Primo Brands Corporation

Second Quarter Earnings Conference Call

Event Date/Time: August 5, 2026 — 8:00 a.m. E.T.

Length: 52 minutes

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PRESENTATION

Operator

Good morning. Welcome to the Primo Brands 2026 Second Quarter Earnings Conference Call.

At this time, all lines are in listen-only mode.

And following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, August 5, 2026.

I would now like to turn the conference call over to Traci Mangini, Vice President, Investor Relations.

Please go ahead.

Traci Mangini — Vice President, Investor Relations, Primo Brands Corporation

Thank you, Operator, and hello, everyone.

With me on the call today are Eric Foss, Chairman and Chief Executive Officer; and David Hass, Chief Financial Officer.

Our discussion today includes forward-looking statements within the meaning of US federal securities laws, which are subject to risks and uncertainties that may cause actual results to differ materially.

For more information, please refer to our forward-looking statements disclosure in our earnings release.

In addition, the definitions of and applicable reconciliations for any non-US GAAP financial measures are included in our earnings release and supplemental earnings slides, which were made available earlier today on the Investor Relations section of our website.

With that, I'll pass it to you, Eric.

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

Thanks, Traci. Good morning, and thank you for joining us.

Today, I'll review our second quarter performance and how we're positioning the Company to be fit to win by continuing to improve on the Direct Delivery customer experience, advancing our key growth priorities, and simplifying our leadership structure.

David will then cover our financial results and 2026 guidance.

We're encouraged with the accelerating momentum across the business in the second quarter, with strengthening fundamentals driven by ongoing improvements in the customer experience in Direct Delivery and strong dollar and volume share gains in the bottled-water category within Retail.

Second quarter net sales were $1.8 billion, up 4.2 percent on a comparable basis versus prior year, ahead of our expectations and marking a second consecutive quarter of year-over-year growth.

Growth was broad-based, reflecting continued strength across our brands in Retail and a faster-than-expected return to growth in Direct Delivery.

Adjusted EBITDA increased 5 percent to $385 million, with margin expansion driven by improving productivity, stronger operating leverage, and continued progress in Direct Delivery.

With top-line growth again exceeding our expectations and momentum broadening across both Retail and Direct Delivery, we're raising our 2026 comparable net sales growth guidance for a second consecutive quarter.

We now expect growth of 2 percent to 4 percent, up from the previously guide of 1 percent to 3 percent.

We are reaffirming our adjusted EBITDA guidance of $1.465 billion to $1.515 billion, as we intend to continue to invest behind growth and as we manage the current dynamic macro cost environment.

Our business fundamentals continue to improve, and we remain well positioned in an attractive growing category. Our differentiated portfolio of leading brands spanning the value spectrum, an advantaged route to market, and disciplined execution gives us confidence we have the right foundation to drive long-term growth.

Building on this, last month we took an important step forward by simplifying our leadership structure. This included eliminating the chief operating officer role, enhancing leadership capacity with the addition of a highly experienced beverage industry professional in the role of president of customer direct and go-to-market, and elevating certain critical roles like chief supply chain officer to report directly to me.

These changes are designed to improve our ability to serve our customers and accelerate key growth priorities and support faster decision-making and to create a more agile and accountable operating model.

We believe these actions further strengthen our position and enhance our ability to capitalize on the growth opportunities ahead.

Let's review our near-term priorities, which we have discussed in the last few quarters.

First was to improve the customer experience in Direct Delivery, and second was to return the Company to balanced growth.

We've now delivered on both of these priorities for a second consecutive quarter.

Direct Delivery returned to growth, up 0.4 percent in the quarter. This return to growth was one quarter ahead of our expectations and marked a significant milestone reflecting meaningful progress in stabilizing the business and improving the customer experience.

At a high level, Direct Delivery growth is driven by several key levers: adding new customers, improving revenue retention, disciplined pricing, and tuck-in M&A.

In the second quarter, performance improved across several of these areas.

New customer additions remained strong, and with the reduction in the historical incentives, we're improving new customer quality and narrowing the average revenue gap to more tenured customers.

On a sequential quarterly basis, customer quits and the contact centre call volumes also declined, with call volumes below pre-integration levels.

We also saw improvement in key operational metrics. On-time, in-full, or OTIF, improved month over month through June, reaching the mid 90s, despite elevated peak season demand.

We also continue to make the customer billing experience easier and more clear through simpler invoices, expanded payment options, stronger credit processes, and improving invoice timing for many residential customers.

Our Solve by Sundown initiative has also been supporting faster resolution of customer concerns.

We're encouraged with our progress, but there is more work ahead as we continue to stabilize the business and lay the foundation for optimization to accelerate profitable growth.

Supported by our simplified leadership structure, we're taking targeted actions to improve execution, productivity, and customer experience, creating a flywheel that we believe will enhance operational performance and accelerate growth.

Our second priority was returning the total business to growth, which we achieved for a second consecutive quarter.

Our Retail business delivered strong and broad-based growth. Our regional spring water net sales increased 4.1 percent, purified water increased 1.9 percent, and premium brands increased 30.5 percent. We also expanded our retail presence through new points of distribution.

This performance drove continued value and volume share gains in the bottled-water category.

Going forward, we see multiple growth vectors: continuing to brand build and innovate, improving our in-store presence, and a more strategic and holistic approach to revenue growth management.

We also see meaningful opportunity in cold and immediate consumption, where we're under-penetrated in a high-growth, high-margin segment.

Another growth vector is premium. Saratoga and Mountain Valley continue to be among the strongest growth assets in the portfolio, again, growing dollar and volume share of category in the quarter driven by expanded distribution.

With strong brand equity, growing distribution, along with new capacity, we believe they are still early in their growth journey and see meaningful opportunities for both scale and mix, driving operating leverage, and margin expansion over time.

Our final growth priority is developing a more strategic and holistic revenue growth management approach across price points, packages, and channels.

In the first half of the year, we took strategic and disciplined actions across select areas of our portfolio, using our approach that begins and ends with the consumer, while factoring in competitive dynamics, our cost structure, and the economics of our retail partners.

We continue to believe we are well positioned to manage through the current dynamic macro and geopolitical conditions. Our portfolio serves consumers across price points, packages, channels, and occasions.

And we have a number of levers, including productivity and pricing, that we believe can help mitigate inflationary pressures while supporting long-term growth and margin expansion potential.

In closing, we're encouraged by our first-half progress, which reflects an enhanced customer experience, improving execution, and building momentum across the business.

In short, we believe the business is fundamentally stronger than it was six months ago.

As one team Primo, our customer-first culture fuels our passion to serve our customers and consumers with excellence each and every day.

Our near-term focus is to continue to execute with purpose and pace to drive sustainable, balanced growth. And as that growth scales, we expect productivity and operating leverage to support margin expansion, increased cash flow generation, and long-term value creation.

With that, let me turn the call over to David.

David Hass — Chief Financial Officer, Primo Brands Corporation

Thank you, Eric.

For 2026, reported financials include Primo Brands's results for both 2026 and 2025, as we're now past the anniversary of the merged companies.

To enhance comparability of continuing operations, we focus on comparable results, which exclude the Eastern Canadian operations exited in the first quarter of 2025 and the office coffee services business exited during 2025. Reconciliations are available in our earnings presentation available on our website.

Second quarter comparable net sales increased 4.2 percent versus the prior year, driven by a 4.3 percent contribution from price mix, modestly offset by a negative 0.1 percent contribution from volume.

In Retail, net sales growth was driven across all channels, led by mass, grocery, and away from home across pack sizes, driven by occasion and case packs, and brands, led by premium and regional spring waters.

In fact, in Retail sales channels, our premium sales growth exceeded the overall 30.5 percent premium water increase, reflecting ongoing strength in Retail channels while continuing to recover within the Direct Delivery channel.

Direct Delivery net sales growth was driven by price and mixed benefits, despite lower volume resulting from a smaller customer base. On a comparable basis, Direct Delivery net sales increased 0.4 percent, slightly ahead of our break-even expectations, and a 340 basis point sequential improvement from the first quarter.

This progress reinforces that our recovery efforts are driving tangible improvements in service levels, which is also reflected in continued increases in our NPS scores and Trustpilot ratings.

Adjusted EBITDA increased $18.3 million to $385 million, with comparable adjusted EBITDA margin of 10 basis points to 21.4 percent versus the prior year.

On a quarterly sequential basis, comparable adjusted EBITDA margin improved 260 basis points, reflecting enhanced operating efficiency in a seasonally stronger quarter, and productivity gains enabled by more stable operations.

Within Direct Delivery, our continued investments in routes, service, and customer experience drove a more consistent net sales performance.

At the enterprise level, adjusted EBITDA growth versus prior year was partially offset by higher transportation costs, primarily related to a tighter freight market and higher spot rates.

We also continued to make strategic investments across the business to support long-term growth and productivity.

Turning to our balance sheet and cash flows. We are encouraged by the improved health of our balance sheet and the quality of our cash flow.

Net leverage was 3.42 times at quarter-end, an improvement from 3.52 times in the first quarter, demonstrating a normal seasonal deleveraging pattern as we move closer to our near-term target of below 3 times, as cash flow and EBITDA continue to strengthen.

Our liquidity remained strong, with $953 million of availability between our cash balance and our unused line of credit.

As expected, the level of EBITDA and free cash flow adjustments declined significantly, which is a positive step toward a cleaner cash flow profile and better alignment between reported results and the underlying performance of the business.

We generated $227.9 million of cash flow from operations for the quarter. Adjusting for significant items, most notably our integration and merger activities, cash flow from operations would have been $266.4 million.

Adjusted free cash flow, which excludes integration-related capital expenditures, was $200.1 million, representing a $30.4 million improvement versus prior year.

Our strong financial flexibility allows us to reinvest in the business while returning cash to stockholders.

Second quarter total capital expenditures were $104.6 million. While $35 million was related to integration capital expenditures, the majority supported growth initiatives and maintenance.

We also continued to execute our share repurchase program. During the quarter, we repurchased $15.5 million or 708,000 shares under our $300 million authorized program.

Turning to guidance. As a reminder, in 2026, we cycled the exit of our office coffee services business, which accounted for $25.5 million in our reported 2025 net sales, as well as the Eastern Canadian operations, which accounted for $3.6 million in our reported 2025 net sales results, putting the comparable 2025 net sales base at $6.635 million.

We are raising our comparable 2026 net sales growth guidance for a second consecutive quarter. We now expect growth in the range of 2 percent to 4 percent from our previous 1 percent-to-3 percent guidance. This reflects our second quarter outperformance versus our expectations and the broadening of momentum across Retail and Direct Delivery.

We are reaffirming adjusted EBITDA guidance in the range of $1.465 billion to $1.515 billion. At the midpoint, this implies an adjusted EBITDA margin of 21.8 percent, which is flat compared to the prior year, as we invest behind growth and manage a dynamic cost environment. This entails taking disciplined actions to manage higher transportation and commodity costs, while continuing to invest in service, capabilities, and overall customer experience to support long-term growth.

We believe we have multiple levers to help mitigate commodity impacts, including pricing actions, growth initiatives, ongoing supply chain cost initiatives, and our financial risk management program. These actions are expected to support near-term cost mitigation and long-term margin expansion potential.

In Direct Delivery, we expect productivity to improve following peak season, as we have realigned the cost structure under our enhanced operating model, while making disciplined investments in key initiatives, such as the customer contact centre and a warehouse management system that strengthen the customer experience and position the business for future growth.

Adjusted free cash flow guidance remains $790 million to $810 million, supported by the strength of our cash generation.

We expect free cash flow quality to improve sequentially through the balance of the year, driven by lower adjusted EBITDA add-backs and the typical timing lag between expense recognition and cash payment.

Our strong free cash flow profile supports our capital allocation priorities. We continue to expect annual capital expenditures of approximately 4 percent of net sales, in addition to approximately $100 million of 2026 integration capital expenditures, of which approximately $18 million remained at the end of the second quarter.

Finally, we remain committed to returning cash to stockholders. Last week, our Board of directors reaffirmed the $0.12 quarterly dividend, which annualizes to $0.48 per share.

And we intend to continue executing our share repurchase plan, with $62.8 million remaining under the program authorization as of the end of the second quarter.

With that, I'll turn the call back to Traci.

Traci Mangini

Thanks, David.

To ensure we can address as many of your questions as possible, please limit yourself to one question, and if we have time remaining, we will re-poll for additional ones.

Operator, please open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we'll now begin the question-and-answer session.

Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a prompt that your hand has been raised.

Should you wish to decline from the polling process, please press the *, followed by the 2.

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

One moment, please, for your first question.

And your first question comes from Andrea Teixeira from JPMorgan. Please go ahead.

Andrea Teixeira — JPMorgan

Good morning. Thank you for taking the question. So I was wondering if you can talk about customer counts into the second half. We obviously have seen an improvement. You talked about the service levels, but also kind of net adds, and that's something that investors have been watching as you go. And I know the inflection was an important landmark for Primo. So if you look at, like, the cadence also when you think about, like, the 47 percent, 53 percent that you highlighted before and how we should be thinking about it after these results?

And lastly, just a clarification on the sequencing of the Retail business. What are you seeing in terms of the growth in volumes as we go through the balance of the summer? I know there was probably some pull forward potentially for a number of different reasons. You had also an easy comparison. So if you can just kind of take us through the balances and for both businesses, that would be appreciated. Thank you.

Eric Foss

Thanks, Andrea. It's Eric.

So let me start with the first one.

I think, number one, we're very pleased with our progress. Obviously, we've seen improved momentum really across the business. We continue to see both the Retail business perform well, broad-based across channels and brands. And the pace of our recovery and corrective actions that we took on the customer-direct business are adding to the overall customer experience. And we're seeing that across leading and lagging indicators. So just on the customer-direct business, we're obviously pleased with that progress.

To your question on cadence, yes, the cadence of our top line in customer direct we did see stronger monthly performance in the months of May and June than we did earlier in the quarter. I think as you think about that business, obviously, we talk a little bit about some of the supply chain disruption that is now, I think, fully behind us.

And on the service side, I think this was probably the biggest step forward we made in the quarter, which is if you think about call volume, it's back to premerger levels. If you look at quits, they continue to improve. We talked about the—on the prepared comments, kind of the mid 90s performance that we're seeing on OTIF. And then if you look at nets, we did see a positive month within Q2.

So I think the really encouraging thing is is this business has now returned to growth. We're seeing, again, NPS, kind of customer satisfaction metrics improve dramatically versus where we've been.

We have more to do. We talked about the warehouse management system, work on the customer journey, future call centre, investments in tech and AI. So lots more to do, but really, really pleased with the overall recovery of that business.

On your second question, I think related to, I think it was related to volume, again, encouraged by the top-line recovery. We obviously saw sequential acceleration in that top line from Q1 into Q2. Again, very happy with how broad-based that growth is.

When you're growing strong growth, double-digit growth on premium, but you're also seeing all of our regional spring waters and Pure Life grow at the same time, you're seeing that growth broad-based across almost every single channel we do business in, so. And I think one of the most important metrics is the fact that we grew both our value and our volume share is very encouraging to us.

So, anyway, overall, very, very encouraged by how the business has performed.

Andrea Teixeira

Eric, just a clarification. This is super helpful, but the—on the HOD, the net adds, you said within the quarter you had it return to growth, inflect to growth. When was that? Was it the exit month? Or that was an easy comp from last year or within the month in terms of cadence?

Eric Foss

The growth cadence on the overall business, as I was trying to articulate, was in the months of May and June.

Andrea Teixeira

And what happened now in July, how we should be thinking July and August in terms of that sustainability of that cadence or that improvement in the HOD?

Eric Foss

Again, we feel, as I've said, very pleased with our progress. It's broad-based. We continue to feel like the actions we took, both the pace and the actual actions themselves, are creating a much better customer experience.

All of the leading and lagging indicators that we called out are in a better spot. And we continue to be encouraged by the continued recovery and certainly would anticipate that continuing to be in a good spot as we walk forward.

Operator

Thank you. And our next question comes from Nik Modi from RBC Capital Markets. Please go ahead.

Nik Modi — RBC Capital Markets

Yeah. Thank you. Good morning, everyone.

Eric, I was hoping maybe you could just give us a little bit more colour on kind of the volume versus price mix. It looks like a majority of the revenue growth was driven by price mix. So if you could just kind of help give us some kind of underneath the cover kind of perspective on that that would be super helpful.

And then, David, just there was a lot of talk when the integration happened on around working capital and working capital improvements. And I know that obviously a lot of that has been disrupted with some of the integration challenges. But now that we're kind of moving forward, I would love your kind of updated thoughts on the progress that you could make there and kind of timeline. Thank you.

Eric Foss

Sure, Nik. Good morning.

Well, I think, let me try to deconstruct a little bit of the volume price dynamic. I think, number one, while we saw a return to growth on the customer direct business, it wasn't volume growth. So that recovery is still ahead of us. And what happens is if you really deconstruct this thing at a unitized level, we did see volume positive in the quarter.

Again, if I break it down and actually move over to Retail, on a year-to-date basis we're seeing a split of about 40/60. So pretty balanced between volume and price, which is obviously what we're trying to do. So overall, again, I can't be more enthusiastic about our progress and how top-line growth actually exceeded our expectations.

And again, we continue to look at this through a category lens. We've got a good category, pretty stable consumer environment, feel very good about our own position, and are continuing to be encouraged by what lies ahead.

David Hass

Yeah. Nik, on the working capital, I think when you go through last year and you run into some integration-related disruption, you then kind of get caught up a little bit in your collections process. And that would not be as efficient as we would have liked.

As you move into this year, that's improving pretty rapidly, as well as the quality of the customer that we are retaining, which is the most important measure. So I think when you look at that that should continue to be a tailwind for us with regard to at least the cash cycle.

Again, I think we are getting our arms around vendor relations and continuing to take advantage of the benefits of the merger with those vendor relations. So that should also allow us to sort of action activities against payable days.

And then inventory will be what I'll call sort of a variable in that equation where last year, we probably could have advantaged ourselves with a little bit higher inventory levels going through some of the branch and integration transitions. This year, that's not a problem at all in customer direct.

And I think also where you'll see us sort of lean in on inventory is as we continue to develop our small-format immediate consumption business, making sure we sort of have product availability ready for what is a much higher velocity business than our traditional shelf-based program.

So again, I feel very comfortable overall that working capital will continue to be a benefit for us as the business continues to perform more smoothly this year.

Nik Modi

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

Operator

Thank you. And your next question comes from Kaumil from Jefferies. Please go ahead.

Kaumil Gajrawala — Jefferies

Thank you. Hey, everybody. Good morning.

I guess if I want to connect two things, one is the reorganization; one of the outcomes is that you're a lot more nimble than perhaps you would have been before. But now that you also have a business that's performing better than expected, that frees up a lot of investment dollars.

So as you're thinking about the back half, what are some of the things that you might be doing differently now, maybe playing a lot more offence than you otherwise would have been, than what could have been the plan six months ago when we first started having a—putting together some thoughts on how the year was going to play itself out?

Eric Foss

Thanks, Kaumil. It's Eric. Good morning. Appreciate your question.

On the—some of the things we did structurally, I mean you've heard me talk before. I mean, we're in the people business. And the team with the best players win. So the strategic rationale around some of the changes we made was really focused on, first and foremost, the customer and improving that overall experience; making sure we're prepared each and every day to provide great service and great execution at the moment of truth; continue to reinforce some of the cultural dimensions around creating a performance and recognition culture.

And then also making sure assess, moving a category like this we have the speed and agility on the decision-making front. So I think taking the customer direct business direct to me, along with supply chain direct to me is kind of eliminates a layer and allows us to do that in a more seamless way, in a quicker way; the folks that we've added from an experience and skill standpoint, broad-based leadership background, strong go-to-market in the beverage business and bring a lot of the relevant skills and experiences we were looking for.

I think relative to the second part of your question, I mean, obviously it's you're much better positioned when you're in the virtuous cycle and kind of that growth flywheel than kind of where we saw ourselves several months ago, six months ago. And so, again, we want to continue to play offence. I think what we have to do is continue to be very good on investments that are going to help the overall model succeed.

So whether that's call centre resources, whether it's investments in tech and AI, whether it's investments in capability. Obviously marketing and brand building we're still in, I've described in the past, I think kind of moving from stabilized to optimized to ultimately strategize. And I think from where we are right now, our focus near term continues to be on growing the core. And as we get further into this journey, that should allow us to think differently about other growth options.

Kaumil Gajrawala

Okay. Got it. And, David, I think you alluded to this a little bit, but as it relates to new customer adds, who are they? Are they different from customers you've had before? Are they returning customers that you would have lost when you had some of the issues? Or are they entirely new? Maybe just a little more detail on the sort of the composition of the net adds.

David Hass

Yeah. So I think I'll start with the simple statement that we don't have as great of tracking of you used to be one and now you are one again. Those are analytical capabilities we can continue to enhance, as well as consumer intercepts and insights that sort of educate us a little bit more on that.

What I feel fortunate about our position, especially in those direct-to-consumer bulk water categories, are more people are leaving tap each and every day than would be considering that their primary source of sort of home use or office-based water. And so, when you look at a departure or a donation from that sort of share of consumer, again, they obviously can go to pitcher filtration, singles, and things that we also thrive at in retail.

But when you come over to the bulk spectrum, we feel very advantaged and fortunate with our position from the lowest-entry price water at refill to a mid-stage water price within our exchange business where both of those you do your own work to, obviously, the more premium end of the business where for delivery fees and sort of access to high and great brands and convenience that can be brought to your home or office.

So I feel like, again, we're in an advantaged position where the tailwinds would say that more consumers are making these decisions for their health and wellness benefits, as well as sort of sort of departing what was a former source of their primary water.

Operator

Thank you. And your next question comes from Lauren Lieberman from Barclays. Please go ahead.

Lauren Lieberman — Barclays

Great. Thanks so much.

Wanted to ask a little bit about the premium side of the portfolio. Still up 30 percent, which obviously is a great number, but it was a deceleration versus what the business had been trending at previously. So just curious if there's anything to kind of call out there and how you think about what's a sustainable growth rate on the premium side of the business? Thanks.

Eric Foss

Hi, Lauren. Good morning. Yeah. We, again, saw continued double-digit growth around 30 percent, as you mentioned, in premium. Stronger on Saratoga than Mountain Valley. As you'll recall, we were in the midst of starting up a new Mountain Valley line that did create a little bit of product supply disruption at one point. But we're still early in the journey on the premium.

We have to continue to invest in brand building. The good news is very strong brand health across both of those brands. We've got to continue to drive penetration, frequency, pack rate. But overall, we continue to see we're early in that journey, and we would continue to see these brands continue to perform very, very well. They both in the quarter grew value and volume share.

So pleased with it, and we'll continue to walk down that journey and see those brands perform, I think, fairly well.

Lauren Lieberman

Great. Thanks so much.

Eric Foss

Thank you.

Operator

Thank you. And your next question comes from Bonnie Herzog from Goldman Sachs. Please go ahead.

Bonnie Herzog — Goldman Sachs

All right. Thank you. Good morning, everyone.

Eric Foss

Good morning.

Bonnie Herzog

I had a question on the pricing you took on your immediate-consumption portfolio during the quarter. Eric, I guess I was just hoping to hear some more colour on what you're seeing and hearing from retailers, consumers, and your competitors. Also curious if you've been able to maintain shelf space?

And will you consider future pricing on other maybe packages and or channels? I guess I'm ultimately trying to understand if the strength in Retail this quarter is sustainable going forward. Thank you.

Eric Foss

Sure, Bonnie. Good morning.

Well, let me start. Our growth goal is to be balanced across volume and price, and I think we mentioned on past calls that we had a lot of work to do in the area of RGM and pricing from an insights, process, tool standpoint.

Again, our framework and principles and the way we think about this is we start and end all of our decisions on pricing with the consumer. We really want to make sure that we define value and how she looks at it, and we incorporate that into the decision-making matrix.

Maintaining competitiveness is another key principle of ours. And then, obviously, we have to look at the Company P&L and what's happening in terms of inflation and costs and margin implications. And so then it's about how do you take that and package it into a comprehensive development approach around where are there opportunities, whether they're rate opportunities or mix opportunities or trade-spend opportunities. So that's just a mental model for how we think about it.

Earlier this year, we did take pricing on immediate consumption. Historically, we've had a large gap to competition. Obviously, we've talked about the closer you link purchase to consumption, the consumer's orientation tends to be more convenience. And so as we've done that, the good news is is that we're still priced competitively in most instances still lower than competition.

And again, I think as we think about this going forward, it'll be about looking at more if we do something, it'll be more on a precision basis really looking at packages and brands where we need to improve profitability or returns and, in some instances, looking at trade spend where it may have been ineffective historically. We did have some trade spend a year ago in Q3 that was put into the market on the Retail side to try to offset some of the softness we were experiencing on Direct Delivery business.

And so as we look at those and lap those, making sure those were effective and where we had no or low return on investment, we'll look to tweak our trade spending in some instances. But again, overall, again, I want to come back to the fact that year to date we're continuing in our Retail business to be very balanced.

And again, I think as kind of David pointed out earlier, the beauty of this portfolio is it's so well positioned across the value spectrum through the eyes of the consumer. So from an entry point on refill through exchange into our packaged water business, obviously Pure Life is one of the most attractively priced branded products out there; you go into our regional spring waters and all the way through premium.

So we feel very good about the position of the portfolio and, again, we'll continue to approach things in a very balanced way.

Operator

Thank you. And your next question comes from Peter Galbo from Bank of America. Please go ahead.

Peter Galbo — Bank of America

Hey. Good morning, guys. Thanks for taking the question.

David, just a question on the guidance. Obviously a nice improvement in the top line and you're raising the outlook there; kind of leaving the EBITDA unchanged, which I think is probably prudent. But maybe you can just help us think through a few items on that line. One, just the level of reinvestment. And you may have mentioned a number earlier. I think I might have missed it. But just the level of reinvestment that you're putting back into the EBITDA line this year.

And then maybe as a secondary, just how the cost environment is kind of shaping up as you begin to kind of do planning on ‘27. Oil is obviously a lot lower than it was when we spoke three months ago. You’re relatively well hedged for this year. But I think just those two items would maybe help frame how we might start to begin thinking about the profitability potential for the next year. Thanks very much.

David Hass

Thanks, Peter. So within the route side of the business, so we’re in kind of the Direct Delivery channel at this point, we continue to ensure and look at kind of two indicators: where are we on daily OTIF, which obviously compounds into monthly and quarterly performance, and then monitoring sort of call volume, which obviously is an indication that something didn’t go right at the moment of truth with the consumer or in the billing process.

And both of those continue to give us a signal that we can sort of manage the route count that typically follows the volume trajectory, whereas in Q1 that would have been a little heavier. So as we came into Q2, we had the right route sizing. And what is typical is as you exit Q3, you would go into route alignment that sort of matches sort of the shoulder quarters of Q4 and then Q1 of 2027.

So again, without a specific number there, that remains sort of an area that we feel much more comfortable about as we perform during Q2 and as Q3 begins. But it’s something that we’ll continue to monitor.

In terms of the general inflation environment, areas around diesel, which is a primary input of that route system, we remain obviously well hedged this year. And sort of we average into those hedges for next year where we have a decent percentage already taken down for 2027.

And then the rest, I think, is really what’s been well notable in the sort of market domain around the tightening freight market. And that continues to be some of the aggravation we see where we are in the spot or third-party market. And so what Primo has done over the course of the year is continue to invest in what we call our private fleet, which is transitioning drivers or hiring drivers specifically to run vehicles, either owned or leased on our own network, which, again, takes out some of that sort of friction cost.

But those tend to be, as you've called out, some of the higher inflationary items within the business. And so when you look kind of year over year, obviously the business is benefitting from the pricing, obviously more an optimized OpEx structure, the volume return in Retail, and more of a stable market in Direct, and then sort of navigating those inflationary items like freight and sort of unhedged areas of the business.

Operator

Thank you. And your next question comes from David Shakno from William Blair. Please go ahead.

David Shakno — William Blair

Hey. Thanks for taking my question. David Shakno on for Jon Anderson.

Wanted to ask about the club and away from home channel. So club, I think, was a little bit soft in 2025. It's been up mid-single digits the first half here. Away from home, up high-single digits the past couple quarters here. Just wanted to understand what trends you're seeing in those channels. Is it, especially on the away from home, is it new partnerships and additional TDPs there? In club, is it consumer value-seeking behaviour? Just wanted to understand those two channels in particular.

Eric Foss

Yeah. I think to your point, we continue both in the quarter we saw mid-single digit growth on club; same thing year to date. And on the away from home high single-digit. I think on the away from home, it's a lot about build out of distribution and continuing to see that business continue to grow. Premium plays a key role in there.

On the club business it's about making sure we're positioned right, pallet positions, new distribution opportunities. But as we mentioned, it's not just club and away from home. I mean, we're seeing really good balanced growth across now that both the Direct business and Retail business are growing, but within Retail, grocery, club, mass, C&G, dollar, all performing really, really well.

So the balance and broad-based nature of the growth is really encouraging.

Operator

Thank you. And your next question comes from Daniel Moore from CJS Securities. Please go ahead.

Daniel Moore — CJS Securities

Yes. Good morning. Thanks again.

Just wondering if you could elaborate on some of the other levers that you have beyond commercial or price to pull should we continue to see inflationary pressures continue to build throughout the year?

And then in the Direct Delivery business, if you can just give us an update in terms of how much redundant or excess costs you're carrying and when we expect those to wind down.

Thanks again.

David Hass

Yeah. So I think with regard to levers, obviously, we'll continue to look through our hedging programs, as well as sort of traditional sort of RFP measures around sort of supply chain elements. And so that's ongoing, especially as we navigate budget planning sessions for 2027.

Within the Direct Delivery side, as I guess without specifics, we're at a route count coming into Q2 that allowed us to sustain that performance and deliver it about 40 basis points ahead of expectations, with that growth expected to continue in the second half.

And so I think what we'll do as we exit the quarter is start to look at what will be the optimal route count that matches the consumer demand for those volumes. And that's typically been the muscle we have every year. Certainly premerger, but just obviously through last year we've kind of had that elevated.

So again, we'll look at what those need to be, how that matches demand, and sort of report a little bit clearer on that coming in and out of third quarter results.

Operator

Thank you. And your next question comes from Andrew Strelzik from BMO Capital Markets. Please go ahead.

Andrew Strelzik — BMO Capital Markets

Hey. Thanks for taking the question.

I wanted to go back to the reinvestment topic. And obviously, you've made a number of investments to restore the momentum in the Direct Delivery business this year. It doesn't sound like you really want to quantify that. But I'm trying to think through what reinvestment levels look like in '26 versus kind of the long-range reinvestment needs for the business. So is there any way you can kind of help frame that up, maybe talk about the long-term margin potential of the business? Any help around that would be great.

David Hass

Yeah. Unfortunately, we'll navigate this year. Obviously, it's a pretty dynamic environment. I think commenting on anything longer term we would save for our traditional sort of guidance reveal on '27 in the spring of next year.

But obviously, again, it remains dynamic. I think we have levers at our disposal. I think we have a fortunate position of consumer demand that's generating volume. So that helps balance and then not be just price mix related.

And again, I think regardless of being through sort of what we call our major integration milestones, the productivity journey doesn't end. And we'll continue to look through the P&L and continue to optimize the business for future success.

Eric Foss

Yeah. And the only thing I would add is I do think that as you think about what's now behind, David mentioned the routes. We had an investment in win-back initiatives. We had an investment in additional call centre resources. Those are largely behind us.

I mentioned earlier going forward we'll continue to invest in marketing and brand-building capability and tech and AI. But I think we will continue to be very disciplined around managing productivity across SG&A and efficient supply chain across manufacturing, warehousing, and S&D. And again, are looking to grow this business in a very balanced way and sustainable way.

Operator

Thank you. And your next question comes from Derek Lessard from TD Cowen. Please go ahead.

Derek Lessard — TD Cowen

Yeah. Good morning, everybody. And great to see some good momentum coming back to you.

One question for me is, can you just maybe provide some early signals or commentary on how the new warehouse management system is impacting your supply chain execution and I think customer satisfaction as well?

Eric Foss

Yeah. Thanks, Derek. Appreciate the comments and question.

I think it's just too early to tell. We obviously have it in pilot and are continuing to learn. Again, it's going to add value. But at this point—at this moment in time, it's really just about reading the pilot, making whatever necessary changes we do before we begin to roll it out. But it's just way too early to talk about any significant contribution from the warehouse management system.

Operator

Thank you. And your last question comes from Eric Sirota from Morgan Stanley. Please go ahead.

Eric Sirota — Morgan Stanley

Great. Thanks for taking the question.

Eric, earlier in the year you talked about some low-hanging fruit from some kind of basic retail execution and blocking and tackling in the stores that just wasn't really done by the predecessor companies. Can you talk a bit about progress on some of those areas that you had in mind to date and sort of what you're seeing, or what you're planning in terms of cadence of getting at some of these opportunities in second half or 2027? Thank you.

Eric Foss

Sure. And I think my focus was really all about what lies ahead versus what has happened historically. I think as you think about the growth vectors of this business, first and foremost, the improvement on the customer experience and customer direct hopefully creates a growth flywheel in that business for us as we walk forward to unlock.

Second, we've talked a lot about improving our presence. And as you can see, we continue to drive new points of distribution across our Retail business. So whether it's driving distribution, making sure we get more feature activity and promotional activity, certainly display inventory; expanding our presence on shelf, whether it be warm or cold; and then cold drink and immediate consumption, all of those are opportunities for us. I would say as we walk forward, those are ones that we continue to focus on and will be kind of the centerpiece of how we approach the 2027 customer sell-in.

But multiple growth vectors on this business exciting to see where those opportunities are and more to come on how those plans will unfold as we get into the later half of this year and specifically into 2027.

Operator

Thank you.

That does conclude our question-and-answer session for today.

I will turn the call back to Eric Foss for closing remarks.

Eric Foss

Thank you.

Well, in closing, we're certainly pleased with both the Q2 and first half results. I want to thank all of the Primo associates for their passion and pride in all that they do every day. And thanks for all of you on the line for your time today and your continued interest and investment in Primo.

Have a great day.

Operator

Ladies and gentlemen, this does conclude your conference call for today. We thank you very much for your participation, and you may now disconnect. Have a great day.