

Primo Brands Corporation**Third Quarter 2025 Earnings Conference Call**

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PRESENTATION

Operator

Good morning. My name is Marissa (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Primo Brands Corporation's Third Quarter 2025 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise.

After the speaker remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then 1 on your telephone keypad. If you would like to withdraw your question, please press *, 2.

Thank you so much.

I will now turn the call over to Logan Gosenbacher.

Logan Gosenbacher — Investor Relations, Primo Brands Corporation

Welcome to Primo Brands Corporation's third quarter 2025 earnings conference call.

The call is being webcast live on Primo Brands's website at ir.primobrands.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 third quarter earnings announcement released earlier this morning, or in the Investor Relations section of the Company's website at ir.primobrands.com, in addition to slides accompanying today's webcast to assist you through our discussion.

We have included a copy of the presentation and a supplemental earnings deck on our website.

Certain information discussed on this call concerning our industry and market position is based on information from third-party sources that we have not independently verified and is subject to uncertainty.

I'm joined today by Dean Metropoulos, a member of the Board of Directors and former non-executive chairman; Eric Foss, Primo Brands's Chairman and Chief Executive Officer; and David Hass, our Chief Financial Officer.

Our prepared remarks will begin with Dean discussing the leadership transition we announced this morning. Following that, David will discuss the third quarter performance of Primo Brands and the outlook for the full year 2025, and then Eric will share his thoughts on the business as he steps into the role as Chairman and CEO. Following that, Eric and David will take your questions.

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

Dean Metropoulos — Director, Primo Brands Corporation

Good morning, and thank you, everyone, for joining us.

As you have probably seen, this morning we announced that the Primo Brands Board of Directors appointed Eric Foss as Chairman and Chief Executive Officer.

Eric is an experienced executive, having served as chairman and CEO of global consumer businesses. He has served as director of the Company's Board and its predecessor, Primo Water.

I welcome Eric's energy and abilities as a transformative leader. He is known for his people-first leadership philosophy, brand-building experience, operational and executional expertise, and the ability to drive long-term growth through customer focus, innovation, and creating a winning culture. He is highly qualified to lead Primo Brands's future growth and value creation.

I want to also express our deep confidence in the future of Primo Brands with its unique historic brands and unmatched and, now, highly integrated and efficient national network that will reach consumers in every aspect of their lives.

In addition, Primo Brands is a major beneficiary of strong tailwinds that are driven by an unprecedented consumer focus on healthy hydration.

We're all very confident that Eric will lead Primo Brands in this exciting new future, and we thank all of you, investors, for their continued support and interest in our Primo Brands. Thank you.

In conversations with the board, as we move into the next phase following our breakthrough merger and integration, now is the right time for me to step away as nonexecutive chairman. I will remain on the Board as a director and will support Eric during the transition.

Robert will leave the Company and the board to pursue other interests. We want to thank him for his hard work and contribution to the consolidation and integration of Primo Water and Blue Triton Brands during the past year, and we wish him continued success.

I want to express my deep confidence in Eric as he assumes his new role and thank all of you again for your continued interest in Primo Brands.

With that, let us turn the call over to David. Thank you. David?

David Hass — Chief Financial Officer, Primo Brands Corporation

Thank you, and good morning, everyone.

As you know, we announced a lot of news this morning. In parallel with today's management transition, our team has been hard at work decisively executing against our strategy to drive organic brand growth, synergy capture, and operational excellence across our platform as our integration progresses.

We are working with a clear sense of urgency to realize our potential as the leading branded bottled water player in North America, an important category that consumers continue to rely on for everyday healthy hydration.

We are pleased that improvements in operational and financial performance in our Q3 2025 results demonstrate the resilience in our business, strength of our brands, and success across channels and offerings, reinforcing our confidence that Primo Brands will return to delivering against our long-term financial algorithm.

Overall, for the third quarter, we generated net sales of \$1.766 billion, a 1.6 percent comparable year-over-year decline, but a 90 basis-point improvement from the 2.5 percent comparable year-over-year decline in the second quarter.

Our top-line results reflect ongoing unit case volume growth, which increased 0.7 percent versus the prior-year period, with investment in price and promotion in our home and office delivery network as we prioritized customer retention during the quarter.

We delivered profitability ahead of expectations with comparable adjusted EBITDA growth of 6.8 percent year-over-year to \$404.5 million, for a margin of 22.9 percent. I will discuss these results in more detail shortly.

First, let me turn to an update on our integration and synergy capture.

This summer, we worked with a sense of urgency to remediate challenges that emerged in our delivery business, and I am pleased to report that service levels are now back to pre-integration levels.

Importantly, demand for our 5-gallon product remains strong, as evidenced by the year-over-year net sales growth for our Exchange and Refill offerings, where we continue to grow distribution.

Large-format unit volumes also grew sequentially within the quarter, and we anticipate Direct Delivery customer base improvements as we exit 2025, an important indicator that our integration efforts are back on track.

Our delivery service rate, or DSR, is currently back to approximately 95 percent, consistent with historical levels, and our relationship net promoter score is continuing to trend in a positive direction from July lows.

At the same time, our announced synergy plan remains on track, and we are confident we will achieve the \$200 million and \$300 million run rate targets by 2025 and 2026 year-end respectively.

To date, we have now closed 49 facilities or 16 percent of our premerger footprint, while optimizing headcount to enhance productivity and efficiency.

This fall, we've seamlessly completed our latest round of integration, which gives me confidence in our final two rounds of integration, as they are far less complex and will proceed smoothly.

We are particularly excited about the future growth and margin prospects as we optimize routes and lean into cross-selling our brands, products, and services.

From our viewpoint, we believe that we are in the early innings of consolidating our position as a durable, branded category leader.

Primo Brands has a strong arsenal to drive long-term value creation through several foundational elements.

First, we are anchored by our iconic brands with deep heritage, such as Poland Spring and Pure Life, coupled with our emerging growth leaders, Saratoga and the Mountain Valley, as well as the Primo brands. Together, these give us great customer awareness and resilience that will help carry our momentum.

Second, we enjoy the benefit of being fully integrated from spring sources direct to our consumer, as well as one of the few branded beverage companies that owns our own spring assets, which helps us sustain our water stewardship initiatives.

Third, Primo Brands is the number-one player in the US retail-branded bottled water category by volume share. In Q3, we increased both volume and dollar market share by 15 basis points and by 25 basis points respectively, according to Circana.

Primo Brands was the only scaled bottled water company to grow volumes in Q3.

Fourth, we expect that our extensive market reach, as demonstrated by our access to customers through more than 200,000 retail outlets, will help propel us into the second position in liquid refreshment beverages and provide a competitive edge for our business.

We are making steady progress towards returning to our growth algorithm and have a clear line of sight to accelerating net sales, profitability gains, and increased free cash flows as the calendar advances towards 2026.

Now turning to results.

As a reminder, the GAAP financial comparisons in this morning's press release reflect the Q3 2025 results of the new Primo Brands versus the 2024 results of the legacy Blue Triton business. This is standard GAAP reporting following a merger transaction, which can lead to growth metrics that are not comparable.

To assist with the comparisons that include both entities in the prior-year period, we will be primarily discussing comparable results while adjusting for the exited Eastern Canadian operations for both years 2024 and 2025.

Year to date, comparable net sales were down slightly by 0.5 percent when compared to the prior year at the nine-month mark. When factoring in the leap day impact, normalized comparable net sales decreased by 0.2 percent.

As a reminder, our year-to-date net sales results reflect the impact of the Hawkins tornado of approximately \$27 million.

The cumulative impacts of these activities is approximately \$45 million, which would have put the business slightly ahead versus the prior year.

While off our algorithm for 2025, we believe these results demonstrate the resilience of our business even with our short-term disruption in the Direct Delivery business.

At the comparable adjusted EBITDA line, we were able to capture a year-to-date increase of 6.4 percent, well ahead of our comparable net sales growth, while expanding comparable adjusted EBITDA margin by 140 basis points.

With that as the backdrop, let me share the financial details of Q3.

Comparable net sales in the quarter were \$1.766 billion, which declined approximately \$29 million or 1.6 percent year over year.

Contributing to our Q3 results was flat volume and pricing mix that was down 1.6 percent, largely due to mix within our noncore revenue streams like office coffee services and other investments in the retail channel.

Within those results, dispensers and office coffee services contributed approximately \$14 million to the quarter's \$29 million year-over-year reduction, which was as anticipated.

Sequentially, net sales increased \$36 million from the prior quarter, and our year-over-year decline relative to the year-over-year decline in the second quarter improved by 90 basis points.

Turning to specifics on the performance.

Our branded Retail business delivered 2 percent net sales growth in the quarter, ahead of category growth, driven by exceptional brand strength and remarkable distribution expansion of 12 percent in total points of distribution.

This strong distribution growth positions us well for future quarters, as we expect these new placements will mature into velocity gains.

The combination of expanded household reach and enhanced retail presence demonstrates the strength of our brand portfolio and our ability to execute.

In Q3, we continued to see strong results from our premium water portfolio of products with Mountain Valley and Saratoga. Combined, premium net sales increased more than 44 percent year over year.

Moving into the Direct Delivery business. As a reminder, in our slides we list our main net sales disclosure channels for Primo Brands. Our Direct Delivery channel includes the home and office delivery business, water filtration, water exchange deliveries to our retail partners, and our office coffee service

that we are in the process of winding down by year-end. The dispenser and refill businesses are separate and listed across the various retail channels within each of the account relationships.

For the quarter, the comparable net sales of Direct Delivery included a decline of 6.5 percent or approximately \$47 million. The office coffee services, or OCS business, that reports within this disclosure channel accounts for approximately \$8.2 million, or 113 basis points of decline, which came in as anticipated.

Separately, credits provided to customers in the Direct Delivery business increased by \$3.7 million year over year in the quarter. We believe this increase is temporary as we prioritize retention during the integration disruptions and will return to normalized levels as we exit 2025.

The cumulative impact of these items was approximately \$12 million, which would have resulted in the channel being down 4.9 percent versus the prior year.

As we previously shared, our Direct Delivery integration challenges in Q2 occurred over a shorter period, as the disruptions began in late May through June, with Q3 exposed to a longer window of disruption.

This disruption was balanced with improving service that continues to this day. It was clear that customers experienced peak disruption in July and the Direct Delivery business has recovery into quarter-end and further to today's earnings call.

Our goal remains to improve customer volumes to both existing and new household and commercial customers, as well as resume our cross-sell and upsell activities.

As a reminder, our home and office delivery business has a known base between residential and commercial customers. Our Exchange and Refill businesses have an implied user base of customers

transacting directly with our retail partners, but we can estimate this from buying patterns. These customers continue to grow uninterrupted through this period.

Going forward, new user creation continues through the sale and rent of our dispensers, the razor, as well as new customer sign-ups through our digital and club channel opportunities, and additional households adopting self-service exchange for refill services. This led to volume growth in Refill and Exchange in Q3.

Comparable adjusted EBITDA increased 6.8 percent to \$404.5 million, with comparable adjusted EBITDA margins of 22.9 percent, an increase of 180 basis points versus the prior year.

Within these results our synergy capture continued, although some of the stabilization efforts remain in the business as we improved our product supply and deliveries to meet the demand of our Direct Delivery customers.

Turning to the balance sheet and cash flows.

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

Our \$750 million revolving credit facility remains undrawn at the end of the third quarter, providing us with approximately \$612 million of available liquidity after accounting for standby letters of credit totalling approximately \$138 million.

Our liquidity remains strong, with approximately \$423 million of unrestricted cash on the balance sheet.

When combined with the \$612 million of availability under our revolving credit facility, our total liquidity is approximately \$1 billion.

At the end of the third quarter, our net leverage ratio was 3.37 times.

Moving to cash generated from the business, in the third quarter, Primo Brands generated \$283.4 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 \$362.4 million.

Additionally, we invested \$51.3 million in capital expenditures, excluding integration-related and natural disaster Hawkins-related capital expenditures, which resulted in adjusted free cash flow of \$311.1 million.

When compared to the prior year on a combined basis, this resulted in adjusted free cash flow growth of \$15.9 million.

We also closely track our conversion of adjusted free cash flow to adjusted EBITDA. On a trailing 12-month basis, our adjusted free cash flow totalled \$733.9 million, yielding a conversion ratio of 51.9 percent.

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

We plan to continue to prioritize reducing our debt to our medium-term net leverage target of 2 to 2.5 times and plan to take advantage of opportunities to repurchase shares with our newly authorized share repurchase program.

Since our recent authorization, we've repurchased \$73.2 million of our stock and approximately 3 million shares.

There remains approximately \$177 million on our share repurchase authorization.

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

Before turning to our financial outlook, I want to provide an update on our last international divestiture transaction that closed after our quarter ended.

On October 23, 2025, we completed the sale of our Israel business for approximately \$42 million in net proceeds. The sale proceeds will be reflected in our cash balance when we report year-end results in February next year.

I want to thank the local Israel management team and all associates of Mey Eden for their tireless efforts in running the business with flawless execution during the last two years. As we know, this has not been a normal operating environment since the events of October 7, 2023, but the team remained focused on serving their customers while also protecting the safety of their fellow associates.

Moving to our financial outlook. We remain confident in the progression of the business, notably our Retail performance.

Our Q3 Retail performance exceeded our estimates, and we remain confident that the business has stabilized from the combination of the impacts post-Hawkins tornado and weather events that challenged first half performance.

In fact, we continue to gain share in Retail scan data and see this momentum building into 2026.

Similarly, our Exchange and Refill businesses experienced strong performance in Q3, and we expect this continue into year-end and into 2026.

Lastly, our OCS business continues on track with our exit plans, and our dispenser business also remains on track with the decline previously stated into year-end.

Based on recent trade relations, we are likely to enter 2026 with a more favourable tariff environment, alleviating some of the headwinds faced in 2025.

Narrowing in on our Direct Delivery business, we continue to see signs of recovery. The remaining gap between our operational and financial recovery and our original guidance expectations continues to be unit volumes at the customer level.

Our product supply was originally disrupted, but we have now stabilized and increased our days on hand of inventory.

We continue making progress expanding our customer reach as a result of specific programs.

First, we are expanding our club booth programs at Costco, Sam's Club, and BJ's, and we are seeing an exciting level of club additions since the end of the quarter. These partnerships help build awareness, demonstrate our quality, and promote our robust customer service.

Second, we have specific strategic digital acquisition campaigns in place to help expand our customer footprint. Our digital marketing team is focusing on increasing our top-of-funnel and bringing in new customers through various online platforms, including web, social media, and applications. We are seeing strong results from these efforts, as our digital customer acquisitions grew 8.2 percent versus Q3 of last year.

Last, we believe this momentum, combined with the reduced customer churn from improved execution and improved public sentiment, is positioning us well to mitigate the volume impact as we turn the page toward 2026. The outliers are onetime activities like Hawkins, dispensers, and OCS are all coming in according to our original estimated impact, as is our Retail business.

With the ongoing recovery in our Direct Delivery business, this is requiring a shift in our net sales guidance range. We still remain confident in the recovery of the business, but the recovery path is not at

the right magnitude to deliver the midpoint of our previous guidance. We now expect a net sales decline in the low single-digits versus the prior year.

This shift in guidance is solely related to the recovery path of the home and office delivery business within the Direct Delivery disclosure channel.

On the adjusted EBITDA side, our path of stabilizing our service to customers has offset some of the gains of the synergy capture. However, this will help transition us into 2026 with optimal customer and volume recovery.

With that, we are moving our adjusted EBITDA guidance to approximately \$1.45 billion or 21.8 percent margin, up 180 basis points from prior year. The majority of this shift is resulting flow-through of the shift in the net sales guidance with some additional expenses related to supporting the business into year-end.

We are reiterating our adjusted free cash flow guidance with a range between \$740 million to \$760 million.

Looking ahead to 2026, we see several key growth opportunities that we believe will support the return to our algorithm.

First, we are fuelling the growth of our premium brands, Mountain Valley and Saratoga, by investing in new capacity, including more than \$66 million in our new Hot Springs facility for Mountain Valley, as well as a new bottling factory in Texas for Saratoga.

Both brands have been growing consistently robust double digits while being capacity constrained, and these investments will support new highly accretive growth.

Second, we are focused on sustained total distribution point growth starting with mass and clubs. In September, we were awarded distribution and water exchange at Sam's Club, adding to the over 1,000 incremental exchange racks installed earlier this year to support our customer demand.

This distribution is expected to drive accretive and profitable growth in our large-format network, particularly as we introduce higher-value regional spring water brands and implement harmonized pricing actions across our Exchange and Refill offerings.

Simultaneously, we continue to see strong performance from our case-back distribution in alternative channels like convenience, food service, and omnichannel.

Finally, we are preparing to implement pricing actions across our retail Exchange and Refill offerings. While we continue to prioritize retention in our home and office network for Direct Delivery, we are charting this offering's pricing strategy, which we will prioritize in 2026.

In the meantime, we have taken pricing and harmonized terms for dispenser purchases in our club channel effective last week. At Retail, we are sharpening our capabilities to better blend price and mix growth with volume growth by improving trade spend efficiency, taking price, and optimizing revenue growth management and price pack architecture.

These activities will contribute to our 2026 top-line growth.

Looking ahead, I am confident in our ability to deliver value for all stakeholders. We are a category leader in North America with a comprehensive portfolio to serve all usage occasions. We have a differentiated coast-to-coast network, powerful reach in retail, and a robust delivery footprint.

And we continue to act with urgency, agility, and focus on operational excellence and the best-in-class service that our customers have come to expect from Primo Brands, reinforcing our performance in 2026 and beyond.

With that, I'd like to turn the call over to Eric.

Eric Foss — Chairman and Chief Executive Officer, Primo Brands Corporation

Thank you, David.

It's great to be here. And thanks to everyone for joining us today.

Let me start by saying what a privilege it is to be Primo Brands's new Chairman and CEO. For those of you who don't know me, I've spent my entire career running global, consumer-centric, asset and people-intensive business models in the food and beverage industries.

As CEO, I believe the purpose of the Company is really the centerpiece of any enterprise. Our purpose as the premier healthy hydration company in North America is to hydrate a healthy America each and every day.

I'd like to thank all of my Primo Brands teammates for their passion and tireless efforts in focusing on our consumers and customers every day.

Over the last couple of years as a member of the Board of Directors of Legacy Primo and now Primo Brands, I've had a front-row seat and a hand in helping to create Primo Brands to be a bigger, stronger, and faster company with not just a purpose, but with promise and a bright, bright future.

Since coming together about a year ago, our team has made a lot of progress. There's still more work to do to achieve our full potential, consistently meet our customers' expectations, and deliver results that are consistent with our commitment to our shareholders.

I feel blessed to step into the CEO role of a company that has strong leading brands across all consumer consumption and channel purchase options.

I'm also fortunate to have an exceptional and flexible go-to-market system that helps us drive speed, reach, and frequency that aims to meet or exceed the expectations of our customers.

We have a passionate, capable, and committed team, and I'm a big believer in the phrase, the team with the best players wins.

Let me spend a minute sharing some of my thoughts on where we are just about one year into our journey as Primo Brands.

First, the investment thesis communicated at our Investor Day in early 2025 is fully intact. We compete in an incredibly attractive category.

Bottled water isn't just the largest beverage category in the United States, it's continuing to grow. The long-term outlook is powered by an aging population and an increased focus on health and wellness.

What's just as important, our products are sourced right here at home. We're locally manufactured, and more than 98 percent of our sales come from the United States.

Primo Brands is the number-one player in the US retail-branded bottled water category by volume share.

Our portfolio of leading brands have deep heritage and consumer loyalty.

We have a diversified portfolio with the potential to serve people when they want, where they want, and how they want to hydrate.

From iconic regional spring brands to pure and premium offerings, we give consumers a choice.

And when it comes to premium, we have an unmatched portfolio with tremendous potential with our Saratoga Springs and Mountain Valley brands.

We're going to keep investing in our capabilities in building these brands and expanding distribution so that they can reach their full potential.

Just last week, we broke ground on a new greenfield production facility for Mountain Valley in Hot Springs, Arkansas, set to open in spring of 2026. This merger has given us an opportunity to unlock the true power of Primo through synergy capture, ongoing cost, and productivity that can be either reinvested in growth or expanding our margins.

Over the coming days and weeks, my focus is simple: to listen and learn from our consumers, our customers, our employees, and our shareholders. That will help shape our agenda for the future.

In the near term, my focus really centres on four areas.

First is to get the business growing. We'll do that by building deeper connections with our consumers, focusing on brand building and innovation, and making sure we sell, serve, and execute with excellence.

We'll tap into the full potential of our two leading premium brands: Saratoga Springs and Mountain Valley.

Second, we're going to raise our game in customer service. We'll sharpen our service and execution, making sure we fully address and improve customer service levels.

My third focus is on creating a winning culture, one that's anchored in performance and recognition by ensuring we recognize the hard work and achievements of our people every day.

And finally, I'll work with this dedicated team to make sure we deliver on our financial commitments by growing the top line, driving earnings, generating free cash flow, and creating lasting value for our shareholders.

In closing, thank you for your continued interest in Primo Brands.

Logan Gosenbacher

Thanks, Eric.

To ensure we address as many of your questions as possible, please limit yourself to one question only, and if we have time remaining, we will repoll for additional questions.

Operator, please open the line for questions.

Q&A

Operator

Thank you so much. Ladies and gentlemen, as a reminder, if 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.

If you're using a speakerphone, please lift the handset before pressing any keys.

Just a moment for your first question.

And your first question comes from Derek Lessard with TD Cowen. Please go ahead.

Derek Lessard — TD Cowen

Yeah. Good morning, everybody. I just had one for me. Is there anything that fundamentally changed from the time you closed last year to now? I mean, you had a hiccup in Q2; that seems to be fixed.

Anything that we should be thinking about that justified the leadership change?

David Hass

Thanks, Derek. This is David.

I think, again, the board felt this was the appropriate time for a change. They've made that change with Eric stepping into the role.

Fundamentally, no. I mean, from the macro perspective, our consumer remains very healthy. The category remains very healthy. In the Retail part of our business, the share gains continue to express

the brand strength that we possess and how our consumers are gravitating to those brands, notably the premium side, which, again, put another quarter up of 44 percent growth.

This all largely remains contained to the home and office side within the Direct Delivery channel.

But, no, I think, broadly speaking, this was the time for a change, and that's what happened.

Derek Lessard

Okay—

Eric Foss

And, Derek, good morning. If you wouldn't mind, I'd just make a brief comment.

I think as I step in, I think the board felt like this was the right step for the Company at this point in its journey. I think David referenced that.

And it's really all around maximizing the full potential of this business. So I want to emphasize that the long-term investment thesis here is still fully intact. Right? We have a very attractive category, large and growing.

As you continue to see consumer tailwinds around health and wellness and hydration, that's going to continue to be at the forefront of their decision-making matrix.

And we're the number-one player. We've got leading brands. In the quarter, we actually saw an improvement in household penetration. We saw volume growth on the Retail side, along with some share momentum.

So, I really do think that the long-term kind of value-creation thesis and financial model is still fully intact.

We have an issue that, as you mentioned, started a quarter ago that we've got to get our hands around, which is really around last-mile direct delivery.

Derek Lessard

Okay. Thanks for that. That's great detail. And then just maybe one follow-up to that.

David, is it, I guess, is it safe to assume that the majority of the integration challenges are now behind you guys?

David Hass

Yes. Again, as I mentioned in my prepared remarks, product availability and stability and days on hand is back to their normal potential. Most of the routes are performing at or above expectations from premerger.

And then when you look at some of the sort of consumer-oriented data points, call volumes are now back below sort of pre-integration levels.

And then consumer sentiment, while that, understandably takes a little bit of time to rebuild trust, those that are choosing to post are starting to improve their sentiment. And the large negative sentiment spikes we saw during the peak integration challenges have pretty much dissipated.

So we feel very comfortable there. It's just a matter of time of resuming volumes to those customers and continuing day in and day out of building trust back with those customers.

Derek Lessard

Okay. And congrats, Eric. Looking forward to working with you.

Eric Foss

Thanks, Derek.

Operator

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

Daniel Moore — CJS Securities

Yes. Good morning. Thanks for taking the questions and all the colour. I wanted to ask, I know we'll get into a lot of detail in terms of the numbers, but high level, either for Dean or Eric, or both. You had the disruption for Hawkins. That said, the integration (phon) much more complex and challenging than we expected or believed it to be.

Was it simply a case of moving too quickly? Or are there sort of naturally larger dis-synergies at least initially involved than expected, projected? Any high-level thoughts there would be really appreciated.

Eric Foss

Sure, Daniel. It's Eric. I'll take that.

I think, again, I'll use the term, I think most of the direct-delivery disruption has been self-inflicted. And sometimes mergers can be complicated and more complex than maybe even anticipated going into them.

I do think we probably moved too far too fast on some of the various integration work streams. There's no doubt that that speed impacted product supply. There's no doubt that that speed impacted our ability to get through a lot of the warehouse closures and route realignment without disruption. And the ultimate output of that was the customer service issues that we've highlighted. There also were, I believe, some just integration issues related to the technology move over.

But at the end of the day, as David said, the team has really been and continues to work hard to address those and correct those. I think in the quarter—David highlighted this—we saw continued improvement on multiple fronts. I think on the product supply front, we're pretty much corrected on that relative to in-stock conditions. But we still have work to do at the moment of truth around making sure our deliveries are on time with the right product.

We did see each of the kind of process metrics around customer call volume and did see both improvements in the quarter on customer sat scores. But again, there is more work to do on this front to completely get the issue solved and corrected.

Daniel Moore

Really helpful. And a quick follow-up. Are there, if we sort of look at Q3 as a baseline, is there more costs, investments that'll need to be made in terms of routes, drivers, customer service, marketing, et cetera? Kind of more permanent costs that may need to incur relative to our initial expectations to maintain that customer service?

David Hass

Yeah. Dan, this is David. You'd be right there. Across Q2 and Q3, we started to move some routes back in, stabilize success rate across the customer visit. Obviously, we've had some what I'll call middle-mile or interbranch transfer costs to sort of keep product supply stable. Those will largely dissipate.

And again, once we have a more stable and consistent pattern of delivery success, which has been happening post quarter to today's call, that will allow us to start to slowly work back out some of the excess routes, or what I'll call overtime or weekend support, which will bring our units per route up.

And as you are familiar, legacy Primo Water really had a large drive toward that productivity at the route level. That will resume. And as we head into '26, we'll really start attacking miles, which was really part of the main benefit of this merger, which was the density of the route between the two customer bases.

So yes, I would say that in short, we've had some surges in costs to both handle call centre, handle routes, handle labour across the middle mile. And those things will start to unwind as we exit the

year. And that puts us back into allowing the synergy capture to start to reveal itself more clearly in the P&L.

Daniel Moore

Thanks, David. I look forward to hearing more from Eric, and I'll circle back with my follow-ups. Thank you.

David Hass

Thank you.

Operator

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

Eric Sirota — Morgan Stanley

Great. Thank you. So a shorter-term question and a longer-term one. In terms of the short term, can you help us unpack the fourth quarter guidance between Direct Delivery and Retail? It would seem that if Retail is going to be growing even modestly, the guidance implies a pretty steep decline in Direct Delivery.

And along with that, like, what was the exit rate, whether you want to talk September or recent weeks? Like, what is HOD running in terms of a year-on-year rate now?

And then longer term, just wanted to circle back on the prior question, make sure I understood correctly. You're expecting the incremental costs to dissipate. Are you reaffirming the earlier, back from February, the '26/'27 EBITDA margin targets? Or should we assume that between—EBITDA dollar targets? Or should we assume that even if the majority of these costs dissipate, that there is some incremental costs that will be ongoing that'll kind of lower the earnings power versus what you previously thought? Thank you.

David Hass

No problem. Thank you, Eric. So yeah, as mentioned, a lot of the—let's go through the exit categories. So like office coffee exiting on trajectory; the dispenser headwind from tariffs exiting on trajectory; Exchange and Refill performing to their pretty regular nice growth, nice, consistent volumes.

And then the Retail business, obviously the largest part of our business, once we've been through the Hawkins moment, if you will, and weather being less of a challenge, it's going to perform and exit the year sort of on track with our previous revision back in August, which has about a 2 percent second half exit rate. So we feel very confident there.

Obviously, that leaves us now with the Direct Delivery business, which is largely the HOD component. As I mentioned, I wanted to clarify just for people who are curious what all goes into that disclosure line in our earnings supplement, and that's largely the HOD part.

And so, again, we are at a moment where we're successfully visiting customers on schedule. It's all—it's accurately and to the maximum potential fulfilling their order, whether that be in the base 5-gallon unit, whether that be in a case pack unit, or a premium unit that comes off the route.

So again, most of that exit challenge remains just fulfilling volumes to the appropriate level. But we have greatly reduced friction by missing their original dates, or things that led to call centre or negative sentiment online.

Transitioning to the second part of your question around margins, we obviously will have a lower base as we ideally exit the year at \$1.45 billion in EBITDA and approximately 22 percent margin.

From there, we do intend to, again, unwind costs at the end of this year and early in Q1 and then resume sort of our margin expansion walk. Dollars, obviously, will be slightly different than the original

outline. We are not changing our synergy capture targets. And obviously, we'll look at 2026 when we provide full year guidance, likely in February of next year.

So again, I think it remains a very healthy story, a very healthy exit on service that's helping sustain our customer retention at this point. But it's really getting back into the merits of this original deal, which is the right route count, the right drivers, the right units per route, and the right support costs in the business.

Eric Foss

And, Eric, I would just add to David's comments. I think as I mentioned earlier, the investment thesis is intact, but the long-term algorithm is also doable. And I want to make sure you hear that from my perspective.

We have to get this business growing, and we certainly have plans to do that. But at the same time, we do continue to have margin opportunities. And so, I think the way to think about this is there are multiple value-creation levers available to us, multiple growth vectors.

Obviously, the synergy capture is on track and it's been executed pretty well. And we'll have ongoing cost and productivity initiatives as well that should lead to improved profitability, free cash-flow generation and conversion, and wealth creation, value creation going forward.

So, again, I want to make sure that is fully, fully recognized.

Eric Sirota

Great. I'll pass it on. Thank you.

Operator

Your next question comes from Bonnie Herzog with Goldman Sachs. Please go ahead.

Bonnie Herzog — Goldman Sachs

All right. Thank you. Good morning, everyone. And, Eric, congratulations. I look forward to working with you again.

Eric Foss

Thanks, Bonnie.

Bonnie Herzog

Yep. I also have a couple of questions on your Direct Delivery business. I guess, first, I really want to make sure I understand what drove the sequential deterioration in Q3. I mean, did you lose more customers in Q3 than what you lost in Q2?

And then, I guess I'm trying to understand why the implied decline in Q4 is worse if service is improving?

And then, ultimately curious if you expect these declines to persist into the first half of next year as well?

And do you have any visibility into a return to your long-term algo for your total company of the 3 percent to 5 percent? I mean, should we think about that more of a second half '26 or '27 story? Just any help there would be appreciated. Thank you.

David Hass

Sure, Bonnie. Thanks. This is David.

Again, we believe that July was basically the peak disruption in customers where our add was not outpacing sort of the churn or the challenge from sort of our integration friction.

As we've exited Q3 and entered into October, that has largely stabilized. We believe we'll be at a point where we will be able to get to a net positive customer position in the month itself as we exit the year. And that requires us to then continue to recuperate some of those lost volumes from that period of

time, if you will, of where that ultimate friction occurred with the consumer and our delivery customer. So it's largely isolated solely to the home and office side.

Exchange is a business that runs off that truck. That business has resumed its growth as that consumer is shopping every day at our regional and national chains like Lowe's, Walmart, Home Depot, et cetera.

When you move into next year, Q1 obviously was a 3 percent positive quarter, 4.2, I believe, when you leap adjust it. So that'll be obviously a difficult quarter to compare based on the exit rate and sort of our run rate within that home and office delivery business. But our optimism remains in the other parts of the Company.

And again, we'll continue to repair customer volumes in the home and office side that will get us back toward that long-term algorithm. But we'll comment specifically on '26 and longer-term outlooks in February.

Eric, anything else you want to add there?

Bonnie Herzog

All right. Thank you. I'll pass it on.

Operator

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

Steve Powers — Deutsche Bank

Great. Thank you. Hi, Eric. Hi, David. I guess following up on that.

So if I heard you right, then net customer add/losses will be, assuming I don't know where we are entering the quarter, but if we're going to exit the quarter positive, they should be down relatively thinly, relatively narrowly, which implies that the sales decline in Direct Delivery is going to be a

combination of either just lower velocity on those customers or lower value per customer because of price inducements or what have you.

So, is that right? What is kind of the estimate around those variables?

And then how do the velocity and kind of the value-per-customer pricing kind of dynamic flow into next year as you get back to net customer adds, in your thinking?

David Hass

Yeah. Yep. Thanks, Steve, for the question. It's David.

With regard to the customers, again, in the closing months here of 2025, we'll be at the monthly level we believe we'll be back to an add position. That'll take us a few months to sort of repair some of the losses.

Again, what we really focus is on volume. So in the past, using the Exchange business, using the Refill business and other things that consume 5-gallon units along with the home and office delivery side, we believe we can get back to volume growth. That volume growth is also then complemented by upsell and premium that comes off route.

At this point, part of the disruption we really focused on was getting 5-gallon supply stabilized, back into the hands of our branches, back into the hands of our consumers, our customers. And as that stabilizes, that should help improve.

As we head into '26, we're going to look across price-pack architecture for the entire company, whether that be retail, premium, our retail-oriented 5-gallon products like exchange or refill, or the specific harmonization activities that occur in HOD, which was part of the original thesis that we had of bringing these businesses together with what I would call the pricing matrix that was not aligned appropriately for how we wanted to run the business at the local market level.

So those will be all areas available for us with regard to growth vectors that we can sort of improve as we continue to work through the customer part.

Steve Powers

Okay. And just to clarify, when you say net customer adds on a monthly basis, are you saying you're going to be adding in December versus November? Or are you saying you're going to be adding in December versus last December?

David Hass

Yeah. We would just be in the month itself, the adds less the quits of the particular month we'd be back to a positive position in the month itself. And the more months you string together of that outcome, you obviously start to replace sort of the trough of your base.

Steve Powers

Right. So adds versus the end of November?

David Hass

That's correct.

Steve Powers

Yeah. Okay. Thank you.

Operator

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

Andrea Teixeira — JPMorgan

Thank you. Good morning, everyone. I was just hoping to see if you can speak to the kind of consumer dynamics in the purified water in particular. I know you had to increase some promo during the

quarter to support some of the affordability we have been seeing in the consumer side. Can you comment to that?

And then another question is how you're seeing distribution of the premium segment on the Retail side, obviously, unfolding and how you can see this—obviously, you had this 46 percent growth in the premium water segment. How we should be thinking as we enter 2026? Any particular gains in distribution or even on premise or off premise that you wanted to highlight?

And from there, also how you're going to balance this price-pack architecture as we go into next year?

And finally, welcome, Eric. Looking forward to working with you.

Eric Foss

Thanks, Andrea. It's Eric. I'll start and let David fill in.

But I think if you really look at the consumer and how the consumer is engaging with the category and our brands, there's really a lot to like.

I think, first and foremost while you do have a change in consumer sentiment broadly, the reality is their appetite for healthy hydration hasn't waned, as evidenced by the household penetration numbers in the quarter. They were actually up for our brands, and we have a pretty significant penetration advantage versus our other key competitors.

If you look at the brands really broadly—I'll come back to premium in a minute, but obviously premium's been on fire and will continue to be on fire, given some of the continued opportunities we have and just the brand strength of both Saratoga and Mountain Valley, so.

But at the end of the day, it's really important to come back to the broad, I think, strength of our brand portfolio. We're seeing good growth across that portfolio, the regional springs, Arrowhead, Ice

Mountain, Poland Spring, et cetera. We saw in the category at retail we grew our volume, we grew our revenue, we grew both our volume and value share. So a whole lot to like.

Relative to premium we continue, despite great progress by our sales teams, to have distribution opportunities. We're going to continue to invest in capacity. We referenced that in our prepared comments.

The way I would describe it is we are in the very, very, very early innings of a long runway of opportunity for those brands.

And I think relative to your pricing question, we're going to be balanced relative to the growth algorithm. It's going to be volume and price.

You can expect—[audio gap]

Operator

And just one moment. We've lost our speaker.

Eric Foss

—and other mechanisms.

Operator

Cut out there a little bit during that answer.

David Hass

Do you have us now?

Operator

We have you now. Yes. Thank you. Thank you for confirming.

Eric Foss

Okay. I'm not sure where I was cut off. So let me double back. I think my point was, from a consumer standpoint, really, really encouraging. We continue to create household penetration, both the category and our brands.

Premium has been on fire. Saratoga and Mountain Valley have tremendous upside and runway ahead. Good growth on our regional spring water.

So at the end of the day at Retail, we grew our volume, grew our value share. Strong performance will continue on premium. Distribution opportunities and investment in capacity early innings with long runway ahead of us.

And on pricing, I was mentioning that we'll be balanced in our approach, but start with the consumer, make sure we understand how she defines value and, again, take advantage of that opportunity as we walk forward.

David?

David Hass

Yeah. Andrea, I think all I'd add to that is as we head into '26, we've talked about the Mountain Valley supply constraint. That's coming online in the spring and summer. And we really think that that helps unlock—within these results, I would say Mountain Valley has been held back a little bit. So I really think that unlocks us for '26.

Andrea Teixeira

That's super helpful. I just want to maybe double click on the Retail side, especially the purified. Is there any improvement there as you exit the quarter?

And then a second clarification. With the exit into the Israel—[audio gap]

Operator

We can—hello?

David Hass

We can hear the Operator, and I did hear Andrea, but she was cutting out, if there was a follow-up.

Andrea Teixeira

Yes, please. If I can just follow up on, as you exit the quarter—two follow-ups. One, as you exit the quarter, how was the purified performance? Just to think about, like, if the consumer got it (phon) slightly better as you exit.

And then a clarification on the exit of the Israel operations. Like, is that—was that included in a headwind into the quarter? Or no?

David Hass

No, let me start there, please, just to clarify for everyone. Israel had always been in discontinued operations since the announcement—

Andrea Teixeira

Yeah.

David Hass

—of the original international sale. So that had nothing to do with the quarter itself.

Andrea Teixeira

Yeah. I've got a question—

David Hass

Moving back—

Andrea Teixeira

—yeah, yeah, from an investor—

David Hass

Okay.

Andrea Teixeira

—and I figured that was the case. But, yeah, I wanted to clarify.

David Hass

That's correct. And then with regard to the purified water, largely the disruptions within the home and office delivery space created the challenges there. But at Retail, our Pure Life brand and the Primo water brand that goes to market through the Exchange and Refill services remains quite strong.

Andrea Teixeira

Okay. Thank you. Pass it on.

Operator

Thank you so much. Ladies and gentlemen, due to timing, our last question will come from Andrew Strelzik with BMO. Please go ahead.

Andrew Strelzik — BMO

Hey. Great. Thanks for squeezing me in here. When you were talking about the service levels over the last several months, you gave some good kind of regional colour about some of the markets that were lagging and kind of how that was progressing. So I was just hoping to get a sense for the breadth maybe of this fulfillment issue that is ongoing.

Is it kind of nationwide? Is it more concentrated in certain areas? Any help around that would be helpful.

David Hass

Sure. Thanks, Andrew. So again, we go to market in six divisions. We track our DSR rate that we've talked about throughout the last couple of months of our journey. Again, that exits and sits today—it exited Q3 right around the 93-ish or so percent range. Today, it stands at 95.

Generally, there are a couple of divisions performing above that. And then some of the more slow-to-recover areas have been in the southeast and the mid-Atlantic. But those are within 93, 94 percent.

So again, the overall mean is where we want it. Again, we need to continue to improve the volume off those routes, however.

As I mentioned in the prepared remarks, we did go through a wave of integration in September. Because we had more time to prepare for the team for the change management, the amount of leaders that went to the market to ensure that success, that was very successful. We had very little friction at the consumer or customer level.

So again, that really gives us the confidence that as we head into the first quarter with our remaining two waves, that the time and the preparation of activities that we can put into it is quite helpful for the success of that.

So again, I think we're just continuing through improving at the volumetric level at this point.

Andrew Strelzik

Okay. And is that challenge also kind of regionally concentrated? Or is that more broad-based? I guess that's what I was—

David Hass

It would be—

Andrew Strelzik

—what I guess what I was trying to get at.

David Hass

Yep. It would be in those same regions that we're continuing to support and improve over time.

Andrew Strelzik

Okay. All right. Great. Thank you very much.

David Hass

Thanks, Andrew.

Operator

Thank you so much. It's my pleasure to turn the call back over to Eric Foss for closing remarks.

Eric Foss

Thank you. So in closing, let me just emphasize the confidence we have in this business looking forward.

I think the combination of our brand leadership position, as well as the increased focus on executional and operational performance, can and will deliver a resilient top-line algorithm, as well as value creation going forward.

And so, I look forward to sharing our progress in the coming quarters.

Operator

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