

Primo Brands Corporation

Second Quarter 2025 Earnings Conference Call

Event Date/Time: August 7, 2025 — 10:00 a.m. E.T.

Length: 86 minutes

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PRESENTATION

Operator

Good morning, my name is Marissa (phon), and I will be your conference Operator for today. At this time, I would like to welcome everyone to the Primo Brands Corporation Second Quarter 2025 Earnings 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 would like to withdraw your question, press *, followed by 2. Thank you.

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

Jon Kathol — Vice President, Investor Relations, Primo Brands Corporation

Welcome to Primo Brands Corporation's second quarter 2025 earnings conference call. The call is being webcast live on Primo Brands website at irprimobrand.com and will be available there for playback.

This conference call contains forward-looking statements regarding the Company's future financial results and operational trends, estimated synergies, impacts from economic factors, and other matters. These statements should be considered in connection with cautionary statements and disclaimers contained in the safe harbor statements in this morning's earnings press release and the Company's quarterly report on Form 10-Q and other filings with the SEC. The Company's actual performance could differ materially from these statements, and the Company undertakes no duty to update these forward-looking statements except as expressly required by applicable law.

A reconciliation of any non-GAAP financial measures discussed during the call with the most comparable measures in accordance with GAAP, when the data is capable of being estimated, is included

in the Company's second quarter earnings announcement released earlier this morning or in the Investor Relations section of the Company's website at ir.primobrand.com.

In addition to slides accompanying today's webcast to assist you throughout our discussion, we have included a copy of the presentation in a supplemental earnings deck on our website.

I am accompanied by Robbert Rietbroek, Primo Brands's Chief Executive Officer, and David Haas, Chief Financial Officer. To start their prepared remarks, Robbert and David will discuss the second quarter performance of Primo Brands as well as the outlook for the full year 2025.

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

Robbert Rietbroek — Chief Executive Officer, Primo Brands Corporation

Thank you, Jon, and good morning, everyone.

Before I turn to the quarter, I want to share that our hearts go out to everyone impacted by the devastating floods in Texas and New Mexico.

We recognize the deep and ongoing toll of a disaster like this and are committed to supporting local communities.

Aligned with our company's values, especially in times of critical need, Primo Brands has recently made a donation to the Community Foundation of Texas Hill Country, and during the quarter, we provided more than 150,000 cases of water products to emergency response organizations, including Convoy of Hope, an organization well known for being among the first responders to provide vital relief supplies.

Turning to second quarter performance.

Since closing the merger last November, we have been working quickly to integrate our operations with the goal of improving efficiency and productivity. The speed by which we closed facilities

and reduced headcount led to disruptions in product supply, delivery, and service. I'll discuss this in greater detail shortly.

That said, we are confident that we are now on the right trajectory as we enter the second half of the year.

Importantly, we never compromise worker safety and product quality and remain on track to deliver on our 2025 and 2026 synergy targets.

We believe that Primo Brands is well positioned as a leading branded beverage growth company in the CPG and beverage industry. We will continue to execute against our strategy and must-win priorities while resolving our service issues.

During Q2, we expanded our total points of distribution across key markets and channels, ramped up our cross-selling efforts in our home and office Direct Delivery business, and drove continued double-digit, year-over-year net sales increases for our premium water brands, Saratoga, and Mountain Valley, as well as our Exchange business. Our Refill and Filtration businesses also grew net sales during the quarter.

Our business continues to benefit from consistent demand for our products and services across Primo Brands's water channels. We have an incredible portfolio of all-American brands and continue to extend our leadership in US bottled water.

Our extensive distribution network of over 200,000 retail outlets and multiple consumption solutions, including direct delivery to more than 3 million customers and Exchange and Refill services, remains a significant competitive advantage. Notably, we grew dollar share in retail bottled water in the first half of the year by 11 basis points, demonstrating the overall strength of the business and differentiation of our products.

I would now like to spend a little more time on the two key disruptions that impacted our top line in the second quarter, one out of our control and one that we own responsibility for, both of which are largely resolved.

First, as we reported on our first quarter call, the Hawkins, Texas tornado in early April struck one of our facilities, resulting in significant damage that disrupted production and operations for seven weeks, including a temporary shutdown.

The facility primarily supports Ozarka retail products, and to mitigate the impact on our customers, while we rebuilt, we leveraged our other Texas and Southeast region facilities to deliver Ozarka and Pure Life bottled water to impacted areas, which introduced additional operational complexities. Altogether, we estimate the impact related to the Hawkins tornado reduced our second quarter net sales by approximately \$26 million or 1.5 percent.

While some repair work remains in progress, the facility is now back online, and we've made significant strides to rebuild our inventory levels of product supply to better serve our customers.

As David will discuss later, capital expenditures associated with building repairs are expected to be largely covered by insurance. We will also be submitting the business interruption impact to our insurance provider.

In the second quarter, we had significant disruptions in our Direct Delivery business, resulting from the combining, upgrading, and rationalizing of our operations.

During the quarter, we closed 40 facilities, bringing the total number of facilities closed since the merger to 48 facilities or 15 percent of our total network. And we reduced headcount by 1,100 full-time-equivalent roles in the quarter. In total, since the merger, we have reduced headcount by more than 1,600 roles, representing an 11 percent reduction across our organization.

Additionally, in the past few months, we have been integrating facilities, merging routes, and rationalizing technology, which included transitioning our Legacy Primo branches to SAP and introducing new handheld devices to a large portion of our workforce.

While the vast majority of our customers continued to receive the great service they expect from us, in some markets, the high-demand standardization initiatives and challenges from an accelerated integration collectively affected our inventory levels and fill rates. We prioritized speed and cost reductions, resulting in some customers experiencing rescheduled or cancelled deliveries on a recurring basis, product substitutions, and extended customer service wait times.

These disruptions began in late May, and we have been working tirelessly to address the underlying operational issues, stabilizing service levels, and optimizing our factory-to-branch transport and delivery routes.

Our manufacturing, supply chain, last-mile delivery, call centre, and IT teams are working together to restore the service levels our customers expect. We are grateful for the hard work of our frontline associates as they continue to manage through this transformational period and lead with agility and resilience. And we are equally thankful for our loyal customers who have been patient and understanding through these service disruptions.

Each quarter, I spend time visiting our manufacturing facilities across different states and markets. And this quarter, I visited the Hawkins facility to see the restoration and recovery efforts firsthand and thank our associates on the ground. I also went on additional route rides in recent weeks and months to directly interact with customers and solicit feedback from frontline associates to ensure progress against critical service measures is being made.

We expect to be past the majority of the challenges come the end of September, though there will be some lingering supply-side constraints that we expect to normalize in approximately 8 to 10 weeks.

Importantly, our underlying business continues to show resilience, and water remains an attractive category with structural tailwinds supporting its growth.

As a backdrop, we continue to see significant consumer interest in water quality, driven by ongoing environmental concerns and infrastructure challenges across the United States.

Our diverse portfolio, spanning multiple price points and channels, enables us to adapt to shifting consumer dynamics, particularly given our product's value proposition relative to municipal water options.

While the macro consumer environment remains somewhat soft for many CPG companies, we continue to see robust demand for our products and services.

Demand remains strong in our retail business, where several weeks of colder-and-wetter-than-usual weather from mid-May to mid-June led to multiple weeks of category softness, especially impacting the Northeast, our Poland Springs market.

However, retail scans rebounded as temperatures rose in late June and July, with our share outperforming category scans by approximately 170 basis points in the last week of June, with the momentum accelerating in July.

Circana shows we expanded retail dollar share by 48 basis points in July, driving five weeks of consecutive share growth. Combining this with our first-half retail dollar share growth of 11 basis points, our year-to-date dollar share has expanded by 17 basis points.

We achieved strong distribution gains during the second quarter. With total retail points of distribution growing over 10 percent, we continued to work closely with retail partners to bring our improved scale and wider product portfolio to them and their shoppers.

Week-to-week velocities can vary in the initial post-launch stage as consumers familiarize themselves with new items, but the incremental placement in retail stores positions us to drive overall growth, as demonstrated in July, where we accelerated dollar share growth.

On the marketing front, our partnership with Major League Baseball has expanded our branded presence to fans across the nation. You may have noticed that Deer Park, the official water of the MLB, sponsored the red carpet show at the All-Star Game last month in Atlanta.

Turning to our Direct Delivery performance.

Despite Direct Delivery disruptions in the second quarter, our commercial, residential, and Exchange customers continue to show strong demand.

Early in the quarter, tariff-related announcements drove retailer uncertainty, including sell-in to our dispenser business, which saw a year-over-year net sales decline. Dispensers remain an important point of entry for our large-format business.

As we have previously noted, our exposure to tariffs is primarily concentrated in our Dispenser business, which accounts for approximately 1 percent of our overall net sales. Historically, because there is no US-based dispenser manufacturer that can meet our volume requirements, we have been able to claim relief for most tariffs and duties related to our dispenser purchases. It remains to be seen whether such relief will be granted going forward.

Primo Brands continues to maintain strong competitive positioning versus our peers, many of whom make and sell imported water products subject to tariffs. With the exception of water dispensers,

our products are domestically sourced and locally manufactured, and more than 98 percent of our sales are US-based.

Our customers continue to recognize our attractive value proposition as we are seeing continued strong demand from both residential and commercial customers. I am particularly pleased with our progress in cross-selling and upselling products from both legacy organizations in our home and office Direct Delivery channel.

We are now providing customers the option to choose between their usual purified water brand or a regional spring water brand such as Poland Spring for a premium price. Additionally, we have started offering delivery of branded case packs directly to customers' homes, alongside their standard large format orders. We expect continued sales contributions from these efforts as we increase penetration in the second half of the year.

Finally, turning to an update on our premium water channel, where our brand performance continues to shine with 44.2 percent net sales year-over-year growth in the second quarter.

Like consumers, key retail customers are excited about these brands, and our total points of distribution growth in the second quarter was fueled by expanded Mountain Valley and Saratoga PET offerings at Walmart.

Additionally, this spring and summer, Mountain Valley and Saratoga received prominent placement with social media influencers, athletes, professional sports teams, conferences, and award shows. For example, Mountain Valley was the official water of the Academy of Country Music Awards in May.

Looking ahead, we are focused on addressing elevated demand for our premium products and ensuring their availability for all customers and consumers seeking our iconic green and blue bottles on their shelves and in their homes.

During the quarter, we broke ground on a new Mountain Valley production facility in Hot Springs, Arkansas, which we expect to be operational by mid-2026. This facility is expected to unlock our current supply constraint so we can better meet demand and continue the brand's growth trajectory.

Before I turn the call over to David, I would like to talk more about our integration and synergy capture plans.

As I mentioned earlier, our overall synergy capture opportunity remains on track, and we expect to deliver approximately \$200 million in synergies in 2025, increasing to \$300 million in total synergy capture by year-end 2026.

Our integration teams are working to streamline processes, optimize our network, and enhance our long-term customer service capabilities. While these activities stress tested our manufacturing, supply chain, and go-to-market capabilities during Q2, we've addressed the most constrained areas of our operations and are on the right track to return to strong service levels going forward.

Looking ahead, the combined manufacturing, transportation, branch, and IT infrastructure of Primo Brands is expected to deliver substantial long-term benefits once fully optimized.

We remain confident in our ability to deliver on our synergy opportunity targets and create sustainable value for our stakeholders.

We have a resilient business model that is positioned to deliver our long-term growth algorithm with an attractive margin and earnings profile over time.

Despite the disruptions we faced in the second quarter, our comparable adjusted EBITDA margin increased 80 basis points to 21.2 percent.

As we shore up our service issues, expand our sales network, and restore our top-line growth, we expect strong operating leverage to drive improved earnings performance and cash flow generation.

We believe we have learned from Q2, and as we enter the third quarter, we believe Primo Brands is becoming a more cohesive and resilient organization, well positioned to deliver growth, improve margins, and generate strong free cash flow as we go through the balance of the year.

With that, I would like to turn the call over to David to review the financials and guidance.

David Hass — Chief Financial Officer, Primo Brands Corporation

Thank you, Robbert.

Let me walk through our financial performance for the first half of 2025, the second quarter, and details around our revised guidance.

The GAAP financial comparisons in this morning's press release reflect the 2025 results of the new Primo Brands versus 2024 results of the legacy Blue Triton business. This is a typical GAAP reporting outcome of a merger transaction, which can lead to growth metrics that are not comparable.

To assist with more apples-to-apples comparisons, we will be primarily discussing comparable results, which incorporate the combination of both legacy organizations, while adjusting for the exited Eastern Canadian operations for both years 2024 and 2025.

Comparable net sales were essentially flat when compared to the prior year at the halfway mark in the year and included growth of 0.6 percent when factoring in the leap-day impact.

The business had a strong start to 2025 with Q1 2025 net sales rising 3 percent, or 4.2 percent when adjusted for the leap-day impact, coupled with disruptions in the second quarter that I will discuss in a moment.

As we mentioned during our earnings call in May, we started the second quarter with the impact of a tornado that struck one of our largest production facilities. Some additional headwinds began in late May as the cumulative effects of product supply issues led to missed deliveries and created disruptions resulting from our integration initiatives. We will dive into those details in a moment.

Momentum in our premium water category continued its strong start with first half 2025 net sales growth of 46 percent, all coming from volume gains related to brand strength and increased points of distribution.

Additionally, our Exchange business grew 14 percent, and our Refill business grew approximately 8 percent.

Volume gains were made across our Grocery, Mass Merchant, and the Other channel, which is largely comprised of home improvement and natural food retailers.

At the comparable adjusted EBITDA line, we were able to capture a 6.2 percent increase during the first half of 2025, well ahead of our comparable net sales growth, while expanding comparable adjusted EBITDA margin by 120 basis points.

For the second quarter, comparable net sales declined 2.5 percent when compared to the prior year.

The largest components of this decline include approximately \$26 million in lower sales from disruption related to the Hawkins tornado, which primarily impacted our Ozarka brand and, to a lesser degree, our Pure Life brand. Without this impact, the overall retail business would have posted year-over-

year growth. Approximately \$10 million in lower sales in our Dispenser business related to tariff volatility, which created retailer indecision on selling orders. And approximately \$6 million in our office coffee service, or OCS, business, as we began to unwind and sell off various routes related to this dilutive, noncore piece of our business.

The cumulative impact of these activities was approximately \$42 million, which would have put the business flat versus the prior year within the quarter.

Separately, we experienced some weakness in our retail business, unrelated to the tornado impact, as the category navigated poor weather in core geographies, leading to several weeks of softer-than-expected demand in the bottled water category, including our products.

We see signs of improvement based on our total points of distribution gained versus the prior year and strong retailer-scanner data to kick off the third quarter.

Shifting to the Direct Delivery business. As Robbert mentioned, we experienced some disruptions as the first waves of integration impacts caused product supply and delivery service in late May, and we were unable to fulfill strong demand from our customers.

These friction points in our integration were not anticipated, but we believe that as our product supply stabilizes, this business will resume accretive performance to our long-term algorithm. We believe this portion of the business will stabilize in late Q3, and we'll discuss more about how this impacts our revised financial guidance in a moment.

Integrations can be challenging, particularly when merging two established leaders, but we have moved quickly to address the product supply issues and expect to return to growth as we exit the year.

The comparable net sales decrease for the quarter was driven by a 2.3 percent decrease from volume and a 0.2 percent decrease from price or mix. As a reminder, volume for Primo Brands is defined as case goods equivalents, which are measured as 12 litres.

The challenges in volume were directly related to the items previously discussed, including our temporary inability to fulfill some customer demand in our Direct Delivery business. We believe our shortfall was largely driven by correctable product supply issues.

A bright spot is that we continue to see growth in our premium branded portfolio with a net sales increase of 44.2 percent in Q2.

We are expanding capacity to meet the future growth trajectory of these brands.

Comparable adjusted EBITDA increased 1.3 percent to \$366.7 million with comparable adjusted EBITDA margins of 21.2 percent, an increase of 80 basis points versus the prior year.

Within these results, our synergy capture continued, although we realized inefficiencies as we looked to stabilize our product supply to meet the demand of our Direct Delivery customers.

The pursuit of our factory closures across production and branches, in addition to routing, as part of the integration, resulted in short-term disruption to the supply and service of our products to our Direct Delivery customers. We do not see signs of customer weakness that could be related to the overall macroeconomic factors and thus believe that we can resume our long-term growth algorithm once we stabilize our service.

Part of our revised guidance factors in the activities required to stabilize the Direct Delivery business, including temporary product discounts and win-back campaigns for those customers who might have quit as a result of these integration-related disruptions.

We continued reducing long-term costs in the quarter by delivering another wave of integration activities. We actioned another \$20 million of synergies within the quarter. We believe this puts us on pace to achieve approximately \$200 million of in-year synergy capture with the remaining \$100 million coming in 2026.

While we are pleased with the process of executing our integration plan, it has led to some disruptions in our business that is preventing us from fully realizing the benefits of the integration within the P&L. This has also resulted in adjusting our financial guidance for the year, which we'll discuss in a few minutes.

Progress included a significant number of facility closures across infield production and branch operations during the quarter. These reductions helped drive the incremental \$20 million in synergy capture during the quarter, with approximately \$60 million of synergies realized year to date and \$140 million in estimated annualized cost savings based on the actions to date.

Offsetting some of the gains were actions taken to stabilize the business across product supply, product distribution, and extra costs related to delivery and service to support customer activities, including retention.

Now let's shift to our balance sheet and cash flows.

At the end of the first quarter, debt capital, gross of deferred financing costs and discounts, totalled approximately \$5.2 billion.

The credit agreement amended in February as part of a series of debt transactions includes a \$750 million revolving credit facility. This facility remained undrawn at the end of the second quarter, providing us with approximately \$612 million of available liquidity after accounting for standby letters of credit totalling approximately \$138 million.

Our liquidity remained strong with approximately \$412 million of unrestricted cash on the balance sheet. When combined with the \$612 million of availability under our revolving credit facility, this brings our total liquidity to approximately \$1 billion.

At the end of the second quarter, our net leverage ratio was 3.44 times.

Accordingly, today, our board announced a \$250 million share repurchase authorization. The board recognizes the fundamental long-term value opportunity of purchasing our shares at current valuations.

Moving to cash generated from the business.

In the second quarter, Primo Brands generated \$155 million of cash flow from operations. When accounting for significant items, including but not limited to our integration and merger activities, our cash flow from operations would have totalled \$218 million.

Additionally, we invested \$48 million in capital expenditures, excluding integration-related CapEx, which resulted in adjusted free cash flow of \$170 million.

When compared to the prior year on a combined basis, this resulted in adjusted free cash flow growth of \$23 million.

A key metric we track closely is our conversion of adjusted free cash flow to adjusted EBITDA. On a trailing 12-month basis, our adjusted free cash flow totalled \$718 million, yielding a conversion ratio of 51.6 percent.

Looking ahead, we remain focused on disciplined capital allocation while maintaining a strong balance sheet to support our ongoing integration and growth initiatives.

We plan to continue to prioritize reducing our debt and maintaining our investment-grade credit profile and plan to take advantage of opportunities to repurchase shares with our newly authorized share repurchase program.

Last week, our Board of Directors authorized another quarterly dividend of \$0.10 per share of Class A common stock, which represents an 11 percent increase over last year's quarterly dividend rate at Primo Water.

Let me now provide our updated outlook for the remainder of 2025, which reflects our anticipated recovery initiatives to address our operational disruptions.

Given the temporary headwinds that we faced in the second quarter that slowed our growth trajectory versus our original guidance, we are revising our full year comparable net sales growth expectations to between flat and 1 percent. This adjustment accounts for disruptions in our business in the second quarter of 2025 as well as recovery actions in the back half of 2025.

In total, our revised guidance net sales midpoint equates to a 350-basis point reduction from the midpoint of our original guidance.

Approximately \$69 million of the net sales guidance reduction, or approximately 100 basis points, is related to the headwinds from the three short-term items we have discussed today: one, the impacts of the Hawkins tornado realized in the first half results, approximately \$26 million; two, dispenser tariffs impacting sell-in orders for the year, approximately \$16 million; three, our office coffee services, or OCS wind-down, approximately \$27 million. The sum of these items remains largely onetime in nature.

Specifically on the OCS business, we previously mentioned that we would assess our brands and services as we started to integrate the businesses. Like with our Eastern Canadian operations that we exited and sold the related property earlier this year, the OCS business does not fit our long-term strategy.

The OCS business includes the sale and rental of coffee brewing equipment and various related coffee accessories and coffee products. We have experienced weakness in this business for the past few years and began selling off many of these routes during the first half of 2025. While we understood this was a possibility when we laid out our fiscal 2025 guidance, we have been able to sell routes faster than expected.

Going forward, the OCS business is a noncore offering we will remove from the business to reduce our complexity. This business previously contributed approximately \$54 million annually with limited growth. By year-end 2025, we expect the business to contribute approximately \$27 million in net sales and, thus, the \$27 million decline in our guidance as mentioned previously. Our goal is to exit or wind down this business without future financial activity as we head into 2026.

Due to Discontinued Operations accounting rules, we are unable to exclude this business from our operating results, and we are providing clarity for purposes of explaining our revised guidance. And we expect to address this again when providing our 2026 financial guidance.

This business sits under Other within our net sales by water type and under Direct Delivery within our net sales by trade type disclosure tables listed in our earnings supplement.

Of the remaining 250 basis points in net sales guidance reduction, approximately 140 basis points is related to the previously mentioned disruptions in our Direct Delivery business, and the remaining 110 basis points is related to softness in the retail category due to the weather impacting key geographies, which was largely experienced in the first half of the year.

While we remain a single-segment reporting company as we go to market across our various water brands within channels of trade, in the second half of 2025, we believe our retail offerings, or small

format, will experience strength with net sales growth of approximately 2 percent at the midpoint and even stronger if we were to perform at the higher end of our revised guidance.

Our Direct Delivery offering, or large format, is still on a pathway to recovery within the third quarter, and we believe we'll exit the fourth quarter resuming growth. We remain optimistic about the customer demand generated and believe we will fulfill a larger portion of these orders as our product supply and delivery actions stabilize with improved service.

We are also lowering our adjusted EBITDA guidance to approximately \$1.5 billion with an implied adjusted EBITDA margin of 22.2 percent at the midpoint, approximately 80 basis points below our original guidance.

The decrease in anticipated adjusted EBITDA and margin is largely related to our net sales guidance reset and partially tied to disruptions in the business from the Hawkins tornado, investments in our Dispenser business to support retail orders due to the impact of tariffs, and other anticipated recovery actions across the balance of 2025 in stabilizing our Direct Delivery product supply and service.

We remain committed to achieving our in-year 2025 and overall synergy capture opportunity totals by the end of 2026. With our synergy capture opportunity intact, this leaves the base business a bit behind schedule versus our original expectations, largely as we work to improve and stabilize our product supply and deliveries. We believe once things have improved, we will be able to fully retain the benefits of the synergies, and our business margins will be more in line with our original margin assumptions.

Moving on to capital expenditures.

We are maintaining a forecasted run rate growth and maintenance CapEx budget of approximately 4 percent of comparable net sales, plus integration-related CapEx across 2025 and 2026.

Separately, we are working through the anticipated restoration costs at our Hawkins, Texas facility, though insurance proceeds are expected to largely offset these expenses.

Our base CapEx spend included \$115 million of spending in the first half of 2025, representing approximately 3.4 percent of our first half comparable net sales.

Additionally, our integration CapEx was a minimal \$26 million in the first half of 2025. We expect our integration-related CapEx to ramp sequentially.

As a result of the guidance adjustments previously mentioned, we are revising our adjusted free cash flow projections to a range of \$740 million to \$760 million. This incorporates the impact of operational disruptions and integration-related achievements and retains approximately a 50 percent conversion rate of expected adjusted EBITDA.

While this represents a dollar reduction from our initial guidance, we expect cash flow generation could improve based on the timing of our CapEx spending, integration recovery initiatives, including working capital actions, to drive improvements.

As a reminder, this forecast assumes adding back acquisition and integration costs, in-year integration-only CapEx, and reimbursed repairs for the Hawkins facility impacted by the tornado, as well as the benefit of after-tax in-year synergy capture.

While we fully acknowledge the near-term disruptions, we remain confident in our ability to execute our recovery plans that are well underway. The revised guidance delivers improved performance as we progress through the remainder of 2025 with our operations reaching optimized levels during the fourth quarter and resume our long-term guidance in 2026 and beyond.

With that, I will now turn the call back to Robbert for any closing comments.

Robbert Rietbroek

Let me conclude by addressing our path forward.

Looking ahead, while we have adjusted our current year's growth expectations, we are confident in our post-2025 long-term growth algorithm of 3 percent-to-5 percent organic net sales.

I also want to express my appreciation to our team of Primo Brands associates for their hard work and dedication.

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

Jon Kathol

Thanks, Robbert. To ensure we can address as many of your questions as possible, please limit your inquiries to one question and one follow-up. Operator, please open the line for questions.

Q&A

Operator

Thank you so much. Ladies and gentlemen, we'll now begin the question-and-answer session. Should you have a question, please press *, followed by 1 on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to remove your hand from the queue, please press *, followed by 2. If you are using a speakerphone, please lift the handset before pressing any keys. Just a moment for your first question.

And your first question comes from Nik Modi with RBC Capital Markets. Please go ahead.

Nik Modi — RBC Capital Markets

Yeah. Thank you. Good morning, everyone. Maybe we can just start with—and I'm sure a lot of folks have had this question—in terms of, Robbert, your confidence around integration pathway going

forward, I mean how much was actually accomplished, meaning how much more would you have to do in the back half of the year in terms of route consolidation, maybe warehouse consolidation?

And what does it exactly mean by normal, things getting back to normal by the end of September? Any clarity on that would be helpful.

Robbert Rietbroek

Okay. Yeah. Thanks, Nik. I'll start high level, and I'll get a bit more specific.

But we started at about 310 facilities, and we're going down to 250 approximately. Right? And so we've closed 48 to date. We've currently planned about 11 more to go for the balance of the integration, which is there's three more phases. There's a phase in September, one in February next year, one in March. Most of those are technology conversions.

So, so far, we've streamlined routes. We've closed 48 facilities; that's a 15 percent reduction in the footprint. And we've optimized headcount by now 1,600 FTEs; that's about 11 percent. We've also discontinued five brands, brands like Deep Rock, Crystal Rock, Mount Olympus, and we've replaced those with our regional spring water brands.

Now, we had extensive integration planning, but due to the speed of integration—we clearly prioritized speed—we did temporarily experience supply shortages. But we've addressed that, Nik, by adding modular racks, thousands of bottles, and worked with engineering to ensure that our production lines are now completely compatible with the existing fleet of racks and bottles of both companies.

We've also converted to handhelds in the majority of our existing staff.

So that led to a bit of a disruption in the large format network, and that was exacerbated by high demand, led to shortages and missed deliveries.

But we have largely resolved these delays across the network, and we've learned a lot. We entered the third quarter far more cohesively as a company, more resilient. We're now battle-tested and well positioned to restore growth, improve margins, and generate free cash flow in the second half.

If you look at, what does it mean, it means that right now, whilst our retail service is usually in the high 90s, our last-mile delivery service rate dropped. But we're back at 92 percent. I track this every day. That means daily service rate is back at 92 percent, and we are working our way back to 95 plus, which is where you would have seen us in the pre-merger status.

So we expect to be past most of those challenges come September. There will be some lingering supply constraint that we expect to normalize in about 8 to 10 weeks.

So we've really learned from Q2, and we're working to ensure we have minimal disruptions to the end consumer in the next three waves of integration, which, as I said, are mostly technology conversions and approximately 10 more branch closures between now and March of 2026.

Hopefully, that clarifies your question.

Nik Modi

Yeah. It does. I'll pass it on and get back in the queue. Thanks.

Operator

Your next question comes from Peter Galbo with Bank of America. Please go ahead.

Peter Galbo — Bank of America

Hey, guys. Good morning. Thanks. Thanks for the questions.

I guess a couple of clarifications. David, it was helpful to get the kind of breakout of revenues in the quarter, and you outlined, I think it was something like \$40 million of discrete items. Within that, I think you had about \$16 million that was related to the office and coffee and then the Dispenser business,

which would seemingly flow through the Direct Delivery channel, as you outlined it. That business, again, based on our math, was down about \$20 million. So it would seem to account for the large majority of it. And I guess what I'm getting at is it implies that, I don't know, there was less than a \$5 million hit on Direct Delivery specifically related to integration hiccups in the quarter.

So I just wanted to test that math with you and make sure I understood it correctly. Because if that is the case, it would seem that it's maybe not as big of a hit as we're all seeing in the stock today.

David Hass

Yeah. So you're right in that office coffee and dispensers flows through Direct Delivery, as would things like Exchange. In the Q2 itself, Dispensers was about \$10 million of that with office coffee about \$6 million. I think a lot of the numbers I was providing in the walk were to help clarify what we're expecting up against the 4 percent original guide. That left Direct Delivery at about \$13 million in residual decline, excluding those already contributed parts that I broke out separately.

So you're correct in that it wasn't a great quarter in terms of being responsive to customers, but there are opportunities for tremendous strength as our delivery service rate and success rate has kind of resumed its upward trajectory.

Where we remain cautious is ensuring that product supply gets to the point of steady contribution and that our route service technicians or basically our individuals in the field can be more successful with their daily completion.

We are actually seeing units per route per day increase. We're seeing some efficiencies there, but it's not quite where we would want it to be at this time.

So again, we do have some attribution to pieces of the business that remain sort of noncore, and we remain very positive in the way we're approaching the recovery plans. It just ends up being a little bit

of a time and math exercise when you're talking to you here today in August of how much time we have to rectify the issue with how we wanted to handle the guide.

Peter Galbo

Okay. No. That's super helpful. Thank you for that on the kind of the 13 million residual.

I guess maybe just to follow up, it would be helpful just any puts and takes around the third quarter specifically as we're thinking about modelling. I know, David, you gave some kind of growth-rate expectations for the second half on, again, some of the different components or mixed channels. But anything specifically to 3Q, both on the top line and from an EBITDA-margin perspective would be great. Thanks very much.

David Hass

Yep. Absolutely. So again, we'll kind of speak to the high level looking at the full year.

Again, we fully anticipate the last mile or Direct Delivery business to begin its recovery as it has; continue that into September. That still may put the business at a slight decline on a year-over-year basis, but sequentially, ideally improving.

And that means that, really, when you look at our small-format pieces in retail, notably in our premium brands, that business coming out of the gate strong in Q3 with July scan data already mentioned. So again, it'll be a balance there where, on a sort of combined basis, we feel will start the right trajectory.

Where we really feel confident is when we get to Q4, having, largely, the Direct Delivery disruptions, behind us being able to start to exit 2025 with a nice exit velocity that provides more linear confidence in how we start 2026.

So again, won't get into the specifics on the quarter as we're really trying to be patient, attentive to our customer disruptions, and really try to resolve this as we look at a full year perspective.

Peter Galbo

Great. Thank you very much.

Operator

Thank you. Your next question comes from Derek Lessard with TD Cowen. Please go ahead.

Derek Lessard — TD Cowen

Yeah. Good morning, everybody. Robbert, I just wanted to maybe follow up on your comments around the service levels. I was just curious where that service level actually fell to in the quarter.

Robbert Rietbroek

Yeah. I think we temporarily dropped below 80 percent in the first weeks of May. So through April, when we started the conversion of the branches, rolled out the new handhelds, consolidated branches, we saw a significant disruption there for a short period.

We then started adding modular racks and bottles. We had a compatibility issue. We were running the Legacy Primo bottles through the ReadyRefresh network and discovered that we had an issue of de-capping and capping the bottles. We also learned about a compatibility issue with the racks where we put in optical eyes to be able to identify the racks.

I personally went to a number of manufacturing facilities to see what the issues were and how to address it. We have addressed those. We've added thousands and thousands of modular racks. Each of those hold about 40 bottles. And we've added millions of bottles to the extent that we've been adding about a half a million bottles a week over the last two months. And we had to ramp that up.

We discovered that because of the significantly reduced network, the distances between factories and branches were slightly elevated, and we needed a lot more bottles on hand. We, also, in the brand conversion, lost a number of bottles.

So we've been steadily going back above 80. And over the last three weeks, we've been well above 90. We were sitting at 90 and now we're at 92. In fact, we're above 92 this week. We're working our way back to this consistent, steady pace of 95 percent, what we call daily service rates. So the number of orders placed that we can fill on the day itself.

We also had temporarily something we refer to as multi-drag where a delivery gets delayed more than one day. We've addressed that decisively, and we're now back to normal delivery schedules in the majority of the markets. But again, it'll take us about eight to ten weeks to fully, fully recover.

Derek Lessard

Okay. That's very helpful and great colour.

And David, maybe I missed this, but the year-to-date, where are you guys on the year-to-date synergy capture for the \$200 million?

And then maybe what are the sort of the big buckets of synergy capture for the second half?

David Hass

Yeah. So we are on pace again to sort of achieve our in-year and 2026 values. That walk, at this point, includes approximately \$20 million we captured in Q1, a similar second \$20 million we captured in Q2. In aggregate, that puts us into the realization of about \$60 million year to date. But when you extrapolate those decisions out, it puts you on pace for the about \$140 million of annualized targeted actions.

As Robbert mentioned, we have a few phases to go with a large one coming up. And then the remaining activities in the field will largely be technology transitions.

So again, we're on pace to really take action on the majority of what we need to. And then it's really letting the residual impacts of those change management activities play out in the field.

Again, as we mentioned before, we'll resume 2026 with some internal sort of non-field-related activities in the first quarter of 2026, and that'll sort of help the cadence deliver where we need to go for the total synergy capture across '25 and '26.

Derek Lessard

Sorry, David. You said \$20 million and \$20 million Q1 and Q2 and \$140 million remaining?

David Hass

No, \$20 million and \$20 million and Q1 and Q2 when you annualize those out that gets you about \$140 million of action on the—

Derek Lessard

Okay.

David Hass

—comparable basis to what \$200 million would be.

Derek Lessard

Okay. Thank you.

Operator

Your next question comes from Andrea Teixeira with JP Morgan. Please go ahead.

Andrea Teixeira — J.P. Morgan

Thank you for taking the questions.

So can you, Robbert, can you talk about the client retention at the HOD business and how you progressed through the quarter? I mean I understand the service levels have improved, which is good news, but I think as you are trying to chase that, the synergy targets that David just mentioned, you probably, obviously, had some pains through the process. Right?

So as you think about like what you're calling for inflection in Q4, what are the assumptions by division, by retail, and by HOD? I appreciate the 250-basis-point impact that you called out in HOD. So perhaps that's the source of like inflection that goes away in the fourth quarter. Is that what you're assuming?

And then my follow-up is regarding the share in purified pack water at retail. Seems that you tested some of the discounts in some key retailers. So can you talk about the response and share dynamics so far?

Robbert Rietbroek

Yeah. Hi, Andrea. Thanks for the question. Very good question.

Let me just start by saying that our Refill, super premium Exchange, and retail business all grew in Q2. And the issue was entirely concentrated in last mile. Right? That's the big drag that drove us down. And on the retail side, we were impacted by the tornado for about \$26 million.

But the fundamentally, the underlying business health is strong. And what it really was is there's so much demand out there we couldn't fulfill because of internal supply disruption that led to service issues.

So we've been in that journey to restore the service level on last mile to now above 90 percent and well on our way back to 95.

And what I would say is we'll probably see a soft July, and a more stable August. And in September, we really should be sort of back to getting back to more normalized velocities and fill rates and sales on the last mile, with the fourth quarter truly being representative of the potential of the business.

With regards to retail, we're very confident in retail. We did see the first quarter much stronger than the second quarter. Right? The second quarter, it was impacted by the cold and wet weather in the Northeast. But the category retail volume year to date is up 160 basis point versus a year ago. And that indicates continued strength in consumer demand.

We also looked at panel data. Bottled water continues to attract new buyers and trip growth is up as well. So, Circana shows us that year to date, new buyers are growing about 50 basis points and trips are up 170 basis points versus a year ago.

So if you look at the first half, our dollar-scan growth of the category is up 1.4 percent. And if you look at Primo Brands, we were up 2 percent in the first half in retail. So that's why we are growing share in the first half by 11 basis points. We're actually the only large and branded manufacturer to grow both dollar scans and share in the first half in bottled water.

Now, the third quarter, we see strengthening. The category is up 1 percent. That's higher than Q2. Our dollar scans in Q3 in retail are up 3.7 percent versus a year ago. So that gives us that share growth of 48 basis points in the quarter to date.

And volume shows similar trends. The category bottled water retail volume is up in the third quarter, that's the month of July, by 40 basis points, and our volume scans are up by 130 basis points. And that drives that volume share growth that we're showing at 19 basis points in the third quarter.

So case packs, obviously, are a very good indicator. Circana data shows that case pack volume sales are up 170 basis points. And our purified case pack buyers, i.e., that's again panel data, are up 130 basis points.

So these are all pretty reassuring, I would say, fundamentals and metrics that we continue to stay focused on.

So the underlying health of the category is strong. The demand is there. It is really our ability to fill the demand, both in last mile and, less so in retail where we have fully restored from the tornado.

Andrea Teixeira

Perhaps, we don't see—that's super helpful. We don't see everything, even though we have both Circana and Nielsen here.

But perhaps if you extrapolate, so you're saying that even without Mountain Valley and Saratoga, which obviously you're growing leaps and bounds and 44 percent or 45 percent rounded up in the quarter, you're saying that even despite that you exit the quarter with purified market shares up. So just to make sure I get the data for all channels.

Robbert Rietbroek

I will come back to you on the specific market share for purified, but we see that the case pack business at a category level is up 170 basis points. Our users, our household penetration is up as well, and we're growing 130 basis points a user. And our volume growth, so far year to date is about 360 basis points in case pack.

So that's not the super premium segment. That is the sort of purified and regional spring water segment. So yeah. We feel good about that.

Andrea Teixeira

Thank you very much, Robbert. I'll pass it on.

Operator

Your next question comes from John Baumgartner with Mizuho Securities. Please go ahead.

John Baumgartner — Mizuho Securities

Good morning. Thanks for the question. Maybe first off, David, to clarify the integration issues, I think you mentioned customers who may have quit, I think was the term. And I'm curious if you can elaborate on that. Is it possible to quantify cancellation rates at this point? Are they elevated versus history? Could there be a lag in cancellations? Just your observation there, and then I have a follow-up.

David Hass

Sure. So as you recall, we came into this merger with a very strong customer base; both customer base that is known if we have a direct relationship with you, and two pieces of our business that are unknown, Exchange and Refill.

So when you look at Refill, which is a machine, an automated vended machine that has service technicians, that has been untouched through this integration. That business is performing incredibly well with high single-digits and, thus, has an implied customer base elevation and growth.

Exchange is another implied category where we're unaware of who you are, but we know you're shopping. And unless your consumption pattern changes, we have to assume that largely the volume growth is a beneficiary of more dispensers in the market and more households. So there again, with the strong growth we experience in Exchange, we have an implied household growth.

Now you come into the Direct Delivery, which both we, on a historical basis, and the ReadyRefresh pieces of the business combine their customer lists. We have seen some elevation in quits, largely in the June and July period, but that is always a lagging indicator of service. And so as service started to decline in April and May, that led to some of the June departures. And then as service persisted in June, that led to some of the July departures.

What we are incredibly enthusiastic about is what we thought was a benefit of merging is our digital acquisition opportunity where, as we consolidate websites and reduce the competing offers legacy

companies were throwing to their respective potential customers, we've been able to have digital ads that have really outperformed our expectations.

At this time, in some of those months where we've had some higher elevated departures, that's not been able to outpace that, but we remain very confident that as service stabilizes, that customer departure rate, the digital ads, plus our infield sales and other programs through Club will allow us to sort of resume our net organic additions that we've been very proud of and believe is obviously a very big beneficiary of the two Direct Delivery businesses coming together.

So, again, temporarily, we see that as an elevated level of departure. You can see that whether it be in Google or Trustpilot reviews, but we have seen those things stabilize. We have seen negative sentiment stabilize in the market. And I think that is a completely correlated impact of what Robbert's mentioned, where our operating teams are doing an amazing job of stabilizing service and improving that delivery success rate to our customers.

John Baumgartner

Okay. And then on the expense side, the comments about reinvesting to correct these issues, are these largely pricing concessions to mollify some of these consumers? Or is there also a business reinvestment component? You mentioned the rack and the bottles. I'm curious about the split in reinvestment there.

And then what it sort of implies about your synergy targets as you're getting into it. Are you learning that maybe your current targets risk cutting too close to the bone for this model? Thank you.

David Hass

Yeah. Absolutely. Good question.

So, again, we, I think, we feel we have a very good plan because really what you can't have are redundant locations on a long-term basis. You can't have two production facilities in the same geography where they are not at their efficiency points. So we believe that that plan was appropriate. Again, it comes back to the speed and pace of which we have executed that created some of the product supply challenges.

When you look at the first part of the question around investment, they're largely areas where there's been a delivery error or there might be a billing item issue with the conversion. And in that case, we have tried to be very accommodative with regard to customer credits as opposed to a pricing concession.

Where we will entertain some activities around customer concession is when we are looking through the customer departure group and having outreach and entertaining outreach with those to sort of have a welcome-back sort of opportunity for them that might provide either discounted or subsidized product for a period of time. But at this point, it's not generally a price discount.

And I want to clarify also that, in our synergy capture, which has largely been operational focused, we have not been executing pricing harmonization. We talked about that this whole time. It was our first priority to get the operational activities done before we would look at any of those pricing harmonizations done with the consumer or customer base.

So we still feel confident that when that service stabilizes, we'll have opportunities to sort of do that as we head into to '26.

John Baumgartner

Thanks, David.

David Hass

Appreciate it.

Operator

Your next question comes from Stanley Eric Sirota with Morgan Stanley. Please go ahead.

Eric Sirota — Morgan Stanley

Great. Thank you. It's Eric Sirota from Morgan Stanley.

Wanted to talk about, I guess, what's left for the integration for the second half. You talked about the next few milestones being largely technology transitions. But when you look at past CPG tech transitions, I know it's a large bucket, there have been—they've, in the past, caused operational issues for a number of companies. So I guess, maybe can you give us a little bit more visibility as to what these tech transitions are? And why you don't expect them to have any operational issue on product supply, billing, or order taking or anything like that?

Robbert Rietbroek

Yeah. I'll give some perspective and then if David would like to add, I would welcome that as well.

From an enterprise software standpoint, both companies were running on different platforms or either company. So one on SAP, the other one on Oracle. We're migrating the Company to SAP. That means that all of the invoice, the order billing, shipping, make, move, sell, as well as the handheld technology, is the one that's linked to SAP. So we decided to back Primo Water essentially into the ReadyRefresh infrastructure.

As we did that, we converted handhelds. We taught our teams in last quarter how to use the software, how to work with the geo-routing system, and we've also integrated some upgrades to those systems that Primo Water had already implemented.

So there's a change management component, there is a hardware component, and there's a software component to this changeover. I feel very confident that we've identified the challenges and already addressed them.

Now, there's still a number of upgrades we're going to be making to the handheld technology. We may migrate eventually to the iPhone over the next two years or so from the current handheld technology that we leveraged because of the fit for use.

So we're making some hardware changes, some software changes, largely identified the challenges, and have already addressed those in the go-to-market system, which is why we are now back at the 92 percent DSR, daily service rate, on our way back to 95 percent, and we've largely gone through change management.

David, do you have any additional thoughts?

David Hass

Yeah. I think the only quick thing I'd add is that's allowed us to get a laundry list of whatever change management or friction would have been created from prior branches. And we've increased our training significantly for an upcoming wave of integration. And that training will allow those real-time experiences from the field to be used in the dynamic training that heads to those next series of branches.

Before, it's just theoretical—hey, you're going to have a new device, here's how you're going to work it. Now we actually have real-time examples. And behind the scenes from a tech platform, the team has been incredibly nimble to be able to address any of those concerns. A lot of times, you have to actually start delivering product and understanding what those issues are because just taking a customer table to another company's customer table doesn't expose everything until you start actually delivering.

So, again, we feel confident. It's not to say there might not be a disruption, but I don't think it would be anywhere close to, obviously, what we've experienced.

Eric Sirota

Great.

Robbert Rietbroek

And, Eric, one additional point on that.

The consumer interface, both companies had an app; both companies had websites. We're working hard to upgrade those and to integrate those from readyrefresh.com and water.com, the Primo legacy My Water+ app and the ReadyRefresh app.

We've had some conversions there where consumers had to switch apps. Those are largely behind us. And we're going to work to fully integrate those and make them absolutely frictionless. That's going to take a couple more months to finalize as well.

Eric Sirota

Okay. That's helpful. And then just as a follow-up, I know you reiterated the synergy target and then you reiterated the post-'25 long-term growth algorithm at the 3 percent to 5 percent. But with the lower revenue growth and lower revenue for 2025, how are you feeling in terms of the billion-dollar adjusted free cash flow number that you had out there from the Investor Day? Any change there just given the lower top-line base?

David Hass

No, We really don't think so. I think, honestly, the free cash flow opportunity still this year; I think we're being cautious as we've had to adjust our EBITDA. Our CapEx remains a little bit behind plan in terms of our spend, just largely due to vendor and lead-timing activities.

But we really feel like with both the trend of interest rates, the trend of long-term capital deployment within certain CapEx initiatives, and then other efficiencies in the working capital side which have not really been discovered because of friction created right now through integration, we still feel that's very addressable.

And this is before we even address what we do with either our term loan product or our euro note where we might have opportunities to sort of adjust interest rates paid in sort of our debt stack.

So I think we, again, we remain very optimistic about where we can go this year, and that doesn't put us too far off our original direction to allow us to sort of still target that \$1 billion.

Eric Sirota

Great. Thanks so much. I'll pass it on.

Operator

Your next question comes from Daniel Moore with CJS Securities. Please go ahead.

Daniel Moore — CJS Securities

Thank you, Robbert and David. Covered a lot, but just in terms of the revised sales growth guidance, 0 percent to 1 percent for the full year, just break that down volume and price and really getting at the cadence of volume growth you expect over the next two quarters, and your confidence in getting back to a run rate of at least kind of low single-digit positive volume growth as we exit the year and enter '26.

David Hass

Yep. Thanks, Dan. So clearly, Q2 demonstrated a lack of volume growth and largely control because of two issues where you're taking about \$26 million of retail volume out of market just simply from the tornado, before you even address what would have been demand challenges in certain

geographies. And then the Direct Delivery side, that entire demand disruption is all a volume disruption at the same time.

So with regard to the balance of year, we would expect Q3 to probably have some additional volume areas in Direct Delivery as we try to recuperate sort of fulfilling a higher rate for those customers. Obviously, at a nominal 50 basis points on a full year midpoint, volume and price is not really a significant relevance at that point. But we do feel we could exit Q4 and heading into 2026 with a much more balanced kind of 50/50 approach, if you will, like we started the year at our 4 percent midpoint.

We do—again, we're not fully quantifying at this point, and we'll address that as we lay out '26 guidance, which would be in the spring of next year where some of the pricing harmonization actions will come into play. And if, in certain quarters, that might skew somewhat price, but again, we still remain in our planning internally to have a very strong contribution from volume.

Daniel Moore

Very helpful. And then maybe this has been asked, but are there any areas of future integration that you might pursue a little bit more cautiously or slowly, given the experience in Q2? You, obviously, you just described some of the confidence that you have in kind of next phases, but not thinking about the magnitude of the synergies but just the cadence and the timing. Thanks again.

David Hass

Yeah. I'd say the easiest thing to answer there—we discussed from Eric's prior question on change management and infield training. The easiest area for us is having more time from today until when we do whatever the next wave is to build up days of inventory on hand.

So when I talked about a little bit of working capital inefficiency, really what we figured out is, as we are cutting over production supply houses, we need to have days on hand as the absorbing facility

might not be able to run at the right capacity or utilization immediately. And so if you have and give yourself a date in the future where you know you're going to cut over, we have the opportunity today and up until the point of cut-over to build up product supply.

And that's really where we started running into issues. As Robbert mentioned, we had different distances. We had different production to branch kind of marriages or connections. And so at this point, as we look ahead, we can build up that inventory in excess heading into the transition, allow that receiving production facility to sort of grow into its production strength. And that should largely help us avoid the product supply disruption.

Daniel Moore

All right. Thank you again.

Operator

Your next question comes from Lauren Lieberman with Barclays. Please go ahead.

Lauren Lieberman — Barclays

Great. Thanks so much. I just, maybe as like a wrap-up type question, you've given so much detail and context on second half on the issues that challenged the quarter and so on.

But I just wanted to kind of say like at the \$1.5 billion on EBITDA for this year, degree of confidence in hitting that number. Because I think earlier in the year, like we started to talk about some of the integration issues that you were facing. You kind of thought it would be taken care of by July, and now we're saying like through September. So just like confidence level that you've really got your arms around it, you really know the scope of the issues, and that we can all say confidently we've kind of de-risked from here. The challenges are embedded in the outlook. And then we can really, again, like start thinking about '26 as let's call it almost a starting point. Thanks.

David Hass

Yeah. I mean I think, again, from our side, that is our confidence in resetting. We understand the dynamics of what's hit to date. That's why we've been more prudent in how we approach the next waves, going through excess training and making sure we have days on hand and inventory available.

And again, we hope to use that as a reset point to sort of enter the last months of Q4 and then really be prepared to start 2026 with strength and allow more of the synergy capture to show in the physical results.

Lauren Lieberman

Okay. Great. Thanks so much.

Operator

Your next question comes from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers — Deutsche Bank

Thank you and good morning. You may have, David, already sort of implicitly answered this in the answer to Eric's question on free cash flow, but just as I rounded out on the '27 targets, just your confidence in the 25 percent EBITDA margin objective as well, it sounds like that still stands but just wanted to hear it explicitly.

David Hass

Yes. That would stand on a multiyear look as we approached the year-end 2027.

Again, sort of the basis-point departure here is just largely a function of revenue decline and then some of the cost support that we've had to put into the market to sort of stabilize the business.

But again, recall that we've really not taken any price harmonization between the businesses. We've really been absent of price and retail outside of just natural premium mix that's flowing through the small format piece of business.

So to only have 80 basis point compression and EBITDA margin to date with the implied new guide without really having any of the pricing levers pulled, I feel pretty confident that that's an objective that remains on track.

Steve Powers

Yeah. Okay. And if I sort of draw a line between that answer, which I fully understand, and kind of the comments so far, it really seems like you have confidence collectively as a team that the Direct Delivery disruptions that we've seen so far and that we'll see through September are really going to be contained to this 3Q, 4Q period. As we exit it kind of net customer adds, the value per customer, recruitment and retention costs will all kind of revert back to the trend that we were seeing kind of exiting last year, without any real additional kind of run rate costs.

And I want to play that back and see if that was correct. And then maybe just get you to articulate a little bit more as to why you have confidence that we can kind of snap back on trend as we get to October and beyond.

David Hass

Sure. So when you just look at Q1 on a leap-adjusted basis, it's 4.2 percent. And you had many parts of the Company far accretive to that; obviously premium, which isn't really—there's obviously premium product that flows through Direct Delivery. But you had an Exchange business which really doesn't have a constraint from the consumer's mind. You have a Refill business that, for its population of the economy, is performing at more than double our sort of guide midpoint of our original 4 percent.

So you have a lot of areas of the business that their par value remains accretive to our original midpoint.

And then you had customer additions that were outpacing or, at a minimum, were on par with the quit levels in the Direct Delivery business.

And since then, as we've harmonized our digital properties, we've actually seen an acceleration of our ability to acquire customers through digital.

So again, a lot of that confidence remains that the demand is there, the customer acquisition profile is continuing. It's a matter of fulfilling the product on time and in full as they've requested it. And that's really where we feel that the snapback is there. And again, that's before you really start to address anything on pricing or future tuck-in acquisitions that we will remain very focused on.

Steve Powers

Okay. Yeah. Understood. Thank you for that. Appreciate it.

Operator

Your next question comes from Andrew Strelzik with BMO. Please go ahead.

Andrew Strelzik — BMO

Hey. Good morning. Thanks for taking the question. Obviously, a lot of ground has been covered. So just one quick one for me.

You talked about introducing the cross-selling in Direct Delivery. So I was just curious how far along you are in that effort in terms of availability, what the uptake's been so far, and kind of your early read on that opportunity as you roll forward.

Robbert Rietbroek

Yeah. Very good. We have introduced regional spring water case pack in the Nestlé legacy brands, the Blue Triton legacy brands on the Primo water trucks. We've also expanded availability of Mountain Valley on the trucks as well, more trucks. But we have not yet launched 5-gallon Saratoga water. We have not made Saratoga fully available yet to the Legacy Primo trucks. So there are still transitions happening and still additions happening to branches.

Part of that is also reducing SKU complexity at the branch level to really focus on fill rates on the core 5-gallon business and enabling the conversion of the Legacy Primo spring brands, such as Crystal Rock, Deep Rock, Crystal Springs, Mount Olympus, to the much stronger portfolio of brands, Deer Park, Poland Spring, Ozarka, Zephyrhills.

So we're sort of halfway in that journey, but we're seeing very encouraging results.

Andrew Strelzik

Great. Thank you very much.

Operator

And your next question comes from Jon Andersen with William Blair. Please go ahead.

Jon Andersen — William Blair

Hi. Thank you. Two quick ones.

I think you mentioned in the prepared comments that you've rationalized five brands to date. I'm wondering how much more rationalization work do you have to do across the portfolio or plan to do? And how are you thinking about that in terms of a top-line drag?

And then on the super premium business, it sounds like a good chunk of that growth has been driven by expansion of Mountain Valley, Saratoga, in PET at retail, I think specifically Walmart. What are you seeing in terms of early sell-through at Walmart?

And then where's the white space as you see it in that super premium business from here? Thank you.

Robbert Rietbroek

Yeah. Thanks. Thanks, Jon.

With regards to the brand rationalization, this is the largest part of rationalization has been completed. We are refocusing certain regions as well on core spring brands. I'll give you an example. The sparkless brands will remain in California, the West Coast, but Texas will largely convert to Ozarka. So whilst we're rationalizing the sparkless brands in Texas, the actual brand will continue to exist in the portfolio.

As an example, we really focus on the smaller regional brands that drive a lot of complexity to simplify and streamline our operations. So we have fewer line changeovers in the legacy, mostly legacy Nestlé water factories that we now have at our disposal to go from maybe one shift a day to three shifts a day, seven days a week, with fewer, bigger stock-keeping units and bigger brands like Ozarka and Poland Spring.

With regards to premium, it's a very exciting business. We grew 44.2 percent in the quarter. That was all volume-based. Mountain Valley grew 23 percent; over \$50 million in Q2 net sales. And Saratoga grew 91.5 percent with \$36 million in Q2 net sales.

So we launched PET and Walmart. The brands are now available across the different channels. And Mountain Valley and Saratoga, as I just said, are now available for Direct Delivery customers as well. Although we have not yet launched Saratoga in the 5-gallon format, we are working on that. The brands are getting great marketing from the Golden Globes to the Country Music Awards.

And we're really focusing on foodservice. So we're seeing a lot of demand emerging from restaurants, hotels, especially in light of the tariffs that are coming in on imported brands.

And we're actually adding a new production line to support Saratoga. And we've broken ground on a new production facility for Mountain Valley in Arkansas, which will be operational by mid-2026. And that will really unlock our supply constraints on Mountain Valley so we can even better meet demand and continue that really high growth trajectory for the brand. Thanks, Jon.

Jon Andersen

Great. Thank you.

Operator

There are no further questions at this time. So I would like to turn the call back over to Robbert Rietbroek for closing remarks.

Jon Kathol

Yes. Well, thanks, everyone. I'm excited about the potential of our company.

Primo Brands's underlying business foundation is solid. And we are a leader in an attractive category with numerous growth opportunities. We believe we have multiple levers of value creation in front of us, including organic net sales growth, accretive M&A, free cash flow generation, and strategic avenues of capital allocation.

Thank you for your participation and for your continued interest in Primo Brands.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you so much for your participation. You may now disconnect.