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Core & Main, Inc. (CNM)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Core & Main First Quarter 2023 Earnings Call. My name is Karla and I will be coordinating your call today. [Operator Instructions]

I will now hand you over to the management team to begin. Please go ahead.

Robyn Bradbury

Vice President-Financial Planning & Analysis & Investor Relations, Core & Main, Inc.

Thank you. Good morning, everyone. This is Robyn Bradbury, Vice President of Finance and Investor Relations for Core & Main. Core & Main is a leader in advancing reliable infrastructure with local service nationwide. We are thrilled to have you join us this morning for our first quarter earnings call. I am joined today by Steve LeClair, our Chief Executive Officer; and Mark Witkowski, our Chief Financial Officer. Steve will lead today's call with a business update followed by an overview of our recent acquisitions. Mark will then discuss our first quarter financial results and full year outlook followed by a Q&A session. We will conclude the call with Steve's closing remarks. We issued our first quarter earnings release this morning and posted a presentation to the Investor Relations section of our website.

As a reminder, our press release, presentation and the statements made during this call 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 to assess 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 Chief Executive Officer, Steve LeClair.

Stephen O. LeClair

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

Thanks, Robyn. Good morning, everyone. Thank you for joining us today. We're excited to share our results with you. Starting on page 5 of the presentation, first quarter net sales finished in line with our expectations, reflecting a return to more typical seasonality for the first quarter. Our sales grew 25% in the first quarter of fiscal 2021 and another 52% in the first quarter of last year. This makes year-over-year comparisons tough, especially when confronted with disruptive weather in some of our major markets. We had an excellent quarter from a profitability standpoint with adjusted EBITDA margin increasing 30 basis points year-over-year to a new first quarter record of 14%. Prices remained elevated against improving supply chains, and gross margins outperformed our expectations, offsetting lower sales volume and inflationary cost pressure to deliver a solid adjusted EBITDA outcome for the quarter.

Our end markets remained stable throughout the first quarter. Non-discretionary municipal repair and replacement demand continued to show resilience, backed by healthy municipal budgets and strong project backlogs. As we expected, residential volumes were down significantly compared to a strong prior year comparable. That said, we believe the long term fundamentals of the housing industry are solid and we are pleased with the level of demand we are seeing from our customers and many of the public homebuilders. Residential lot development is still in balance, representing a short supply of vacant developed lots.

On the non-residential side, onshoring trends have generated an increasing number of large projects, and our scale advantage has positioned us to capture meaningful growth from these projects in select markets. While we remain optimistic about the opportunities for growth in the non-residential market, we recognize that tightening lending standards could have a short- to medium-term impact on non-residential development, which could impact the demand for our products and services.

During the quarter, we made significant strides in executing the capital allocation framework we laid out in prior quarters. In the first quarter, we deployed over \$400 million of capital to organic growth, acquisitions and share repurchases. And we maintain ample capacity to continue investing in growth opportunities. We continue to invest in resources to support the growth of our product, customer and geographic expansion initiatives, which help drive market outperformance and long term value creation. For example, we opened two new locations in underserved markets during the first quarter to grow our footprint and make our products and expertise more accessible nationwide. Our greenfields continue to mature and offer new growth opportunities. We have the ability to efficiently open new branches in attractive markets due to our scale advantage, talent pool and training programs. We are pleased with the progress we've made across these initiatives as we enter the busiest time of our selling season.

We complement our organic growth investments with acquisitions to broaden our geographic footprint, enhance our product lines, enter adjacent markets and acquire key talent. We completed three acquisitions during the quarter and signed a definitive agreement to acquire another business subsequent to the quarter. Our M&A pipeline remains very active, and we expect to continue adding new businesses to the Core & Main family throughout 2023 and beyond.

Our record first quarter operating cash flow also contributed to the liquidity to fund a \$332 million share repurchase from a majority shareholder, which was concurrent with a 5 million share secondary offering. The share repurchase reduced our diluted share count by 15 million shares. Looking ahead, organic and inorganic growth investments remain our number one capital allocation priority, but we will look to return capital to shareholders as opportunities arise.

Turning to our recent acquisitions on page 6, we added three high performing businesses to our family, and subsequent to the quarter, signed a fourth, generating combined historical annualized net sales of over \$115 million. Landscape & Construction Supplies is a full-service provider of geosynthetics products with two locations in the Chicago metropolitan area. Since opening nearly 20 years ago, the team at LCS has built a well-regarded business and serves customers in more than 15 states. The acquisition adds key talent and expands our existing geosynthetics and erosion control product offering to our customers in the Upper Midwest.

UPSCO is a provider of utility infrastructure products and services headquartered in the Finger Lakes region of New York, with sales offices in the Northeast, Mid-Atlantic and Midwest regions of the US. Since 1965, UPSCO has earned a trusted reputation for providing its customers with best-in-class products and services to build and remediate utility infrastructure. In addition to prefabricated meter sets, they offer a broad range of products and services, including pipe, valves, fittings and fusible piping solutions to satisfy the needs of its customers. This acquisition brings us adjacent product lines and unique cross-selling opportunities to our existing customer base, thereby expanding the addressable market for our products and services. The team at UPSCO shares our commitment to providing high quality products and service for reliable utility infrastructure, and we are excited to have them join our business.

Midwest Pipe Supply is a single branch, full-service distributor of storm drainage and water products in Northern Iowa. Since 2002, the team at Midwest Pipe Supply has built a strong reputation as a dependable distributor of drainage, septic and waterworks solutions. The company offers a wide range of products and services for contractors, municipalities and agriculture customers throughout the state. This acquisition expands our product offerings and geographic reach in the Midwest, alongside a team with commitment and dedication to the communities they serve.

Foster Supply is a leading producer, installer and distributor of specialty precast concrete products, storm drains and other erosion control solutions, operating out of seven locations across Kentucky, Tennessee and West Virginia. Since 1981, the team at Foster Supply has been the partner of choice for contractors and municipalities seeking innovative solutions for unique worksite challenges. Bringing that team to Core & Main will allow us to combine our collective expertise and differentiated product and service offerings to better meet the needs of our shared waterworks and geosynthetics customers.

Lastly, I want to share that I'm extremely proud to see our vision of advancing reliable infrastructure realized through the achievement of our growth strategies. Our strategy is to leverage the scale, resources, talent and capabilities we have as one of the largest companies in our industry, all in our support of experienced and entrepreneurial local teams to consistently deliver value to our customers and suppliers. We've come a long way in building the foundation for Core & Main and executing our strategy, and we have a significant runway of growth opportunities ahead.

Now, I'll turn the call over to our Chief Financial Officer, Mark Witkowski, to discuss our financial results and fiscal 2023 outlook. Go ahead, Mark.

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Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Thanks, Steve. I'll begin on page 8 with highlights of our first quarter results. We reported net sales of nearly \$1.6 billion for the quarter, a decrease of 1.5% compared with the prior year period. The slight year-over-year sales decline was expected and follows strong comparative performance in the prior year when net sales grew 52% compared with the first quarter of fiscal 2021. We saw positive price contribution during the quarter as material costs have sustained at elevated levels, and we experienced pressure on volumes due to a return to more typical seasonality for the first quarter. We have since seen demand improve in the second half of April and into May with drier and more stable weather conditions across the country.

Gross margins of 27.9% was 160 basis points higher than the prior year period and reflects the benefit of accretive acquisitions, execution of our margin enhancement initiatives and the utilization of low cost inventory. Despite the strong start to gross margins in the first quarter, we continue to expect gross margins for the full year to be lower than fiscal 2022 but likely stronger than we anticipate at the beginning of the year.

Selling, general and administrative expenses increased 8.3% to \$223 million for the first quarter. The increase in SG&A reflects the impact of cost inflation, acquisitions and investments to support our anticipated growth. SG&A as a percentage of net sales increased 130 basis points to 14.2%. Our SG&A as a percentage of net sales is typically higher in the first quarter due to seasonality of our sales and fixed cost structure.

Interest expense was \$17 million for the first quarter compared with \$13 million in the prior year period. The increase was due to higher variable interest rates on the unhedged portion of our senior term loan.

Income tax expense for the first quarter was \$31 million compared with \$30 million in the prior year period, reflecting effective tax rates of 18.9% and 18% respectively. The increase in effective tax rate was due to an increase in income attributable to Core & Main, Inc., resulting from a decline in partnership interest held by non-controlling interest holders.

We recorded \$133 million of net income for the first quarter compared with \$137 million in the prior year period. The decrease was primarily due to lower sales volume, higher SG&A expenses and higher interest expenses partially offset by favorable gross margin performance.

Diluted earnings per share in the first quarter was in line with the prior year period at \$0.50 per share. The diluted earnings per share calculation includes the basic weighted average shares of Class A common stock plus the dilutive impact of outstanding class A common stock that would be issued upon exchange of partnership interests.

Adjusted EBITDA increased nearly 1% to \$220 million and adjusted EBITDA margin increased 30 basis points to 14%. The increase in adjusted EBITDA margin was due to our strong gross margin performance during the quarter, partially offset by the impact of cost inflation and investments to support our growth.

Turning to our cash flow and balance sheet performance on page 9, operating cash flow was a record for the first quarter at \$120 million. We continued the inventory optimization initiative we started in the middle of last year generating \$35 million of cash from inventory in the first quarter compared with a \$207 million investment in the prior year. We typically build inventory in the first and second quarter to prepare for our spring and summer selling seasons. However, we were able to reduce inventory this year while maintaining service levels with our customers due to our prudent inventory investments in the prior year. On a year-over-year basis, net inventory was down about 2% in the first quarter, even with the higher product cost, inventory acquired through acquisitions and new inventory to support our greenfields. As I mentioned last quarter, we are targeting an operating cash

conversion range of 80% to 100% of adjusted EBITDA and we expect continued improvement in cash flows as we progress throughout the year.

Net debt leverage at the end of the quarter was 1.7 times and our available liquidity stands at \$1.1 billion following the capital deployment actions we took during the quarter.

The \$332 million share repurchase we executed during the quarter was done concurrently with a public secondary offering of 5 million shares by a majority shareholder. As a result of the repurchase, we reduced our diluted share count by 15 million shares.

Our capital allocation framework remains consistent with what we laid out last quarter. Organic and inorganic growth investments remain our number one capital allocation priority, and we intend to continue returning capital to shareholders through share repurchases or dividends. We have ample capacity to invest and we remain confident in our ability to capture growth opportunities as they develop throughout the year.

I'll wrap up on page 10 with an update on our outlook for the remainder of 2023. We expect end market volumes to remain stable for the rest of the year. We expect lot development for new residential construction to be down on a year-over-year basis, but the sentiment and level of demand from our customers and public homebuilders has improved since last quarter. We continue to expect growth in non-discretionary municipal repair and replacement activity and a relatively stable non-residential end market supported by a diverse project exposure. In total, we continue to expect end market volumes to be down in the low- to mid-single digit range for the year. We expect to deliver 2 to 3 points of above-market growth from the execution of our product, customer and geographic expansion initiatives.

In terms of acquisitions, we've seen an acceleration of activity in recent months, and we look forward to adding more high quality companies to the Core & Main family in 2023. We now expect roughly 4 points of sales growth from acquisitions that have signed or closed within the last 12 months. Our acquisitions are performing well and we continue to improve our ability to integrate them into our company. We've seen price inflation continue to moderate as we [ph] lapse (00:16:36) the price increases from a year ago, and we continue to expect roughly flat price contribution for the full year. We still expect gross margins to normalize in fiscal 2023, but the impact is likely to be better than we anticipated last quarter as a result of our continued utilization of low cost inventory.

Given our recent acquisitions and strong margin performance in the first quarter, we are raising our expectations for fiscal 2023 net sales and adjusted EBITDA. We now expect net sales to be in the range of \$6.6 billion to \$6.9 billion, and we expect adjusted EBITDA to be in the range of \$820 million to \$880 million. Our expectation for operating cash conversion remains unchanged at 80% to 100% of adjusted EBITDA.

As we progress throughout the year, we will continue to focus on organic and inorganic growth opportunities, margin expansion and operating cash conversion through inventory optimization. We are well positioned to outperform the market in this complex demand environment, creating value for all our stakeholders. We look forward to helping our customers build more reliable infrastructure as we enter a key part of the construction season.

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

QUESTION AND ANSWER SECTION

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

Kathryn Ingram Thompson

Analyst, Thompson Research Group LLC

Q

Hi. Thank you for taking my questions today. Just first a bigger picture question [indiscernible] (00:18:31) quarter. When you look at several federally funded initiatives, IIJA, CHIPS Act and Inflation Reduction Act, how does Core & Main participate those? Really, in short, how do they win with those dollars [indiscernible] (00:18:48)

Stephen O. LeClair

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

A

Thanks, Kathryn. This is Steve. A couple different areas I would share with you. Certainly, the projects themselves have lot of opportunity for us, whether it's the new chip facilities that are going in, battery facilities. Lot of this onshoring activity that has been part of that in addition to the infrastructure piece itself, all benefit us. But what I would also share is that just given our size and scale, we've been able to support a lot of these major contractors that are involved with these across multiple geographies. We've been able to help assist in getting product access that in some cases may still be in short supply or being utilized in other parts of the country. So, as we've continued to work with a lot of these larger projects and these larger contracts, we continue to find ways to utilize size and scale to get our unfair share of business in those areas.

Kathryn Ingram Thompson

Analyst, Thompson Research Group LLC

Q

Okay. And maybe digging a little bit deeper to pipes, valves and fittings and fire protection, [indiscernible] (00:19:57) saw modest declines in the quarter. Pipes, valves and fittings, assume is more driven by resi, could you give more clarity on that? And then, just a little bit more color on the modest softness in the fire protection segment?

Stephen O. LeClair

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

A

Yeah, well, I'll start first with residential. So, we anticipated a challenging residential quarter here, particularly given some of the softening that we've seen with the new land development as homebuilders have been scaling back. That certainly was anticipated as we got on to – into the quarter. And certainly, from beginning to the end, we saw what I'd call a slightly change in sentiment, more positive as we exited Q1, but we were also going up against pretty difficult comps from last year. As you saw, we were up 52% last year. So, we were certainly seeing some challenges there.

As far as fire protection, some of the other areas, we did see some softness in a couple different areas across the country. Weather and seasonality were also part of the impact that we saw. It's difficult to put our finger exactly on how much was parceled out between the typical seasonality which returned last year and weather. We certainly were impacted in California and other areas with extraordinarily wet weather that impacted all the underground work. And then even in the Northern areas where seasonality returned, it was a pretty tough winter in some of those areas and pushed a lot of things into later in the spring.

Kathryn Ingram Thompson

Analyst, Thompson Research Group LLC

Okay, great. Thanks very much.

Q

Stephen O. LeClair

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

Thanks, Kathryn.

A

Operator: Our next question comes from Michael Dahl from RBC Capital Market (sic) [RBC Capital Markets] (00:21:47). Your line is now open. Please go ahead.

Mike Dahl

Analyst, RBC Capital Markets LLC

Morning. Thanks for taking my questions. Wanted to start off on capital allocation. Obviously, a lot of moving pieces in the quarter with the nice buyback, but then the comments that you made just now about the accelerating M&A activity. Can you help us understand kind of what's – what do you think is driving the acceleration in some of the deals and pipeline. That sounds like maybe progressing along better than you might have anticipated. And when you think about kind of the contribution, I think you outlined 4 points. Just to be clear, is that – that's a little higher than I would have thought based on the deals you've already closed. So, is that inclusive of any contribution from deals that you're still contemplating and expecting to close?

Q

Stephen O. LeClair

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

Well, I'll talk a little bit about what we delivered in terms of M&A in the first quarter. So, as you saw there we had close to 11 branches and \$115 million in annualized sales that came through in that quarter. Our pipeline continues to be very robust. You saw, last year, we had a number of really solid bolt-on acquisitions for waterworks. We're continuing to see those increase as well, too, with Midwest Pipe and Supply (sic) [Midwest Pipe Supply] (00:23:19). And then as you get into some of our other product categories, we get into geosynthetics and erosion control, we've been able to tie in a number of different acquisition targets in that space as well, too. So, we're seeing a lot of opportunity there. The multiples have been very favorable for us as we've gone through this, and we continue to see a very robust pipeline. And I can let Mark talk a little bit more about the capital allocation and how we've been prioritizing.

A

Mark R. Witkowski

Chief Financial Officer, Core & Main, Inc.

Yeah, Michael, thanks for the question. On the capital allocation, again, no change from what we described last quarter in terms of the priorities, organic growth, inorganic growth being our top priorities. And then I think the repurchase that we completed during the quarter really represented our commitment to the capital deployment back to shareholders. And you can expect that we'll continue along that path of capital allocation priorities that we've laid out.

A

In terms of your question on the guide, we do have 4 points of acquisitions embedded in there, which includes the addition of UPSCO, Midwest Pipe and Foster for the remaining parts of 2023. So, no contemplation of acquisitions that have not been signed in that. That's all acquisitions that have been completed at this point.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Okay. That's very helpful. Thanks. And my follow-up is also around capital allocation. So, if we look at balance sheet and the cash flow that you're guiding to for the year, it seems like you'd probably end up, all else equal, close to 1 – like in the net leverage range in the low 1s or around 1 times. So, relative to your target range, I think that gives you a full turn or more of leverage, which is technically kind of like \$850 million of available dry powder this year based on your EBITDA guide. So, is that – in terms of kind of order of magnitude on what you think you can deploy this year between M&A and potentially incremental buybacks, is that the right way to think about it or would you be thinking about kind of a more gradual layering in of deployment?

Stephen O. LeClair

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

A

Yeah, Michael, I think that's the right way to think about it. Over a period of time, the timing of it, we'll continue to assess the timing of cash flows this year where that leverage level shakes out and liquidity as we think about deploying that capital, but that's how we feel. The 2 to 3 times leverage is a comfortable level for us. And yeah, that provides for a decent amount of capital that we'll look to deploy, again, through our organic and inorganic initiatives and potentially additional share repurchases and/or dividends.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

That's great. Okay. Thank you.

Stephen O. LeClair

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

A

Yeah. Thanks.

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

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone. So, I was wondering...

Stephen O. LeClair

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

A

Hey, good morning.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

...if you can maybe start by – yeah, good morning. I was wondering if you can maybe start by giving us just a little bit more color on your organic growth this quarter. So specifically, like any kind of like order of magnitude on the different end markets and how they contributed to the quarter from a volume standpoint. And also curious – I know that pricing is expected to be flat for the year, but curious how pricing started out in the first quarter?

Stephen O. LeClair

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

A

Yeah. Thanks, Joe. Yes, in terms of the sales breakdown for the quarter, I'd say from a price standpoint, we were in the, I'd say single digit range for the quarter. Definitely much less of an impact than what we saw in the prior years as we've seen some of that pricing stabilize. And then, from a volume perspective, kind of low double digit range there with the bigger impacts, obviously, in the residential end market given the softness there and the really tough comps in particular in the residential market in the prior year. And I'd say from a volume perspective, down to a lesser extent in non-resi and muni. That was primarily due to the return, the typical seasonality that we talked about and some of the weather impact. So, wouldn't necessarily call that market necessarily, but were the drivers of the softer volume in the quarter.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's super helpful. And I guess maybe just my follow-on question to that is clearly like we've been waiting now for a while for some of this infrastructure spending to come through. We got through the debt ceiling. I'm just curious like on the muni side specifically what are you seeing? What are you hearing from your customers? I know that, clearly, you mentioned that things seem to have gotten a little bit better in the second half of April and into early May. Was that predominantly muni driven? Just any color around that would be helpful?

Stephen O. LeClair

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

A

Sure. I think municipal piece has been incredibly resilient as we've gone through this period. Municipal budgets have been strong, the projects have been flowing. We certainly had some seasonality and some weather that hampered a few things in the first quarter but continued to be really encouraged by what we're seeing in bid activity with municipal piece. From the IIJA perspective, we're seeing a trickle of funds starting to make its way into projects. We've seen some in Florida, another one in Arizona that's been allocated. So, still slower than what we would anticipate, but we also know that it is starting to make its way through, and certainly, starting to seeing some of those positive ramifications and green shoots coming through.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

That's great to hear Steve. If I could maybe just ask one more. I was just looking at our your adjusted EBITDA margin guide for the year, the 12.4% to 12.8%. Clearly, you're off to a much better start in 1Q at 14%. So, like, how do we think about the rest of the year because it seems like this number looks, at least from our – at a high level looks very conservative. What are kind of some of the offsets as you progress through the next three quarters?

Stephen O. LeClair

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

A

Yeah, I think as you look at the guide in terms of what was embedded, for us, obviously, we had the surprise of the additional gross margin from some of the release of some low cost inventory in the quarter. As we talked about at year-end, we do expect normalization at some point at the gross margin level. As we progress throughout the year, I'd say we still have some low cost inventory to release even though we did some progress on that in the quarter. But I think a little too early yet for us to revise the gross margin normalization that we're expecting, which was in the 100 to 150 basis point range. But I'd say that's the primary driver of that EBITDA margin reset that we've talked about.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Understood. Thank you.

Q

Operator: Our next question comes from Anthony Pettinari from Citigroup. Your line is now open. Please go ahead.

Asher Sohnen

Analyst, Citigroup Global Markets, Inc.

Hi, this is Asher Sohnen on for Anthony. Thanks for taking my question. I mean just looking at – following up on the last one, the increase to your EBITDA guide, [indiscernible] (00:31:31) part by more low cost inventory than expected. So, is that just a function of you moving through inventory maybe slower than expected with volume pressure or maybe pricing has been strong enough to make more of your inventory sit into sort of the low cost basis bucket or maybe you even able to continue doing some pre-buys. So, what's driving that?

Q

Stephen O. LeClair

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

Yeah, Asher, good question. And I think the answer to that's really all the items that you mentioned there. I mean, we – did take us longer to get inventory through the system in Q1 just given some of the softness in volume. So, we are hanging on to some of that longer than anticipated. It's also given us an opportunity to invest in other product categories that we've continued to see some price come through. So those have been some of the factors. And then, I'd say, beyond that, we are continuing to make progress against our gross margin initiatives, in particular private label and some of the other pricing initiatives that we've got. So, I think what you'll see is the longer it takes us to kind of release some of that inventory, we have more of an opportunity to offset some of that reset that we have. But again I just think a little too early for us to adjust the normalization that we've been expecting in that gross margin level.

A

Asher Sohnen

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you. That's helpful. And then, just sort of switching gears, in your prepared remarks I think you talked about sort of the risk presented to in kind of the commercial, private non-res segment from credit tightening. But I'm just wondering, even anecdotally, have you actually seen the impact kind of come through on that? Are you seeing maybe projects get delayed or still [indiscernible] (00:33:13)

Q

Stephen O. LeClair

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

As of the end of the first quarter, really haven't seen much impact at all from the credit challenges that – or perceived credit challenges that have been out there and if you look at the projects that we have, we have a really diverse mix of project types in non-residential, everything from commercial and institution buildings, data centers, warehouses and we talked a little bit about these large projects and the onshoring trends that have happened. All of those have been favorable for us, and we've continued to see volume and bid activity there, in addition to just the \$110 billion of federal infrastructure funding that's been earmarked for roads and bridges. We view that as a tailwind, particularly as we look at projects that contain storm drainage and erosion control products. So, we're watching closely to make sure we understand a little bit what's happening here in terms of the lending aspect of this, but so far we've not seen it.

A

Asher Sohnen

Analyst, Citigroup Global Markets, Inc.

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

Q

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

David Ridley-Lane

Analyst, BofA Securities, Inc.

Good morning. This is David Ridley-Lane on for Andrew. Can you maybe help bridge the change in the adjusted EBITDA guidance for this fiscal year? How much of it was the first quarter outperformance versus additional acquisitions versus the gross margin here being better than you had feared?

Q

Stephen O. LeClair

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

Yeah, David, thanks for the question. As you look at the adjustment to the guidance for the full year, I'd say we took it up at the midpoint. It was about \$25 million. Half of that was primarily the better than expected gross margins that we had in the quarter. The remainder of it would be EBITDA related to acquisitions that we added that were not included in the prior guide.

A

David Ridley-Lane

Analyst, BofA Securities, Inc.

Thank you for that. And then how much of the – because I know you have a couple of different initiatives internally to improve gross margin and so I'm just sort of wondering what was the kind of underlying progress versus kind of another benefit from just the sell-through of the lower cost inventory?

Q

Stephen O. LeClair

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

Yeah, David, if you're looking at it year-over-year, I'd say the – from a gross margin standpoint still a lot of release of inventory in there, but good chunk of benefit coming through from private label and some of the other gross margin initiatives, in particular, some of the pricing initiatives that we put in place. I'd say if you look at it sequentially from Q4 to Q1, still had some nice improvement over our Q4 number. And I'd say most of that was the release of low cost inventory. Hard to make a lot of progress on some of those initiatives in just a quarter, but still had some nice releases of that low cost inventory. So those are, I'd say, the primary components of that.

A

David Ridley-Lane

Analyst, BofA Securities, Inc.

Thank you very much.

Q

Stephen O. LeClair

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

Right. Thank you.

A

Operator: We have no further questions. I will now hand back to your host for any further remarks. Please go ahead.

Stephen O. LeClair

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

Thank you all, again, for joining us today. It was a pleasure to have you on the call. Our consistently strong performance quarter after quarter is a direct result of the hard work of our field and functional support teams, our focus on operational discipline and the diversity of our products and end markets. We are well positioned to build on our positive momentum, and we have a strong outlook for fiscal 2023. Our platform provides for significant value creation opportunity as our growth strategy is grounded in agility, innovation and execution. We have a tremendous amount of opportunity ahead of us and we are well positioned to execute on those opportunities.

Thank you for your interest in Core & Main. Operator, that concludes our call.

Operator: Thank you. This concludes today's call. Thank you for joining. You may now disconnect your lines. Have a great day.

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