

04-Sep-2024

Core & Main, Inc. (CNM)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Core & Main Q2 2024 Earnings Call. My name is Alex, and I'll be coordinating the call today. I will now hand over to your host Robyn Bradbury to begin. Please go ahead.

Robyn Bradbury

Senior Vice President-Finance & Investor Relations, Core & Main, Inc.

Thank you. Good morning, everyone. This is Robyn Bradbury, Senior Vice President of Finance and Investor Relations for Core & Main. We are happy to have you join us this morning for our fiscal 2024 second quarter earnings call. I'm joined today by Steve LeClair, our Chair and Chief Executive Officer; Mark Witkowski, our Chief Financial Officer and Brad Cowles, President.

Steve will lead today's call with a business update and an overview of our recent acquisitions. Brad will then discuss the evolution of our smart utility solutions and how we drive the adoption of the latest and most effective technologies to improve efficiency for our municipal customers. We will then turn it over to Mark to discuss our second quarter financial results and updated fiscal 2024 outlook, followed by a Q&A session. We will conclude the call with Steve's closing remarks.

We issued our earnings press release this morning and posted a presentation to the Investor Relations section of our website. Our press release, presentation and the statements made during this call may include forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to

differ materially from our expectations and projections. Such risks and uncertainties include the factors set forth in our earnings press release and in our filings with the Securities and Exchange Commission. We will also discuss certain non-GAAP financial measures, which we believe are useful in assessing the operating results of our business. A reconciled version of these measures can be found in our earnings press release and in the appendix of our investor presentation. Thank you for your interest in Core & Main.

I will now turn the call over to Chair and Chief Executive Officer, Steve LeClair.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Thanks, Robyn. Good morning, everyone, and thank you for joining us today. I'll begin with a brief company overview and business update for the quarter, followed by an overview of our recent acquisitions.

Beginning with our company overview, Core & Main is a leading specialty distributor of water, wastewater, storm drainage and fire protection products. We serve municipalities, private water companies and professional contractors across municipal, non-residential and residential end markets. Our specialty products and services are used in the maintenance, repair, replacement and construction of water and fire protection infrastructures. Our footprint consists of more than 350 branches across 49 states, which serves as a critical link between 5,000 suppliers and a diverse base of over 60,000 customers, none of which account for more than 1% of our annual revenue. We are an industry leader, yet we estimate we have only 17% share of a fragmented \$39 billion addressable market. Therefore, we believe our long-term growth opportunity is significant.

Our products and solutions play a critical role in improving water quality, reducing water scarcity and preventing floods, all in support of ensuring quality of life in the communities in which we live, work and play. US water infrastructure is in a fragile state with aging pipes, treatment plants and other systems increasingly prone to failure. In 2023, for example, 20% of water mains across the US and Canada were beyond their useful lives, up from 16% in 2018. There are approximately 260,000 water main breaks every year, representing the equivalent of a water main break every 2 minutes. It is also estimated that the water utilities lose 2.1 trillion gallons of water annually from leaky pipes and aging infrastructure, equivalent to roughly \$8 billion of lost revenue. Many of our existing water systems, built decades ago, are now struggling to meet modern demands and environmental standards. Without significant investment in modernization, the risk of service disruptions, water contamination and inefficiencies will continue to grow. Core & Main supports these growing needs by providing modern materials, innovative technologies and expertise to repair, strengthen and maintain critical infrastructure.

Turning now to our business update. Starting first with the leadership changes we announced in July. After serving as President of Core & Main for the last six years, Jack Schaller has now transitioned into his new role as Executive Vice President. Jack will continue to support the integration of newly acquired businesses, leading supplier relations and assisting with the organization transition. Brad Cowles is expanding his role to lead more of the core Water Works product line, which was previously led by Jack. Brad has more than 18 years of leadership experience in the organization, most recently leading the fire protection product line. In addition to bringing new expertise and a fresh perspective to our Water Works product line, Brad will continue to have responsibility for several of our growth and margin enhancement initiatives. I'm also excited to have Mike Huebert join the company as President, overseeing fire protection and certain other high growth initiatives. Mike most recently served as Executive Vice President of Sales for Advanced Drainage Systems, where he oversaw field sales and engineering, national accounts and retail sales teams. He brings a wealth of experience having led business development, commercial operations and sales strategies in prior leadership roles. We are thrilled to have Mike on board and we believe his proven track record and new perspective will be critical in helping us capture the long-term growth opportunities that exist for Core & Main.

By aligning our strengths and opening new opportunities for profitable growth, the ongoing evolution of our leadership team is key to our strategy to drive shareholder value. We achieved an important milestone in August, expanding our operations into Canada through the acquisition of HM Pipe Products. This move marks our first venture into the Canadian water works market, allowing us to broaden our footprint and enhance our service offering to a new customer base. This acquisition underscores our commitment to becoming a leading provider of water, wastewater, storm drainage and fire protection solutions and it expands our addressable market opportunity by roughly \$5 billion.

The integrations of recent acquisitions are progressing as anticipated, with acquisitions contributing approximately 9% of our topline growth for the quarter and the year. Our integration process and playbook are well-defined, scalable and highly flexible based on the needs of each company we welcome into the Core & Main family. We have been successful in driving synergies with nearly all of our acquisitions. And more importantly, we have also been able to successfully attract strong talent and gain access to new platforms to compound growth.

Moving to our end markets. Our second quarter results were below our expectation, primarily due to project delays from wet weather conditions and comparably lower end market volumes. Heavy rain and flooding blanketed many parts of the country during the quarter, complicating the operation of heavy machinery and making underground construction a challenge for contractors. Persistent precipitation and flooding often requires underground utility contractors to stop operations until job sites can be secured and de-watered, inevitably leading to project delays, which is what we experienced during the quarter.

During last quarter's call, we indicated we were experiencing wet weather in May and the wet weather and saturated grounds persisted into June. We included a page in the appendix of our investor presentation to highlight the severity of the wet weather in the geographies that were impacted. July returned to a more typical weather patterns, but we did not see a recovery of the sales we lost in May and June. Generally, the labor capacity of our customers does not allow for an immediate surge of construction activity when weather patterns improve. But we may see a benefit if we experience a longer selling season in the fourth quarter. Otherwise, we expect some of these projects will be pushed into 2025.

Residential lot development continued its positive momentum for most of the quarter, but it began to weaken in July. We began to see residential projects delayed or divided into smaller phases, likely due to the anticipation of the potential for lower interest rates. Given the significant pent-up demand for housing and the growing need for developed land to support that demand, we remain optimistic that the trends we saw late in the quarter are temporary. Municipal volumes have been slightly lower than expected primarily due to project delays at the local level. We remain optimistic about this end market given our current bidding activity, project backlogs and the existing state of the aging infrastructure. But given the wet weather in the quarter, it is difficult to assess the timing in the near term.

As we expected, non-residential construction activity has seen mixed performance recently. Toward the end of the quarter, we began to see fewer non-residential projects break ground and the start dates of existing projects get pushed back, which is reflected in our fire protection performance for the quarter. We believe some of this trend could relate to the prospect of an easing interest rate environment. The project owners and developers are assessing the macroeconomic landscape and waiting for financial conditions to improve before starting new projects.

Despite the challenging weather and market conditions, we saw our meter initiative continue to outpace the growth of our end markets, highlighted by the 48% growth we achieved in meter sales this quarter. We are thrilled

with the number of new projects being bid on and awarded this year, as well as the improved supply chain that is supporting the volumes we are driving. Gross margins in the second quarter were in line with our expectations, driven primarily by solid performance of our private label and sourcing initiatives, as well as the synergies we've been able to realize through M&A.

Turning to our recent acquisitions. We maintain a deep and expanding pipeline of actionable M&A opportunities that we expect will drive sustainable growth over the long-term. We acquired five new businesses during and shortly after the quarter, each of which offers expansion in new geographies, access to new product lines, or the addition of key talent.

EGW Utilities is a distributor of products and services to underground utility contractors and municipalities operating out of a single location in Texas. The team at EGW has been providing underground infrastructure products and services since 2001. Their commitment to delivering value-added solutions and maintaining strong customer relationships has enabled them to provide customers with the resources and support needed to complete projects successfully. We are happy to have the EGW team as part of the Core & Main family. We look forward to the additional private label capabilities and capacity this acquisition brings us.

Geothermal Supply Company is the distributor and fabricator of high density, polyethylene pipe and other related products. They primarily serve the geothermal, water and sewer industries from a single location in Kentucky. Adding GSC to the Core & Main family will create exciting new opportunities in an important and expanding area of fusible HDPE. Their expertise in the industry fits well with our existing fusible HDPE product offering and we are excited about the positive impact this partnership will have on both new and existing customers.

HM Pipe Products is a distributor of water and wastewater products operating from two locations in London and Kitchener, Ontario. The team at HM Pipe has extensive market knowledge and excellent reputation in the industry and strong customer connections. By utilizing our collective resources and combined expertise, we can help address Canada's water and wastewater infrastructure needs. This acquisition provides an initial catalyst into Canada, which we believe we can leverage to drive significant growth opportunities in a new roughly \$5 billion addressable market.

GroGreen Solutions is a leading provider of erosion control and geotextile products for professional and industrial projects. They consistently deliver value-added solutions to meet their customers' construction site needs from four locations, two in Georgia, one in Florida and one in Mississippi. Their industry expertise and product offering complement our portfolio exceptionally well. GroGreen shares our commitment to being a dependable partner, and we look forward to partnering with them to accelerate growth in the Southeast.

Green Equipment Company is a distributor of underground utility protection equipment operating out of a single location in Fort Worth, Texas. Since 1982, the team at Green Equipment Company has served contractors, municipalities and utilities across eight states, offering customers a variety of damage prevention products, along with ongoing support, industry-leading training and comprehensive repair services. Their strong client relationships and expertise enhances our ability to provide customers with robust solutions to their underground utility needs. We are excited to welcome them to the Core & Main team.

Before wrapping up, I want to address some recent reports about pricing in our industry. As we've discussed on previous calls, we operate in a highly fragmented and competitive industry, where supply and demand characteristics are the primary drivers of the pricing dynamics. Most of our sales are project-based, and our customers often look to us for a full suite of products delivered in sequence to efficiently complete the project. These products must meet local specifications and are subject to various local, state and federal requirements.

Our bids are nearly all completed by the local field teams and they are provided to the customer with fair, competitive and transparent pricing. Pricing can be based on many different factors, including demand and competition in the local market, the complexity of the project, local specifications, and the price for which we procured the product.

Over the course of the last few years, we have experienced price increases in various product categories as a result of supply chain disruption, strong demand and increasing operating costs. Our municipal pipe products are made specific for our industry. They must meet specific water industry regulations and specifications, and we typically sell them as part of an overall water infrastructure solution. In our experience, municipal pipe pricing is more resilient than what we consider to be true commodity products like steel pipe and copper tubing, which are not as highly specified or regulated as municipal pipe, and are often sold across different industries. Not only do we provide fair and transparent pricing, we also provide our customers with alternative products to help them reduce their overall project cost.

Some of you may have seen the statements made against some of the PVC manufacturers regarding PVC pipe pricing. We are not aware of any price fixing going on in our industry. And to be clear, any statements made suggesting that Core & Main was involved are baseless. We take great pride in our commitment to working with our customers to be a valued member of their supply chain. This includes providing prices in a fair and ethical manner. We will not comment further on any unsubstantiated claims or statements made against Core & Main related to this matter.

As we look ahead to the remainder of 2024, we will be focused on executing against our long-term strategy. This quarter presented us with many challenges from disruptive weather to sluggish end markets. But despite those challenges, our teams rose to the occasion, and I'm proud of their resilience and ability to stay focused and execute. We are confident in our ability to leverage our strengths to drive long term growth. We'll continue to do so regardless of near-term economic conditions. Thank you for your continued support and trust in our long-term vision.

I will now turn it over to Brad Cowles to discuss our position as one of the nation's leading providers of advanced metering solutions.

Bradford A. Cowles

President, Core & Main, Inc.

Thanks, Steve. And good morning, everyone. My name is Brad Cowles, President of Core & Main. A quick introduction for those who I have not yet met. I started my career as an engineer and spent over a decade with the Michelin Tire Company. Then over 18 years ago, I began my journey with Core & Main when I joined the Home Depot to lead the technology integration of more than 30 acquisitions during the formation of HD Supply, eventually becoming the company's Chief Information Officer. I had the opportunity to return to my operating roots in 2017 when Core & Main became an independent company. Since that time, I've led several initiatives that have allowed us to grow faster than our underlying end markets, including several product line expansions, national account relationships and the extension of our presence in new geographies.

Today, I will discuss the evolution of our smart utility offering. We are one of the nation's largest distributors of water meters with access to top meter manufacturers products and technologies, which we complement with local, regional and national resources to drive innovation to thousands of municipalities across the United States. Many municipalities still rely on manual read or drive-by water meters, which require technicians to physically check or get very close to each meter, record usage and input that data into their billing system. This process is not only labor intensive, but also prone to errors leading to inaccurate or delayed billing, customer dissatisfaction

and potential revenue loss for the municipality. We estimate that manual read meters are still used by roughly one-third of US municipal customers and drive-by systems are in place at another one-third. As communities grow, water demand increases, these outdated systems become even more challenging to manage effectively.

For over a decade now, we've been selling advanced metering solutions to our municipal customers that automatically and wirelessly transmit water usage data in real time. Once implemented, these solutions save labor and improve accuracy. But as these solutions have become more advanced and also more complex, we found that our customers face challenges implementing and integrating the metering technology into their own operations. Our smart utility strategy is changing the game by delivering turnkey solutions and by directly tackling those challenges of execution and integration on behalf of the customer.

Our capabilities start with project management, installation and software integration, and ensure that these projects are completed quickly and efficiently. They then deliver immediate benefits to the municipality, including more accurate billing, real time monitoring, and the ability to proactively detect and address issues like leaks or unusual water usage patterns. Proactive monitoring of this timely meter data helps reduce water loss, lowers operational costs, improves overall service delivery to the end users.

Beyond the meter hardware and installation services we provide, we also offer advanced data analytics that empower municipalities to make informed decisions about their water infrastructure. By analyzing usage and pressure patterns and trends, a municipality can optimize resource allocation, plan for future growth and implement targeted conservation efforts. This data-driven approach not only extends the lifespan of existing infrastructure, but also supports sustainability goals, ensuring water systems are resilient and reliable for generations to come.

One of the standout features of our smart utility offering is its scalability. Whether a small town in rural America or a large metropolitan area, the products and technology included in our offering can be tailored to meet the needs of each water utility. The system can easily expand as communities grow, ensuring the necessary infrastructure is in place to support the increasing demand without compromising accuracy or efficiency. By way of illustration, Pocomoke City, Maryland, with a population of 4, 000, and Fort Lauderdale with a population of nearly 200,000, are two recent examples of communities we are helping adopt the newest metering technology. Despite their different size and complexity, both of these communities partnered with Core & Main because of our local presence and value-added project management capabilities. Our metering product specialists have become a trusted partner to simplify installation, integrate software and even manage their metering networks for the life of the product.

We are proud to be helping Fort Lauderdale become the first community in the nation to equip 100% of their meters with pressure sensing technology, a cutting edge solution that helps identify leaks and other system issues faster and more accurately than ever before. Solutions like these ultimately save municipalities time, protect their revenues, ease the burden of system management and increase community satisfaction.

Historically, meter manufacturers would sometimes sell directly to large municipalities. However, our turnkey solutions, unique service offering, and local presence enables us to be onsite throughout the life of these projects, which builds trust with our municipal customers. As a result, we're seeing many more examples of these large solutions sold through Core & Main. We have done a lot of work over the years to align ourselves with the top meter suppliers across the nation, and those relationships helped us gain access to premier meter lines in key geographies that will enable long-term growth. Our comprehensive solutions that have been built by directly listening and responding to the needs of our customers have provided us significant growth opportunities. As we win these projects and provide the install base, we then, as the exclusive distributor of the meters, generate

recurring revenue as the communities grow and expand and demand more services. This has resulted in a net sales CAGR of 9% over the last decade. We are very encouraged by our success on projects that range in size from Pocomoke City to Fort Lauderdale and expect we will continue to drive above market growth well into the future.

With that, I will now turn it over to Mark Witkowski to discuss our second quarter financial results and updated fiscal 2024 outlook. Go ahead, Mark.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Well done, Brad, and thanks for joining us today. Good morning, everyone. I'll begin with the highlights of our second quarter results.

We grew net sales approximately 6% to a new quarterly record of \$1.96 billion, driven by nine points of growth from acquisitions. The disruptive weather Steve mentioned in his remarks, coupled with comparably lower activity in our end markets, partially offset the growth we achieved from acquisitions. Pricing was sequentially stable from the first quarter, which was consistent with our expectations.

Gross margin for the quarter finished at 26.4%, compared with 26.9% in the prior year. The difference of about 50 basis points and in line with our expectations. Gross margins were impacted by a higher average cost of inventory this year compared to last year when we were optimizing inventory levels and still selling through lower cost inventory. We've now anniversaried supply chain and demand dynamics that drove unusual fluctuations in our gross margins. Going forward, we will continue to focus on driving gross margin enhancement through the execution of our initiatives.

Selling general and administrative expenses increased 13% in the second quarter to \$268 million. Excluding acquisitions, SG&A expenses were essentially flat compared to last year, as investments in growth were offset by lower variable compensation costs. SG&A growth moderated sequentially from the first quarter, as we experienced a reduction in organic revenues and margins, both resulting in immediate reductions in personnel expenses. Our variable compensation structure allows for a reduction in personnel expenses, which enables us to quickly take costs out of the business.

Interest expense in the second quarter was \$36 million, compared with \$22 million in the prior year. The increase was primarily due to the addition of \$750 million term loan due 2031, higher borrowings under our senior ABL credit facility and an increase in interest rates on our variable rate debt.

Provision for income taxes in the second quarter was \$42 million, compared with \$40 million dollars in the prior year. Our effective tax rates this year and last year were 25% and 19.6%, respectively. The increase in effective tax rate was primarily due to the exchange of partnership interests in conjunction with the secondary offerings and repurchase transactions we completed in fiscal 2023.

We recorded \$126 million in net income in the second quarter, compared with \$164 million in the prior year. The decrease in net income was primarily due to lower operating income and an increase in interest expense.

Diluted earnings per share decreased approximately 8% to \$0.61. The reduction in diluted earnings per share was due to the decline in net income, partially offset by a lower share count following our repurchase of 45 million shares during fiscal 2023.

Adjusted EBITDA in the second quarter decreased approximately 5% to \$257 million and adjusted EBITDA margin decreased 140 basis points to 13.1%. The decrease in adjusted EBITDA margin was primarily due to lower gross profit as a percentage in net sales and higher SG&A expenses.

Now, I'd like to provide an update on our cash flow and balance sheet. Net cash provided by operating activities in the second quarter was \$48 million, and we were pleased with this result in what is typically a lower cash generation quarter. Given the seasonal pattern of working capital needs for our business, we typically generate most of our cash in the second half of the year and our expectation for this year is no different. With year-to-date operating cash flow of \$126 million, we are on pace to exceed our target of 60% to 70% conversion from adjusted EBITDA for the full year.

We continue to maintain a disciplined capital allocation strategy, balancing investments and growth with returning capital to shareholders. We paid over \$65 million to complete the EGW, Geothermal Supply and HM Pipe Products acquisitions during and shortly after the quarter, having now deployed over \$650 million to complete these six acquisitions. We announced two additional acquisitions after the quarter, GroGreen Solutions and Green Equipment Company, and expect to pay nearly \$100 million in the third quarter to complete those.

In June, our board of directors approved a \$500 million share repurchase program reflecting our commitment to generating returns for shareholders. We repurchased approximately 430,000 shares during the second quarter, and we currently have \$479 million remaining under the authorization.

Excluding the pro forma effect of acquisitions, net debt leverage at the end of the quarter was 2.7 times, and our current available liquidity is nearly \$1 billion. We closed on the refinancing of our senior term loan due 2028 in May, where we reduced our applicable margin from 260 basis points to 200 basis points, resulting in annual interest savings of approximately \$9 million. There were no other changes to terms or maturities for the facility.

Before we head to Q&A, I'll wrap up my prepared remarks with a discussion on our new outlook for fiscal 2024. We expect that some of the growth we anticipate in the second half of the year will likely be pushed into 2025 as project owners and developers continue to assess the macroeconomic landscape before starting new projects. As such, we now expect our end markets to be flat to slightly down for the year compared to our expectation of flat to slightly up last quarter.

We remain very optimistic though about the long-term demand characteristics of our end markets and our ability to drive above-market growth. Our bidding activity and project backlogs are positive and the sentiment from our field is that volumes are poised to accelerate in the second half of the year. We achieved strong sales growth in August, which also supports that optimism. We expect the M&A we completed through today will contribute 8% to 9% of our total sales growth this year. We maintain a strong pipeline of acquisition opportunities and expect to remain acquisitive as we progress throughout the year.

Gross margins have sustained well through the first half and our expectation is that the 100 to 150 basis points of gross margin normalization that we've referenced previously is behind us on a sequential basis.

We've done a fantastic job structurally enhancing gross margins over the years through the addition and expansion of our private label strategy, synergies achieved through M&A and sourcing initiatives. These initiatives have allowed us to sustain gross margins in the mid 26% range and they are the primary levers that will allow us to continue driving gross margin enhancement in the future.

As a result of lower than expected end market volumes, we are lowering our full year net sales range to \$7.3 billion to \$7.4 billion, and we are lowering our full year adjusted EBITDA range to \$900 million to \$930 million. We're raising our operating cash flow conversion range to 65% to 75% of adjusted EBITDA as a result of our disciplined working capital management.

As we wrap up our comments this morning, we are reiterating our focus on managing the business through the current economic backdrop while continuing to invest in opportunities that enable long-term growth, superior operating performance and attractive shareholder returns.

At this time, I'd like to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question for today comes from Kathryn Thompson of Thompson Research Group. Your line is now open. Please go ahead.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Hi. Just my first question is just a little bit more housekeeping around SG&A in the quarters. [indiscernible] (00:33:10) you had noted that it was mostly related to your M&A activity, which has been very active in the quarter. Could you parse that a little bit in greater detail, the puts and takes for SG&A for the quarter as related to that and other factors and what we should expect for the remainder of the year? Thank you.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah, thanks, Kathryn. This is Mark. On the G&A for the second quarter, we grew SG&A by about \$30 million. That was basically entirely due to acquired SG&A and when we acquire SG&A, as we work through these acquisitions, we definitely identify some synergies there. These have been a little higher cost structure than our average and we expect to work through some of those synergies over a period of time as we scale those businesses, add new products, find new ways to enhance margins. So, that's not something we usually take out immediately, but we're able to scale that pretty significantly as we grow.

From an organic SG&A standpoint, it was roughly flat for the quarter. We have continued to make investments in growth. Those were largely offset by some of the immediate reductions that we experienced with some of our variable compensation. So, those are really the main drivers. I'd say as we look forward on SG&A as we absorb some of that acquired SG&A, identify some synergies, you'll start seeing that SG&A get much more back in line with typical growth pattern.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

[indiscernible] (00:34:57) You had quite a handful of headwinds you had to navigate from lower pricing, commodity pricing, softening demand, weather, but still outperforming the industry from a margin standpoint, although obviously not meeting expectations just for the quarter. How are you – what are the puts and takes you're doing to manage and facing the current market realities? And just a reminder, are you seeing any meaningful shifts in commodity-type products as a percentage of cost of goods sold? And any commentary about how you are managing those more commodity-type products? Thank you.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

A

Yeah. Kathryn, this is Steve. Yeah, you mentioned, there were a lot of external factors really impacting performance in this quarter, some of which we really view as temporary. There was certainly the weather situation. That was a real challenge and we put a chart in there. We don't generally talk about weather, but it was so pervasive and wide scale, really, in that second quarter. And we shared a little bit about this in May about the May results in the last quarter that really caused a bit of an alarm for us. And just from the weather standpoint, we saw close to 70 of our branches from Texas all the way up to the upper Midwest that were impacted by this and some of those branches are our top performing branches. So, that amplified the impact that we had in May and June for sure. You couple that, we're estimating that was somewhere around a \$50 million headwind there or about 3% of sales or so. So, we're anticipating that some of that will come back. We're already starting to see that take shape in Texas where there's a little longer construction season. We're going to have to see how that takes shape up in the upper Midwest.

In regards to a couple of the other areas, little bit of market softness as we talked about in non-residential and that really impacted, really, our fire protection product line. And they've been working on sizing appropriately for that. The commodity impact with steel pipe, those are at historic lows, so some of that's had a drag down in the business. But I go back to a lot of the controllables that we've had in our space and our ability to really drive a lot of the M&A performance, continue to harness our gross margin initiatives and be able to drive in and accelerate some of the private label piece, have all helped to offset a lot of that.

We do believe a lot of this is temporary in the long-term. Look at our end markets and what we're seeing right now and positivity coming from the field in terms of bidding activity and backlogs still look incredibly strong, so we feel solid about that. And it's tough quarter for some of the headwinds, but we were certainly able to offset a good portion of those and build for the long-term.

Kathryn I. Thompson

Analyst, Thompson Research Group LLC

Q

Okay, great. Thank you.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

A

Thanks, Kathryn.

Operator: Thank you. Our next question comes from David Manthey of Baird. Your line is now open. Please go ahead.

David John Manthey

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thank you. Good morning. Couple of quick questions on the PVC pipe. Approximately what percentage of sales and gross margin dollars are PVC pipe today? And related to that, and again, regardless of whatever happens with suppliers or anything else, do you have some sort of contingency plan to right size the business if you were to see a material drop further from here in PVC pipe pricing?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks, David. This is Mark. In terms of the PVC contribution, I think I'd go back to previous comments we've made regarding the categories that we've talked about. About 5% of our business is related to commodity-type products, which would be steel pipe, copper tubing, things of that nature. About 25% to 30% of our business is related to municipal pipe. And I'd say that's split roughly evenly between municipal PVC pipe and municipal ductile iron pipe with the balance of our business being those more highly specified fire hydrants, valves, fittings, things of that nature.

In terms of contingency planning or anything like that, as we've talked about, this business is highly flexible. Our cost structure is largely variable with a lot of the personnel expenses that we have. So, we do a lot of planning in this company for various scenarios of growth, moderation or decline and feel like we've got incredible amount of experience operating the business through various cycles, so really continue to do as we planned. But right now, the way we feel like, the long-term demand characteristics of this business are intact. We continue to invest in our growth initiatives and opportunities for margin enhancement and that's our focus right now.

David John Manthey

Analyst, Robert W. Baird & Co., Inc.

Q

Okay, thanks. And second, can you quantify the strong sales growth that you saw in August just to differentiate that versus what you saw during the quarter? And then I'm trying to square that with your belief that you will not recover the weather-related shortfall later this year. I'm just trying to put those two things together if you could help me with that?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah, sure, Dave. I'd say in August, what we experienced was a trend back to what we experienced with some good, solid organic volume growth that was on top of the acquisition contributions that we've expected. So felt good with the trend line kind of getting into August, so I'd say a normal weather pattern. We got back into what we considered normal and expected growth patterns. So, what we're not expecting is a kind of a surge beyond that, just given the capacity at our customers unless we experienced maybe a longer seasonal year in certain northern geography. So, we haven't necessarily baked in, I'd say, a more favorable end to the year, but that could be upside if we see a little longer season this year.

David John Manthey

Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Thanks very much.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks, Dave.

Operator: Thank you. Our next question comes from Matthew Bouley of Barclays. Your line is now open. Please go ahead.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Morning, everyone. Thank you for taking the questions. On the gross margin side, it sounded like a lot of that normalization is now fully behind you. And I think the commentary was around really focusing from here going

forward on the private label and your sourcing initiative et cetera. So is the implication – forgive me if I missed this, but is the implication that you do expect gross margins to be stable or increasing going forward given these initiatives or any additional color on that cadence of margins in the second half? Thank you.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Sure, Matt. Thanks for the question. As we talked about last quarter, we did expect a sequential reduction from Q1 to Q2 that we experienced that was right in line with our expectations. And then as we go forward, you're right, we expect to be able to grow those gross margins from where we finished Q2, given the gross margin initiatives that we have with private label sourcing optimization, among other things. So, our expectation is we'll be growing gross margins going forward. And the normalization that we were expecting and that we're aware of is now behind us.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. That's helpful. Thanks, Mark. And then secondly, following up on the change to revenue guidance in the August commentary, I guess if we look at that \$200 million reductions of the revenue guide for the year, I mean, can you kind of break out what were the largest or maybe even rank the largest contributors to that, whether it be weather, each individual end market. And if you can therefore tell or at least if there's a number around what you might be expecting for what is pushed into 2025. But part one and part two is the – for August, is the organic growth actually better or worse, the same as it was in Q2?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Sure, Matt. I'll take the first one. On the change to the guidance, you're right. It was about \$200 million or so at the midpoint with about \$100 million of that coming in the second quarter, coming in below expectations. And that was kind of split roughly between the weather impact and lower market volume growth than we anticipated. As you look into the back half then, I'd say that this is – the balance of that about \$100 million in the second half of the year is entirely due to just lower expected volumes coming out of the end markets. I'd say probably split evenly across our end markets with what the mix is there.

So, as a reminder, municipal is about 40% of the business, non-resi is about 40% of the business, and resi is about 20%. So, really about that \$100 million, really, kind of evenly across those end markets in terms of what our mix percentage is there. So, we just seen, I'd say across all three of them come in a little lighter than what we were originally expecting. So, we really brought that end market expectation down from flat to up a little, to flat to down a little bit for the full year.

In terms of August...

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Got it. And any – yes, go ahead.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. In terms of August, I'd say that we probably felt a little bit of relief coming in August with some of the better weather but, ultimately, those organic volumes are kind of in line with where we were expecting them to be. So, I

think we got quite a little release coming out of the weakness we saw in Q2 and August, but we're watching that closely and in September. We've got about a week or so in the books for our September fiscal month and we're seeing some decent strength there. So, we're optimistic, I'd say, with what we're seeing so far early in the quarter, which is definitely a different position than we were feeling coming out of first quarter on our last call.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Got it. Thanks, Mark. Thanks, everyone. Good luck, guys.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Thanks, Matt.

Operator: Thank you. Our next question comes from Nigel Coe of Wolfe Research. Your line is now open. Please go ahead.

Nigel Coe

Analyst, Wolfe Research LLC

Thanks. Thanks, good morning, everyone. Just wanted to dig in a bit deeper on some of the commentary already given. So, on pricing, it sounds like pricing fairly stable sequentially in the second quarter. But I'm curious, what the second half outlook is for price. Are we looking at fairly flat year-over-year pricing in the back half of the year, i.e., the deflation is more in the first half and then sort of stabilizing in the back half of the year? And then Mark, the commentary you made on gross margins growing, I think your third quarter guide is still relatively tough. So, are we talking about growing sequentially of that second quarter basis in the back half of the year?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah, sure. Nigel, first question on pricing. I would tell you, sequentially, we saw a pretty stable, resilient pricing environment most of the year-over-year, I'd say, headwind we saw was late in 2023. We're really, in terms of the guide, expecting kind of continued stable pricing from here throughout the end of the year which kind of still results in a low – I'd say, low single-digit, very low single-digit headwind for the full year guide that we have baked in. And then, from a gross margin perspective, yeah, that's the way to think about it. We'll continue to make progress on our gross margin initiatives. We had good progress in the second quarter that didn't really show up because we were expecting some other headwinds there, but ultimately, we expect some growth in Q3 and Q4 and beyond.

Nigel Coe

Analyst, Wolfe Research LLC

Great. And then a quick one on SG&A. Just obviously, we're working here with rough numbers, but it seems like the SG&A attached to the acquisitions, back into the contribution from acquisition revenue, it feels like SG&A is about 20 points of acquired revenues for the acquisitions. Number one, is that the right number? And secondly, what is the right level for SG&A on a fully-absorbed basis for these acquisitions?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah. Nigel, I would tell you, some of the acquisitions that we've got rolling through have had they've helped us at the gross margin level. They've had some nice accretive gross margin, but they've had some they carried some much higher SG&A cost structure there. So, there's some opportunity to take some of that out, get more efficient as we scale those businesses and everything. But they've been, I'd say, neutral from an EBITDA standpoint. And we've got some opportunities to drive some synergies there to expand that. So that's what our focus has been on there, not necessarily the rate that we acquired them at, but the ability to scale those and drive that EBITDA contribution through P&L.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Thanks a lot.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yes, thanks.

Operator: Thank you. Our next question comes from Joe Ritchie of Goldman Sachs. Your line is now open. Please go ahead.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Good morning. So, I know you've talked a bunch – Good morning. Yeah, so I know we've talked a bunch about volumes, but I want to kind of parse that out a little bit further. Steve, I think you mentioned weather impacting volumes by approximately \$50 million. When you take into account the M&A contribution now expected for the year, it still seems like there is about a few hundred-million-dollar reduction in volume expectations for the year. And I recall last quarter, we talked about competition normalizing in the space. I'm just wondering, like, how much of this is really end market weakness versus you guys being a little bit more judicious about the projects that you're going after as we head into the back half of the year. Any commentary on that would be helpful.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Yeah, Joe. No, we really haven't viewed it that way. We are continuing to go after projects just the way we always have and having success there as well. You're seeing, we highlighted a couple of projects that we're seeing in Meters and some of these other specific product categories, I think, would give you an idea of kind of how we're tackling different opportunities out there. But the weather piece was challenging in a number of ways. We started in the first quarter where we saw kind of favorable conditions that started in the spring that quickly became challenging in May and June. And while we believe that we'll likely recover in Texas and some of these other bigger areas as the weather has improved and we'll continue to pull those projects forward. It's just a question mark about whether they're going to be enough time remaining to pull all of these projects into release the backlog, in the upper Midwest, in addition to tackling the other new projects out there before the season comes to a close.

So, that's really what we're seeing. We're, obviously, been burned by the weather this last quarter as we get into the back half of the year, particularly in the fourth quarter is always challenging of what weather going to pose in particularly some of these areas that are very seasonal.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. That's helpful, Steve. So, I mean, basically expect maybe some choppiness in the back half of the year, but that normalizes into 2025. And weather is always the swing factor, but that's the expectation at this point?

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

A

Yeah, that's correct.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And maybe just one my other question. I know that you don't want to talk about the lawsuit. There's a lot of noise in the market regarding pricing and capacity. And specifically, it seems like you are planning on maintaining your pricing discipline as the year progresses. But there's been some commentary around third-party providers entering the market and selling at lower prices. Is that something that you are seeing today across any of your specific products that you distribute?

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

A

I'm not fully familiar with what you're referencing there. Just to go back to the discussions that are happening with [indiscernible] (00:53:05) in particular, we are not a defendant in that case and we really aren't going to comment on any of the statements made that involve Core & Main, which we simply view as baseless. So, I'm not – we're not going to comment anymore on any unsubstantiated claims or statements associated with that.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Fair enough. Thank you, guys.

Operator: Thank you. Our next question comes from Mike Dahl of RBC Capital Markets. Your line is now open. Please go ahead.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my questions. So, one more follow-up on the pricing conversation. When we're thinking about stability both in 2Q and expected through year end sequentially. Can you break that out between commodity versus non-commodity? Because I think obviously, a lot of fear has been that some of the commodity baskets that people contract with seem to have declined sequentially. So are you seeing that? But you've been able to offset it with pricing opportunities on the non-commodity side? Or are you just seeing a different trajectory, in the products that you're specifically serving?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah, sure, Mike. I'll give you a little bit of color on some of those categories. The one of the bigger impacts we've seen has been on the fire protection business and you can see that in the results that we break out. We've seen

pretty sizable year over year declines with steel pipe and that definitely tracks with that underlying commodity, and we pass those price decreases along to our customers. So, we've seen an impact there. We do feel like it looks like it's now potentially at the bottom. We've seen it stabilize over the course of the last month or so. So, feel like, there's stability there, but it's at a pretty low level. Copper tubings has been bouncing around. We've seen some increases coming through on copper, so that's helped offset some of the impacts there. As we've talked about PVC is off at its – I'd say municipal PVC is off at its peak levels, but it's been stable here throughout 2024.

And then, yes, you're correct. On some of the other product categories, we have seen some other increases or we've been able to pass along increases as we put those project solutions together for our customers. So, we've been able to manage through that, ultimately resulting in a fairly stable overall pricing environment, which is, again, what we expected for this year, and that's kind of holding true.

Mike Dahl

Analyst, RBC Capital Markets LLC

Okay. That's helpful. Thanks, Mark. And then...

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yes, thanks.

Mike Dahl

Analyst, RBC Capital Markets LLC

On the sales discussion, obviously, the weather is, I think, everyone can understand that in terms of the market weakness, I think some of your commentary characterized it as the deferrals and you suspect there are different things going on. I guess, can you just give us a little more insight into if you don't get the project, what gives you the confidence that it's still out there, it's just being deferred versus it's just not moving forward? Give us insight into whether it's your backlog or your conversations with the contractors or customers in the field. Recently, in particular, because it seems like there was potentially a shift in July across end markets. So, I think it would help if people had a little more confidence that, that business is still out there.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Yeah. I'll talk first about residential and land development. And we certainly saw as we closed out July that we started seeing a lot more of the phasing of some of the land development being chunked out a little bit differently than phased out into the back half of the year. So long-term, we don't have much concern about that. We know the impending demand that's out there. We're confident that some of these things are pushed and that we'll continue to see those evolve and take shape.

From the non-residential standpoint, just saw something similar, but it's been a little bit more choppy and spotty throughout certain geographies where commercial construction has been delayed in some regards, pending a lot more of the financing capabilities for the owners of those facilities. So, we'll see kind of how that one evolves. That one's a little a little harder to track for us. And then on positive side, we are seeing a lot of work moving with DOT and a lot of the work that we're doing with storm drainage and geosynthetics in that area that continue to be very strong. So, it's kind of a mixed bag as you look at it. Some of it we really viewed as temporary, we're going into that, some of it being pushed and then, obviously, you have weather on top of that, which is of clouded some of the absolute, how to define exactly how much was weather and how much was market. So just, I'd say it's kind of soft and sluggish, both from a ground standpoint and from some of the end markets.

Mike Dahl

Analyst, RBC Capital Markets LLC

Okay. Thanks, Steve.

Q

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Thanks.

A

Operator: Thank you. Our next question comes from Anthony Pettinari of Citi. Your line is now open. Please go ahead.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Good morning. Just following-up on the end market softness that you saw. Given your largest end market is muni, can you talk about kind of maybe funding environments and appetite to spend among municipalities, understanding you have hundreds, maybe thousands of customers, it's hard to generalize. But can you tell us what you're kind of seeing there in terms of underlying demand?

Q

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Yeah, demand continues to be strong there. And even if you look at some of the projects that we've done, if you look at some of the meter projects which Brad highlighted, you are seeing the investment continue to happen into infrastructure there. For the repair and replacement aspect on that, we believe that some of that softness was weather-related and it's been pushed and we'll continue to see that evolve. And if it doesn't come in fully in 2024, we'll see it in 2025. That's where we have some confidence in the backlog and the type of projects that are in there. So, that's generally what we're seeing.

A

I'd share with you that from an IJIA perspective, we're not seeing a lot of those funds flow really into anything into the repair and replace, really not seeing it in meters. We're seeing some of it in long term project scoping for the replacement and enhancement of treatment plant facilities for water and wastewater. Those are generally the areas that we're seeing some of that funding. So, that could be a tailwind for us as we get into 2025 and we would like to see that start taking shape.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Okay. That's very helpful. And then just one last one, if I could, and sorry if I missed this. But can you update what your private label percentage was in the quarter and maybe is there some runway to maybe accelerate that in the back half as you work down some inventory or just any thoughts on that private label penetration?

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah. Anthony, our private label penetration is a little over 2% of COGS and we're expecting, as you mentioned, some pretty good runway as we get into the back half of this year, a number of areas where we're seeing some more adoption of that product and expect to see that contribution increase between now and the end of the year.

A

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Okay. That's helpful. I'll turn it over.

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

All right. Thanks.

A

Operator: Thank you. Our next question comes from Patrick Baumann of JPMorgan. Your line is now open. Please go ahead.

Patrick Baumann

Analyst, JPMorgan Securities LLC

Well, hi. Thanks. Couple cleanups, I guess. On the second half expectations, can you help us with the cadence third quarter, fourth quarter for sales growth and margins? And I know you have the extra week in the fourth quarter, which is part of the reason for asking this. Just wondering how that impacts sales and EBITDA for having that extra week in the fourth quarter?

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah, sure. Pat, thanks for the question. In terms of the cadence, typically our Q3, I'd say it looks a lot like Q2 but, obviously, we had this big weather impact in Q2. So, expecting a little better Q3 than typical as you think about it relative to the sequential growth in Q2. And then you had a 53rd week for us as in the fourth quarter. That's worth kind of 1 to 2 points for the full year. So for the quarter, it's probably in that kind of 6% to 8% range for the quarter, so you should expect a higher sales growth figure in Q4 relative to Q3, but the absolute dollars are going to be down just due to the seasonal nature of Q4. So, I'd say no really unusual expectations outside of that, that 53rd week in fourth quarter.

A

Patrick Baumann

Analyst, JPMorgan Securities LLC

Do the sales from an extra week dropped down at like a similar margin to normal sales or is there a better margin [indiscernible] (01:03:03)?

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah. I think that's a fair way to think about it. The gross margins will be the gross margins and then we'll pick up extra SG&A for the extra week as well that we have. So it's all pretty much [indiscernible] (01:03:23).

A

Patrick Baumann

Analyst, JPMorgan Securities LLC

Okay. And maybe on M&A in the quarter, what did that contribute in terms of the sales growth? And then the additional deals having closed, I think you said \$100 million of spend, how much extra sales are you getting from those deals? Are those – those are the, I guess, the Green named deals?

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. That's right. We did a lot of green acquisitions there. Yeah. So, Pat, for the quarter, acquisitions were nine points of the growth from the quarter and then GoGreen is about four locations, and then Green Equipment was one location. So, we kind of use the framework that we've provided historically which is about, call it, \$10 million to \$15 million of revenue per location. Those two are not currently in the guide.

Patrick Baumann

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Thanks, Pat.

Operator: Thank you. Our next question comes from Andrew Obin of Bank of America. Your line is now open. Please go ahead.

David Ridley-Lane

Analyst, BofA Securities, Inc.

Q

Hi. This is David Ridley-Lane on for Andrew Obin. Just so I better understand the SG&A commentary. So ex-acquisitions, they were effectively flat. I didn't really hear you considering any over and above cost reduction actions in the second half. Is that right? What you've sort of seen is the normal fluctuation of variable comp? Is that the right interpretation?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. That's the right way to think about it. We're obviously paying close attention to the end markets right now. Obviously, we feel like most of what we experienced in the quarter with weather was temporary. We've seen some good activity here to start the third quarter. So, I wouldn't say we're anticipating any sizable reductions at this point. But obviously watching SG&A closely. We're still investing for growth. We have a lot of confidence in our long-term growth opportunities, and we want to be positioned very well to capture that. So, we don't have any, I'd say, overly significant reductions baked into the guide in the second half because of those reasons.

David Ridley-Lane

Analyst, BofA Securities, Inc.

Q

Got it. And then how should we think about the kind of ongoing pace of share repurchase? Are you guys going to be more optimistic? Should we take the second quarter level as a proxy for a run rate? How should we think about that?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. We'll continue to invest in our organic growth opportunities. M&A is going to continue to be a priority. The pipeline is looking really good there. And then, we expect to generate, I would say, roughly \$500 million of

operating cash flow in the second half of the year. So we should have ample capacity to complete the M&A, invest in growth and potentially accelerate some of the share repurchasing that we did in the second quarter.

If we see a relative share price as attractive and then we'll continue to look at our debt leverage and liquidity to balance that out. So, I would think about it as likely just given the amount of cash that we expect to generate, that we would accelerate the amount that we did in Q2.

David Ridley-Lane

Analyst, BofA Securities, Inc.

Understood. Thank you very much.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

All right. Thanks, David.

Operator: Thank you. At this time, we currently have no further questions. So, I'll hand back to Steve LeClair for any further remarks.

Stephen O. LeClair

Chief Executive Officer & Chair, Core & Main, Inc.

Thank you all again for joining us today. We have demonstrated our ability to generate strong cash flow and deploy that cash in areas that generate the best financial returns, including investing in growth and returning capital to shareholders. We were successful in adding several new businesses to the Core & Main family during and after the quarter.

Our acquisitions continue to generate significant growth for the business. We tapped into a new multibillion dollar market opportunity in Canada through acquisition of HM Pipe Products, expanding our geographic reach and enabling us to capture a larger share of the growing demand for water and fire protection infrastructure in North America. Our margin initiatives are performing well and we expect they will continue enhancing margins to support our long-term growth strategy.

As we discussed throughout the call, our second quarter results were impacted by unusually wet weather and saturated grounds. However, our associates continue to demonstrate unwavering dedication to our customers and their critical projects. I'm proud of our ability to remain agile and focused, even when faced with adversity. We believe the market's sluggishness experienced in this quarter is temporary and our outlook on the long-term demand characteristics of our end markets remains bullish. We continue to be encouraged by the sentiment from our field teams and our positive bidding activity and project backlogs. We look forward to capitalizing on our long runway of growth opportunities, particularly with new perspectives and the expertise resulting from the organizational realignment we completed this quarter. As we enter the second half of fiscal 2024, we remain confident in our ability to deliver industry-leading service to our customers, drive value creation, and execute our growth and capital allocation priorities now and into the future.

Thank you for your interest in Core & Main. We look forward to talking with you again next quarter. Operator, that concludes our call.

Operator: Thank you for joining today's call. You may now disconnect your lines.

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