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# Core & Main, Inc. (CNM)

Q2 2025 Earnings Call

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

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to the Core & Main Q2 2025 Earnings Call. My name is Alex. I'll be coordinating today's call. [Operator Instructions]

I'll now hand over to Glenn Floyd, Director of Investor Relations. Please go ahead.

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**Glenn Floyd**

*Director-Investor Relations & Treasury, Core & Main, Inc.*

Good morning and thank you for joining us. I'm Glenn Floyd, Director of Investor Relations at Core & Main. We appreciate you taking the time to be with us today for our fiscal 2025 second-quarter earnings call. Joining me this morning are Mark Witkowski, our Chief Executive Officer; and Robyn Bradbury, our Chief Financial Officer. On today's call, Mark will begin by sharing an overview of our business and recent performance. Robyn will follow with a review of our second-quarter results and our outlook for the rest of fiscal 2025. We'll then open the line for Q&A, and Mark will wrap up with closing remarks.

As a reminder, our press release, presentation materials, and the statements made during today's call may include forward-looking statements. These are subject to various risks and uncertainties that could cause actual results to differ materially from our expectations. For more information, please refer to the cautionary statements included in our earnings press release and in our filings with the SEC.

We will also reference certain non-GAAP financial measures during today's discussion. We believe these metrics provide useful insight into the underlying performance of our business. Reconciliation to the most comparable GAAP measure are available in both our earnings press release and the appendix of today's investor presentation.

Thank you again for your interest in Core & Main. I'll now turn the call over to our Chief Executive Officer, Mark Witkowski.

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## Mark R. Witkowski

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

Thanks, Glenn, and good morning, everyone. We appreciate you joining us today. If you're following along with our second-quarter earnings presentation, I'll begin on page 5 with a business update.

I'm proud of our associates' dedication to supporting customers and delivering critical infrastructure projects. Our teams drove nearly 7% net sales growth in the quarter, including roughly 5% organic growth. Municipal demand remained healthy, supported by traditional repair-and-replacement activity, advanced metering infrastructure conversion projects, and the construction of new water and wastewater treatment facilities.

Our non-residential end market was stable in the quarter. Highway and street projects remained strong. Institutional construction has been steady, and we're seeing continued momentum from data centers. While data centers represent a small portion of our sales mix today, customer sentiment points to continued growth in the space, and we expect it to become a larger portion of our sales mix over time.

On the residential side, flat development for single-family housing, which accounts for roughly 20% of our sales, slowed during the quarter, especially in previously fast-growing Sunbelt markets. We believe higher interest rates, affordability concerns, and lower consumer confidence are weighing on demand for new homes. And until these macro headwinds ease, we expect activity in this end market will continue to soften through the second half. As a result, we are factoring in a lower residential outlook into our full-year expectations, which Robyn will speak to in more detail.

Against this market backdrop, we drove significant sales growth and market share gains across key initiatives, including treatment plant and fusible high-density polyethylene projects where our technical expertise and consistent execution continue to differentiate Core & Main in the industry. We're also deepening relationships with large regional and national contractors, especially those pursuing critical infrastructure projects across the country. These customers increasingly value our ability to support them with consistent service, scale, and product availability wherever their projects take them.

Sales of meter products declined year-over-year, primarily due to project delays in the current year and a difficult comparison to last year's 48% growth rate. However, we have a growing backlog of metering projects we expect to release in the second half of the year, supporting our expectation for strong full-year metering sales growth. Additionally, a healthy pipeline of bids and continued project awards gives us confidence in both the near- and long-term outlook for metering upgrade projects.

Gross margins performed well in the quarter at 26.8%, up 10 basis points sequentially from Q1 and up 40 basis points year-over-year. Our gross margins reflect strong execution of our private label and sourcing initiatives while our local teams continue to capture market share. At the end of the day, our performance is largely driven by how well we support our customers, making sure they have the right products at the right time with the service they need to keep projects on schedule and on budget.

At the same time, our operating costs were elevated this quarter. We've experienced unusually high employee benefit costs and inflation and other categories like facilities, fleet, and other distribution-related expenses. We have also carried higher costs from recent acquisitions, which have contributed to sales growth but have not yet reached their full synergy potential. Although we anticipated some of these pressures, certain costs were more pronounced than expected.

To address these factors, we have implemented targeted cost-out actions to improve productivity and operating margins. We expect a portion of the savings to be realized in the second half of this year with a larger annualized benefit in 2026. We expect to achieve additional synergies tied to recent acquisitions. Our integration approach is phased and growth-oriented, starting with people, sales, and operations to position each business for success. Once that foundation is in place, we evaluate opportunities in terms of costs and resources and develop plans to drive SG&A synergies.

Our approach to cost management will be measured and focused on realigning the business with the demand environment without jeopardizing future performance, growth opportunities, or the ability to serve our customers. We remain confident in the long-term growth and profitability prospects of Core & Main, including our ability to drive SG&A improvements and generate substantial value for shareholders.

We continue to be balanced in how we allocate capital. During the quarter, we generated \$34 million of operating cash flow and deployed approximately \$24 million across organic growth initiatives, share repurchases, and debt service. Year-to-date, we have repurchased \$47 million of shares, reducing our share count by nearly 1 million.

Our growth strategy is driven by organic growth and complementary acquisitions. After the quarter, we announced the acquisition of Canada Waterworks, a three-branch distributor of pipe valves, fittings, and storm drainage products in Ontario, Canada. We expect the transaction to close later this month, further enhancing our position in the multibillion-dollar Canadian addressable market. With this acquisition, we now have five locations in Ontario, all established through value-enhancing M&A. This has created a platform for meaningful growth in Canada.

On the organic side, we're making prudent investments to enhance our capabilities and better serve customers. We recently opened new locations in Kansas City and Wisconsin, strengthening our presence in priority markets. We are also evaluating additional high-growth markets for future expansion. These investments are designed to generate long-term growth, strengthen our market share, and support our goal of delivering above-market growth over the coming years. We have plans to open several more locations this year, and I look forward to sharing updates on these initiatives.

Before turning the call over to Robyn, I want to reiterate my confidence in Core & Main's growth and margin expansion opportunity. We are well-positioned to benefit from future investments in aging US water infrastructure, we have the right team in place to execute on the opportunities ahead, and we look forward to delivering even greater value to our customers, suppliers, communities, and shareholders.

Thank you for your continued support and trust in our vision. With that, I'll turn the call over to Robyn to walk through our financial results and outlook for the remainder of the year. Go ahead, Robyn.

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## Robyn Bradbury

*Chief Financial Officer, Core & Main, Inc.*

Thanks, Mark. I'll start on page 7 of the presentation with some highlights from our second-quarter results.

As Mark mentioned, we grew net sales nearly 7% in the quarter to \$2.1 billion. Organic sales were up roughly 5% with the balance of growth coming from acquisitions. Prices continued to be flat overall, and our teams worked diligently to sustain pricing in an evolving tariff and end-market environment. In total, we estimate that our end markets grew in the low single-digits range. We outperformed the market with significant sales growth and market share gains in our treatment plant and fusible high-density polyethylene initiative.

Gross margin came in at 26.8%, up 10 basis points from the first quarter and up 40 basis points year-over-year. The sequential and year-over-year improvement were both largely driven by continued execution of our private label and sourcing initiatives and contribution from accretive acquisitions.

SG&A expenses increased 13% this quarter to \$302 million. Roughly half of the \$34 million increase was related to incremental costs from acquisitions and timing of onetime and other nonrecurring costs. The remainder was made up of volume-related growth, inflation- and distribution-related costs, and investments to drive future growth and market share gains.

We implemented certain productivity and cost-out measures earlier this year, but with higher costs and inflation continuing to pressure our operating margins and our expectation of softer residential demand, we will be taking additional targeted cost-reduction actions in areas that won't impact our ability to serve customers. Importantly, we will continue to make strategic investments to strengthen the business. We're seeing strong results from our sales initiatives, and we have opportunities to accelerate that with additional investment. We intend to keep expanding through greenfield locations to better serve customers and capture share while also investing in technology solutions that improve efficiency and support long-term margin expansion.

Interest expense was \$31 million in the second quarter, down from \$36 million in the prior year. The decrease was primarily driven by lower fixed and variable interest rates on our senior term loan credit facilities and lower average borrowings under our ABL credit facility. Our provision for income tax was \$41 million compared to \$42 million in the prior year. Our effective tax rate was 22.5% for the quarter versus 25% a year ago. The decrease in effective tax rate was primarily due to tax benefits associated with equity-based compensation.

Adjusted diluted earnings per share increased approximately 13% to \$0.87 compared to \$0.77 in the prior year. The increase reflects higher adjusted net income as well as the benefit of a lower share count following our share repurchase activity across fiscal years 2024 and 2025. We exclude intangible amortization because a significant portion of it relates to the formation of Core & Main following our leveraged buyout in 2017. We believe adjusted diluted EPS better reflects the results of our operating strategy and the value creation we're delivering for shareholders.

Adjusted EBITDA increased 4% to \$266 million in the quarter while adjusted EBITDA margin declined 40 basis points to 12.7%. The decline in adjusted EBITDA margin was driven by higher SG&A as a percentage of net sales, which we are taking actions to optimize.

Turning to the balance sheet and cash flow. We ended the quarter with net debt of \$2.3 billion and net debt leverage of 2.4 times within our stated goals. Total liquidity was \$1.1 billion, consisting primarily of availability under our ABL credit facility. Net cash provided by operating activities was \$34 million in the quarter, down from \$48 million in the prior year. The decline was primarily due to higher investment in working capital, partially offset by higher net income, lower tax payments and timing of interest payments.

During the second quarter, we returned \$8 million to shareholders through share repurchases, bringing our total for the first half of fiscal 2025 to \$47 million and reducing our share count by nearly 1 million shares. As of today, we have \$277 million remaining under our share repurchase program.

Next, I'll cover our revised outlook for fiscal 2025 on page 9. We are very pleased with our sales growth, gross margin expansion, and capital allocation efforts through the first half of the year. However, higher operating costs and softer residential demand have resulted in operating margins coming in below our expectations. As a result, we are lowering our guidance to reflect current market conditions and higher operating expenses. We now expect net sales of \$7.6 billion to \$7.7 billion, adjusted EBITDA of \$920 million to \$940 million, and operating cash flow of \$550 million to \$610 million.

We expect end-market volumes to be slightly down for the full year. Municipal end-market volumes are expected to grow in the low single digits, non-residential volumes are expected to be roughly flat, and residential lot development is expected to decline in the low double digits. Residential volumes were soft in the quarter and have weakened further through August, consistent with our updated guidance.

We still expect pricing to have a neutral impact on full-year sales, and we remain on track to deliver 2 to 4 percentage points of above-market growth. We expect adjusted EBITDA margins in the second half of the year to be slightly lower than the first half, reflecting continued gross margin performance offset by a softer residential market and a higher SG&A rate.

In summary, we continue to execute our growth initiatives, expand gross margins, and make the strategic investments needed to position the business for long-term success. We have favorable long-term demand characteristics across each of our end markets, many levers to drive organic above-market performance, a healthy M&A pipeline, and numerous opportunities to improve operating margins. We are taking targeted actions to align the business with current demand trends and deploying capital to accelerate growth and enhance shareholder returns. We are confident in our ability to execute on the opportunities ahead, and we look forward to delivering even greater value to our customers, suppliers, communities, and shareholders.

With that, we'll open it up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question for today 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, and thank you for taking my questions today. On the guidance changes, I guess the adjustment to the resi outlook from flat to down low double digits looks to account for maybe a little bit more than the adjustment to total sales overall. So, it seems like maybe there's something at least positive partially offsetting that resi impact. Maybe that's slightly better municipal market. Maybe it's just recent M&A being added in. Can you just touch a little bit more on the puts and takes to the revenue guidance there? Because it seems like there's more than just the resi impact to the top line.

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Yeah. Thanks, Brian, for the question. You're right. Resi is the kind of the main driver for the reduction in the sales guide. We were expecting that to be flat kind of earlier in the year. It has declined kind of during the quarter, continued to soften after the quarter, and we're expecting that to be in the low double-digit range now. That's the majority of the decline there. And then we do have some other areas of bright spots on the top line that are offsetting some of that. So, some of our sales initiatives continue to perform really well, like things like treatment plants. Some of our fusible high-density polyethylene product lines are performing well. The municipal market remains strong with ample funding, and we're seeing a lot of demand there, too. So, those are kind of the puts and takes on the top line with the revised guidance.

**Brian Biros**

*Analyst, Thompson Research Group LLC*

Q

Understood. And then second question for me. I guess just the water category overall is kind of getting a lot of attention now. [ph] It's going to be (00:18:00) a green initiative angle; now seemingly a crucial part of the AI infrastructure build-out and kind of just the general reindustrialization trend. You highlighted in some of your prepared remarks and I think in the press release things about your technical expertise, your consistent execution, really the share gains, focusing on the larger contractors. So, I guess just bigger picture here kind of going forward, where do you see, I guess, the biggest opportunities for growth with the way the water market is evolving? Thank you.

**Mark R. Witkowski**

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

A

Yeah. Thanks, Brian. Great question. And I would tell you, we're obviously very favorable and overall water market, and we've really seen more and more demands for waters. You've seen these data centers going up in certain areas that need energy and water to satisfy those types of projects. So, we're seeing the demands with projects like that. I think the value of water has improved. You're seeing rates passed at the local level more and more so that the municipalities are very healthy right now, and that's giving them more opportunities to get projects designed and, ultimately, improve the aging infrastructure, which is really the key piece that's really behind the multiyear tailwinds that we have in that municipal market.

But then when you throw on top of that some of the demands now for water, which are even more with some of these projects that are going on, obviously sets us up really well. And that's a big part of why we continue to invest in this business, invest in resources, invest in facilities. Those tailwinds are there. We're capturing a lot of those, as you're seeing in the municipal results. We're obviously facing some temporary headwinds here with the residential market being softer. We're on the front end of a lot of this with flat development. Our results obviously go into the July period. So, I think we're facing some of this a little earlier than some are seeing it on the residential side. But that municipal strength and then that strength that we're seeing with some of these projects in the non residential space like data centers is definitely helping offset some of that weakness.

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**Brian Biros**

*Analyst, Thompson Research Group LLC*

Yeah. Thank you. I'll pass along.

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

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**Matthew Bouley**

*Analyst, Barclays Capital, Inc.*

Hey, good morning, guys. Thank you for taking the questions. So, just a question on, I guess, the makeup of the guide. So, at the midpoint, I guess revenue cut by \$50 million and EBITDA cut by \$45 million. So, I guess I hear you on the higher operating expenses, but then you're also taking these targeted cost actions as well. So, is it more just simply takes a lot of time to get these cost actions into place? And you mentioned more of a 2026 impact, I believe. Or is the kind of maybe changed mix of business with residential a lot weaker, impacting the margin as well? I guess just what else would explain that kind of larger decremental EBITDA margin? Thank you.

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**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

Yeah. Thanks, Matt. Yeah, we are taking costs out. We have already taken some costs out. We started taking some out in the first quarter. We continue to do so in the second quarter. There is some kind of stubborn inflation and other higher cost areas that are continuing to offset some of that. So, we will continue to do additional cost-out actions. We will see some of that in the second half. But the larger majority of that will be seen into FY 2026.

Some of the cost-out actions that we made earlier in the year were in our fire protection product line that was experiencing some softness, given some – the market pressures on non-residential at that time and also the steel pricing pressures that we were seeing in the fire protection that has since rebounded. So, we took some costs out earlier in the year. It was very targeted to certain areas that we knew wouldn't disrupt the business. And now we're seeing that recovery, and we're well positioned for that.

So, we'll continue to do additional cost-out targeted actions that won't impact our ability to service our customers or service growth. We'll continue to make investments in growth. And Mark and I have been around the business for a long time, so we kind of know where those cost actions can come out and where we need to make investments.

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**Matthew Bouley**

*Analyst, Barclays Capital, Inc.*

Okay. Got it. Thank you for that, Robyn. And then secondly, just on residential specifically, obviously a fairly substantial change, the outlook over the past relative to 90 days ago. So, I guess what I'm trying to get at is sort

of, A, your visibility into that end market, and, B, maybe how did residential look during both Q1 and Q2? You're talking about kind of low double digits. I'm wondering if the expectation is that it would weaken a lot further in the second half. And so, yeah, just any color on that kind of cadence of residential and then just more specifically, what you're hearing from customers in that group. Thank you.

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**Mark R. Witkowski**

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

A

Yeah. Thanks, Matt. On the residential side, as we kind of worked our way into 2025, really felt like that that market was going to be flat overall as we got into the first quarter, and we actually saw some pretty, I'd say, decent residential performance in Q1. Obviously, wasn't great. But we at least saw some projects going earlier in the year and obviously had a really good first quarter. And some of that was just, I'd say, better performance there than we expected. If you go back to Q1, we were well over our consensus and expectations on the top line.

And really what we saw as we got into Q2, really saw residential weaken really throughout the quarter. We definitely started to hear some of those signs at the end of the first quarter, but it was more of like scaling back some projects and, frankly, just continued to weaken as we got throughout Q2 and definitely into August, as Robyn had mentioned. So, that residential really kind of whipsawed from Q1 into Q2.

We do think low double digit is the right way to look at it. From here through the end of 2025, obviously, we're expecting some kind of rate cut here in September. I think that's starting to be reflected a little bit on the mortgage rate side, but we're definitely not seeing the investments in the infrastructure from the builders. That's kind of been a mixed bag. Some are investing in land; some aren't. Definitely, we're not seeing the level of lot development going into those at this point.

So, the results that we're seeing, I think, are kind of reflective of what obviously we're hearing from the customers. And the scaling down is definitely what we felt in Q2. So, we'll work through that. Obviously, we think there's continued significant pent-up demand that that's just creating. At some point, that's going to release, and we want to be well positioned to capture that when it does.

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**Matthew Bouley**

*Analyst, Barclays Capital, Inc.*

Q

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

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**Mark R. Witkowski**

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

A

Yes.

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

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**David John Manthey**

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

Q

Thank you. You might have just answered this in relation to one of Matt's questions there, but what was the residential market in the first half in terms of growth rate? And then your down low-double-digit outlook, what does that imply for the back half?

**Mark R. Witkowski**

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

A

Yeah. Thanks, Dave. I'd say for the first half of the year, it was kind of down low – or down mid-single digit to high single digit. And in the second half, obviously, we think that's overall going to be low double digit; slightly worse, just to get to the low double digit over the full year.

**David John Manthey**

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

Q

Got it. Okay. Thank you for that. And then maybe back on the SG&A side, I think last quarter you said that your organic revenues were up mid-single digits, and organic same-store SG&A was up 4% year-over-year. Could you provide those organic figures for this quarter as well so we can compare that?

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Yeah, Dave, when you think about how M&A impacted us in the quarter, it contributed about 2 points of growth to the top line. And then if you think about our growth in SG&A for total company, it contributed about 3 points of that overall growth.

**David John Manthey**

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

Q

Okay. And then also last quarter, thinking about operating expenses, I believe you sort of implied you were expecting to see improving SG&A as a percentage of sales each quarter as we move through the year, which, on the old forecast, I think, sort of implied lower dollars each quarter. But assuming no major M&A from here, do you think that the second quarter would be the high watermark for SG&A dollars this year as you implement these cost-out actions, and normal seasonality impacts those numbers?

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Yeah, Dave, we do. We've got, as we talked about, M&A and the record year we had and M&A that we did in the prior year. We've got a lot of opportunities there on the synergies. Those are things that we're working through. So, we expect to continue to work through those and get some of those synergies recognized in the back half of the year and into FY 2026. There were some onetime items in the second quarter that we don't expect to continue. So, that's contributing to a little bit higher SG&A kind of rate and dollars in the quarter. And so, with those things combined, we do expect to start seeing some progress on SG&A, and we do have some seasonality in there. But when you look at the SG&A rate year-over-year each quarter, we do expect that to kind of improve sequentially as we go throughout the rest of this year.

**David John Manthey**

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

Q

Yeah, okay. And if I could sneak one more in here as we're talking about all the seasonality and 2025 being an unusual year in terms of lack of acquisitions versus all the deals you've done historically. When you think about normal seasonality ex-acquisitions, sort of the organic progression, how do you think about that? Do you think about it in terms of percentage of total full-year sales per quarter? Do you think of sort of quarter-to-quarter growth rate? How do you think about the seasonality? And if you can just give us an idea of what we should expect this year because of the fact that you have very few or no acquisitions other than this Canada deal you just announced.

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Yeah, Dave, I'll give you some color around that. So, the – I would think about the second and the third quarter are typically similar size-wise. And then we typically see about a 15% to 20% decline in the top line from the third quarter to the fourth quarter. You can see a little bit of uplift in the first quarter from the fourth quarter, but those are typically pretty well in line. So, it is a pretty kind of standard bell curve of the second and third quarter being the highest with it being a 15% to 20% decline from there, ex any M&A activity.

**David John Manthey**

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

Q

Got it. Thank you very much.

**Operator:** Thank you. Our next question comes from Sam Reid of Wells Fargo. Your line is now open. Please go ahead.

**Sam Reid**

*Analyst, Wells Fargo Securities LLC*

Q

Awesome. Thanks so much. Wanted to touch on your updated guide, perhaps, from a slightly different perspective. Just on the second-half EBITDA margin, so it sounds like you're still expecting favorable year-over-year gross margin, if I heard correctly, Robyn. But can you talk about what that looks like sequentially on the gross margin line relative to Q2? So, just basically the guide path for gross margin as we look into Q3 and Q4.

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Yeah. Yeah, we're expecting it to be stable, which would imply up in the 20-basis-points range for the second quarter for gross margins. But our gross margin initiatives are performing very well. Private label has been performing well. Sourcing has been performing very well. We expect to continue to make improvements on gross margins. But I would say, as we think about the back half of the year, we're thinking about it as stable to the second quarter. We've made a lot of progress in gross margins kind of already in the first half of the year and expect to see those trends continue and be stable in the second quarter or second half.

**Sam Reid**

*Analyst, Wells Fargo Securities LLC*

Q

That helps. And then as a follow-up, so one, could you just give us a rough sense as to the size of private label today, perhaps how much you were able to grow that in the second quarter relative to the first quarter? And then just a follow-up on the SG&A optimization initiative. Could you just offer up some perspective on sizing those just so we have a rough sense as to where you're going to exit the year into 2026? Thanks.

**Mark R. Witkowski**

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

A

Yeah. On the private label piece, as Robyn mentioned, we made some really good progress there. Continued to drive that through the business. Right now, it's about 4% of our revenue, but I'd say steadily growing and expect that to be even more as we exit 2025. So, very pleased with the new products we've introduced. The pull-through to the branch network has been strong. And if we get a little help from the volume in the second half, we'll get it – we'll make even more progress on pulling some more private label through. And I'll let Robyn cover the SG&A question.

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

I think, Sam, your question was on the sourcing side, right? We've made a lot of progress there, too.

**Sam Reid**

*Analyst, Wells Fargo Securities LLC*

Q

No, it was on the sizing of SG&A initiatives.

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Oh, okay. Sorry about that. Yeah, let me give you a little bit of color on that, on the cost-out actions. So, acquisition synergies is a big part of that and a big area that we have begun taking costs out there, and we've got a lot of opportunity. We've talked about that. Taking quite a bit of time to get through as we integrate these businesses. We've got a lot of controllable spend reductions that we've been working on with things like travel and overtime. One thing that we've done a really good job on as a business is managing head count and any of those controllable expenses. So, the sizing of it is really inflation-related. Some of our incentive comp increases are a little bit larger given the improvement on gross margin. And so, those are some of the big areas that we're looking at. And as you look at the back half of the year, the SG&A rate is a little bit higher than the first half just given some of these inflationary and trends that we're seeing there.

**Sam Reid**

*Analyst, Wells Fargo Securities LLC*

Q

That helps. Thanks so much. I'll pass it on.

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

**Michael Dahl**

*Analyst, RBC Capital Markets*

Q

Good morning. Thanks for taking my questions. Sorry to keep harping on the SG&A, but in terms of the actual variance versus your expectations, you've noted some things were even more pronounced. Can you just be more specific on what came in worse than expected? And then back to the question of kind of segment out actions, when you think about all those different actions, do you have a good way of giving us kind of roughly how much is head count-related versus kind of fleet and infrastructure-related in terms of the cost-outs?

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

A

Yeah. Thanks, Mike. Let me break down a little bit for you the kind of the contribution in the quarter. So, if you think about the 13% increase in SG&A over the year, what we talked about was about half of that was M&A-related kind of onetime nonrecurring items. So, if you think about that 13% growth, about 3 points of that was M&A. And that's an area, like I said, we've got synergy opportunities there. About 1 point of that growth was related to some onetime items, some changes that we're making to improve performance over time. Those are things like retention and severance and relocations. And then we had about 2 points of, I would call it, a surge in the quarter related to just some higher medical claims, insurance costs, things like that that are a little bit unusual and had some timing impacts in the quarter. So, that's kind of the first half.

The second half of the SG&A increase year-over-year was a lot of items related to increased volume, inflation, and investments that we're making into the business. So, I mentioned incentive compensation. That's up more than our sales, just given our gross margin enhancement and the nature of those compensation plans. That's worth about 1 point. We've seen a lot of inflation on our facilities and fleet. That's worth about 1 point. On the medical side and some of those insurance claims, we've seen a lot inflation in that area. We've seen some higher cost claims. That's worth about 2 points. And then we've got a little bit of a difference in the way that the equity-based compensation is showing up. We've just got a new run rate there with three years of vesting. So, that's worth about 1 point.

And then, like Mark and I said, we're going to continue to make investments in growth. So, we feel good about the long-term dynamics of this business. We're continuing to make investments in greenfields, investments in growth initiatives, investments in technology. And that's worth about a couple points as well. So, that kind of gives you the breakdown for that 13% growth that we saw in the quarter versus what we consider M&A and onetime versus kind of more structural related to volume and inflation. Some of those inflation items were a lot higher than we were expecting. And so, that's what we need to work to offset. So, we've got several million dollars of cost-out actions that have been executed in the first half of the year.

I would say we've got a meaningful amount of actions that are in process that we're working through. And to-date, we've already managed head count very well. It's not up much on a year-over-year basis. It's kind of more in that flatter range, and we'll take a look at that. But we're looking at areas where we can maybe not backfill, where we can have some selective hiring, where we have underperforming areas, where we can take some costs out there. But we've got a – we feel like we've got a lot of levers to pull here on the SG&A side. We're going to get it under control and offset some of this inflation. But we're also going to continue to make some of those investments for growth because of the long-term market dynamics.

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**Michael Dahl**

*Analyst, RBC Capital Markets*

Q

Okay. Got it. Thank you for that. My second question just on the pricing, I think you said it was neutral. Can you just give us a better sense of kind of how the commodity side trended through the quarter into 3Q? And as you think about kind of neutral and better for the year, just more – elaborate a little more on what you're seeing on finished goods versus commodity right now.

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**Mark R. Witkowski**

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

A

Yeah, Mike, I'll take that one. On the pricing side, kind of played out exactly the way we thought it would; neutral. For the quarter, we did see some increases come through related to some of the – I call them the non-pipe-related products, some of which are imported by our suppliers. There's a little bit of tariff probably increase there into some of those prices that some of the suppliers passed along to start the year, which ultimately offsets some of the moderating of the larger-diameter water PVC pipe that we have. We saw some moderation of that pricing through the first half of the year. That'll be likely a little bit of a headwind into the second half. But these other product categories that have seen increases effectively offset that and expect that to continue to be stable like we've talked about for a while.

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**Michael Dahl**

*Analyst, RBC Capital Markets*

Q

Okay. Thanks, Mark.

**Mark R. Witkowski**

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

Yes.

A

**Operator:** Thank you. Our next question comes from Collin Verron of Deutsche Bank. Your line is now open. Please go ahead.

**Collin Verron**

*Analyst, Deutsche Bank Securities, Inc.*

Good morning, guys. Thank you for taking my questions. My first, I just wanted to touch on the meter sales. It was a bit surprising just given the magnitude. You called out some project delays. I guess how much of the decline do you think was due to project delays, and what are your expectations for meter sales through the rest of the year? And sort of how you're thinking about long-term growth in that category still?

Q

**Mark R. Witkowski**

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

Yeah, sure. Thanks for the question. I would tell you, on the meter side, the primary driver of the somewhat small decline in the quarter was the substantial growth we saw last year. We were up 48% in a quarter on meter sales. So, that just gives you the magnitude of the initiative that we're driving there, and that performance last year was really, really strong. We did have some meter delays in the quarter, but really I think the way to think about that is really just created a nice backlog for us that we expect to ship out in the back half of the year.

A

**Collin Verron**

*Analyst, Deutsche Bank Securities, Inc.*

Awesome color. And you guys also talked about some greenfield opportunities here. I guess how should we think about the decision between greenfield and M&A and sort of the expenses associated with opening new branches and how quickly they ramp to sort of the company average metrics?

Q

**Mark R. Witkowski**

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

Yeah, sure. When we think about greenfields, we think about those in conjunction with M&A. So, as we look across the US and Canada for priority markets, we're evaluating both of those opportunities. So, is there an M&A opportunity? Is there greenfield opportunity? Both are very attractive to us. We've been able to generate really strong returns, whether we do a greenfield or an acquisition, obviously, do an acquisition, you're going to pick up that revenue and profitability much quicker. Greenfields will take a little longer, but typically we're breaking even within the first couple of years and expect to be at kind of the company average in three to five.

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So, there is a little bit of ramp-up in cost when you do greenfields. We're definitely accelerating our greenfield strategy with, I'd say, a renewed focus on driving our organic core growth in the business and expect that you'll continue to see greenfields open up throughout the country and these priority markets as we review them and continue to have a nice healthy pipeline of M&A as well that we're evaluating. So, we like to have them, both of those levers, as we look at those priority markets.

**Collin Verron**

*Analyst, Deutsche Bank Securities, Inc.*

Great. Thank you for taking my questions.

Q

**Mark R. Witkowski**

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

Okay. Thanks.

A

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

**Patrick M. Baumann**

*Analyst, JPMorgan Securities LLC*

Oh, hi. Good morning. A lot's been covered already. Just wanted to go back to the resi side quickly. So, the move from flat to down low double just seems like a bigger revision than what we've seen from the starts data. So, from that perspective, just trying to understand, was there like an overbuild of lots that are now being reduced to – at a greater magnitude than what we're seeing in starts? Maybe just address where lot development stands today to provide some context versus history and further revision.

Q

**Mark R. Witkowski**

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

Yeah, sure. If you go back, again, to the early part of the year, we felt it was going to be flat. That did kind of worsen throughout the first half of the year. I would say we probably saw some buildup in developed lots in the earlier part of the year. Obviously, single-family starts has not really met that early expectation even though it was only kind of guided to at flat. So, I think that's part of it. Obviously, we've seen a phasing down of a lot of these projects. And then we did see in parts of the country where we perform really well, frankly, in parts of Florida and the Southeast, which were pretty hot markets for a while, which was helping kind of to keep resi kind of in at least that flat territory, really fall off as we got into late into Q2 and here to start Q3. So, we've definitely seen activity weaken on the lots side.

A

And we'll see. Ultimately, when those developers decide to reinvest and get that going, I wouldn't say there's a significant amount of developed lots, but there's definitely been an increase there just given the slowdown that we've seen in single family. But, again, I believe that is temporary. We'll work through that this period of time, and then we're going to be really well positioned to capture that growth as it comes back. As these rates ease, you're seeing lumber prices drop. Some of these things may ultimately lend themselves to better affordability. And we'll see that pent-up demand release.

**Patrick M. Baumann**

*Analyst, JPMorgan Securities LLC*

Okay. Thanks for the perspective. And then on the acquisition you did, just to clean up here, I assume that's not in the guidance since it hasn't closed. Any perspective on size of that deal? And then any update on how the pipeline for M&A looks these days?

Q

**Mark R. Witkowski**

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

Yeah, sure, Pat. The acquisition we did in Canada was a three-branch acquisition with two locations around Toronto and another one in Ottawa. And those – I would say those branches are typical kind of branch size for us and kind of a \$15 million range and really excited about that one. That really builds a great platform for us to grow from in Canada. That's now the second acquisition we've completed there. I think it gives us a really good opportunity to not only build on the synergies there that we think we can bring, but start to put in some greenfields

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in Canada as well. So, expect some continued growth there. So, one that we're really excited about. We got a great management team with that one, and that's really going to allow us to capture a lot of that addressable market in Canada that just hasn't been available for us before.

And then the pipeline continues to be healthy. We've got a series of deals that we're looking at right now, I'd say, in various stages and varying sizes. We've got a lot of different opportunities that we're evaluating right now and really excited about it. Obviously, we absorbed a lot of M&A from the 2024 year, [ph] see upsized (00:48:03), get this one announced in Canada. I'm excited to continue to drive that part of our growth strategy as we go forward.

**Patrick M. Baumann**

*Analyst, JPMorgan Securities LLC*

Okay. Thanks for the time.

**Mark R. Witkowski**

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

Yeah. Thanks, Pat.

**Operator:** Thank you. Our next question comes from Anthony Pettinari of Citi. 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 the question. I just wanted to ask about the current kind of competitive environment if that's changed at all from the prior quarter. Maybe there's industry response to kind of resi demand slowing. Just any thoughts on competitive environment.

**Mark R. Witkowski**

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

Yeah. Thanks for the question. I would tell you there's been no real meaningful change in the competitive environment. It's been pretty typical for several quarters; expected to continue along those lines. We've had, I'd say – in some very limited markets across the US, we've had some regional competitors kind of going after each other pretty good, which, frankly, plays right into our hands. I think our customers like the stability that Core & Main brings both in service and value. And, overall, it's been a, I'd say, pretty typical kind of competitive environment for several quarters now.

**Asher Sohnen**

*Analyst, Citigroup Global Markets, Inc.*

Great. Thanks. And then can you just remind us which of your product groups are kind of most exposed to the resi end markets and if that softness is resi's, making any kind of – or that you anticipate kind of in the second half as well, kind of driving any shift in the mix or strategy around inventory positioning?

**Mark R. Witkowski**

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

No, I wouldn't say there's a major difference on the resi side outside of – if you think about our fire protection product category that we have is much more focused on kind of non-resi for us, which includes that multi-family piece. And most of that is kind of steel pipe and that piece of it. But the rest of the end markets for resi, non-resi,

and municipal really have a kind of a standard mix for the most part of all of our product categories. It's obviously very local. It depends on what those local specifications are.

Really, for us, it's really an assessment of where we're aligning some of those resources. So, if resi gets soft in an area, we may move some of that head count and resources on other areas that are driving growth. So, when we think about resource allocation that's really more of how we think about the moves that we've got to make. And as part of the kind of targeted actions that Robyn was referring to that we're making and putting in place, so we can continue to invest in the business where we're growing, where there's market headwinds or underperformance, we're shifting some of those resources and, ultimately, managing the cost that way to make sure we continue to capture the growth that's there.

**Asher Sohnen**

*Analyst, Citigroup Global Markets, Inc.*

Great. Thanks. I'll turn it over.

**Operator:** Thank you. Our next question comes from Keith Hughes of Truist Securities. Your line is now open. Please go ahead.

Hey, this is [ph] Julian (00:51:34) on. I know you already touched on it a little bit, but how should we think about pricing in third quarter versus fourth quarter?

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

For pricing, we're expecting it to be flattish for the remainder of the year. And I would think about that for both the third quarter and the fourth quarter; that pricing has been very stable over the last few quarters now, and we're expecting that to continue. So, I would say no notable changes expected there.

Got it. Thanks. That's all for me.

**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*

Oh, thanks. Good morning. Yeah. Look, we've touched on a lot of the stuff here, but just to sort of circle back to SG&A, if I may. Just so I understand the guide, if gross margins are going to be fairly flat to second quarter, it seems like SG&A dollars step down versus the \$302 million in 2Q. Just want to make sure that's correct. And I'm just wondering what the impact that the 53rd week has on SG&A specifically.

**Robyn Bradbury**

*Chief Financial Officer, Core & Main, Inc.*

Yeah. Thanks, Nigel. You're right. The SG&A dollars are going to step down quite a bit in the second half compared to the first half. And that's related to cost-out actions and also just the lower volumes that we're expecting, which then creates a little bit pressure on the rate in the second half because of the lower volumes. But you're thinking about that the right way.

And then the way that we're thinking about the 53rd week, that's an extra or one less week of sales kind of – we categorize it in the fourth quarter in that January timeframe. Obviously, there's some variable SG&A related to that that will come out. But when you think about it from an EBITDA perspective, it should be in that kind of \$8 million to \$10 million range.

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**Nigel Coe**

*Analyst, Wolfe Research LLC*

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Okay. That's helpful. Thanks. And then, obviously, I think we understand the drivers of the residential weakness, and maybe the flat outlook was a tad optimistic in hindsight. Non-res, I think, is the big debate, though, and it seems it could go in two directions here. We've got a weakening economy, but then we've got a lot of these megaprojects, data centers, etcetera. So, I'm just curious, Mark, Robyn, how you see, based on, I don't know, feedback from the fields, customers, what sort of direction do you think this breaks into as we go into 2026? Do you think non-res as a category gets stronger, or is there some risk there as we go into 2026?

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**Mark R. Witkowski**

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

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Yeah. Thanks, Nigel. I think that's definitely how we're seeing the non-residential area right now. There's a lot of puts and takes in that market, both by project types and, frankly, by geography as well. So, we're seeing a lot of variation there. I do think there's a lot of good things there to be excited about, in particular in this highway work, street work that we get a lot of storm drainage product put in place. And those types of projects, that's been really strong. The data center activity, it seems like that's got plenty of legs to it yet. And we pick up, I'd say, more than our fair share of that work, which has really helped cushion some of the softer commercial and retail kind of development in that area, which I wouldn't expect that we're going to see any near-term return of that really until we see some of the pent-up residential start to release.

So, I'd expect probably more of the same out of non-resi kind of for us, just given our exposure there and how those work. It's going to kind of – just the broad project types that we service, that's going to kind of flatten out, which is what we've experienced in 2025. So, I wouldn't see a lot of upside or downside as we think about that one going forward, at least in the very near term.

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**Nigel Coe**

*Analyst, Wolfe Research LLC*

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Okay. Thank you.

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**Mark R. Witkowski**

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

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Yes.

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**Operator:** Thank you. At this time, I will now hand back to Mark Witkowski for any further remarks.

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## Mark R. Witkowski

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

Thank you, all, again for joining us today. I want to close out by recognizing our associates for their dedication and commitment to delivering exceptional service to our customers. This quarter, we delivered solid sales growth driven by resilient end-market demand, stable pricing, and continued market share gains. We're seeing strong results from our growth initiatives, and we believe there's an opportunity to accelerate that momentum with additional investment. We recently expanded our presence with new locations in priority markets and announced an acquisition that broadens our footprint in Canada. These actions reflect our disciplined approach to investing in the business to drive long-term growth.

We're well positioned to capitalize on long-term secular drivers of water infrastructure investment including aging systems, population growth, and increasing regulatory requirements. With the right team in place, a growing platform, and a proven strategy, we are confident in our ability to execute on the opportunities ahead and deliver even greater value to our customers, suppliers, communities, and shareholders.

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

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