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Core & Main, Inc. (CNM)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Core & Main Q4 2024 Earnings Call. My name is Alex and I'll be coordinating the call today. [Operator Instructions] I'll now hand it over to Robyn Bradbury, Senior Vice President of Finance and Investor Relations. Please go ahead.

Robyn Bradbury

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're excited to have you join us this morning for our fiscal 2024 fourth quarter and full year earnings call.

I'm joined today by Steve LeClair, our Chair and Chief Executive Officer; and Mark Witkowski, our Chief Financial Officer. Steve will begin today's call by discussing the executive changes we announced this morning. He will then provide an overview of our business and strategy, followed by an update on our fiscal 2024 accomplishments. Mark will then discuss our financial results and fiscal 2025 outlook, followed by a Q&A session.

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 reconciliation 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

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

Thanks, Robyn. Good morning, everyone. Thank you for joining us today for our fiscal 2024 fourth quarter and full year earnings call. I'll begin by discussing the executive leadership changes we announced this morning.

After much thoughtful consideration and planning, I've decided that now is the right time for a smooth transition of leadership at Core & Main. At the end of the month, I will transition to the role of executive chair, where I will continue to lead the board and serve as an advisor to the business to ensure a smooth transition. I'm pleased to share that Mark Witkowski, our CFO, will succeed me as CEO and Robyn Bradbury, our Senior Vice President of Finance and Investor Relations, will become CFO. Mark will also be joining our board of directors.

Mark and Robyn know our business well and have been instrumental in the development and execution of our successful strategy. I have worked with both of them for over a decade and I have full confidence that they are the right people to lead Core & Main going forward. It has been the privilege of a lifetime to lead this great organization, and I am so proud of what we have accomplished together, including exceptional business performance, outstanding service for our customers, and meaningful value creation for our shareholders.

With this strong foundation in place, now is the right time to transition the leadership of the company to Mark, Robyn and the rest of our talented executive team. I am confident in their ability to execute against our strategic priorities and take our organization to the next level.

Now turning to our results. We were pleased to finish the year with strong momentum as we achieved 18% sales growth and solid gross margins in the fourth quarter. Our results have truly been a team effort, and I want to thank our associates for their dedication and commitment to our customers.

I'll begin on page 5 of the presentation with an overview of Core & Main and our market position. Core & Main is a leader in advancing reliable infrastructure with local service nationwide. As a specialty distributor with a dedicated focus on water, wastewater, storm drainage and fire protection products, we provide solutions to municipalities, private water companies and professional contractors across municipal, non-residential and residential end markets.

We have a deep portfolio of more than 225,000 products, many of which are made specific for our sector and must meet water industry regulations and local municipal specifications.

Our footprint consists of more than 370 branches across 49 states, which serves as a critical link between over 5,000 suppliers and a diverse base of more than 60,000 customers with no single customer accounting for more than 1% of our annual sales. We are an industry leader, yet we estimate we have only 19% share of a highly fragmented \$39 billion addressable market. Our long-term opportunity to grow and gain market share is significant, as is our opportunity to grow our addressable market over time.

We maintain balanced exposure across new construction and repair and replacement projects. Central to this balance is our stable, non-discretionary municipal demand, which accounts for over 40% of our sales. Municipal

spending on water infrastructure has demonstrated long-term resilience and is expected to continue growing, driven by the need to address aging water systems, environmental challenges and water scarcity.

Our significant exposure to municipal repair and replacement activity provides the business with a strong foundation, ensuring stability even if our other end markets experience a period of volatility.

Customers partner with Core & Main for our breadth of products and services, extensive industry knowledge, familiarity with local municipal specifications, convenient branch locations and project management capabilities, all of which make it easy to do business with us. We serve both smaller, local customers and large regional or national contractors with relevant expertise. Our sales associates take a consultative approach in providing tailored solutions for projects of all sizes, and we are deeply involved in our customers' planning processes all the way from project design through completion.

Our strategy is rooted in our people-first culture, where we prioritize the well-being, growth and development of our associates. From there, we thrive by fostering an entrepreneurial mindset at the local level, being action-oriented, driving operational excellence, and then rewarding our associates with performance-based compensation.

One underappreciated element in our operating model is the linkage between local expertise and national capabilities. We supplement our local presence with the power of scale, enabling us to value-engineer complex projects by utilizing our extensive supply chain and national resources.

Data centers and other mega projects are great examples of where these capabilities come to life. These projects require a sophisticated approach that blend local presence with national support. They involve intricate technical requirements, ever-changing timelines, and a need for precise coordination. With boots on the ground at the local level, we become intimately familiar with the specific needs and challenges of each project, offering hands-on support and quick response times.

Our national scale allows us to utilize our robust supply chain to secure access to the right products while leveraging our distribution network and project management capabilities to ensure an efficient project delivery that meets timelines and stays within budget. And we do all this while maintaining the customer service and reliability that our customers have come to expect from Core & Main.

The impact of these capabilities are reflected in the work we do every day to help communities advance reliable infrastructure. We highlight a great example of this on page 7 of the presentation. As you know, in August 2023, a devastating wildfire struck Lahaina, Hawaii. Nearly two years later, Lahaina's long cleanup process continues and efforts to return to a sense of normalcy have progressed with the completion of an elementary school. Rebuilding required extensive water infrastructure, and the contractor selected to complete the project relied on Core & Main to be its one-stop shop provider.

The project involved design-build plans, so the material list, quantities and product lines changed constantly. Our nearest branch was a short distance away, enabling our local team to be on the job site daily, sometimes multiple times a day to ensure our customer had the right products at the right time. And if our local team didn't have the products on hand because of redesigns or change orders, they called on other Core & Main branches and product specialists along the West Coast for support.

The project was completed in an impressive 95 days, marking a significant milestone to Lahaina's recovery. The school serves as a vital steppingstone, helping to reestablish a sense of community while Lahaina's permanent infrastructure is rebuilt over the next three to five years.

Turning to our recent accomplishments. Fiscal 2024 was a notable year for Core & Main and it marked our 15th consecutive year of positive sales growth. Our teams navigated a dynamic environment to deliver strong financial performance, including record net sales of over \$7.4 billion, adjusted EBITDA of \$930 million, and operating cash flow of more than \$620 million.

The consistency of our results is driven by our balanced business mix, the dedication and expertise of our associates and our ability to generate significant cash flow to reinvest back into the business, including investments to support and execute our growth strategies. Our product, customer and geographic expansion initiatives produced strong results throughout the year as we continued to accelerate the adoption of new products in the industry and prove our differentiated value proposition.

This included strong double-digit average daily sales growth in metering and storm drainage products, high-single digit average daily sales growth in treatment plant projects, and additional market share gains as our greenfields continued to grow and mature. We opened two new locations in attractive markets during the year to expand our reach, building on our commitment to make our products and expertise more accessible nationwide.

We also welcomed 10 complementary businesses to the Core & Main family, adding over \$600 million of annual sales while expanding our presence in key geographies, gaining access to new product lines and adding key talent.

In terms of organic sales growth, we believe we outgrew the market by a couple of hundred basis points in 2024. And looking ahead, we have ample opportunities to drive additional growth, expand gross margins, and improve our operating leverage. We continue to develop a scalable assortment of private label brands and products used in water, wastewater, geosynthetics and fire protection applications. We added over 30,000 square feet of distribution space and more than 1,000 private label SKUs to our offerings since the end of last year.

We ended fiscal 2024 with private label products representing approximately 4% of our sales, with an opportunity for it to grow to 10% of our sales or more over time.

Our cash flow generation and flexible balance sheet allowed us to invest in the growth of the business while returning capital to shareholders. We deployed \$176 million in fiscal 2024 to repurchase 4 million shares under our repurchase program. We expect to generate similar levels of operating cash flow going forward, resulting in significant available capital being reinvested in the business and returned to shareholders.

Moving to our acquisition strategy and recent success. We are one of only two national distributors competing in our space and the remainder of the market is served by hundreds of other local and regional distributors. Since 2017, we have completed over 40 acquisitions. Most of the deals were proprietarily sourced based on our relationships and reputation in the industry. We are honored that so many owners and operators in our space have chosen Core & Main as a home for their businesses, and many of them continue to thrive in leadership positions throughout our company.

We are well connected with some of the best companies in our industry and we have a healthy pipeline of potential deals to pursue. We expect to continue adding and integrating businesses in 2025 and beyond to support our long-term growth and value-creation efforts.

Before I hand it over to Mark, I want to address a few other recent topics of interest. Starting with tariffs, we do not anticipate a significant impact on our business as most of our products are produced in the United States. Where we do have exposure, we anticipate that it may lead to rising product costs, we are working closely with our customers to ensure real-time, transparent pricing.

As I mentioned last quarter, we generally view tariffs as neutral to slightly positive to our pricing and gross margins. The tariff environment continues to evolve, creating a level of uncertainty that could limit end market growth in the near term. That being said, our spring bidding activity is encouraging and sentiment from our customers continues to be positive.

In regard to the status of federal funding, there have not been cuts to any of the water funding set aside by the Infrastructure Investment and Jobs Act. Investments in water infrastructure continue to receive bipartisan support, in part due to the extreme circumstances highlighted across the country when water, sewer or storm water management systems fail. While federal grants and low interest loans are available to municipalities to help fund their projects, the vast majority of the municipal funding is produced by local revenue streams, including local taxes and utility usage fees.

To wrap up my prepared remarks, our teams have had to navigate several challenges and distractions throughout the year, and we consistently rose to the occasion, demonstrating focus, agility and resilience. Our team's ability to adapt, collaborate and deliver best-in-class service to our customers speaks volumes about the strength of our culture and dedication of our people.

Thank you all for your ongoing support. I look forward to what Core & Main will accomplish in the years ahead. Go ahead, Mark.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Thank you, Steve, and thank you to everyone for being with us today. Steve, we have been so fortunate to have benefited from your tremendous leadership for over a decade at Core & Main. I know that I speak for the entire Core & Main family in thanking you for your dedication and commitment to excellence. You've been the architect behind much of our success to-date, and I'm honored to have been able to work side by side with you and now be selected to lead Core & Main in the next chapter alongside Robyn and the rest of our executive team.

Having worked closely with Robyn for over a decade now, I know she is ideally suited to serve as our Chief Financial Officer. Robyn and I played an integral role in shaping Core & Main's current strategy, which will remain unchanged during this transition. Our focus remains on driving profitable growth, both organically and through acquisitions, while generating strong cash flow and delivering value to shareholders.

We will continue to provide the high level of service our customers expect from Core & Main, while building on the strength of our supplier relationships that are essential in achieving our growth objectives. This is an incredible business with the best talent in the industry, and I look forward to collaborating with our associates to build on the strong culture we have established.

With that, I'll now turn to our financial performance. Fiscal 2024 was another record sales year for Core & Main. Since our separation seven years ago, we have grown net sales at an average annual rate of approximately 15%, while significantly improving profitability. These results have been driven by our team's focus on operational excellence and delivering exceptional value to our customers.

Starting with our fourth quarter results, we grew net sales by 18% to nearly \$1.7 billion. Acquisitions contributed about 9% of our sales growth, and organic average daily volumes were up low-single digits. As anticipated, pricing was stable on a sequential basis, but it was down slightly year-over-year. Approximately 7% of our sales growth in the quarter was driven by an extra selling week compared to the fourth quarter of last year, resulting in average daily sales growth of roughly 11%.

Gross margin in the fourth quarter finished at 26.6%, which was consistent with last quarter. During our third quarter call in December, we communicated our expectation of maintaining gross margins at these levels. Our teams delivered on that by driving consistent performance across our private label, sourcing and pricing initiatives.

Selling, general and administrative expenses increased 21% in the fourth quarter to \$279 million. The year-over-year increase in SG&A primarily reflects the impact of acquisitions, inflation, investments to support our growth initiatives and additional costs from the 53rd week. Excluding acquisitions and the impact of the 53rd week, SG&A in the fourth quarter was up approximately 2%.

Adjusted EBITDA in the fourth quarter increased approximately 12% to \$179 million and adjusted EBITDA margin decreased 60 basis points to 10.5%. As a reminder, our operating margins are typically lower in our first and fourth quarters due to a reduction in volumes associated with normal seasonality.

Turning to our full year performance, fiscal 2024 net sales grew approximately 11% to a record of just over \$7.4 billion. The increase was driven by approximately 9 points of growth from acquisitions, organic market share gains and approximately 2 points of contribution from the 53rd selling week, partially offset by a minor impact from pricing.

We estimate that end market volumes were roughly flat for the year, consisting of mid-single digit growth in residential lot development and low-single digit growth in municipal repair and replacement activity, partially offset by low-single digit decline in non-residential construction starts. We achieved a couple of hundred basis points of above-market sales growth from the execution of our product, customer and geographic expansion initiatives as our teams have done an incredible job delivering best-in-class service to our customers and proving our value proposition to the industry.

We also drove additional market share gains from strategic acquisitions, strengthening our presence in key geographies and product lines.

Gross margins for the year came in at 26.6% compared with 27.1% for fiscal 2023, a difference of about 50 basis points and in line with our expectations. The year-over-year decline in gross margin was driven by higher average cost of inventory this year compared to fiscal 2023. Going forward, we expect to continue driving sustainable gross margin enhancement through the execution of our initiatives.

Selling, general and administrative expenses for fiscal 2024 increased approximately 16% to nearly \$1.1 billion. The increase in SG&A primarily reflects the impact of acquisitions, inflation, investments to support our growth initiatives and additional costs from the 53rd week. Excluding acquisitions and the impact of the 53rd week, SG&A expenses were up about 1% for the year.

Interest expense for fiscal 2024 was \$142 million compared with \$81 million in the prior year. The increase was due to higher average borrowings, partially offset by a decrease in rates on our variable rate debt.

The provision for income taxes for fiscal 2024 was \$143 million compared with \$128 million in the prior year. And our effective tax rates were 24.8% and 19.4%, respectively. Our effective tax rate for fiscal 2024 reflects a more normalized ongoing rate, and the increase over the prior year was due to exchanges of partnership interest in fiscal 2023, resulting in a reallocation of taxes to Core & Main, Inc.

Adjusted EBITDA for fiscal 2024 increased 2% to \$930 million, and adjusted EBITDA margin decreased 110 basis points to 12.5%.

Moving to our balance sheet and cash flow. We ended the year with net debt of roughly \$2.3 billion and net debt leverage of 2.4 times. Total liquidity was over \$1.1 billion, consisting primarily of availability under our ABL credit facility.

We generated \$621 million of operating cash flow during the year and allocated it to priorities that resulted in growth and value creation for shareholders. We spent \$741 million on 10 acquisitions and returned \$176 million of capital to shareholders, buying back approximately 4 million shares at an average price of approximately \$44 a share. We have now returned over \$1.5 billion of capital to shareholders through share repurchases in the past two years. And as of today, we still have \$324 million remaining under our current repurchase authorization.

Turning to our outlook for fiscal 2025. We expect another year of growth in both sales and profitability. While there are uncertainties surrounding interest rates, federal funding, tariffs and their potential impact on construction activity, we are confident in our ability to navigate these challenges and deliver strong results, especially given our exposure to non-discretionary municipal water infrastructure projects and the long runway of opportunities we have to drive above-market growth and margin expansion.

We remain bullish on the long-term fundamentals for residential lot development. With mortgage rates trending lower in recent weeks, we have yet to see that materialize into a release of pent-up demand that could accelerate growth. We anticipate an inflection point in residential demand as mortgage rates fall and sustain at lower levels. But given the uncertainty around timing, we are not factoring that into our outlook.

We believe non-residential construction starts will be relatively flat in 2025. The broader macroeconomic environment may continue restraining investment and construction in the non-residential sector, but some businesses remain cautious about starting new capital projects.

Our broad exposure within this market, spanning traditional commercial through heavy industrial and even highway and street projects generally provides stability as demand for these projects can happen on different cycles.

Municipal spending on water infrastructure is expected to remain resilient, with end market growth projected in the low-single digit range for 2025. The stability is driven by necessary investments in water and wastewater systems as municipalities continue to address aging infrastructure and comply with environmental regulations.

To help fund these initiatives, municipalities have raised water and wastewater utility rates at a mid-single digit average annual increase over the last decade. We're optimistic about the growth of this end market in 2025 and beyond.

We anticipate that prices will remain sequentially stable through 2025, resulting in a roughly neutral sales impact for the year. We offer a strong value proposition to the industry and expect to achieve another 2 to 4 points of

above-market volume growth by expanding our presence in underpenetrated geographies, driving the adoption of new products in the industry, and acquiring and developing new sales talent. We expect 2 points of sales growth from the acquisitions that have already closed. We have a good pipeline of high quality targets and we expect to add more companies to the Core & Main family throughout the year.

We benefited from a 53rd selling week in fiscal 2024, contributing approximately 2% of our total sales growth. We expect a sales impact of roughly the same amount in fiscal 2025 due to fewer selling days in the fourth quarter. We expect to drive gross margin expansion in 2025, supported by our private label, sourcing optimization and pricing initiatives.

With these factors in mind, we expect fiscal 2025 net sales to range from \$7.6 billion to \$7.8 billion, reflecting year-over-year growth of 2% to 5% or 4% to 7% on an average daily sales basis. We expect adjusted EBITDA to range from \$950 million to \$1 billion, reflecting year-over-year growth of 2% to 8% or 4% to 10% on an average daily sales basis with adjusted EBITDA margins ranging from 12.5% to 12.8%.

We expect to generate strong operating cash flow, and our capital allocation priority is to invest in the growth of the business, both organically and through the execution of our M&A strategy. We expect to have excess capital after delivering on these objectives, which will allow us to return capital to shareholders, likely through share repurchases. In the near term, we will continue evaluating our pipeline of priority targets while maintaining liquidity and leverage levels within our stated objectives.

As I wrap up, I want to reiterate that we are confident in the fundamentals of our industry and in Core & Main's leadership position. Our sector has strong fundamentals and we have a unique and proven business model to continue strengthening our position. The long-term underlying trends of our end markets are favorable, and our products and services play a critical role in advancing reliable infrastructure.

We expect to outperform the market even as the broader economic environment evolves. Our business is well positioned to capitalize on opportunities for growth, both organically and inorganically, and we remain committed to building on our track record of delivering value to shareholders.

With that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question for today 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 and congrats to everyone on the role changes within the company. First question this morning, probably not unsurprising, on pricing. Could you tell us what percentage of COGS is PVC today and what expectations are baked into the guidance you provided?

And then if maybe you could comment on price expectations in any other category, whether it's commodity products or engineered products like valves, meters, fire protection, et cetera?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks, Dave. It's Mark. Appreciate the question. On pricing, I would tell you that municipal PVC pipe, that's less than 15% of our COGS. We've seen over the course of this past year, some of that come off of its high levels that we saw in 2022 and 2023. So, that's played into some of the slight headwind that we saw in 2024.

I would tell you, as we go forward, as we're thinking about the price environment right now, we believe it's going to be an overall neutral environment. We're not going to necessarily guide to specific product categories. But you can assume baked into that that we expect to see some of the price increases that we've seen recently from suppliers stick in the market. And we could have some other categories like we're seeing pressure in steel piping throughout 2024 continue to be a headwind for us at the beginning of the year.

But overall, we've been pleased with the resilience of municipal PVC pipe, which is another reason why we think overall that price environment is going to be neutral into 2025.

David John Manthey

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

Q

Thank you for that. Second, is there any way you could provide some insight into first quarter trends so far? I mean, there's been a little bit of weather early in the year. And any other factors that are influencing the current environment? It doesn't sound like you're expecting conditions to improve too much through 2025 in your outlook. I just wanted to reconfirm that.

And then relative to that also, unannounced acquisitions, then there's nothing in guidance for deals you haven't done yet, correct?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah, that's correct, Dave. Nothing in the guidance for deals that aren't announced. But we do have about 2 points of carryover from the acquisitions that we did complete in 2024.

As it relates to the start of 2025, I'd say we're very pleased with how things have gotten off here early in the year. I'd say we're kind of right in line with expectations. There was a little bit of weather in January as kind of we finished up the fourth quarter that we experienced there. But it wasn't necessarily unexpected given the time of year. So good to see some of the momentum. Our bidding activity is strong, backlog's looking good and really pleased with how things are starting off in the first part of this year.

David John Manthey

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

Perfect. Thank you very much.

Q

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

Anika Dholakia

Analyst, Barclays Capital, Inc.

Good morning. You have Anika Dholakia on for Matt today. Thank you for taking my questions and congrats to you guys on the new roles. So first off, wanted to talk about the end market outlook. It assumes resi, flat; non-res, flat; muni, low-single digit. I'm wondering between resi and non-res, where you guys see more upside in [ph] the Q (00:32:49), taking into account some of the choppy market trends today. Thanks.

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah, sure. Thanks for the question. You're right on the end markets, the way we're thinking about them right now, just given a lot of the uncertainty that we've been seeing and hearing about in the market. Some of the commentary from the homebuilders has been a little mixed. So, we're going into 2025 kind of assuming we see continued, steady construction on the private side, both resi and non-residential.

A

We have seen, though, I would say mortgage rates start to creep down a little bit if we start to see a little bit more relief there. I think on the mortgage side, you'll see good release of a lot of the pent-up demand that we experienced on the lot development side. There's been – we exited 2025 with a little momentum there, but we're definitely going to be cautious on that as we get out into the early part of 2025 until we see some of those rates start to tick down.

Non-residential, I would say we've got a lot of still good stability in that end market for us with a lot of the road, bridgework continues to be solid. There's a lot of good megaprojects that we're involved with that are going strong. And expect that momentum to continue and help kind of buffer any softness on more of the commercial side, which tends to follow the residential release after 12 or 18 months or so. So there's upside I'd say on both. If we see some of the residential release, you'll start to see the commercial side of that non-residential tick up as well.

And then from a municipal standpoint, it's been really strong. It exited the year in 2024 with really good activity, and we continue to make really strong investments in that part of the business and expect that to be very steady and resilient all throughout 2025.

Anika Dholakia

Analyst, Barclays Capital, Inc.

Q

Great. Thank you for that. And then on your expectation for gross margin expansion through fiscal 2025, I'm wondering, on the key levers driving this growth, you had private label, sourcing, pricing. If you guys can just bucket that in terms of what's driving it the most.

And then should we assume the cadence is similar to historic, or if there's any differences to consider on that margin expansion through the year? Thanks.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah, sure. From a gross margin expansion standpoint, I would say private label continues to be one of our best levers for expansion there. We made a lot of really good progress on that in 2024. We increased our penetration of private label from 2% to 4% of revenue, and really pleased with the continued investments we've made there and the margin that that's producing.

Sourcing optimization I'd quite categorize as second. Really good progress in 2024 as we build scale, especially with some of the acquisitions that we did. And then still pretty early innings on price optimization, but we got some really good results in 2024 that really helped offset some of the gross margin normalization that we expected, and we're able to outperform that.

Anika Dholakia

Analyst, Barclays Capital, Inc.

Q

Thanks. I'll pass it on.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Great. Thank you.

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

Q

Hey, good morning, everyone, and echo everybody's congratulations. Well deserved, Mark and Robyn. And thanks so much for all the help throughout the year, Steve. Just the – my first question, I guess would be just on margins and thinking through this guidance of 0 basis points to up 30 basis points. Relative to the long-term expectations and what you had previously stated at Investor Day, I think you guys had historically been planning for 30 basis points to 50 basis points. Just wondering, like whether anything has kind of changed on the margin regarding your ability to expand margins in this environment.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah, Joe. Thanks for the comments and appreciate the question there. So, I would tell you, nothing's really changed in terms of our expectations and the ability to expand margins through this – through these cycles. I would say, obviously, the ability to get some additional productivity out of SG&A in a relatively soft end market is probably the bigger component that's going into our 2025 guide.

As we get closer to the kind of the mid-single digit expectations on revenue, allows us to be much more productive from an SG&A standpoint. And we've continued to make investments to grow revenue and be more productive that we'll start seeing those pay off as we get into a little bit better market environment.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay, that's helpful, Mark. And then I guess maybe just sticking with the SG&A piece, thanks for laying out how much SG&A was actually up. I think what you said, 1% year-over-year when you excluded the impact from the 53rd week and acquisitions. I guess just in terms of the acquisitions and your ability to get after some of that SG&A, can you just maybe just give us some -contextualize like what the opportunity is here in 2025 from the recently announced M&A?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Yeah, Joe. As I mentioned, yeah, when you exclude the 53rd week and the acquisitions, SG&A was up only about 1% for the full year. And that really reflects a lot of continued investments that we've made in the business. In addition, there's been a lot of inflation flowing through a lot of the cost categories. And then we were able to offset a lot of those costs with some other cost-out actions.

I would say on the M&A side, we're typically going to work to scale those businesses as we integrate them. The integration of those businesses from a cost standpoint can take a little bit longer and generally 12 to 18 months to really start driving more of the revenue synergy to scale those. And if it turns out that we need to take some cost-out actions to right size some of that, we'll certainly do that as part of the integration process. But I do expect there to be some potential upside as we go into 2025 to get some additional productivity.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks. I'll get back in queue.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Thanks.

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

Q

Oh, good morning. Thanks. Steve, congrats on a great career. And Mark, Robyn, good luck with the next step. Steve, maybe starting with you, I think you've been very involved in the M&A process for Core & Main. Just wondering how that cultivation process changes as you sort of move on to the next steps.

Stephen O. LeClair

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

A

Thanks, Nigel. Obviously, we've had a really successful M&A year this last year in 2024. It was kind of lumpy, honestly. We had a lot of deals that just came to fruition. Some of that is just typical of the way deals flow and when sellers are ready to go. So we continue to see a really strong pipeline of deals that are out there.

As I transition into this role, one of the things I've offered to help with Mark is any type of relationships that we have from an M&A standpoint, I'll continue to be here as an executive chair and continue to support that, continue to work with them along those lines as he wants the engagement for me on those. And I'll continue to help in that facility.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay, great. Thanks, Steve. And then just want to dig into the large projects pipeline. I think your large competitor talked about the acceleration, especially in some of the larger projects. So just wondering what you're seeing in both non-res, but also in municipal in terms of larger projects, especially with some of this IIJA funding starting to come through.

And I'm wondering, on the larger projects, does the margin profile change at all versus MRO?

Stephen O. LeClair

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

A

What we've seen – I'll talk a little bit about some of the larger municipal projects out there. We're starting to see a lot of some of the flow down coming through from the IIJA funds, about half of them being allocated into the states. And we're seeing about 10% of those now being allocated into specific projects. But those tend to be bigger, long-term projects. They tend to be water and wastewater treatment projects. Those fit right into our strike zone and the ability to leverage not only our local presence, but our national scale on that.

The bidding activity, when we get involved with these, particularly when we get involved right upfront in these design-build applications, we tend to have a lot of opportunity there to help set some of the specifications, help coordinate some of that activity. And margins can be real positive for us in those and can have a long tail of additional work that leads on the tails of those projects as well, too, when we get into some of the line work with those municipalities as well.

So, we're really encouraged by that and we're seeing some good traction in some of the large mega projects, a lot of the data center projects out there, particularly with the land development that's happening that involves a lot of storm drainage material, a lot of water – wastewater material as well, too. And so, really well positioned for those as well.

Nigel Coe

Analyst, Wolfe Research LLC

Q

That's great color. Thank you.

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

Q

Well, thanks. Hey, can you hear me?

Stephen O. LeClair

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

Yeah, we can.

A

Patrick Baumann

Analyst, JPMorgan Securities LLC

Hello? Oh, great. Okay. Well, congrats, Mark and Robyn, on the new roles. I guess I just wanted to drill down a little bit with Steve. Maybe if you could give any additional color on what made the timing right for this change? Obviously, I don't want to intrude too much, but I'm curious if you can give any other color.

Q

Stephen O. LeClair

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

Yeah. Thanks, Patrick. So, I have been with the business 20 years and leading it for the last decade. And obviously, I have a real passion for the business and the industry. And as I've gone through all the changes that we've gone through here, I'm just really proud of what the business has accomplished during that timeframe.

A

And when I look at all of the accomplishments we've had, the thing I'm really most proud of is really the talent that we've developed here. We've got a special culture. I want to see that culture nurtured. I want to see it continue to evolve. And when I look at where we're positioned right now with the runway ahead of us, and I look at Mark and Robyn and our entire leadership team that we've had, just a real passion for the business. And it's the right time to make a transition for me and it's the right time for this business.

And I wanted somebody that was really going to have the same level of passion for the industry, the passion for the associates, and really the drive to take it to that next level. And I see that clearly with Mark, with Robyn and our executive team. You've seen some of the changes that we made even last year going in to position our business for long-term success with some of the additions that we made into our executive leadership team. And this is all part of a real planned, successful succession plan, and real proud to be able to do that at this time.

Patrick Baumann

Analyst, JPMorgan Securities LLC

Helpful color. Thanks and congrats. A couple of other quick ones. One on commodity product pricing outside of PVC. Are you seeing any suppliers reacting to recent moves in underlying commodities for the – for those products, maybe any color on that?

Q

And then, separately, on the SG&A side, any color – I mean, I guess I can try to do the math, but the SG&A growth for 2025, how are you thinking about that relative to the 2% to 5% sales growth you're guiding?

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah, sure, Pat. First, on the commodity product side, I would say for us, it's primarily the steel pipe used in the fire protection product line portion of the business and then copper pipe that we distribute into some of the – that goes into some of the service lines that we sell to.

A

I would say on both of those categories, we're seeing more positive announcements. We've seen some good positive movement more recently in those categories. So beyond those, there's some potential upside for us. And like I said, on the non-commodity side, we continue to see some price increases come through as well here early into 2025. So, I would say on really all those fronts, it's been mostly positive in terms of the recent movement.

Patrick Baumann

Analyst, JPMorgan Securities LLC

What about ductile iron...

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

From an SG&A standpoint...

A

Patrick Baumann

Analyst, JPMorgan Securities LLC

...ductile iron pipe?

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Ductile iron pipe, so that's municipal that we sell similar to municipal PVC pipe. I would say on ductile iron pipe, we've seen good increases throughout 2024, and we expect that to be a very resilient product category moving forward.

A

Patrick Baumann

Analyst, JPMorgan Securities LLC

Thanks.

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

You asked too on SG&A. I'll answer Pat's question on SG&A for 2025. As we think about the 15 basis points of EBITDA margin expansion kind of at the midpoint, I'd say most of that we expect to come from the gross margin investments and initiatives that we have and guiding to a relatively, I'd say, flat SG&A for 2025.

A

Patrick Baumann

Analyst, JPMorgan Securities LLC

Okay.

Q

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

Christopher Kalata

Analyst, RBC Capital Markets LLC

Hi, this is Chris Kalata on for Mike. Just going back to the pricing outlook for this year, what's specifically being assumed for non-commodity price inflation? And then, when you're thinking about tariffs and the conversations you're having with suppliers, is there any sense there, or any quantification you can provide on the potential magnitude of tariff price increases we could see this year and timing of that implementation?

Q

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. I would tell you for non-commodity and the commodity buckets that we sell, overall, we're expecting neutral. I mean, that's what we're going to provide in terms of the outlook overall. You can assume there's going to be puts and takes into some of those categories as we go forward.

I'd say from a tariff standpoint, we've been closely monitoring that. We're in regular discussions with all of our suppliers about how they are being impacted. But overall, I would say the import product in the sector is still relatively small. I'd say it's less than kind of 15% of the product category. So, while there can be some impact related to tariffs where there are some import alternatives, we generally expect the overall impact there to be neutral to maybe slightly positive as we work through a lot of those dynamics. But as you know, that's evolving daily, and I'll – we're focused on right now as close collaboration with our suppliers and then early communication with our customers to make sure they're as clear as can be on – and that we're being as transparent as we can on the potential impacts as we see them come in.

Christopher Kalata

Analyst, RBC Capital Markets LLC

Q

Appreciate that. And just is there any change in the competitive dynamics you're seeing in your markets? How would you characterize any changes you've seen year-to-date with the broader macro uncertainty?

Stephen O. LeClair

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

A

Yeah. Really no changes that we've seen going into 2025. I mean, everything that we've seen, we continue to gain share through this. There's still a ton of opportunity out there for us in so many different markets. So, really nothing that's disrupted or changed the competitive environment.

Christopher Kalata

Analyst, RBC Capital Markets LLC

Q

Encouraging. Thank you.

Operator: Thank you. Our next question comes from Brian Biros of Thompson Research Group. Your line is now open. Please go ahead.

Brian Biros

Analyst, Thompson Research Group LLC

Q

Hey, good morning. Thank you for taking my questions. I guess further on the end market, kind of your market outperformance and share gain expectations for this year, does that differ by end market at all? Maybe it's easier to take share in a slower market for resi or easier in a good market like municipal. I guess just wondering if there's any divergence there or difference to the historical trends, given the outlook where we're at today.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks for the question. I would tell you, in terms of the outperformance, we do expect that we have outperformed the market by a couple of hundred basis points in 2024. I'd say it's generally similar across those end markets that we participate in. If I was going to weight it a little bit, I'd say we probably took a little bit more share on the municipal side, just given the strength of our smart meter performance and some the success that we've had there. And then additionally, we saw some really good strength and growth by servicing treatment

plants much better in 2024. So, I'd probably weight it a little bit more on the municipal side. But overall, really good above-market performance across each of those end markets.

Brian Biros

Analyst, Thompson Research Group LLC

Q

Got it. And then maybe on the municipal side, or I guess really across the entire business, are you seeing any differences from the new administration on the ease of getting permitting or maybe just new projects going? I know rates aren't really helping on the financial part of the equation, but we have heard some things are getting easier or quicker out there when it comes to regulation-type things, I guess. So, just curious if you're seeing any of that across your business. Thank you.

Stephen O. LeClair

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

A

Yeah. Brian, we're hearing the potential for that, particularly easing of some of the regulatory requirements for permitting. But I can't tell you I've got some real specific examples where that's happening just yet, so it's probably a little early to tell. But it does seem encouraging that we could see some acceleration of that in terms of the regulatory ease of getting some of the – particularly the non-residential construction up and running.

Brian Biros

Analyst, Thompson Research Group LLC

Q

Got it. Thank you.

Operator: Thank you. I'll now hand it back to Mark Witkowski for any further remarks.

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Thank you again for joining us today. We are pleased to achieve another record sales year for Core & Main, marking our 15th consecutive year growth. The long-term underlying trends of our end markets are strong and our products and services play a critical role in advancing reliable infrastructure.

We expect to continue outperforming our end markets even as the broader economic environment evolves. Our business is well positioned to capitalize on opportunities for growth, and we remain committed to building on our track record of delivering exceptional value to our shareholders. Thank you for your interest in Core & Main. Operator that concludes our call.

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

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