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Core & Main, Inc. (CNM)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the Core & Main Q3 2025 Earnings Call. My name is Alex. I'll be coordinating today's call. [Operator Instructions]

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

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 Core & Main's fiscal 2025 third quarter earnings call. Joining me this morning are Mark Witkowski, our Chief Executive Officer; and Robyn Bradbury, our Chief Financial Officer. Mark will begin today's call by sharing an update on our business and recent performance. Robin will follow with a review of our third quarter results and our outlook for the year. 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 press release and in 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.

Mark R. Witkowski

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

Thanks, Glenn, and good morning, everyone. Before we dive into our results, I want to start by reminding everyone of Core & Main value proposition. Core & Main is a leading specialty distributor of water infrastructure products and services in North America, supporting the repair, upgrade and expansion of our nation's critical water systems. Our competitive advantages, including national scale and resources, local market expertise backed by the best trained sales force, industry, specific technology and comprehensive product solutions, position us to lead an attractive secular growth market driven by aging infrastructure, increasing water demand and ongoing investment needs.

Our business model is built for resilience. Today, municipal projects represent over 40% of our sales, providing steady, predictable demand supported by reliable funding sources. Our non-residential end-market, which represents roughly 40% of sales, benefits from a diverse project mix across commercial, industrial and infrastructure applications, many of which are poised for growth.

Residential activity represents less than 20% of our sales. And while near-term dynamics in this market remain challenged, we continue to view the long-term outlook as attractive, supported by population growth and a structural undersupply of housing. This diversification, combined with emerging growth drivers like data centers and treatment plant modernization, provides a strong foundation for our business.

Core & Main consistently produces strong free cash flow and compelling returns on invested capital, giving us the flexibility to reinvest in the business, pursue strategic growth opportunities, and return capital to shareholders. We continue to control our own destiny through disciplined execution on multiple fronts. For example, expanding into high growth geographies; broadening our product offering in areas like treatment plants, smart meters and fusible HDPE; and deploying our strong balance sheet to pursue accretive M&A opportunities, including our recent expansion into the \$5 billion Canadian market. These strategic investments are expanding our addressable market, strengthening customer relationships, and positioning us to capture above market growth as near-term headwinds subside.

Equally important, our pricing discipline and gross margin expansion in recent quarters demonstrate the strength of our value proposition in addition to our team's ability to execute. We're staying focused on what we can control and building the foundation for sustained growth and profitability.

Turning now to the quarter, we delivered positive net sales growth despite soft residential demand and a tough comparison from last year, driven by contribution from acquisitions and strong performance across our sales initiatives. Municipal construction remains strong, supported by a highly favorable funding and demand environment. The recent federal government shutdown had little to no impact on the municipal projects we support, as roughly 95% of funding for these projects comes from state and local sources. Local utility rate revenues and municipal bonds are dependable sources of funding, and certain states are also advancing new legislation to repair and upgrade aging infrastructure.

Recent actions include Texas authorizing up to \$20 billion of funding for new water supply projects over the next two decades, New York deploying approximately \$3 billion in new water infrastructure investments, and Arkansas committing more than \$500 million to water and sewer upgrades, each reinforcing a robust project pipeline.

The state revolving funds provide a renewable source of capital to support water and wastewater infrastructure projects, with current balances exceeding \$100 billion in total. Supplemental funding from the Infrastructure Investment and Jobs Act remains a multiyear tailwind, with roughly \$30 billion allocated to the states and more expected next year, but only a fraction deployed by municipalities so far.

Taken together, these dynamics provide long-term funding for critical water infrastructure projects that can no longer be deferred and remain essential to public health and economic development.

In non-residential, we continue to see healthy growth in infrastructure projects such as road and bridges, education and healthcare, and data centers. This growth is helping to offset softness in commercial, retail and office-based projects.

Data centers represent a low-single digit portion of our total sales mix today, but they are becoming a more meaningful driver of our growth as AI-driven capacity expands. These projects require more water infrastructure than traditional manufacturing facilities due to cooling needs as they draw large volumes from local water supplies. This often necessitates upgrades to municipal systems, and in some cases, onsite water treatment facilities to conserve usage. We also see private investment flowing into public utilities to build capacity, creating opportunities for Core & Main across the municipal and private end-markets.

Data center development doesn't happen in isolation. As these campuses come online, they attract workers and ancillary businesses driving demand for housing, retail and commercial services, all of which drive the need for new water infrastructure. And this concentrated population growth places strain on local water systems, triggering further investment in water distribution and treatment infrastructure. We're seeing this firsthand at a major hyperscale campus near South Bend, Indiana, where project-related demand has been so substantial that our local branch has nearly tripled in size over the past few years. In many cases, the initial investment for data centers unlocks capacity for broader municipal, residential and non-residential expansion, creating a long-term tailwind across our core markets.

As we expected and discussed on last quarter's call, residential lot development softened during the quarter, particularly in the Sunbelt markets. Builders are carefully pacing lot development against housing affordability concerns and consumer uncertainty. But as housing affordability improves in the future, we will be well positioned to capitalize on the release of pent-up demand.

Our growth initiatives continue to lay the foundation for long-term results. Let me highlight a few areas where our execution is creating competitive advantages.

First, our product initiatives, including fusible HDPE, treatment plant solutions and geosynthetics each achieved double-digit growth in the quarter, as we expand our ability to deliver integrated solutions for aging water infrastructure. Meter products returned to high single-digit growth in the third quarter. Recent contract awards, including our largest metering contract award to-date, give us confidence in both near- and long-term demand for our advanced metering products.

Driving growth through geographic expansion also remains a key priority. We recently opened new branches near Houston and Denver, bringing our year-to-date total to five new locations. We expect to open more branches

before fiscal year end, and we are evaluating over a dozen additional high growth markets for future expansion. These new branches enhance our proximity to high growth markets and increase our service levels, supporting continued market share gains.

In September, we completed the acquisition of Canada Waterworks, further expanding our growth platform in a fragmented \$5 billion Canadian addressable market. This acquisition aligns with our core strengths and increases exposure to growing end-markets. Canada is a natural adjacency to our US markets, and we're excited to welcome the Canada Waterworks team to Core & Main. Integration activities are underway with a solid plan to realize synergies.

While we continue to invest in growth, we remain equally focused on improving profitability. Gross margins improved by 60 basis points year-over-year to 27.2%, reflecting the success of our private label initiative and disciplined sourcing and pricing execution. Our private label strategy continues to produce strong results, and we are on track for private label products to represent approximately 5% of our total sales this year.

On SG&A, we've implemented roughly \$30 million of annualized cost savings in an effort to improve operating leverage and maximize the efficiency of our business. We expect to realize these savings over the next 12 months. We remain disciplined in our head count decisions by selectively filling critical sales roles, while reallocating resources to areas of the business with the greatest growth potential.

At the same time, we continue to invest in modern technologies to help us drive future SG&A leverage. These tools strengthen customer service, uncover more selling opportunities, and expand our ability to take advantage of emerging AI capabilities. We expect these investments to enhance productivity and support margin expansion.

Our strong free cash flow provides flexibility to pursue strategic M&A, invest in organic growth, and return capital to shareholders. Profitable growth remains our top capital allocation priority supported by a robust pipeline of acquisition and greenfield opportunities. We will remain disciplined on valuation and returns while maintaining balance sheet flexibility to drive shareholder value.

As part of our disciplined capital allocation strategy, earlier this morning, we announced a \$500 million increase to our share repurchase authorization. This action reflects our conviction in our growth outlook and free cash flow generation, and the board shared confidence in our ability to continue creating long-term shareholder value.

With this expanded capacity, we can act opportunistically as market conditions present attractive opportunities. We are gaining momentum across our sales, growth margin and operational initiatives, strengthening our ability to drive organic growth, expand margins and achieving operating leverage. We remain confident in the attractiveness of our end-markets over the medium and long term, and we continue to invest in our associates and value-added capabilities to capture growth and market share.

In closing, I want to express my sincere appreciation for our teams across the country. Their dedication and focus on execution have been instrumental in advancing our strategic priorities, and I couldn't be more proud of what we've accomplished together this year. Thank you for your continued support and confidence in our vision.

With that, I'll turn the call over to Robyn to review our third quarter financial results and outlook for the year. Go ahead, Robyn.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Thanks, Mark. Good morning, everyone. I'll start on page 7 of the presentation with some highlights from our third quarter results.

Net sales increased 1% to \$2.1 billion. Organic volumes and prices were roughly flat versus prior year, while acquisitions contributed about 1 point of growth. We delivered positive pricing across nearly all product categories in the third quarter. The one exception was municipal PVC pipe, where prices are down roughly 15% year-over-year and nearly 40% from the 2022 peak. As we've noted in prior quarters, even with the continued moderation in PVC pipe pricing, our discipline has enabled us to sustain a stable price environment overall.

We estimate our end-markets were down low-single digits in the quarter, driven by declines in residential lot development and a tough comparison from last year. The residential decline was concentrated in Sunbelt markets like Florida, Texas, Arizona and Georgia where developers have slowed the pace of new development.

Activity appears to have stabilized as we moved through the quarter, and we remain confident in the attractive long-term fundamentals of these high growth markets. Our overall portfolio is resilient. Municipal demand continues to be a source of strength, and we're seeing solid activity in large, complex non-residential projects where our scale, product breadth and technical expertise give us a strong competitive position. This balanced mix across end-markets provides stability through varying demand environments.

Gross margin in the third quarter was 27.2%, up 60 basis points year-over-year. This improvement was driven by benefits from our private label initiative and disciplined purchasing and pricing execution. Total SG&A expenses increased 8% to \$295 million. SG&A growth in the quarter was driven by acquisitions, elevated inflation in areas like facilities and fleet, higher employee benefits costs, and strategic investments to support future growth. SG&A in the third quarter was \$7 million lower than the second quarter, reflecting a reduction in onetime items and disciplined cost management.

Cost inflation in our industry typically runs in the low-single digit range annually, but it's trending closer to mid-single digits this year. Against a softer end-market backdrop and no incremental pricing, the productivity gains we're delivering aren't enough to fully absorb these pressures, especially given how efficient we already operate from an SG&A as a percentage of sales standpoint. This level of inflation is not typical, and while we expect it to moderate over time, we have moved quickly to address it.

Since the last quarter, we've implemented \$30 million of annualized cost savings with roughly \$1 million of savings recognized in the third quarter. These savings primarily reflect reductions in personnel-related costs as we've eliminated approximately 4% of non-sales focused roles since last quarter. We expect fourth quarter SG&A to be roughly \$25 million lower than the third quarter due to a seasonal reduction in sales and the results of our cost actions.

Our approach is measured and focused on shifting resources without compromising customer service or long-term growth. While we take targeted actions to improve efficiency, we continue to invest in growth-focused roles to support product line and geographic expansion, including greenfields. We have an experienced management team that understands what it takes to drive operational excellence through cycles, balancing near-term efficiency with the investments required to continue positioning Core & Main for long-term growth and success. We are committed to driving annual SG&A rate improvement going forward.

Adjusted diluted EPS increased approximately 3% to \$0.89 compared to \$0.86 last year. Growth was driven by higher adjusted net income and the benefit of a lower share count from share repurchases. As a reminder, we exclude intangible amortization from adjusted EPS because a significant portion relates to the formation of Core &

Main following our 2017 leveraged buyout. This adjusted metric better reflects the underlying earnings power and free cash flow generation of our business, which is why we view it as an important indicator of our performance.

Adjusted EBITDA of \$274 million was 1% below the prior year, while adjusted EBITDA margin declined 30 basis points to 13.3%, driven by higher SG&A as a percentage of net sales. This was partially offset by 60 basis points of gross margin expansion.

Turning to the balance sheet, cash flow and capital allocation. We ended the quarter with net debt at nearly \$2.1 billion and net debt leverage of 2.2 times, well within our target range. Liquidity was \$1.3 billion, including \$89 million of cash and the remainder under our ABL facility.

Operating cash flow was \$271 million, reflecting nearly 100% conversion from adjusted EBITDA and highlighting the strength of our cash generation ability. Over the last 12 months, we have generated free cash flow equal to 5.6% of our market capitalization, a level that is more than double the average free cash flow yield of S&P 500 companies and meaningfully above specialty distribution peers.

We returned \$50 million to shareholders through share repurchases during the third quarter, reducing our share count by roughly 1 million. Year-to-date, we've repurchased approximately 2.9 million shares for \$140 million, including an additional \$43 million deployed so far through the fourth quarter.

We announced a \$500 million increase to our share repurchase authorization this morning, bringing our total capacity to approximately \$684 million. Since our 2021 IPO, we have repurchased over 50 million shares, roughly 20% of our original shares outstanding, reflecting our commitment to returning capital to shareholders. We remain opportunistic with share repurchases, and our strong cash generating ability provides ample capacity to continue evaluating organic and inorganic investments to maximize long-term value.

Turning to our outlook on page 9, we are reaffirming the full-year guidance we issued in September, including 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. Full-year net sales growth is projected at 4% to 5%, excluding the impact of one fewer selling week compared to last year, which represents a roughly 2% headwind for FY 2025.

End-market volumes are anticipated to be flat to slightly down for the year, reflecting a low double-digit decline in residential lot development, partially offset by low to mid-single digit growth in municipal volumes and a roughly flat non-residential market. Pricing is expected to have a neutral impact on sales growth, and we remain on track to deliver 2 percentage points to 4 percentage points of above market growth. Gross margin is expected to improve year-over-year, supported by continued private label growth and disciplined purchasing and pricing execution.

We have successfully navigated a dynamic environment over the last few years, and I'm extremely proud of how consistently our teams have executed. We've meaningfully expanded our market share while broadening our addressable market through product and service adjacencies. We've demonstrated disciplined pricing, delivered sustainable gross margin expansion, and generated strong free cash flow to reinvest in the business and return capital to shareholders.

Our next objective is to convert that momentum into stronger growth and improved SG&A leverage. We have the management team in place to execute on that plan, supported by a long track record of operational excellence and disciplined cost management.

We remain confident in the long-term fundamentals of our end-markets. And with the strategic investments we've made, combined with our balance sheet flexibility and proven execution, we are well positioned to continue growing above the market through disciplined execution, value accretive M&A and the exceptional service that enables us to support our customers and capture new opportunities.

With that, we'll open the call for questions.

QUESTION AND ANSWER SECTION

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

Brian Biros

Analyst, Thompson Research Group LLC

Q

Hey, morning. Thank you for taking my questions today. Can you talk about the large, complex projects that you talked about? Did you have any updated market share numbers, growth rates or kind of revenue exposure numbers? Our understanding from a variety of contacts is that these projects, depending on how you classify them, are seeing growth rates well above other end-markets. And that distributors still play a critical role in these projects, maybe even more so, as many products are still going through distribution as opposed to OEM direct and helping control the flow of product to the site. So just curious of what you're seeing given the value you provide there to these large, complex projects.

Mark R. Witkowski

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

A

Yeah. Brian, good morning. It's Mark. We're excited about these complex projects, in particular the data center activity that we've seen out there, and for a number of reasons and some of which you mentioned there. I mean, these fit really right into our value proposition where these local relationships with the underground contractors really matter. They really rely on that local distribution to give them all the products that they need. And that's when scale really comes into play as well and having access to all the material that they need to really be that one-stop shop for our customers.

So it really becomes critical, the ability to be able to timely supply all the products that they need on a pace of these projects as quick as you can imagine. And we're in a really good position just given our geographic diversity to capture a lot of that business. And I gave that example on the call about a market that Robyn and I recently visited about a year ago that really see this in action and onsite and talking to the customers there about really the value proposition and how they rely on our consistent and quality service that we provide really puts us in a great position. And as these projects pop up in other markets and in many cases those customers travel to the next project, and we're really in a great position to capture that.

So yeah, we've seen really good growth in communities where these pop up. I'd say, as I mentioned, this is still kind of a low-single digit overall exposure for us, but we've seen it grow rapidly. And like I said, really excited about really the growth that that's driving in that space.

I'd say in addition, what we see as these projects typically put a lot of demands on the water systems, that does a couple of things. One, it increases the value of water and allow these communities, which puts money back into the communities for further investment and then obviously puts a strain on the systems as well, which requires

additional investment, typically, some of which is done by the companies that are building these projects and then turned over to the municipalities. So we've just really seen a lot of characteristics there that drive some long-term demand for us, and excited about that.

Brian Biros

Analyst, Thompson Research Group LLC

Q

I've been trying to see where that goes over the next few years. Like I said, on the guidance, it looks like it's largely maintained. But I think the municipal outlook was raised slightly, now expected to be up low-single digits to mid-single digits, where last quarter looks like it was just low-single digits. What's causing that slight raise? And is that just a short-term timing kind of for Q4 or is that maybe signaling we could see an improved municipal market into the mid-single digits going forward for you guys? Thank you.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks, Brian. We have a lot of confidence in our municipal end-market. There's significant funding going in there at all levels. So on the federal side, there's still ample funding coming in at those levels. Very little of the IJJ spending has been spent really at all. The municipalities are using a lot of local water funds to support their projects, and we're seeing them increase rates to customers there. So there's good tailwinds there. And then like Mark mentioned in the prepared remarks, there's a lot of state-level funding going out to support municipalities as well. So, did lift it a little bit, but just feel really good about the municipal end-market over the short term, medium term, long term.

Brian Biros

Analyst, Thompson Research Group LLC

Q

Got it. Pass along. Thank you.

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

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Good morning, everyone. Thank you for taking the questions. Wanted to follow up on the end-market side. Obviously, you just touched on muni. What I'm getting at is if you have any kind of early thoughts on 2026, so given where municipal is. I think I heard you say residential might have been some signs of stabilization in Q3. And obviously, you got non-res where it sounds like the data center piece is driving things. So just, I don't know, any help on kind of early thoughts and directional trends into 2026 there? Thank you.

Mark R. Witkowski

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

A

Yeah. Thanks, Matt. Good morning. It's Mark. Yeah. As Robyn touched on in terms of the municipal end-market, we continue to see that as really strong, steady growth for us as we wrap up 2025 and into 2026 and beyond. Non-residential for us, as like we've talked about on previous calls, it's a mixed bag there. We've seen some really good strength in areas like these more complex projects that we see. And then there's been pockets of softness with lighter commercial business that tends to follow some of the residential activity.

So as we think about the resi side, obviously, we're watching rates closely. There's more decisions here coming up from the Fed in December. And we'll see what they touch down in terms of the outlook. So we want to see a little bit more on that front before we call residential as we go forward. It clearly softened into the second half of the year, which we weren't people at earlier this year. So, we're likely to see maybe a bit of a headwind as we start off 2026. But just given the overall levels of residential, I think we've covered most of that risk for any further softening of that. I would expect that, at some point here, that pent-up demand is going to release, and we'll be back into really good residential growth that could then spur some of that additional commercial development. And I think on top of kind of continued investment of these data centers, I don't see that slowing down here anytime soon that provides a really good backdrop here at some point when see that resi market release.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. No, thanks for that, Mark. Second one, kind of jumping into the margins, obviously a solid gross margin result there above 27%. So if I heard you correctly, I think you said SG&A would be down \$25 million sequentially in Q4. And correct me if I'm wrong, but that seems to imply the gross margin probably ends up fairly similar sequentially. I'm just curious if this kind of 27% level is sort of a new normal here. And any sort of additional color there on what's driving the strength there? Thank you.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Sure, Matt. I'll take that one. So you're right, we had really strong gross margin performance in the quarter, driven by growth in our private label initiative. We did a really good job with some purchasing and pricing execution in the quarter, and we do expect to be able to continue to enhance gross margins from here, leveraging some of those margin initiatives that we've talked about.

Gross margin in the fourth quarter should be – it's probably going to be more in the range between the second and third quarter. Third quarter will probably be a little bit higher, maybe the peak level for the year as it can move around a little bit. But expecting a good result in the fourth quarter for gross margins, expecting – you're right, expecting to bring SG&A down by about \$25 million as we start to recognize some of the cost actions that we've done already. So should be a good result there. And then we expect to, like I said, continue to expand gross margins annually from there. It might not be exactly perfect sequentially every quarter, but on an annual basis, we expect to get that expansion.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Great. Thanks, Robyn. Good luck, guys.

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

David John Manthey

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

Q

Thank you. Good morning, everyone. First question on the top line. Last quarter, you had said you expected residential to continue to soften through the second half. And, Robyn, if I heard you right, you said you're seeing stabilization at the end of the third quarter. I don't want to read too much into that. And I know it's not getting stronger, but is that a slightly more optimistic residential view than you were expecting 90 days ago?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks, Dave. For resi, we started to see – like we talked about on the last quarter call, we really started to see that soften at the end of July, and it really continued into August, September and October. So for the full quarter, it was soft and it was down in that kind of low-double digits to mid-teens range for the quarter. I wouldn't say we've seen good movement there. We've just seen it kind of soften as homebuilders were developing less lots, awaiting some better affordability and some better demand there. So not a lot of movement during the quarter, but it did really perform in line with what we expected. We started to see some of that soften late last quarter and saw that continue throughout the quarter.

David John Manthey

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

Q

Okay. Thank you. And second on gross margin. With private label at 5% of the mix, it doesn't seem large enough to move the needle. I know you talk about it a lot, and I'm sure there's a wide disparity between all other products and private label. But could you maybe talk about the magnitude of that in terms of stack ranking relative to gross margin benefit?

And then you mentioned some of the other – the sourcing and pricing initiatives. Could you really lean into those a little bit and give us an idea of maybe some of those other buckets that are lifting gross margin and how much opportunity remains in the coming, say, one to three years?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah, sure. So private label is a big driver for us. And I would say in the quarter, a good portion of that was driven by private label growth. And then the other half or less than half was driven by our really strong execution on purchasing and pricing. And private label has expanded our margins, I would say, pretty significantly over the last several years since we started getting into this and driving the growth there.

So we're really happy with the 5% of sales that we will have at the end of this year. Our long-term target there is in that 10% to 15% range. So lots of opportunity to continue to expand there. As we move forward into the upcoming years, I would say private label is going to still be a pretty big driver there. And we think that can drive something like 10 basis points to 20 basis points a year. Some of our sourcing initiatives can drive additional margin enhancement on top of that. So those are areas that we have a lot of confidence and ability to continue to drive the gross margin improvement.

Sourcing is a lot of managing the relationships with our suppliers and shifting our spend where is best positioning us in the marketplace. And then on the purchasing side, we did a really nice job this year of buying ahead of price increases. Similar to how we always do, we see price increases come into the market kind of in the early spring timeframe. And we're always constantly managing our inventory to make sure we're optimizing margin as much as possible.

David John Manthey

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

Q

Terrific. Thank you.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Thanks, Dave.

A

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

Nigel Coe

Analyst, Wolfe Research LLC

Thanks. Good morning, guys. Just want to go back to SG&A. So the guide for 4Q, does that fully embed the run rate of SG&A savings? That \$30 million analyzed, is that fully baked into 4Q?

Q

And then, on one hand, you're talking about you're running very lean right now. But then I think the slides and you've referenced this, you're exploring further opportunities. I'm just actually wondering what kind of direction you're moving in in terms of looking at further productivity.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Yeah. Sure, Nigel. Thanks for the question. So the \$30 million, a lot of that will hit in Q4 from a run rate perspective, not all of it. I would say it's probably going to be more in the kind of \$5 million range of SG&A savings impact in the fourth quarter from some of the actions that we've taken. Some of them will go into effect. We've executed on the changes, but we'll realize more of the savings in FY 2026. So we won't get the full run rate in Q4, but we'll get the full run rate into FY 2026. And then remind me of your second question, Nigel.

A

Nigel Coe

Analyst, Wolfe Research LLC

Yeah. The second part of the question was really around, on one hand, you're talking about you're running very lean. You're not going to sacrifice growth initiative, but then you also then talk about other productivity actions you're exploring. So I'm just wondering what direction you see above and beyond that \$30 million.

Q

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Yeah, sure. Yeah. And if you compare us to others, we do have a very efficient SG&A rate already. We haven't gotten the operating leverage that we expected lately, and so that's where the cost-out actions came from. We do have a lot of things that we're working on to gain additional productivity in addition to the cost-out actions that we've already taken. And a lot of that stems around technology to make us more efficient to service our customers better, to automate more in the back office. And so we have made some investments in technology that we believe will result in further productivity and help us get that SG&A leverage starting into next year.

A

Nigel Coe

Analyst, Wolfe Research LLC

Okay, I'll leave it there. Thanks.

Q

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

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning, guys.

Q

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Good morning, Joe.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

So I wanted to touch on the private label discussion again. Can you just – maybe just elaborate on what the constraint is on potentially moving private label in that initiative faster since you are seeing some good gains from that. And then where are you seeing the biggest penetration across your product lines or systems?

Q

Mark R. Witkowski

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

Yeah, Joe. Hey, it's Mark. Thanks for the question. I would tell you on private label, we've been really pleased with the progress that we've made there. We've expanded our capabilities there pretty significantly. Things that you need to continue to grow it at that pace obviously include a lot of the product work that's done. We've got great engineers and researchers that help us on that product development that has to be sourced and vetted. To continue to advance that through the system, you need the logistics capabilities. So we continue to invest in distribution space and facilities and equipment to work all that product through the system.

A

Obviously, you need some customer acceptance on that side. So these are all kind of well ingrained processes that we have to continue to expand that and has really been the key piece to, as Robyn mentioned, allow us to expand gross margins here over the past few years.

So we've got continued opportunities there. That's a big part of what we continue to look at. And I'd say we've got a really solid plan over the next two to three years to expand that. I think a piece of a point or so, a year, is something that we felt is achievable and something that we've been able to deliver historically. So we'll continue to work down those paths and should expect to see that growth as we move forward.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Got it. That's helpful, Mark. And then I guess my follow-on question. Look, it's interesting to hear you talking about the data center opportunity. Clearly, that is going to continue to accelerate. And there's a lot of momentum in the market.

Q

I guess, as you think about your positioning, your capabilities, whether you need to make investments in certain regions in order to participate in a more meaningful way going forward, maybe just kind of talk a little bit through like whether there is additional investment that's necessary. And then also to some degree, why it's such a small portion of your business today, given that there has been development over the last few years?

Mark R. Witkowski

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

A

Yeah. Thanks, Joe. As it relates to the scale, I think we obviously participate on a lot of projects all throughout the country, large-scale water replacement projects, other types of commercial and residential development. So this is still a good and important part of our business that's growing rapidly. I would tell you, we're always looking to make additional investments and improve our market position across the country, but we've got a great foundation. We have a broad geographic reach. So wherever these hyperscalers go to make these investments, we're always in a good kind of foundational position based on the local relationships that we have. It's still very much a local business. It's typically some of our best customers that are working on these types of projects because they're so critical to those developers to be successful.

Where we've got the best relationships locally, we tend to get a lot of this work. And in areas where we need to earn those relationships with the customers that are doing that work, those are investments that we make, similar to how we would operate in other markets where we're trying to improve our market position.

So you should expect, as there is growth in data centers in certain markets, that we're looking to enhance our capabilities, build out our capacity and make sure that we can service that to the best of the customer's needs. So I think it looks very similar in terms of the investments. We've also got national relationships with some of the large contractors to get involved in these. So we attack it from various aspects, and we'll continue to invest to make sure that we get more than our fair share of that business.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Great. Thank you.

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

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Good morning. Robyn, you talked about cost inflation running kind of mid-single digit versus maybe more typical low-single-digit rate. And I'm wondering if you could give any more context in terms of the drivers there. And then just maybe in terms of cadence, like when these comps get easier or when you might expect that rate to normalize or any other color there.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Sure. Yeah. I would say the areas that we've seen driving the majority of this inflation this year have been on our facilities, on our fleet and on medical costs. So those are the main drivers. Obviously, those are some big buckets of cost for us. Our largest bucket of cost is personnel-related expense, and then it's our facility is after that. So as we go through and renew some leases that we've had in the past that we've gotten really good pricing on, some of those fair market values are up and causing some inflation there. And then, similarly on the fleet, we've just seen inflation there over time.

And then medical is an area that we've had a big impact. Last quarter, we had a lot of high cost claims, but there's also a lot of inflation hitting that area. So expect that to continue into the fourth quarter. Don't have a lot of that remediating in the fourth quarter yet. But I would say we started – we'll probably anniversary that around the second quarter of next year. That's when we started to see the larger impacts of that inflation. So do expect it to

moderate at some point in the coming quarters and get back to something that's a little bit more normalized for our industry.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Okay. That's very helpful. And then just following up on data centers, Mark, I think that you made a reference to this being quick project. I'm sure if I heard that right. But in terms of kind of visibility into these projects, maybe timeline, I'm sure it's hard to generalize, but is it possible to talk about sort of maybe what a typical project looks like in terms of your visibility into the demand and the timeline and completing that?

Mark R. Witkowski

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

A

Yeah. Thanks, Anthony. Yeah, happy to clarify that. These projects are – they're not completed quickly. I'd say the pace of construction of these is at a pace that requires that operational excellence that we provide our customers. So they're fast-paced projects, but they can last several years based on the nature of the buildout. We've seen some of the projects that we've worked on just they continue that phases to these projects. So, we'll get pretty good visibility out as we get involved in these, at least kind of a year out of work that's been done. And then those projects can then expand beyond there based on what we've seen.

So they can last quite a while, but the pace that you have to execute at is very quick. And that's where the trust that our customers place in us really comes in hand and our ability to execute these projects so that they can be successful and they can be a preferred contractor on these projects going forward. That's where it really becomes a win-win for us and our customers when we're both working to complete those projects as efficiently as possible.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

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

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

Q

Good morning. I had a couple cleanups here just on pricing. I think you said you need PVC pipe down about 15% in the quarter year-over-year kind of implies everything else was up like low-single digits. Is that right? And then is that kind of that algo, do you expect that to continue into 2026 such that prices on net will remain stable?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks, Pat. That's right. PVC pricing has kind of come down off its peak levels over time. And that's the right range of what we're seeing. Well, don't expect a lot of changes from this point in the year, so pricing flat for the year. And as we get into FY 2026, we'll provide more details on the next call, but expecting pricing to be at least flattish for FY 2026. We could have some product categories that are down, but expect the majority of them to be up overall. So feel like that's going to be stable at minimum.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

What are you seeing in other commodity products outside of the PVC stuff [indiscernible] (00:49:42)?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah. If you think about steel and copper, really the only true commodities that we have that move with the underlying markets and those are both have price favorability for the year. They have been price favorable for a while, and I would expect that to continue. So those are small areas of our overall products and sales, but those are up. And I would say, virtually every product except for the municipal PVC is up year-over-year.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

And ductile iron is also up?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah, that's right.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Okay. And then on the M&A pipeline, can you just talk about, like, what you're seeing there? Been a little bit of a lull here in terms of activity. What's causing that? And how should we think about you guys deploying capital to M&A over the next 6 to 12 months?

Mark R. Witkowski

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

A

Yeah. Pat, it's Mark. We're still very excited about the M&A pipeline that we've got. We've got some very active deals that we're working right now, got many opportunities that we continue to see out on the horizon. There has been, I'd say, a lull. And the deals that are out in the market, we haven't, I'd say, missed out on anything in the market. I just want to assure you of that. It has been, I'd say, a lull in activity, but we are working some in real time that we're excited about and expect you'll hear some announcements from us soon. And we continue to be very active on that front.

So I'd expect from a capital deployment perspective, our priorities haven't changed. We'll continue to invest organically. We'll deploy capital for M&A, and we'll continue to look at share repurchases as you saw our additional authorization that we announced this morning. So continued right along with our strategy and the priorities that we've laid out.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Great. Thanks for the time.

Mark R. Witkowski

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

A

Thank you.

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

Thanks for taking my question. Just looking for a little bit more detail on the SG&A cuts. And perhaps could you just give us a sampling of some of the, call it, maybe more back-office type jobs that you're eliminating as part of this process? Are they concentrated at the branch level, more skewed towards corporate? Just love some additional perspective there.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Yeah. Thanks for the question, Sam. We did, like I said on the call, \$30 million of cost out. The majority of that is personnel-related cost. We were able to make reductions in about 4% of our roles overall. We were not focused on anything that was driving sales. I mean, we talked about on the last quarter that these were going to be very targeted actions and we weren't going to do anything to compromise any customer service or long-term growth. And I think we've done a really good job of making sure those were targeted.

On the back office side, I would say over time we've been able to leverage technology and become more efficient. So I wouldn't point to any particular role, but I would say we were able to make some changes generally across the board to take cost out overall and then some additional kind of supporting functions. So it was a mix of head count, which is why we didn't talk about it in a detailed way on the last call because we knew it was going to be a little bit broad and across the board, but also kind of very targeted to specific areas that maybe we've had some overlap from M&A or maybe we've converted systems and we're able to become more efficient in that way.

Sam Reid

Analyst, Wells Fargo Securities LLC

That helps, Robyn. And then to switch gears here, just want to drill down a little bit on the muni or the meter business, I should say. It sounds like you were awarded a meter contract this quarter, if I'm not mistaken. Just maybe a little additional context on that.

And then talk to the high-single digit growth. Just maybe give me some context on whether that's coming from newer projects or whether that's more kind of just recurring from kind of some of your longer-term meter contracts. Thanks.

Mark R. Witkowski

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

Yeah. Thanks, Sam. It's Mark. We continue to be really successful on the smart meter front. We've been, I would say, pivotal in advancing the digitization of the municipalities. And this is an area where we can really drive demand by going in and selling the value that we can bring by really converting them from a manual or kind of a legacy, maybe first generation system that they put in to really provide them the advantages of a modern system.

So we've been, I'd say, very successful in many parts of the country selling some of the largest municipalities now, which have been, I'd say, some of the slower adopters of the technology. So we're really starting to see

some movement there and really gain the confidence of our manufacturer partners that we help sell their products for to really be the lead and drive the demand of the system enhancements for the municipalities.

So real pleased with the progress there. We have achieved, let's say, over the last couple of years some of the largest projects not only our company's history, but in the country's history in terms of the size and scale of these. So that's going to be a continued driver of growth for us and just really excited about the performance of our team there and continue to expect good growth ahead of us.

Sam Reid

Analyst, Wells Fargo Securities LLC

All really helpful. Thanks so much.

Operator: Thank you. Our next question comes from Matt Johnson of UBS. Matt, your line is now open. Please go ahead.

Matthew Johnson

Analyst, UBS Securities LLC

Hey, good morning, guys. Appreciate the time. I guess, first off, if we could just talk a little bit about greenfields. I think you guys have opened five year-to-date is what you said. I guess could you guys provide a little more color on, I guess, your ambitions for the rest of the year? Are there any specific markets that you're targeting, whether it be in the US or Canada? And then its target for FY 2026 also to open 5 to 10 new greenfields?

Mark R. Witkowski

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

Yeah. Good morning. Thanks for the question. Yeah, we're really excited about some of the greenfields that we've got open this year. As we've mentioned on the call, a couple really good markets where we've got coverage today but really looking to continue to expand in both Denver and in Houston. That's really priority markets for us that we've got. I'd say, several more identified, a few of which I expect will get opened between now and the end of the year still and really good pipeline ahead of us that we're evaluating. We've got over a dozen markets right now that we're assessing for continued expansion and growth, and expect that you'll see a continued growth from a greenfield perspective.

As we've talked about on previous calls, we typically are able to get those profitable within – at least breakeven within the first year and profitable in years two and three. And we've had really good success there as we've opened more this year. And the ones we've opened in prior years are continuing to perform as well. So that'll be a continued strategy that you see as we look to continue to expand our geographic presence. And that would be both in the US and in Canada.

Matthew Johnson

Analyst, UBS Securities LLC

That's great. Thanks, Mark. And then I guess just one more for me. You guys talked a little bit about some of the different state funding that's gone, I think, across Texas, New York and Arkansas. And I think the number in Texas is far larger at around \$20 billion. So I guess could you guys talk a little bit about how large the Texas market is for you guys and kind of what your participation rate looks like in that state and kind of how impactful you think this new bill could be for you guys moving forward?

Mark R. Witkowski

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

A

Yeah. Texas is a very important market for us, as you can imagine. As you think about construction spend across the US, for us, Florida, Texas, California, those are really important markets. And they tend to drive – just in those three states alone can really drive our business. So this additional investment into Texas, I think, will be really important to us. We've got good, strong position in Texas and expect us to be able to capitalize on that.

In addition, Texas has that other advancements. One of the elements that we're excited about, which is very long-term oriented, but they now provide for corrugated HDPE as a solution for a lot of storm drainage work in Texas, which has been a heavy concrete market as well. So as we work to advance a lot of those products and to the products that we distribute, that can be another good long-term growth driver of that. Those investments aren't things that happen overnight, but really set up a good foundation, and you'll to see us invest in Texas just like we announced, the greenfield in Houston. I'd expect that you'll continue to see us make more investments in that state.

Matthew Johnson

Analyst, UBS Securities LLC

Q

Thanks.

Operator: Thank you. At this time, I'll now pass it back to Mark Witkowski for any further remarks.

Mark R. Witkowski

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

Thank you all again for joining us today. Before we close, I want to leave you with a few key points. Over the last several years, Core & Main has executed exceptionally well through an unprecedented environment. We captured the benefits from large price increases in 2021 and 2022, committed to holding it, and that is exactly what we've delivered. During that period, we also said we were overearning gross margin by roughly 100 basis points to 150 basis points. We move through that normalization exactly as we expected, and we're now back to delivering steady, structural gross margin expansion. Today, we're managing through stubborn inflation, higher cost and softer end-markets. But we're not standing still. We've executed cost actions, and we see a clear path to generate future growth and operating leverage.

Our strategic investments and sales initiatives are creating real share gains, and our diversified model positions us to generate resilient, profitable growth. We've navigated several unusual years with discipline, consistency and transparency, and we're confident in our ability to deliver long-term value as the market returns to a more supportive backdrop.

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

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

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