



Primo Water Corporation (PRMW: \$14.25 Outperform; \$18 PT)

Initiating Coverage of PRMW with an Outperform Rating and \$18 Price Target—Nationwide Network and Recapitalized Balance Sheet in Place; We See Potential for Unit Economics to Improve Over Time

Figure 1. Primo Water Corporation—Key Company Data, Prices as of 11/15/18

Key Data	FY: December	2018	2019E	2020E
Price:	\$14.25			
Price Target:	\$18.00			
52-Week Range:	\$11.16-\$20.72			
Market Cap (\$mn):	571			
Shares Out. (mn):	40.1			
Avg. Daily Vol.:	300,000			
Total Debt (\$mn):	190			
Cash (\$mn):	6			
EV (\$mn):	755			
Annual Dividend:	0.00			
Dividend yield:	0.0%			
Adj EBITDA:				
Q1 (March):		12.4A	13.0	15.3
Q2 (June):		15.0A	15.1	16.8
Q3 (Sept):		16.2A	18.8	20.5
Q4 (Dec):		11.8	13.8	15.3
Year		55.3	60.6	67.9
EV/EBITDA		13.7x	12.5x	11.1x
Revenue (\$mn)				
Q1 (March):		73.7A	76.0	79.5
Q2 (June):		75.8A	78.5	82.2
Q3 (Sept):		81.8A	85.7	89.7
Q4 (Dec):		73.0	77.0	80.6
Year		304.3	317.1	332.0

Sources: Company data and Imperial Capital, LLC.

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Key Data

Symbol: PRMW
Price (11/15/18): \$14.25
Rating: Outperform
Price Target: \$18

Estimates:

2018E EBITDA: \$55.3
2019E EBITDA: \$60.6
2020E EBITDA: \$67.9
2018E EV/EBITDA: 13.7x
2019E EV/EBITDA: 12.5x
2020E EV/EBITDA: 11.1x

Company Description

Primo Water sells purified water and water dispensers through a network of retailers, including Walmart, Lowe's, and Home Depot.

■ **Financial Summary**

Primo Water (PRMW) generated revenue of \$300mn and adjusted EBITDA of \$57mn in the last twelve month (LTM) period ended 9/30/18. The company had \$6mn in cash and \$190mn in debt, as of that date.

■ **View and Valuation**

We are initiating coverage of PRMW shares with an Outperform rating and a one-year price target of \$18, approximately 26% above the recent share price. With a nationwide network and a transformative refinancing now in place, we see potential for PRMW to dramatically improve its unit economics over time. We believe Primo's management team and board appear well suited for the challenge.

Our price target of \$18 is based on 13.3x 2020 EBITDA. Valuation is compelling compared to other "healthy lifestyle" and "beverage" comparable companies. We also see many similarities with Freshpet, which trades at a significant premium.

■ **Rationale**

Primo benefits from a plethora of industry tailwinds, including: consumer shift out of sugary beverages, growing concern regarding tap water quality, and increased environmental consciousness.

After two acquisitions and a major distribution agreement, Primo now operates a leading nationwide network. Primo is the market leader in each of its business segments and it reaches over 45K retail doors.

Recent refinancing and equity offering give management flexibility to pursue internal growth investments. We see several likely areas of investment. As mentioned later in this report, Freshpet is an interesting test case.

Strong management team. Management has experience building and selling similar businesses.

Compelling valuation versus water and beverage stocks. Transactions provide valuation support.

Important Disclosures, Certifications and Other Information

See the last page of this report for important disclosures, analyst certifications and other information concerning conflicts of interest that may exist between the subject of this report and Imperial Capital, LLC, Imperial Capital Asset Management, LLC and/or the author(s) of this report.

Additional information is available upon request.

Capitalization

Figure 2. Primo Water Corporation—Capitalization as of 9/30/18, Prices as of 11/15/18

			Debt		Net Debt		Net Debt		Price / YTM			Interest Exp.	
			Face		Face		Market		Analysis			Analysis	
LTM Revenue	(09/30/18)	300											
LTM ADJ EBITDA	(09/30/18)	57											
LTM EBITDA %	(09/30/18)	18.8%											
LTM FCF	(09/30/18)	9											
Settlement Date	NA												
	M/S&P	Balance	Cum.	LTM	Net	LTM	Net	LTM				Rate/	Est.
	Rating		Debt	EBITDA	Debt	EBITDA	Debt	EBITDA	Price	YTM	Mat.	Coup.	Int. Exp.
			Face	Mult.	Face	Mult.	Mkt	Mkt					
Cash		6											
Debt													
Term Loan		190	190								06/22/23	L+2.5%	9.5
Revolver (\$30mn available)		-	-								06/23/23		-
Total		190	190										9.5
Common Equity													
Common Stock (PRMW)		571											
Total Equity		571										Interest	9.5

Sources: Company Data and Imperial Capital, LLC.

Quick Company Overview

Before delving into the Key Investment Considerations, we provide a quick company overview.

Business overview: Primo is a provider of purified water and water dispensers in the U.S. and Canada. Water is sold via multi-gallon bottles and self-service refill stations placed at leading retailers, including Walmart, Kroger, Home Depot, Lowe's, Sam's Club, Family Dollar, and others, and serviced by independent bottlers/distributors and Primo technicians. Primo's products are sold at >45K retail locations.

Segments: Primo operates three business segments. **1)** The *exchange* segment offers multi-gallon bottles of purified water to consumers through a network of "kiosks" placed at approximately 13K retail locations. The "kiosks" are serviced by independent bottlers and distributors, key being DS Services of America (owned by Cott Corporation), which is contracted through 2025 to perform the majority of bottling and distribution. **2)** The *refill* segment offers filtered water through self-service machines located at over 25K retail locations. Primo's own technicians monitor and maintain the retail locations. **3)** The *dispenser* segment offers water dispensers sold online and at over 7K retail locations. Primo relies on outside manufacturing partners to provide the dispensers.

Figure 3. Primo Water Corporation—Exchange, Refill, and Dispenser Pictures


Sources: Company data and Imperial Capital, LLC.

Acquisitions: Primo has completed two major acquisitions that gave the company nationwide scale. In 2010, it acquired Culligan Store Solutions for approximately \$110mn. Culligan provided water machines and refillable water bottles at approximately 4.5K retail locations (including Walmart). In 2016, Primo acquired Glacier Water Services for approximately \$265mn. Glacier provided filtered water through self-service refill water machines placed at approximately 20K retail locations. The two acquisitions made Primo the nationwide leader in each segment of its business.

Management: Key employees have been involved in similar retail businesses. Billy Prim, current Executive Chairman, founded Primo Water after taking public and selling Blue Rhino, a provider of

propane cylinder exchange products. Current CEO Matt Sheehan served in senior roles at Coinstar and Redbox before joining Primo in 2012. Additionally, board member Charles Norris is the current Chairman of Freshpet, which sells refrigerated pet food through a network of fridges placed at leading retailers.

Competition: Primo earns the leading market share in its refill, exchange, and dispenser businesses; however, there are other water delivery modalities that are competitive.

Home and office delivery (HOD): Nestle and DS Services operate large HOD businesses, leveraging their owned brands. The market is estimated at nearly \$2bn annually, with the vast majority in office delivery. HOD costs more than exchange on a per-gallon basis.

Home-use water filters: Brita (licensed by Clorox in North America) and Pur (owned by Helen of Troy) offer water purification systems and carry large retail distribution.

Refill: Primo estimates that it carries a 90% share in refill after the Glacier acquisition. There are regional operators that could be M&A targets over time.

Exchange: Nestle has an exchange business that is smaller than Primo. Nestle leverages its existing infrastructure and brands to operate the business.

Key Investment Considerations

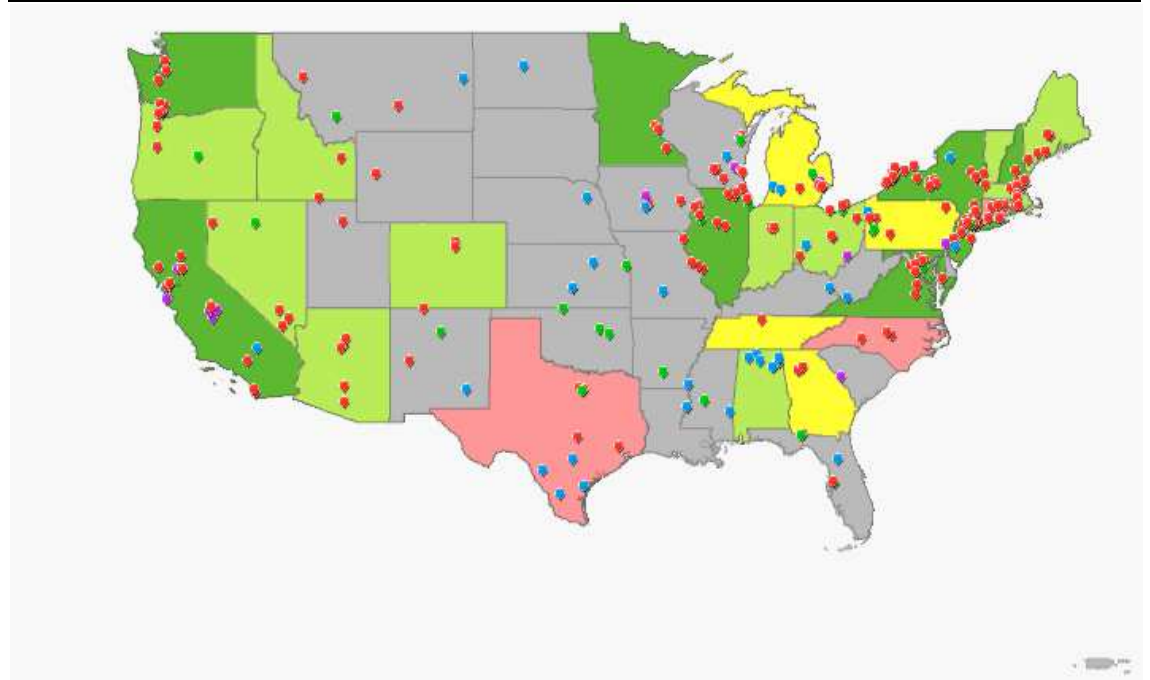
Industry tailwinds

There are several industry tailwinds benefitting Primo.

Consumer shift out of sugary beverages: The consumer shift out of sugar has been well publicized. According to NPD Group, carbonated soft drink volumes have declined since peaking in 1999, but the industry is still large, generating approximately \$90bn in annual sales. Consumption of bottled and bulk water is moving the other direction and recently overtook soda in per capita consumption. Bottled water has grown from approximately \$14bn in 2014 to over \$18bn in 2017 (Beverage Marketing Corporation).

Tap water quality issues: Tap water quality has been getting more attention since the Flint water crisis. Many other areas in the U.S. have had similar issues with poor water quality. The map below plots places where there have been media reports of tap water contamination since 2015.

Figure 3. Primo Water Corporation—Media Reports of Tap Water Contamination Since 2015



Sources: Drinkingwateralliance.org

Increased environmental consciousness: According to various media outlets, single-use plastic bottles are bad for the environment and carry health risks, depending on the composition of the plastic. Primo's bottles can be sanitized and reused up to 40 times before being recycled.

Each of these factors has helped drive consumer adoption of PRMW's products.

Network in place

After a series of acquisitions and distribution agreements, Primo's network is now formed.

Acquisition history: Primo has completed two major acquisitions, giving the company nationwide distribution and key retail partners. First, in 2010, it acquired Culligan Store Solutions for approximately \$110mn. Culligan provided water machines and refillable water bottles at approximately 4.5K retail locations (including Walmart). In 2016, Primo acquired Glacier Water Services for approximately \$265mn. Glacier provided filtered water through self-service refill water machines placed at approximately 20K retail locations.

Figure 4. Primo Water Corporation—Glacier/Primo Distribution Points



Sources: Primo Water

Distribution partners: Primo's exchange business relies on a DS Services of America, a subsidiary of Cott Corporation (COT), to perform the majority of the bottling and distribution. DS has several bottling facilities where it produces the water in accordance with Primo's specifications. After filtration and bottling, DS and other independent distributors place the filled bottles at retail and collect used bottles. Primo's nationwide network would be challenging to replicate.

Retail partners: Primo sells products at over 45K retail doors. The company works with many of the largest U.S. retailers.

Figure 5. Primo Water Corporation—Retail Partners

Retail Category	Major Accounts
Home / Hardware	Lowe's, Home Depot, Ace
Mass	Walmart, Meijer
Grocery	Kroger, Food Lion, Safeway, H-E-B, Hy-Vee, Albertsons
Membership	Sam's Club, Costco
Drug	Walgreens, CVS, Rite Aid
Convenience	Circle K
Office Retail	Office Depot
Dollar	Dollar Tree, Family Dollar, Dollar General

Sources: Company data

Margin profile: Primo's business model has actually been fairly stable and predictable despite all the moving pieces (acquisitions, varying retail models, reliance on partners, etc.). In our view, PRMW's stability illustrates the value of PRMW's network and consumer interest in the product and distribution method. We highlight key financial metrics in Figure 7 below.

Figure 6. Primo Water Corporation—Business Model, 2013–2020E

	2013	2014	2015	2016	2017	2018E	2019E	2020E
Revenue	91.2	106.3	127.0	142.5	286.1	304.3	317.1	332.0
Growth	-0.3%	16.6%	19.4%	12.3%	100.7%	6.4%	4.2%	4.7%
Gross Margin	25.0%	26.2%	27.2%	29.7%	29.1%	28.4%	28.9%	29.6%
Adj EBITDA	9.1	13.0	18.1	24.1	54.7	55.3	60.6	67.9
Margin	9.9%	12.2%	14.3%	16.9%	19.1%	18.2%	19.1%	20.4%
Operating CF	6.6	8.4	13.6	16.4	17.6	31.8	50.6	57.9
Capex	(7.3)	(7.9)	(7.8)	(12.5)	(20.6)	(22.8)	(24.0)	(24.0)
FCF	(0.7)	0.5	5.7	3.9	(3.0)	9.0	26.6	33.9

Sources: Company data and Imperial Capital, LLC.

Capital constrained no more

After completing the Glacier acquisition in 2016, Primo's focus was on integrating and deleveraging the business. In the years ahead, following the recent recapitalization, we expect Primo to refocus on growth and we see several capital and operational investments that could improve unit economics after years of underinvestment. Freshpet, a healthy pet food brand with similar sector/business model attributes, serves as a useful test case.

Balance sheet changes: In 2Q18, Primo completed an equity offering that raised approximately \$70mn (5.3mn shares, \$14 price). Subsequent to the offering, the company refinanced its debt, lowering annual interest costs by approximately \$10mn and extending the term. As shown in Figure 8, the current balance sheet and FCF profile give management significantly more capital flexibility.

Figure 7. Primo Water Corporation—Historical Leverage Profile, 2013–2020E

	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adj EBITDA	9.1	13.0	18.1	47.0	54.7	55.3	60.6	67.9
Operating Cash Flow	6.6	8.4	13.6	16.4	17.6	31.8	50.6	57.9
Capex	7.3	7.9	7.8	12.5	20.6	22.8	24.0	24.0
Debt	22.7	24.3	20.1	272.4	273.3	189.3	189.3	189.3
Interest Expense	4.4	6.3	2.0	6.0	20.3	21.4	10.0	10.0
Net Debt	22.3	23.8	18.2	256.9	267.7	181.7	155.0	121.1
Net Debt / EBITDA	2.5x	1.8x	1.0x	5.5x	4.9x	3.3x	2.6x	1.8x

Note: 2016 EBITDA is estimate pro forma to include Glacier
 Sources: Company data and Imperial Capital, LLC.

Potential areas of investment: With the improvements in PRMW's balance sheet and free cash flow profile, the company can now accelerate capital and operational investments. In the past, both Primo and Glacier have been somewhat capital constrained and unable to update installations consistently. In our opinion, the following areas of investment are most likely:

- **Media advertising:** PRMW will spend approximately \$4mn in advertising in 2018, or 1.3% of revenue, well below other beverage companies. Primo has been slow to ramp marketing because the company owns two brands, Primo and Glacier, and its infrastructure needed improvement. Recently, the company made the decision to unify under the Primo brand and it has also made many infrastructure improvements in 2017 and 2018. These initiatives will allow management to now efficiently increase advertising going forward. Traditional advertising is being tested and management appears keen on growing the budget.

Figure 8. Primo Water Corporation—Advertising Spend at Beverage Companies

	Revenue	Advertising	%
FIZZ	976	50	5.1%
KO	35,410	3,958	11.2%
PEP	63,525	4,100	6.5%
DPS	6,690	547	8.2%
MNST	3,369	324	9.6%
SODA	543	76	14.0%
SAM	863	128	14.8%
COTT	2,270	22	1.0%

Sources: Company data and Imperial Capital, LLC.

- **Technology improvements:** Several technology upgrades are being tested and implemented. Most important, Primo is installing cashless payment technology at all of its 17K coin operated outdoor refill stations. The technology will offer consumers an easier transaction, in addition to offering real-time monitoring (fewer technician visits) and less machine downtime. Over time, the technology could enable PRMW to offer customer loyalty programs.
- **Signage:** Primo implemented new signage at Walmart in 2018 and is rolling out video screens at Walmart and other locations.
- **Promotions:** Primo has a dominant share in water dispensers. Retailers we visited exclusively sold Primo's dispensers on the retail floor. In the 2017 holiday season, the company ran several successful dispenser promotions that brought incremental exchange business in 2018. We look for additional promotions this year and beyond.
- **Pricing:** The company recently raised pricing in its refill business and we believe there could be opportunity to take pricing higher over time. With technology improvements and increased marketing, pricing changes will likely be easier to implement in the future.

FRPT comparison: We believe Freshpet is a useful test case to examine. For background, Freshpet is a healthy pet food brand that manufactures food at owned facilities and distributes through a 3P network into 20K company-owned fridges placed at leading mass, grocery, and pet specialty channels. The distribution/retail model carries many similarities to PRMW.

In early 2017, Freshpet undertook a major shift in strategy to accelerate growth and gain distribution/manufacturing leverage. Key to the strategy was increased advertising spending. Between 2016 and 2018E, FRPT nearly tripled advertising spend, going from 6% of revenue to 12%. Increased spend helped the company accelerate revenue growth, gain manufacturing leverage, and quicken FRPT's path to scale/higher margin.

The plan was not without pain – EBITDA margin has declined thus far and free cash flow is nominal. But importantly, revenue growth has accelerated and the market bought off on FRPT's plan, with the stock appreciating approximately 300% since the plan was announced in early 2017.

Key metrics, financials, and valuation are shown in Figure 10 below.

Figure 9. Primo Water Corporation—Freshpet Comparison

	PRMW	FRPT
Number of Locations	46,000	19,107
LTM Rev per Store	6,614	10,043
<i>2018 Financials</i>		
Revenue	304.3	191.9
GPM	28.4%	47.2%
EBITDA	55.3	20.2
Margin	18.2%	10.5%
<i>Valuation</i>		
Mkt Cap	571.0	1,249.3
EV	755.0	1,248.4
EV/2018 EBITDA	13.7x	61.8x
EV/2018 Revenue	2.5x	6.5x

Sources: Company data and Imperial Capital, LLC.

Management

Primo's management appears well qualified to manage the business with experience at similar retail network businesses, in our view. Founder Billy Prim previously founded and led Blue Rhino, an exchange propane business that worked with leading retailers and convenience stores. Blue Rhino was sold to Ferrellgas for \$340mn in 2004. Matt Sheehan served in senior roles at Coinstar and Redbox, operators of coin-cashing and video rental machines placed at leading retail and food service outlets. Lastly, board member Charles Norris is currently chairman of Freshpet, a leading healthy pet food brand with a network of fridges placed at retail and grocery stores.

The management and board are also heavily invested in PRMW. Top insider holders are shown in Figure 11 below.

Figure 10. Primo Water Corporation—Insider Owners

		Role	Shares	% of Total
Billy	Prim	Chairman	1,579	4.1%
Mark	Castaneda	Prev CFO	430	1.1%
Malcolm	McQuilkin	Board	422	1.1%
Matt	Sheehan	CEO	374	1.0%
Charles	Norris	Board	162	0.4%
Richard	Brenner	Board	148	0.4%

Sources: Company data, ThomsonOne, Bloomberg, and Imperial Capital, LLC.

Attractive valuation

Beverage peers: Figure 12 shows large and small cap beverage comparable companies. As shown, Primo Water trades at a discount on an EV/EBITDA and EV/revenue basis.

Figure 11. Primo Water Corporation—Analysis of Select Beverage Comparable Companies

	Share Px	Mkt Cap	EV	EV/REV		EV/EBITDA		Rev Growth		EBITDA Mgn
				2019	2020	2019	2020	2019	2020	
Monster	55.30	30,968	29,796	7.2x	6.6x	19.9x	18.2x	9.9%	8.7%	35.9%
Coca-Cola Co	49.74	213,633	226,650	6.9x	6.5x	18.8x	17.6x	3.7%	5.1%	35.4%
Keurig Dr Pepper	27.54	37,840	53,768	4.8x	4.6x	16.2x	14.6x	2.2%	2.8%	27.2%
<i>Large-Cap Beverage Comps</i>				6.3x	5.9x	18.3x	16.8x	5.3%	5.6%	32.8%
National Beverage	89.61	4,204	3,961	3.3x	na	14.1x	na	11.2%	na	22.2%
Boston Beer	307.70	3,600	3,531	3.2x	3.0x	18.4x	16.6x	10.7%	7.1%	17.2%
Fevtree Drinks	29.06	3,385	3,329	12.2x	10.3x	39.4x	33.9x	20.4%	18.8%	31.9%
MGP Ingredients	68.63	1,158	1,203	3.0x	2.8x	17.4x	na	8.1%	8.5%	15.9%
Cott	14.82	2,093	3,189	1.3x	1.2x	9.2x	8.7x	5.3%	3.0%	13.3%
<i>Small-Cap Beverage Comps</i>				4.6x	4.3x	19.7x	19.7x	11.1%	9.3%	20.1%
Planet Fitness	53.76	5,295	5,860	9.1x	8.3x	22.8x	20.0x	12.8%	10.3%	38.6%
Freshpet	35.29	1,249	1,248	5.4x	4.6x	38.8x	27.0x	20.4%	19.1%	10.6%
PETQ	28.69	495	600	1.0x	0.9x	11.4x	8.8x	16.6%	17.0%	8.3%
<i>Healthy Living Comps</i>				5.2x	4.6x	24.3x	18.6x	16.6%	15.5%	19.1%
Primo Water	14.25	571	755	2.4x	2.3x	12.5x	11.1x	4.3%	4.7%	18.2%

Sources: Company data, ThomsonOne, Bloomberg, and Imperial Capital, LLC.

Recent M&A transactions: There have been many well publicized healthy foods and beverages transactions, often carrying premium valuations. Less attention has been given to the many water sector transactions occurring in recent years. We list several below:

- PepsiCo acquired SodaStream in 2018 for 20x EBITDA (25x LTM) (Bloomberg)
- Cott acquired Mountain Valley for \$80mn in 2018
- Cott acquired Crystal Rock for \$35mn in 2018
- Nestle acquired Princes Gate Spring Water in 2018
- Coca-Cola acquired Topo Chico for \$220mn in 2017
- Anheuser-Busch acquired Hiball in 2017
- Anheuser-Busch acquired SpikedSeltzer in 2016
- Cott acquired DS Services for \$1.25bn in 2014

Most Recent Quarterly Results

3Q18 Results: Results were below estimates and management reduced full year guidance. Performance was negatively impacted by routing changes in the refill segment, which led to prolonged service outages. The problem is expected to be remedied by the installation of credit card readers at machines, in addition to several other initiatives. The stock reacted sharply to the miss and guide-down, but we believe the issues were overblown.

Figure 12. Primo Water Corporation—Income Statement, 2016-2020E

Primo Water (PRMW)	2016	2017	1Q18 March	2Q18 June	3Q18 Sept	4Q18E Dec	2018E	1Q19E March	2Q19E June	3Q19E Sept	4Q19E Dec	2019E	2020E
Net Sales	142.5	286.1	73.7	75.8	81.8	73.0	304.3	76.0	78.5	85.7	77.0	317.1	332.0
<i>Growth</i>	12.3%	100.7%	21.3%	1.3%	-0.5%	6.9%	6.4%	3.1%	3.6%	4.8%	5.4%	4.2%	4.7%
Cost of Sales	100.2	202.9	53.4	52.7	58.3	53.5	217.9	55.1	55.5	60.1	54.8	225.6	233.6
Gross Profit	42.4	83.2	20.2	23.1	23.5	19.6	86.3	20.8	23.0	25.5	22.2	91.5	98.4
S, G, A	26.4	34.7	9.2	9.6	7.4	9.3	35.4	9.3	9.4	7.7	9.4	35.9	36.5
D&A	10.5	26.7	6.1	6.1	6.2	6.0	24.4	6.5	6.5	6.5	6.5	26.0	26.0
Other	5.5	7.8	0.2	0.5	68.1	0.0	68.8	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	(0.1)	14.0	4.8	6.8	(58.2)	4.3	(42.3)	5.0	7.1	11.3	6.3	29.6	35.9
Interest	6.0	20.3	5.3	11.2	2.5	2.5	21.4	2.5	2.5	2.5	2.5	10.0	10.0
Other	(0.2)	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	(5.9)	(9.5)	(0.5)	(4.3)	(60.6)	1.8	(63.7)	2.5	4.6	8.8	3.8	19.6	25.9
Taxes	0.0	(3.1)	(1.7)	(4.8)	(2.4)	0.0	(8.9)	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued Ops	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	(5.9)	(6.4)	1.2	0.5	(58.2)	1.8	(54.8)	2.5	4.6	8.8	3.8	19.6	25.9
EPS	(\$0.21)	(\$0.19)	\$0.04	\$0.01	(\$1.45)	\$0.04	(\$1.44)	\$0.06	\$0.11	\$0.22	\$0.09	\$0.48	\$0.62
Shares Outstanding	28.5	33.8	34.4	37.2	40.1	40.3	38.0	40.5	40.7	40.9	41.1	40.8	41.6
EBITDA	24.1	54.7	12.4	15.0	16.2	11.8	55.3	13.0	15.1	18.8	13.8	60.6	67.9
FCF	3.9	(3.0)	0.7	0.2	6.1	2.0	9.0	4.5	6.6	10.3	5.3	26.6	33.9
Gross Margin	29.7%	29.1%	27.5%	30.4%	28.7%	26.8%	28.4%	27.4%	29.3%	29.8%	28.8%	28.9%	29.6%
S, G, A	18.5%	12.1%	12.5%	12.7%	9.0%	12.7%	11.6%	12.3%	12.0%	9.0%	12.2%	11.3%	11.0%
Taxes	0.0%	33.1%	335.0%	110.4%	4.0%	0.0%	14.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Margin	-0.1%	4.9%	6.5%	9.0%	-71.2%	5.9%	-13.9%	6.5%	9.0%	13.2%	8.2%	9.3%	10.8%
EBITDA Margin	16.9%	19.1%	16.8%	19.7%	19.8%	16.1%	18.2%	17.1%	19.2%	21.9%	17.9%	19.1%	20.4%

Sources: Company data and Imperial Capital, LLC.

Risk Factors

- **Consumer:** Any change in consumer sentiment or confidence could impact results.
- **Contamination:** Any health issue scares related to Primo's products could negatively impact the business.
- **Partner network:** Primo relies on third party distribution and manufacturing. DS Services, the key partner, is contracted through 2025.
- **Retail network:** Primo relies on its retail network to distribution water and dispensers. Its three largest retail customers generate over 40% of revenue.

Price Chart and Ratings History

Initiation of Coverage

Companies under coverage: George Kelly, CFA: Acushnet Holdings (GOLF), Brunswick Corporation (BC), Callaway Golf Company (ELY), Drive Shack (DS), Freshpet (FRPT), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), Nautilus (NLS), National Beverage (FIZZ), Planet Fitness (PLNT), Primo Water Corporation (PRMW), Town Sports International Holdings (CLUB), YogaWorks (YOGA).

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	63.87%	Outperform: TRR expected to exceed basket by at least 10%
In-Line	31.93%	In-Line: TRR expected to be in-line with basket
Underperform	4.20%	Underperform: TRR expected to underperform basket by at least 10%
This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 10/1/17 through 9/30/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 9/30/18, IC has provided investment banking services to 19.74% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 7.89% of companies with equity rated an In-Line. As of 9/30/18.		
Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)		
Buy: TRR expected to exceed basket by at least 10%		
Hold: TRR expected to be in-line with basket		
Sell: TRR expected to underperform basket by at least 10%		
Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.		

For a discussion of the valuation methods used to determine our price target, if any, please see pages 1 and 7. See page 9 for the risks that may impede achievement of such price target, and page 9 for our ratings history and price chart.

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COMPANY	DISCLOSURE
Primo Water Corporation	None

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