

## Core &amp; Main

# 4QF23 preview: pricing in focus, updating for many corporate actions

Reiterate Rating: UNDERPERFORM | PO: 33.00 USD | Price: 49.70 USD

## 4QF23 preview: FY24 adj. EPS guidance likely to fall short

Core & Main will report 4QF23 (Jan-end) results pre-market on 3/19. The company has been active since 3Q results, repurchasing 20mn shares, issuing a new \$750mn term loan, closing two acquisitions, and seeing its former private equity owner fully exit. Updating our estimates, our FY24 (Jan-end) adj. EPS is \$0.09 lower at \$2.21, well below \$2.45 consensus. Our FY24 adj. EBITDA is \$21mn higher at \$876mn (-3% y/y), below \$933mn consensus. Last quarter, management provided a preliminary FY24 framework that includes flat to low-single digit volume growth and y/y margin “normalization” in 1H. We view pricing as the key risk, with multiple sources indicating growing y/y declines for key product lines. We maintain our Underperform rating given these risks.

## Debt-funded buybacks are roughly neutral to EPS

In conjunction with four separate secondary offerings by the former private equity owner, Core & Main repurchased a total of 20mn shares (9% of total) for ~\$725mn. On 2/9/24, the company issued a \$750mn term loan. This adds ~\$58mn of annual interest expense (based on current ~7.7% interest rates). On a net basis, the debt-funded buyback is roughly neutral to adj. EPS, but adds ~0.8x to net debt to EBITDA leverage (i.e., ~2.6x on a pro forma basis versus 1.8x at 3QF23-end).

## M&A now adds ~5pts to FY24 revenue growth

Core & Main closed on the acquisition of Eastern Supply (2 branches) on 2/12 and Dana Kepner (19 branches) on 3/7. Combined, these add ~7% to the existing ~320 branches. Including FY23’s acquisitions, we now forecast acquisitions to add 5.1pts to revenue growth in FY24. This assumes ~\$10mn of revenue per branch, in line with transactions since 2017 (\$1,000mn acquired revenue from 95 branches).

## Raise PO to \$33; Reiterate Underperform

We raise our Price Objective by \$5 to \$33, based on 9x EV/EBITDA multiple (previously 8x) on CY25E. The higher multiple reflects multiple expansion among peers (now 17x versus 15x), but is below CNM’s own 10x median historical EV/EBITDA. We argue a below-peer multiple is warranted given CNM’s slower near-term EBITDA growth and higher financial leverage. Our Price Objective represents over 30% prospective downside.

Estimates (Jan) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.99	2.17	2.19	2.21	2.55
GAAP EPS	0.94	2.14	2.15	2.25	2.60
EPS Change (YoY)	395.0%	119.2%	0.9%	0.9%	15.4%
Consensus EPS (Bloomberg)			2.12	2.26	2.45
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	50.2x	22.9x	22.7x	22.5x	19.5x
GAAP P/E	52.9x	23.2x	23.1x	22.1x	19.1x
EV / EBITDA*	21.5x	13.3x	13.9x	14.2x	13.1x
Free Cash Flow Yield*	-0.5%	4.0%	10.5%	5.0%	5.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 11.

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Timestamp: 11 March 2024 05:00AM EDT

11 March 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	28.00	33.00
2024E Rev (m)	6,881.1	7,053.8
2025E Rev (m)	7,259.6	7,459.1
2024E EPS	2.30	2.21
2025E EPS	2.58	2.55

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### Stock Data

Price	49.70 USD
Price Objective	33.00 USD
Date Established	11-Mar-2024
Investment Opinion	B-3-9
52-Week Range	20.30 USD - 50.86 USD
Mrkt Val (mn) / Shares Out (mn)	9,312 USD / 187.4
Free Float	99.9%
Average Daily Value (mn)	121.52 USD
BofA Ticker / Exchange	CNM / NYS
Bloomberg / Reuters	CNM US / CNM.N
ROE (2023E)	36.3%
Net Dbt to Eqty (Jan-2022A)	53.2%
ESGMeter <sup>TM</sup>	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Core & Main

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	10.0%	16.3%	14.3%	12.4%	12.8%
Return on Equity	22.7%	34.8%	36.3%	36.7%	30.4%
Operating Margin	8.5%	11.7%	11.0%	10.2%	10.7%
Free Cash Flow	(51)	376	981	467	539

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	-0.1x	0.8x	2.0x	1.1x	1.1x
Asset Replacement Ratio	0.1x	0.2x	0.2x	0.2x	0.3x
Tax Rate	16.7%	18.1%	19.5%	23.6%	23.6%
Net Debt-to-Equity Ratio	80.3%	53.2%	111.3%	74.9%	39.6%
Interest Cover	2.8x	11.7x	9.2x	6.0x	7.8x

## Income Statement Data (Jan)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,004	6,651	6,726	7,054	7,459
% Change	37.4%	32.9%	1.1%	4.9%	5.7%
Gross Profit	1,280	1,795	1,818	1,861	1,983
% Change	45.7%	40.3%	1.3%	2.3%	6.5%
EBITDA	573	923	888	866	940
% Change	70.6%	61.1%	-3.8%	-2.4%	8.5%
Net Interest & Other Income	(149)	(66)	(81)	(119)	(103)
<b>Net Income (Adjusted)</b>	<b>241</b>	<b>535</b>	<b>499</b>	<b>450</b>	<b>523</b>
<b>% Change</b>	<b>472.7%</b>	<b>121.8%</b>	<b>-6.6%</b>	<b>-9.8%</b>	<b>16.0%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	228	581	530	458	532
Depreciation & Amortization	150	148	149	146	140
Change in Working Capital	(466)	(339)	243	(97)	(88)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	57	11	91	(7)	(8)
Capital Expenditure	(20)	(25)	(32)	(34)	(36)
<b>Free Cash Flow</b>	<b>-51</b>	<b>376</b>	<b>981</b>	<b>467</b>	<b>539</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>160.9%</b>	<b>-52.4%</b>	<b>15.4%</b>
Share / Issue Repurchase	764	0	(1,343)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(819)	(15)	485	228	(523)

## Balance Sheet Data (Jan)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1	177	94	584	601
Trade Receivables	884	955	911	974	1,051
Other Current Assets	882	1,079	835	856	889
Property, Plant & Equipment	94	105	146	194	201
Other Non-Current Assets	2,573	2,593	2,805	2,872	2,784
<b>Total Assets</b>	<b>4,434</b>	<b>4,909</b>	<b>4,790</b>	<b>5,481</b>	<b>5,526</b>
Short-Term Debt	15	15	15	15	15
Other Current Liabilities	824	711	688	699	742
Long-Term Debt	1,456	1,444	1,930	2,158	1,636
Other Non-Current Liabilities	308	329	495	490	485
<b>Total Liabilities</b>	<b>2,603</b>	<b>2,499</b>	<b>3,127</b>	<b>3,361</b>	<b>2,878</b>
<b>Total Equity</b>	<b>1,831</b>	<b>2,410</b>	<b>1,663</b>	<b>2,119</b>	<b>2,648</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,434</b>	<b>4,909</b>	<b>4,790</b>	<b>5,481</b>	<b>5,526</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 11.

## Company Sector

Industrials/Multi-Industry

## Company Description

Core & Main is a US distributor of water infrastructure & fire protection products with approximately 320 branches. The company generated over \$6.6bn in revenue in FY22. Key end markets include municipalities (39% of revenue), non-residential construction (39%), and single-family residential (22%).

## Investment Rationale

Declining commodity product pricing is likely to drag reported revenue growth. Water infrastructure demand should benefit from increased US federal spending over time. We see more sluggish near-term trends in residential and non-residential markets. Gross margins should normalize as current supply constraints ease, resulting in headwinds to margins.

## Stock Data

Average Daily Volume 2,445,011

## Quarterly Earnings Estimates

	2022	2023
Q1	0.50A	0.51A
Q2	0.67A	0.69A
Q3	0.67A	0.65A
Q4	0.32A	0.34E

## How our estimates have changed

Our FY23 estimates remain unchanged. For FY24, we have included the closed acquisitions of Eastern Supply (2/12/24; two branches) and Dana Kepner (3/7/24; 19 branches). Collectively, these will add ~\$0.2bn of revenue (or ~\$10mn per branch) in annualized revenue. Since 2017, Core & Main has acquired 95 branches with ~\$1bn in revenue, or ~\$10mn per branch.

Last quarter, management provided a preliminary FY24 framework that includes flat to low-single digit volume growth and “further margin normalization... in 1HF24.”

We have raised our FY24 interest expense forecast by \$38mn to account for the incremental \$750mn term loan closed 2/9/24, partially offset by debt repayment through the fiscal year. We have also lowered our share count to reflect share repurchases. Our FY24 adjusted EBITDA is \$21mn higher at \$876mn (down 3% y/y). Our FY24 adjusted EPS is \$0.09 lower at \$2.21.

### Exhibit 1: Lowering our FY24 adj. EPS by \$0.09 to \$2.21

Forecast adj. EBITDA to decline 3% y/y in FY24

	FY23E			FY24E		
(\$mn, except per sh.)	Current	Prior	Change	Current	Prior	Change
Revenue	6,726	6,726	0%	7,054	6,881	3%
Organic y/y %	-2.1%	-2.1%		-0.4%	-0.4%	
M&A y/y %	3.3%	3.3%		5.1%	2.7%	
Total y/y %	1.1%	1.1%		4.6%	2.3%	
Gross profit	1,818	1,818	0%	1,861	1,815	3%
Gross margin	27.0%	27.0%	0bp	26.4%	26.4%	0bp
Adj. EBITDA	905	905	0%	876	855	2%
Adj. EBITDA margin	13.5%	13.5%	0bp	12.4%	12.4%	0bp
Adj. net income	499	499	0%	450	480	-6%
Adj. EPS	\$2.19	\$2.19	0%	\$2.21	\$2.30	-4%
Dil. Shares	228	228	0%	204	209	-2%

Source: BofA Global Research

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## The moving parts to buybacks

CNM was formed under an “Up-C” structure. Class A common shares represent ownership in Core & Main, Inc. – a holding company whose primary asset is ownership interest in a limited liability company (LLC). Class B shares represent voting interests proportional to the remaining limited partnership interests.

### Exhibit 2: Core & Main share count, secondary offerings, and share repurchases

Class B shares have converted to Class A, which buybacks have reduced “as-if converted” share count

	Class A sales	+	Class B sales	=	Total sales of Class A	Repurchases of Class A	+	Repurchases of Class B	=	Total repurchases	Class A	+	Class B	=	Period ending amounts As-if converted
12/9/22											172.4		73.5		245.9
4/14/23	3.1		1.9		5.0	9.4		5.6		15.0	165.5		65.5		231.1
6/12/23	8.8		5.2		14.0	3.1		1.9		5.0	168.1		58.0		226.1
9/19/23	11.3		6.7		18.0	3.1		1.9		5.0	172.9		48.3		221.2
11/9/23	13.7		8.2		21.9	3.1		1.9		5.0	178.4		37.8		216.2
12/11/23	10.8		6.5		17.3	3.1		1.9		5.0	181.3		29.9		211.2
1/10/24	12.1		7.5		19.6	3.1		1.9		5.0	185.9		20.4		206.2
1/23/24	12.4		7.4		19.8	3.1		1.9		5.0	191.7		9.6		201.3

Source: BofA Global Research, company filings

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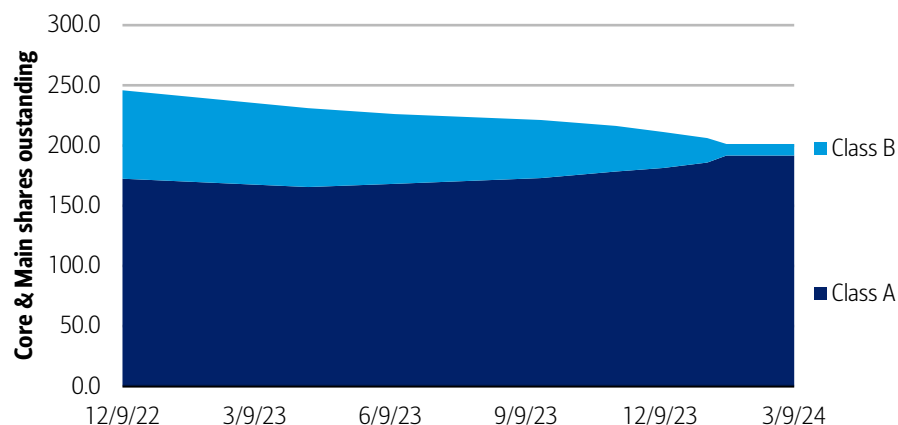
## Fully diluted share count down, Class A share count up

As CNM’s former private equity owner (Clayton, Dubilier & Rice) has sold its partnership units in the LLC, they have converted Class B shares to Class A shares. CNM’s share repurchases have decreased the total “as-if converted” share count, but Class A common shares are now higher versus December 2022.



**Exhibit 3: Core & Main “as-if converted” share count**

Share repurchases have lowered “as-if converted” share count



Source: BofA Global Research, company filings

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**GAAP tax rate going up**

CNM’s “Up-C” structure also drives differences between GAAP and adjusted tax rates. FY22’s GAAP tax rate of 18.1% reflects a 630bp benefit from partnership income (e.g., net income attributable to non-controlling interests) that is untaxed. Assuming full conversion of all partnership units, the as-if converted tax rate was 24.4%.

We forecast an as-if converted tax rate of 25.0% in FY24 – which is consistent with history. However, given the conversions of partnership units into Class A common that have taken place, this results in a 23.6% GAAP tax rate in FY24E versus 18.1% in FY22A.

As of 1/25/24, there remain only 9.6mn partnership units, all held by members of management. This represents 4.8% of fully converted basic shares.

**Exhibit 4: GAAP tax rate and as-if converted tax rate (FY21-FY24E)**

Conversions of partnership units will drive a higher GAAP tax rate

	FY21 (1/30/22)	FY22 (1/29/23)	FY23E (1/28/24)	FY24E (1/29/25)
Income taxes at federal statutory rate	21.0%	21.0%	21.0%	21.0%
State income taxes	3.8%	3.2%	3.5%	3.4%
Partnership income no subject to US tax	-8.5%	-6.3%	-5.7%	-1.4%
Corporate subsidiary tax	1.3%	0.1%	0.7%	0.6%
Permanent differences	1.1%	0.3%	0.0%	0.0%
Other	-0.2%	-0.2%	0.0%	0.0%
<b>GAAP tax rate</b>	<b>18.5%</b>	<b>18.1%</b>	<b>19.5%</b>	<b>23.6%</b>
Add back: partnership income impact	8.5%	6.3%	5.7%	1.4%
<b>As-if converted tax rate</b>	<b>27.0%</b>	<b>24.4%</b>	<b>25.2%</b>	<b>25.0%</b>

Source: BofA Global Research, company filings

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**More debt, more interest expense**

Since 3QF23-end, Core & Main has repurchased 20mn shares (12.5mn Class A and 7.5mn partnership units) at a cost of ~\$725mn. On 2/9/24, Core & Main entered a new \$750mn seven-year term loan. Based on current interest rates (one-month secured overnight financing rate + 235bp), this would add ~\$58mn of interest expense. Core & Main had \$101mn of cash at 3QF23-end.

**Exhibit 5: FY23 adj. EPS and pro forma for debt-funded buybacks**

Share repurchases are roughly neutral to adjusted EPS

FY23E (\$mn)	BofA est.	Pro forma
Adjusted pre-tax income	665	665
Incremental interest expense		58
Pro forma pre-tax income		608
Adjusted taxes	166	152
Adjusted tax rate	25.0%	25.0%
Adjusted net income	499	456
<b>Adjusted EPS</b>	<b>\$2.19</b>	<b>\$2.20</b>
Diluted share count	228	208

Source: BofA Global Research

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**Exhibit 6: Share repurchases and new term loan**

CNM spent ~\$725mn of share repurchases since 3QF23-end

(\$mn)	
11/5/2023 repurchases	152
12/6/2023 repurchases	178
1/8/24 repurchases	191
1/22/24 repurchases	205
<b>Total share repurchases</b>	<b>725</b>
New term loan	750
Current interest rate	7.7%
<b>Incremental annual interest expense</b>	<b>58</b>

Source: BofA Global Research, company filings

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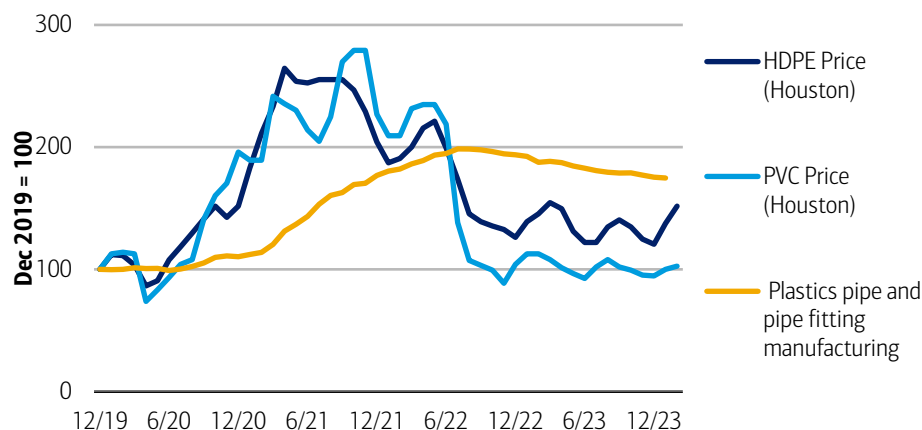
## Pricing declines in key product lines

### Producer price indexes for pipe have turned down y/y

We expect Core & Main's realized pricing to turn down on a y/y basis in its January-ended 4QF23. According to January's US producer price indexes, iron & steel pipe prices were down 13% y/y and plastic pipes & fitting prices were down 9% y/y. Raw material costs for plastic pipes have largely returned to pre-COVID levels. This suggests that plastic pipe prices will continue to normalize in FY24.

**Exhibit 7: Prices for raw materials and plastic pipes, 2019-23**

Prices for raw materials (PVC, HDPE) have fallen more than plastic pipe prices



Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research

Note: PVC = Polyvinyl chloride, HDPE = High Density Polyethylene

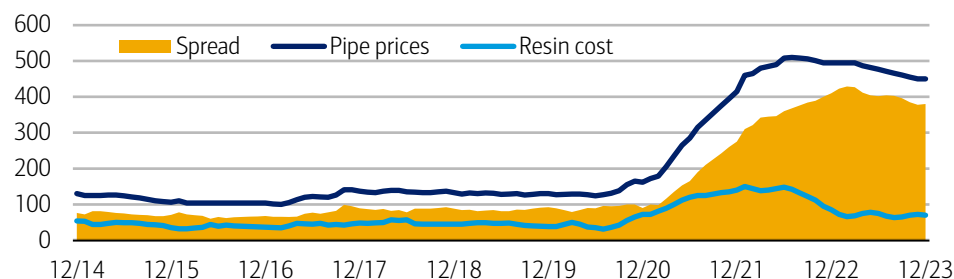
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### Pipe manufacturers expect price declines to continue

Otter Tail is a large US PVC pipe manufacturing with annual production capacity of 350mn pounds. In 2H24, they will add 26mn pounds of production capacity for large diameter pipe. At the midpoint of the company's 2024 guidance, earnings from its plastics division are expected to decline 39% y/y due to lower prices. CFO Todd Wahlund said on the 4Q23 earnings call, "For the Plastic segment, we project an eventual normal level of earnings between \$45-50mn due to an expected continuing downward trend of sales prices and resin spreads occurring throughout 2024 and into 2025."

**Exhibit 8: Otter Tail's reported PVC pipe prices, purchased PVC resin cost, and spread**

Pipe prices are declining, but spreads remain elevated



Source: BofA Global Research, company filings

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Westlake Corp. (covered by our colleague Steve Byrne) generates ~\$0.7bn in revenue from infrastructure pipes & fittings. Westlake's Housing & Infrastructure Products segment saw average sales prices decline 10% y/y in 4Q23.

**Pipe manufacturers are adding capacity**

The high spreads between pipe prices and resin costs are driving capacity additions by North American plastic pipe manufacturers. Below we highlight some of the publicly announced capacity additions.

**Exhibit 9: Announced capacity additions of US plastic pipe manufacturers**

Additional capacity being added in 2024

Company	Announcement date	Capacity	Cost (\$mn)	Status
Otter Tail	8/1/2023	26mn pounds	50	Operational 2H24
IPEX	10/5/2023	200,000 sq. ft.	200	Operational
Colclasher Enterprises	10/17/2023	3 production lines	9	Operational 1Q24
Prinsco	10/31/2023	73,000 sq. ft.	N/A	Operational mid-2024
Advanced Drainage Systems	11/2/2023	N/A	N/A	Under construction
Westlake Pipe	11/16/2023	N/A	134	Construction starting in 1Q24
Soleno	3/7/2024	45,000 sq. ft.	22	Operational 3Q24

Source: Company press releases, BofA Global Research

Note: some capacity additions may be for product lines not carried by Core & Main (e.g., small-diameter PVC pipe)

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**Peers also seeing price declines**

Peer Ferguson (FERG, Underperform, covered by our colleague Arnaud Lehmann) reported (2)% price deflation overall in its Jan-ended 2QF24. Approximately 20-25% of revenue comes from similar markets as Core & Main (e.g., waterworks and fire protection).

For Ferguson, commodity products make up ~14% of revenue. Management saw pricing for commodity-linked products down low- to mid-teens in the quarter. Pre-pandemic, commodity products were 10-11% of revenue, but this increased to 16% and is normalizing back down. According to management, Ferguson's commodity-based products include PVC pipe, steel pipe, cast iron pipe, ductile iron pipe, and copper pipe.

**Commodity-based products are meaningful for CNM**

In filings prior to FY22, Core & Main disclosed the mix of commodity-based products. We use these disclosures to estimate the commodity-based revenue mix in FY22, FY23E, and FY24E.

"PVC, ductile iron, fusible HDPE and steel and copper pipe and tubing products that included these commodities accounted for approximately 24% of our net sales in fiscal 2020." – Prospectus filing

“PVC, ductile iron, fusible HDPE and steel and copper pipe and tubing products that included these commodities accounted for approximately 32% of our net sales in fiscal 2021.” – FY21 10-K filing

We assume that the revenue impact from M&A and volume growth was identical for both commodity and non-commodity revenue. This implies that pricing on commodity-based products exceed 60% in FY21.

Our FY24E forecast for a (3)% overall price decline implies a (12)% y/y decline in pricing for commodity-based products.

#### Exhibit 10: Commodity versus non-commodity revenue, FY20-24E

We estimate commodity-linked products generated 42% of FY23E revenue

(\$mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Commodity	881	874	1,601	2,793	2,791	2,680
Non-commodity	2,508	2,768	3,402	3,858	3,935	4,373
<b>Total revenue</b>	<b>3,389</b>	<b>3,642</b>	<b>5,004</b>	<b>6,651</b>	<b>6,726</b>	<b>7,054</b>
% commodity	26%	24%	32%	42%	42%	38%
y/y %	FY19	FY20	FY21	FY22	FY23E	FY24E
Commodity revenue		-1%	83%	74%	0%	-4%
Less M&A (from below)		<u>8%</u>	<u>3%</u>	<u>4%</u>	<u>3%</u>	<u>5%</u>
<b>Organic commodity</b>		<b>-9%</b>	<b>80%</b>	<b>71%</b>	<b>-3%</b>	<b>-9%</b>
Volume (from below)		-2%	14%	5%	-4%	3%
Pricing		-7%	66%	66%	0%	-12%
y/y %	FY19	FY20	FY21	FY22	FY23E	FY24E
Non-commodity revenue		10%	23%	13%	2%	11%
Less M&A (from below)		<u>8%</u>	<u>3%</u>	<u>4%</u>	<u>3%</u>	<u>5%</u>
<b>Organic non-commodity</b>		<b>2%</b>	<b>20%</b>	<b>10%</b>	<b>-1%</b>	<b>6%</b>
Volume (from below)		-2%	14%	5%	-4%	3%
Pricing		4%	6%	5%	3%	3%
y/y %	FY19	FY20	FY21	FY22	FY23E	FY24E
Total revenue		7%	37%	33%	1%	5%
Less M&A		<u>8%</u>	<u>3%</u>	<u>4%</u>	<u>3%</u>	<u>5%</u>
<b>Total organic revenue</b>		<b>-1%</b>	<b>35%</b>	<b>29%</b>	<b>-2%</b>	<b>0%</b>
Volume		-2%	14%	5%	-4%	3%
Pricing		1%	21%	24%	2%	-3%

Source: BofA Global Research, company filings

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## Falling prices are a headwind for distributors

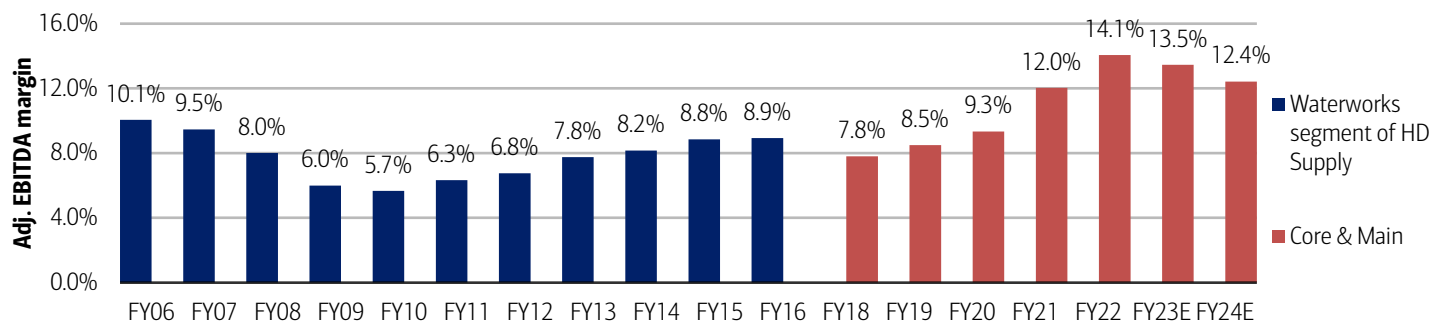
Falling prices are a headwind for a distributor. Gross margins are dragged by the sell-through of higher cost inventory. Operating margins are dragged by fixed cost deleveraging, even if unit volumes are flat. These trends were apparent in Core & Main's October-ended 3QF23. While pricing was flat y/y, gross margins declined 50bp y/y and SG&A (as a % of revenue) increased 40bp y/y. Adjusted EPS declined 3% y/y as a result.

Prior to its August 2017 acquisition by Clayton, Dubilier & Rice Core & Main operated as the Waterworks segment of publicly traded HD Supply. The chart below shows the long-term adjusted EBITDA margin of the business. We argue inflation-related benefits drove a meaningful portion of the margin expansion since FY20. As pipe prices normalize, we forecast EBITDA margins to decline by 90bp to 12.4% in FY24. Our forecast is well below consensus of 13.2% for FY24.



**Exhibit 11: Adjusted EBITDA margin for Core & Main and predecessor segment**

The company has a long-term average EBITDA margin of approximately 9%



Source: Company filings, BofA Global Research

Note: Core & Main operated as the Waterworks segment of HD Supply from its formation until the August 2017 sale to Clayton, Dubilier & Rice.

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## Valuation

We base our \$33 price objective on an 9x EV/EBITDA multiple of our CY25 estimate. Our target multiple is below the peer average of 18x on CY24 estimates. We argue a below-peer multiple is warranted given CNM's higher financial leverage and slower near-term EBITDA growth.

**Exhibit 12: Selected valuation metrics for comparable companies**

We base our \$33 price objective on 9x our CY25 EBITDA estimate

		Stock Price		P/E		EV/EBITDA		P/FCF		EBITDA Margin		EBITDA growth		Net Debt/EBITDA		Revenue growth	
Company	Ticker	3/8/2024	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	
Fastenal	FAST	\$75.63	35.0 x	32.1 x	24.0 x	22.2 x	43.2 x	39.8 x	23.1%	23.0%	7%	8%	0.0 x	0.0 x	7%	8%	
Ferguson PLC	FERG	\$200.52	19.9 x	18.0 x	14.2 x	13.0 x	23.1 x	21.9 x	10.3%	10.6%	4%	8%	1.0 x	0.9 x	3%	6%	
MSC Industrial Direct	MSM	\$99.00	16.4 x	15.4 x	10.3 x	9.6 x	15.6 x	17.7 x	14.3%	14.6%	1%	7%	0.7 x	0.6 x	3%	4%	
Pool Corp.	POOL	\$415.06	31.2 x	28.3 x	20.4 x	18.3 x	33.5 x	30.8 x	14.2%	14.5%	-1%	8%	0.1 x	-0.6 x	1%	5%	
SiteOne Landscape Supply	SITE	\$182.16	42.2 x	36.7 x	20.0 x	17.8 x	29.7 x	31.3 x	9.3%	9.6%	8%	9%	0.4 x	-0.3 x	6%	5%	
Watsco	WSO	\$401.08	27.9 x	25.4 x	16.4 x	14.6 x	23.3 x	20.8 x	11.4%	11.8%	2%	11%	-0.3 x	-0.5 x	5%	7%	
W.W. Grainger	GWW	\$970.32	<u>24.8 x</u>	<u>22.7 x</u>	<u>17.0 x</u>	<u>15.8 x</u>	<u>31.1 x</u>	<u>28.6 x</u>	<u>16.9%</u>	<u>16.9%</u>	<u>5%</u>	<u>7%</u>	<u>0.5 x</u>	<u>0.4 x</u>	<u>6%</u>	<u>7%</u>	
Peer average			28.2 x	25.5 x	17.5 x	15.9 x	28.5 x	27.2 x	14.2%	14.4%	4%	8%	0.3 x	0.1 x	5%	6%	
Core & Main	CNM	\$49.70	22.5 x	19.5 x	15.1 x	13.3 x	21.7 x	18.9 x	12.4%	12.7%	-3%	8%	2.2 x	1.5 x	5%	6%	
Core & Main at PO	CNM	\$33	14.9 x	12.9 x	10.7 x	9.3 x	14.4 x	12.5 x	12.4%	12.7%	-3%	8%	2.2 x	1.5 x	5%	6%	

Source: Bloomberg, BofA Global Research

Note: BofA estimates for Core & Main; Bloomberg consensus for all others

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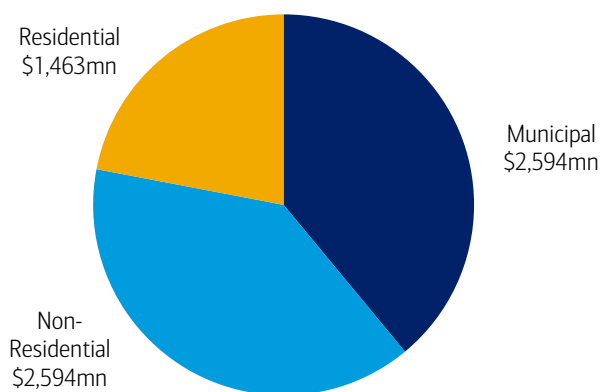
## Overview of Core & Main

**End markets:** Municipal (39% of revenue) sales often go through competitive bidding processes and typically have longer project timelines. These include direct sales to utilities and third-party contractors. Sales in residential (22%; single-family homes) tend to have shorter lead times and modestly higher gross margins. Core & Main does not offer interior home plumbing products. Non-residential sales (39%) are diversified across commercial, industrial, institutional, and multi-family property types; this includes the majority of fire protection sales.



**Exhibit 7: Revenue by end market (FY22A)**

Municipal demand is more resilient than new residential construction

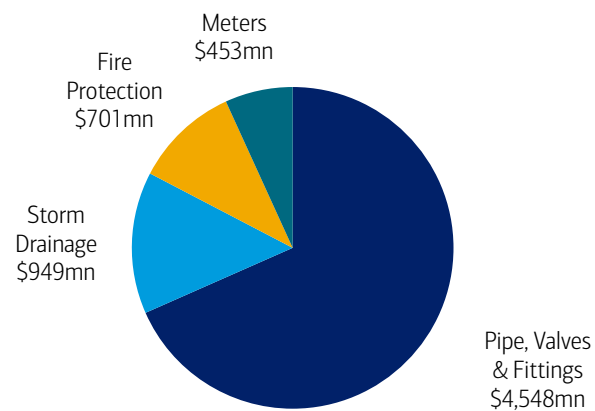


Source: Company filings

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**Exhibit 8: Revenue by product category (FY22A)**

Pipes, valves, &amp; fittings drive 67% of revenue



Source: Company filings

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## Price objective basis & risk

### Core & Main (CNM)

We base our \$33 price objective on an 9x EV/EBITDA multiple of our CY25 estimate. Our target multiple is below the peer average of 18x on CY24 estimates. We argue a below-peer multiple is warranted given CNM's higher financial leverage and slower near-term EBITDA growth.

Downside risks to our price objective are: 1) the ability to raise pricing in excess of cost inflation, 2) a downturn in new construction markets (approximately 45% of revenue), 3) risks around acquisition selection and integration, and 4) above-peer financial leverage may limit the company's ability to pursue its M&A strategy. Upside risks to our price objective are: 1) accretive M&A transactions, 2) better than expected growth in new construction, and 3) sustained period of premium pricing on manufacturing supply chain constraints.

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	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
<b>NEUTRAL</b>				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
<b>UNDERPERFORM</b>				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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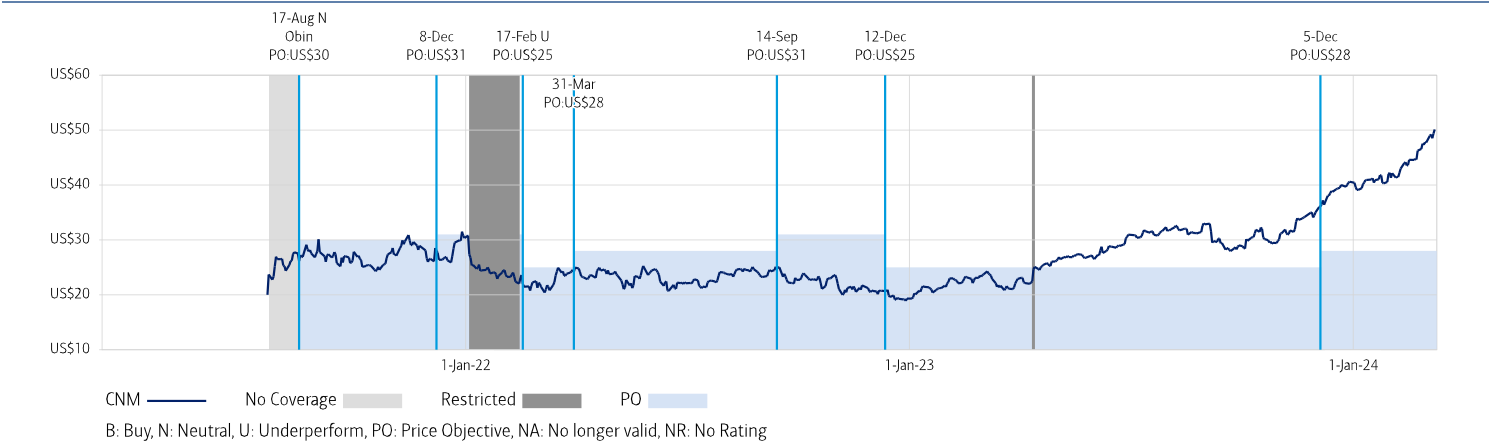
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Core & Main (CNM) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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