customers and at-home consumers, continued operating leverage improvements, the Legacy Primo acquisition, and ongoing synergy realization.

Our adjusted EBITDA margin increased by 110 basis points to 15.9 percent. On a pro forma basis, adjusted EBITDA margins improved by 80 basis points, while total adjusted EBITDA was down slightly by 2 percent versus Q1 2020.

SG&A expenses declined 3 percent to $248 million compared to $255 million. The decline was the result of cost reduction initiatives in response to the pandemic, most of which were implemented in April of last year.

Please keep in mind that January and February were the last two months of incremental SG&A associated with the Legacy Primo acquisition, and this incremental cost was more than offset by tight cost management. On a pro forma basis, SG&A declined roughly $21 million, or 8 percent, versus Q1 2020.

We have discussed our expectation for certain costs to slowly return in 2021 as we restart certain promotional and marketing initiatives, but it will be important to balance these organic investment plans while protecting the efficiencies we have generated. We benefit from a highly variable cost structure, and we will remain diligent with how we manage these costs.

Turning to our segment-level performance for the quarter. In North America, revenue increased 4 percent to $366 million compared to $351 million. The increase was driven by the Legacy Primo acquisition and strength within our residential customer and at-home consumers, partially offset by lower revenue from our Water Direct commercial customer base and coffee services.

On a pro forma basis, revenue declined by 6 percent. Again, the decline was driven by the effect of lapping last year's pantry loading.

Adjusted EBITDA increased by 10 percent to $68 million due to the Legacy Primo acquisition, continued operating leverage improvement, and ongoing synergy realization.

On a pro forma basis, adjusted EBITDA was lower by 2 percent compared to Q1 2020 when we grew adjusted EBITDA by $20 million.

Turning to our Rest of World segment. Revenue decreased by 9 percent to $113 million. Excluding the impact of foreign exchange, revenue declined by 14 percent. The decline was driven by lower revenue from our Water Direct commercial customer base and coffee services.

Adjusted EBITDA in the segment decreased 1 percent to $15 million as declines from Water Direct and coffee service businesses were largely offset by improved operating leverage resulting from cost reductions and the impact of foreign exchange.

Turning to our liquidity position and balance sheet. We ended the quarter with a cash balance of $102 million and available net borrowing capacity on our cash flow revolver of $194 million for a combined total liquidity position of $296 million. This equates to a net leverage ratio of 3.5 times, and we continue to target a post-synergized net leverage ratio of 3.0 times.

Also, as we previously announced, we closed a private placement offering of $750 million senior notes due 2029. The proceeds of that issuance were used to redeem our outstanding 2025 notes. The new notes carry an interest rate of 4.38 percent per year, and as a result, we were able to lower our expected 2021 interest expense from $73 million to $68 million. Going forward on a full year basis, we expect interest savings of just over $8 million versus previous rates.

Turning to synergies. We continue to make good progress on our synergy-capture work and remain well ahead of the schedule we provided at the time of the Legacy Primo acquisition. We continue to target the full $35 million in synergies over three years, but have significantly accelerated that number after the cost reductions we pursued last year.

After realizing roughly $18 million of cost synergies in 2020, we realized another $7 million in the first quarter of 2021, expect to achieve $1 million per quarter for the balance of 2021, and the remaining $7 million of synergies will be realized in 2022.

As Tom said, we were pleased with our first quarter results and the strength of our residential channel despite the lapping of pantry loading in the prior year.

Many of our commercial customers are still grappling with when and how to fully reopen, but we're starting to see some more active commercial customers, albeit consuming at a less than pre-pandemic level as they abide by local capacity constraints.

As we have now lapped the pantry-loading effect, we expect more consistent growth versus prior year across all key metrics beginning in Q2.

Looking to the second quarter, based on the information we have available to us as of today, we currently expect consolidated revenue from continuing operations to be between $490 million and $510 million. We also expect that our second quarter adjusted EBITDA will be in the range of $90 million to $95 million.

For the full year 2021, revenue is projected to grow by approximately 5 percent. And we are raising our outlook for adjusted EBITDA by $10 million to now between $380 million and $390 million.

We also expect around $15 million of cash taxes, $68 million of interest, as well as capital expenditures of around $135 million.

Turning to capital deployment. Our current plan is to focus on accelerating the robust pipeline of tuck-in opportunities in front of us. We feel confident in our ability to achieve the high end of our target of $40 million to $60 million of tuck-ins this year, and as Tom discussed, we will fund a new $50 million opportunistic share repurchase program.

Before I turn the call back to Tom, I would like to point out that our exposure to commodity inflation is relatively small. Our materials are recycled and our main expense item subject to inflation is labour, as the cost of making and delivering our water solutions is predominately labour, and we have taken price increases that has allowed us to stay ahead of inflation. Within cost of sales, the impact of third-party freight is up slightly compared to recent quarters and that effect is embedded in our outlook.

In terms of our growth algorithm after 2021, we expect to grow organic revenue by roughly 5 percent per year, generate an incremental 20 to 30 basis points of adjusted EBITDA margin improvement annually, and add incremental $5 million to $10 million of inorganic adjusted EBITDA annually from accretive tuck-in acquisitions.

I will now turn the call back to Tom.

**Tom Harrington**

Thanks, Jay. Moving forward, we are focused on executing our differentiated Water Your Way platform in our key focus areas to drive the success of the business. Our priority has always been and will continue to be the health and safety of all of our associates, customers, and suppliers.

We will leverage our pure-play water model to drive organic revenue growth by approximately 5 percent. We will continue to enhance the customer experience through improving customer-facing tools and building out a more diverse E-commerce solution.

We are improving our My Water+ mobile app and E-commerce sites, developing meaningful relationships with new online retailers, engaging customers with new and exciting promotions, and implementing rewards programs.

We're developing new customer acquisition strategies to diversify our acquisition channels, further reduce our cooler quit rate, and improve customer retention.

In Europe, we are accelerating our Water Refill, Water Exchange, and Water Dispenser businesses to diversify our customer base and capture growing demand in the residential market. Last month, we began to introduce dispenser sales in Europe. Although these sales are off of a very small base, initial excitement levels are high.

Our existing presence and leadership position in Europe makes the rollout of these products and services relatively low cost. These efforts are well underway, and we expect to see the benefits as the year progresses.

Additional focused areas include protecting our efficiency improvements and leveraging our highly variable cost structure, remaining focused on the identified synergy actions related to the Legacy Primo acquisition, identifying and executing highly accretive tuck-in acquisitions across North America and Europe, and seeking new ways to further improve our standing as an ESG and sustainability leader, including our new goal of achieving carbon neutrality in our global operations before this year is up.

As Jay noted, we expect our consolidated second quarter revenue to be between $490 million and $510 million and for our adjusted EBITDA to be between $90 million and $95 million. For full year 2021, we are forecasting revenue growth of approximately 5 percent and for adjusted EBITDA to be in the range of $380 million to $390 million.

We expect to see sustained strength from our Water Direct residential customer base and in other at-home channels and improvement from our Water Direct commercial customer base as we progress throughout the year.

With that, I'll turn the call back to Jon to move us to Q&A.

**Jon Kathol**

Thanks, Tom. During the Q&A, to ensure we can hear from as many of you as possible, we would ask for a limit of one question and one follow-up per person. Thank you.

Operator, please open the line for questions.

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## Q&A

**Operator**

And as a reminder, to ask a question, you need to press *, 1 on your telephone keypad. Again, that is *, 1 to ask a question.

And your first question comes from the line of Kevin Grundy of Jefferies.

**Kevin Grundy** — Jefferies

Great. Thanks. Morning, everyone.

**Tom Harrington**

Morning, Kevin.

**Kevin Grundy**

Hey. Two questions for me. First on guidance and then second on capital deployment. So first with respect to the guidance, you maintained your revenue outlook; took up your EBITDA outlook, which is encouraging. It sounded like there'll be some incremental benefit from tuck-in M&A. Can you just talk about maybe some of the other factors driving your improved earnings outlook?

**Tom Harrington**

Yeah. Well, partially it would be the uncertainly about the first quarter. So we did do better than we expected, which gives us confidence as we move through the year. We're also encouraged by the early results in April. So it just fortifies, if you will, or strengthens our confidence in delivering against that commitment.

**Kevin Grundy**

Okay.

**Tom Harrington**

And your comment on tuck-ins is also worthy of note. If you think about it, we've historically done $40 million to $60 million over the course of a year. So when we say we've pulled them forward, we would still hit the high end of the range but, frankly, do it in nine months or less, right, because we haven't done anything to date.

**Kevin Grundy**

Understood. Yeah. I was going to pick up on that too. Just more broadly, though, with respect to accelerating tuck-in M&A and then with the buyback announcement, just to put a finer point on this, is it fair to say there's likely a longer-term timeline with respect to larger-scale M&A? Because I asked that in context. I think there was some ambiguity around the Nestlé deal post the acquisition there from One Rock and Metropoulos that maybe there was some potential that there would still be some opportunity there. I suspect that that is not likely, particularly given your commentary around accelerated M&A and then the buyback announcement. If you could just confirm that. And then relatedly maybe just talk about the cadence of tuck-in M&A and buybacks in your outlook. And then I'll pass it on. Thanks.

**Tom Harrington**

All right. I'll take the first one and then I'll have Jay cover the back end. The former ReadyRefresh business BlueTriton continues to make strategic sense, but frankly it's a nice-to-have, not a must-have for us. And we, of course, will maintain our financial discipline.

But the good news is there are good things happening in our company. We have a robust tuck-in pipeline of $40 million to $60 million. Jay can talk about the cadence. We approved the share repurchase of $50 million, which is a way to return capital to our shareholders. We're continuing our dividend. We're going to invest in CapEx. And we believe as countries come out of the lockdown that we'll see a nice rebound on commercial.

I'll give you one example. In the month of April, in Israel—small, 5 percent of our business overall—we enjoyed 60 percent top-line growth, and they're open. So that gives us real confidence in how our business completes.

So we're focused on what we do, which is get that 5 percent top line, manage our costs, enjoy the benefit of the returning as lockdown change over time.

**Jay Wells**

And on cadence of tuck-ins, it's definitely going to be back-half of the year weighted. We've got a very good pipeline going now, but it takes time to get through due diligence and finalizing the deal. So wouldn't expect to close anything much first half of the year. It would really be the second half of the year.

And with regards to the guidance we give, I really don't include tuck-ins in my guidance until the acquisitions are completed. So my guidance currently does not include the benefit of any tuck-ins.

**Kevin Grundy**

Okay. Very good. Thank you, guys. Good luck.

**Tom Harrington**

Thanks, Kevin.

**Jay Wells**

Thank you.

**Operator**

Your next question comes from the line of John Zamparo of CIBC.

**Jay Wells**

Hi, John.

**John Zamparo** — CIBC

Good morning, everyone.

**Tom Harrington**

Morning, John.

**John Zamparo**

I wanted to start with customer behaviour, and I would like to get your thoughts on whether you think the additional residential customers you've added over the last, call it, 12 to 14 months can be sticky in a post-pandemic environment? Like I appreciate the colour on Israel. That's interesting. But you also referenced the slightly higher quit rate. But just would like to get your thoughts on any insights you have on customer stickiness for the longer term.

**Tom Harrington**

Yeah. If you look at our quit rate, it was 19.8 versus like 19.6 something. So it was really flat on a year-over-year basis. We're not seeing any behaviour differences in terms of how residential customers perform post-pandemic than, frankly, pre-pandemic other than our investments in customer service and the app and all the delivery side of our business has generally made customers stickier.

And then on the commercial side, it really comes down to when do they reopen, right? So we see the small business reopening. But Jay's point, there are still restrictions on how many people can sit in a barbershop; how many people can sit in a dentist shop. So while they're open, the consumption is a little bit lower. So that, to us, is a tailwind that should help us go-forward.

So we're pretty pleased with where the residential and the commercial customer bases sit today and frankly, April only improved—

**Jay Wells**

Yeah. I mean, John, you look at April—that's one thing I'm sure we're going to get asked a question on—North America Water Direct and Exchange is up a little over 13 percent in April. And that's with the residential being up a little over 4 percent and commercial as more normalized is up plus 25 percent. You look at Europe, which is also normalizing. I mean, our Europe business is up over 30 percent. And you look at Israel that has fully reopened, April was up more than 60 percent.

So we are seeing residential, now that we've done lapping Q1 going into April, residential growing at 4 percent to 5 percent. That's showing we're maintaining our customers and growing that business. And the commercial re-openings are starting to show in our volume now that we're done lapping Q1.

**John Zamparo**

Okay. That's very helpful. Thank you for that. And then my follow-up is on the E-commerce side. I'm curious what you can disclose here either on percentage growth or percentage of total sales, but would just appreciate any more colour on the E-commerce side of the business, whether internally or through your distribution partners? Thanks.

**Tom Harrington**

Yeah. That business today is small. So we could double that business and, frankly, it would have very little impact on us. But importantly, and we referenced this in our last call, we've made some investments on digital leadership. So we're upping our game on all things digital, which will manifest itself in our existing sites, be it water.com or sparkletts.com as an example. But it'll also extend into our Legacy Primo E-commerce transactional sites, which is a way for us to sell more dispensers.

So we're bullish about where it goes, but we have to build all the capabilities to take advantage of this and scale it. And we'll scale it, frankly, both in North America and across our Eden business in Europe and Israel.

**John Zamparo**

Okay. Understood. Thank you very much.

**Tom Harrington**

Thanks, John.

**Operator**

Your next question comes from the line of Daniel Moore of CJS Securities.

**Tom Harrington**

Morning, Dan.

**Daniel Moore** — CJS Securities

Morning.

**Tom Harrington**

Hello, Dan.

**Daniel Moore**

Good morning, Jay. Good morning, Tom. Thanks for taking the questions. Maybe just a little bit more colour in Europe. It sounds like you would maybe describe it at least as having stabilized in terms of the commercial business. Talk about the green shoots you're seeing there and sort of sequential growth month to month. You mentioned year over year, but just any more colour there would be helpful.

**Tom Harrington**

Yeah. So if you go back, and it's in the first part of January it was challenging because there was a spike in Europe post the Christmas and New Year's holiday, so. And then it recovered. And then there was because of some growth in cases, you saw a little bit more lockdowns. March appears to have stabilized.

We're pleased with where we are in April, but year-over-year comp, of course, it was bleak last year, as you'll recall. And right now, that's pretty encouraging because that's coming out of the Easter holiday in Europe, right? So we didn't see meaningfully different lockdowns.

So we think the business, and we see it by country, it's recovering country by country. They're all a little bit different. Eastern Europe is performing a wee bit better than Western Europe, and we know that over the course of the next quarter is that we'll expect to grow our business in Europe based on the experience of last year.

Israel, it's true, that's been the single biggest change, right? But they're open, right? So it really depends on how quickly people open. Take it to California, right? So if California opens on June 15th, it really depends on how they define open. But that on the North American side gives us some optimism about how the commercial business will perform here in the States.

**Jay Wells**

And on rolling out our 4R model to Europe, we're progressing really well. In April, we started selling dispensers in Europe. Early stages, but that is good that we've begun it. Exchange locations; last quarter talked about rolling out the Baltics in Russia, and we filled in some gaps and now have right around 1,000 units out in market there.

We're seeing encouraging traffic and conversion of our E-commerce websites in Europe. So overall, you have this sequential trend. We're still not seeing anything dramatic year over year. Growing 30-plus percent is key, but we're seeing the right trends start to take root over in Europe.

**Daniel Moore**

Perfect. And one more. You were very clear in your comments as it related to the ReadyRefresh assets; it's greatly appreciated. If the stars were to align at some point, how much due diligence would you have left to do? In other words, how quickly could a deal come together—

**Jay Wells**

Dan, I think—

**Daniel Moore**

—down the line?

**Jay Wells**

Dan, I think we've provided all the comments that we want on this topic. We're really excited how our business is performing and everything we have in front of us, and I think we've commented all we want to do on that opportunity.

**Daniel Moore**

Okay. Lastly, just your ability to attract the necessary labour and drivers without much inflation if say the recovery accelerates more than expected? Appreciate the colour.

**Tom Harrington**

Yeah. In terms of labour, there are pockets that are more challenging than others. We have a fully developed talent acquisition team that are focused on the hotspots. And they were less impactful today in Europe, but certainly in the US we have those pockets, and we're taking the appropriate steps to pay the correct wages to attract. And to Jay's point, we're taking pricing activities to make sure we cover the cost of inflation.

So we think that we have the right actions, tactics in place so that we can continue to provide customers the service they expect.

**Daniel Moore**

Perfect. Thanks again. Appreciate it.

**Tom Harrington**

Thanks, Dan.

**Operator**

Your next question comes from the line of Derek Dley of Canaccord Genuity.

**Tom Harrington**

Morning, Derek.

**Derek Dley** — Canaccord Genuity

Hi, guys.

**Jay Wells**

Hello, Derek.

**Derek Dley**

Morning. Good morning. Just one quick one for me as most of them have been answered. But with the sort of shift back to some commercial volumes coming back online here in quite a strong way, are there any other incremental costs, I guess, outside of labour that you would need to add? I mean, marketing was something you guys mentioned you were going to have a bigger push on the commercial side pre-COVID.

**Tom Harrington**

Yeah. So yeah, there's a couple of points here. So let's talk about the route operations and the customer delivery. We have certain expectations in terms of productivity. And you'll recall last year, we took actions that downsized very quickly. We'll put those back slowly so that we maintain productivity levels that we enjoyed when we took the actions last year. That's a key driver of our cost structure.

We have said and we will continue to build our investment on sales and marketing. So as the markets open, there's going to be an opportunity. And we'll make investments back into sales and marketing appropriately. Particularly if you think about the marketing side and as we invest and build out this digital platform, we're going to need to invest some resources there all around communicating to customers Water Your Way at the appropriate price for new customer acquisition costs.

**Derek Dley**

Great. Thank you very much.

**Tom Harrington**

Thanks, Derek.

**Operator**

And again, to ask a question press *, 1.

And your next question comes from the line of Andrea Teixeira of JPMorgan.

**Andrea Teixeira** — JPMorgan

Thank you. Good morning.

**Tom Harrington**

Hello, Andrea.

**Andrea Teixeira**

Hi. Good morning. I just wanted to follow up a little bit on the guidance. So I appreciate you raised—obviously, your synergies have been coming in better than anticipated and faster. So again, on the top line, I obviously understand the levels of urgency, of course, for the commercial business. But it seems as if April has been coming in strong. So help us understand how to bridge like the commercial against the residential.

Residential continues to be keeping its momentum. So is that just to see how the second half is going to play out before and it's too early to say and that's the reason why you've kept your 5 percent top-line growth? And help us bridge that too.

**Jay Wells**

I mean, there's a couple both top line and bottom line. Let me see if I can answer that question. You keep in mind, as part of our full year guidance, it is also lapping Q1, which we were lapping the pantry loading. Both Tom and I have talked a lot about that. So that's pushing down our full year average.

I think if you look at our guidance for Q2, we've guided about 10 percent growth as we were lapping the largest amount of shutdowns, lockdowns that happened last year. So when you look at the average of very complex first half of the year, we think 5 percent top-line growth is important. And you look at the EBITDA side, we are basically within our forecast, which shows roughly if you can take the middle of the range, $20 million of EBITDA, you could say $10 million is synergies and $10 million is true growth. And the pantry loading that we saw probably took I mentioned it last quarter; mentioned it again this quarter, high single-digit EBITDA-type effect.

So when you add that on, overall, I think we're very happy with both where our top-line and bottom-line guidance is while, at the same time, as Tom just mentioned, spending more behind sales and marketing to make sure we continue the organic growth we're talking about.

**Andrea Teixeira**

Mm-hmm. No. That's wonderful. And then on the announcement to put back the buyback program re-enacted like relative to your priorities. Obviously, I understand  the transformational M&A that we discussed before would be a top priority and then tuck-in and then buybacks. Is that the way we should be thinking?

**Tom Harrington**

Yeah. I think if you think about 2021, we were cautious about tuck-ins coming out of 2020 because we didn't have clarity about how the world would develop.

**Andrea Teixeira**

Mm-hmm.

**Tom Harrington**

So we're going to take that $40 million to $60 million, as I said earlier, you'll see that in the back half, which is a fulsome opportunity for us in terms of how much we can actually execute.

So I wouldn't want to spend much higher than that over a let's call it a six-month period frankly. So we want to make sure that we do all the things that we're supposed to do to properly onboard new customers.

**Jay Wells**

And you look at our liquidity position for the year, the free cash flow we're going to generate, even after spending at the high end of our tuck-in range, we have the extra cash to look to do opportunistic share buyback programs. And that's where we're going to deploy our excess cash that we're going to generate this year.

**Andrea Teixeira**

Perfect. That's fair. I'll pass it on. Thank you.

**Tom Harrington**

Thank you.

**Operator**

Your next question comes from the line of Pavel Molchanov of Raymond James.

**Jay Wells**

Morning, Pavel.

**Jay Wells**

Good morning.

**Pavel Molchanov** — Raymond James

Good morning. Thanks for taking the question. I want to follow up on M&A. You obviously have a pretty diverse geographic footprint, and you can either add additional assets in existing areas of operation or potentially going into a brand-new geography, especially in Europe. Do you have a preference for either one as you allocate that tuck-in capital?

**Tom Harrington**

Yeah. There's a couple ways to think about it. Some will be driven by local market execution. So do we have the right team in place that can handle whatever size acquisition that is? We certainly prioritize returns first. Right? So the best returns go to the front of our list. But if you look—so we'll have several in the US. We also will have some in Europe, and we will extend to, hopefully, adjacent geographies. So it's not very easy for us to then hop the border, particularly in Europe as an example. So we're looking at opportunities in the Eastern European-ish market in real time.

**Pavel Molchanov**

Understood. Let me also follow up on the comment about kind of re-opening, lockdowns easing. At least in North America, the one exception to that is Canada with Ontario, Quebec, Alberta, couple other provinces in pretty harsh lockdowns at the moment. Are you noticing any worsening in those markets in the March, April time frame?

**Tom Harrington**

No. It's actually been better a little bit. Right? So it's still in the, to your point, pretty much full lockdowns. But we're beginning to see some green shoots on residential customer base. So we're also making some investments there, and that would go back—if you go back to the beginning of no-contact delivery and how consumers value that. So we're seeing some of that in Canada. But we expect Canada will be slower, based on the timing of when they all go through the vaccination process if they choose to.

**Pavel Molchanov**

Understood. Thank you very much.

**Tom Harrington**

Thank you.

**Operator**

And again, to ask a question press *, 1.

And your next question comes from the line of Carla Casella of JPMorgan.

**Jay Wells**

Morning.

**Tom Harrington**

Good morning.

**Carla Casella** — JPMorgan

Hi. Sorry about that. I was on mute. Sorry.

**Tom Harrington**

No worries.

**Carla Casella**

I was just wondering, so you've done the recent capital structure transaction with the bond issue. Anything on your plate in terms of further capital structure? You mentioned the buyback, but anything on the debt side?

**Jay Wells**

No. I mean, we are now very happy with our capital structure. Our debts are, both the euro and the US tranche, are all long maturity at good rates. So that is what we're looking to do. We have a little bit drawn down on our cash flow revolver and we'll use that off and on to do tuck-ins, operate the business. And that will move up and down a little bit. But on the senior notes, no plans to do anything more.

**Carla Casella**

Okay. And then also on your cost of goods sold and input costs, can you give us a bit of a breakout of your components of COGS how much of it is related to the resin or raw material costs versus labour versus transportation?

**Tom Harrington**

Our new bottle purchases, which is a big component, are capitalized.

**Jay Wells**

Mm-hmm.

**Tom Harrington**

And they're capitalized because we get 50 trips and they last for quite a long time. So it's not in cost of goods. And if you think about 50 trips on the price of a bottle, it's really de minimis in terms of its impact to us in terms of any resin changes.

And you will remember we also have energy surcharge and delivery fees that help offset energy cost changes and general inflation. So we've managed to avoid—we've implemented that policy and it's worked quite nicely for us to insulate those swings.

**Carla Casella**

Okay. Great. Thank you.

**Tom Harrington**

You're welcome.

**Operator**

As there are no further questions at this time, I'll turn the call back over to Mr. Kathol.

**Jon Kathol**

This concludes Primo's first quarter results call. Thank you, all, for attending.

**Operator**

And you may now disconnect at this time.