

## Mister Car Wash

## 4Q23 Recap: Titanium penetration surpassing initial target

Reiterate Rating: BUY | PO: 9.60 USD | Price: 7.98 USD

## UWC membership growth continues to drive performance

Mister Car Wash (MCW) reported 4Q comp growth of 0.7%, below our estimate of 1.0% and consensus of 1.8%. MCW added 6,000 net new Unlimited Car Wash (UWC) members in the quarter (10.3% increase YoY), and UWC sales now comprise 73.8% of revenue. UWC is a key differentiator versus the average independent car wash operator and helps smooth out the impact of weather and other short-term factors. Total sales of \$230.1mn was essentially in-line with our estimate of \$229.4mn and consensus of \$230.5mn. Operating margin contracted 115bp to 22.1% (vs. BofAe 21.0% and consensus 20.5%). Adj. EBITDA of \$69.5mn was above BoAe \$64.5mn and consensus \$67.1mn. MCW opened 14 greenfield locations in 4Q, bringing the total number of car wash locations to 476.

## Prioritizing trading up members into Titanium

MCW provided guidance for 2024. The company expects \$988-1,016mn revenue on a 0.5-2.5% comp. Adj. EBITDA is expected to be between \$291.5-308mn (vs. \$285.9mn in 2023). Net income is expected to be between \$99-111mn (vs. \$105.2mn in 2023). EPS is expected to be in the range of \$0.30-0.34. MCW expects to open 40 new greenfield locations, with the majority in existing markets. The company believes the introduction of Titanium, its new super-premium service, will act as a tailwind over the next several years as people trade up. MCW plans to focus on driving titanium conversion and revenue per member.

## Confident in MCW's ability to grow market share

Given 4Q results and 2024 guidance, we're lowering our 2024/2025 estimates by 17/19% and introducing 2026 estimates. We're also lowering PO from \$10 to \$9.6 as we roll forward the basis to 25x '25 P/E (25x '24 P/E prior). We reiterate our Buy rating as we are confident in MCW's long-term growth opportunity, and MCW has a superior margin profile vs. the average auto aftermarket company. Although there is concern that in an economic downturn, consumers will forego car washes which are more discretionary in nature than other auto maintenance like oil changes and repairs, the spending trends we track in our [BAC aggregated credit and debit card data \(02/08/2024\)](#) shows that car wash spending has consistently grown at a faster pace than either auto parts retail or professional auto services and outperformed other hardlines categories as well.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.43	0.40	0.32	0.32	0.38
EPS Change (YoY)	186.7%	-7.0%	-20.0%	0%	18.8%
Consensus EPS (Bloomberg)			0.31	0.36	0.44
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	18.6x	20.0x	24.9x	24.9x	21.0x
EV / EBITDA*	NA	16.7x	16.5x	15.9x	14.2x
Free Cash Flow Yield*	1.9%	1.5%	-4.9%	-5.1%	-3.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

21 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	10.00	9.60
2023E Rev (m)	926.3	927.1
2024E Rev (m)	1,018.9	1,002.2
2025E Rev (m)	1,112.3	1,080.3
2023E EPS	0.31	0.32
2024E EPS	0.39	0.32
2025E EPS	0.47	0.38

**Jason Haas, CFA**  
Research Analyst  
BofAS  
+1 646 743 0587  
[jason.haas@bofa.com](mailto:jason.haas@bofa.com)

**Vicky Liu**  
Research Analyst  
BofAS  
+1 646 855 5115  
[yanjun.liu@bofa.com](mailto:yanjun.liu@bofa.com)

## Stock Data

Price	7.98 USD
Price Objective	9.60 USD
Date Established	21-Feb-2024
Investment Opinion	C-1-9
52-Week Range	4.80 USD - 10.07 USD
Mrkt Val (mn) / Shares Out (mn)	2,506 USD / 314.1
Free Float	28.9%
Average Daily Value (mn)	10.09 USD
BofA Ticker / Exchange	MCW / NYS
Bloomberg / Reuters	MCW US / MCW.N
ROE (2023E)	12.3%
Net Dbt to Eqty (Dec-2022A)	108.8%
ESGMeter <sup>TM</sup>	NLA

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Timestamp: 21 February 2024 07:06PM EST

# iQprofile<sup>SM</sup> Mister Car Wash

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.1%	6.6%	6.1%	5.7%	5.7%
Return on Equity	40.9%	17.9%	12.3%	9.9%	8.8%
Operating Margin	27.1%	25.1%	23.3%	22.3%	22.9%
Free Cash Flow	48	38	(123)	(128)	(97)

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.8x	1.9x	2.4x	2.3x
Asset Replacement Ratio	2.5x	3.1x	4.7x	5.0x	4.5x
Tax Rate	17.0%	26.6%	25.3%	25.0%	25.0%
Net Debt-to-Equity Ratio	139.2%	108.8%	100.9%	72.1%	52.8%
Interest Cover	5.2x	5.3x	2.9x	2.8x	3.1x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	758	877	927	1,002	1,080
% Change	31.9%	15.6%	5.8%	8.1%	7.8%
Gross Profit	537	630	672	717	772
% Change	40.8%	17.3%	6.6%	6.6%	7.8%
EBITDA	0	259	262	273	305
% Change	NA	NA	1.0%	4.2%	11.8%
Net Interest & Other Income	(39)	(42)	(75)	(81)	(81)
<b>Net Income (Adjusted)</b>	<b>138</b>	<b>131</b>	<b>105</b>	<b>107</b>	<b>125</b>
<b>% Change</b>	<b>219.3%</b>	<b>-5.0%</b>	<b>-19.6%</b>	<b>1.6%</b>	<b>16.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	138	131	105	107	125
Depreciation & Amortization	51	62	70	77	85
Change in Working Capital	(62)	(39)	(35)	1	7
Deferred Taxation Charge	(27)	29	18	0	0
Other Adjustments, Net	74	46	46	72	72
Capital Expenditure	(126)	(192)	(328)	(385)	(385)
<b>Free Cash Flow</b>	<b>48</b>	<b>38</b>	<b>-123</b>	<b>-128</b>	<b>-97</b>
<b>% Change</b>	<b>10.4%</b>	<b>-21.0%</b>	<b>NM</b>	<b>-3.8%</b>	<b>24.4%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(167)	(2)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	20	65	19	44	100
Trade Receivables	1	4	6	5	5
Other Current Assets	38	37	36	39	42
Property, Plant & Equipment	472	561	725	1,033	1,333
Other Non-Current Assets	1,917	2,019	2,096	2,096	2,096
<b>Total Assets</b>	<b>2,448</b>	<b>2,686</b>	<b>2,882</b>	<b>3,216</b>	<b>3,575</b>
Short-Term Debt	38	41	45	45	45
Other Current Liabilities	92	113	125	127	137
Long-Term Debt	896	896	897	897	897
Other Non-Current Liabilities	764	835	900	900	900
<b>Total Liabilities</b>	<b>1,791</b>	<b>1,885</b>	<b>1,967</b>	<b>1,969</b>	<b>1,979</b>
<b>Total Equity</b>	<b>657</b>	<b>801</b>	<b>915</b>	<b>1,247</b>	<b>1,596</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,448</b>	<b>2,686</b>	<b>2,882</b>	<b>3,216</b>	<b>3,575</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Retailing-Hardlines

## Company Description

Mister Car Wash is the largest car wash chain in the US with over 430 locations under a unified brand, all company-owned. The company derives the majority of its revenue from its Unlimited Wash Club subscription offering. MCW has historically grown predominantly through acquiring and rebranding smaller competitors, but has more recently begun to add new greenfield locations.

## Investment Rationale

We view MCW as a well-run company with a long track record of strong financial performance and significant white space opportunity for expansion. We now view valuation as attractive and see meaningful upside over the next 12 months.

## Stock Data

Average Daily Volume 1,264,756

## Quarterly Earnings Estimates

	2022	2023
Q1	0.11A	0.08A
Q2	0.11A	0.09A
Q3	0.09A	0.08A
Q4	0.08A	0.07E

## Price objective basis & risk

### Mister Car Wash (MCW)

Our \$9.6 price objective is based on a '25E P/E of 25x, a premium to auto aftermarket companies (15x), which we view as warranted given MCW's long track record of strong growth & high margins, its large white space opportunity, mitigated somewhat by the relatively discretionary nature of its services.

Upside risks to our price objective: 1) Recovery in US driving activity and auto service sales broadly could be faster than modeled, 2) MCW's M&A activity may exceed the pace we expect, 3) MCW could achieve higher subscription penetration and better cost leverage than expected. Downside risks: 1) Miles driven could slow, reducing auto service demand, 2) acquisition targets could be harder to find, and sellers' price expectations could rise, 3) unexpected cost inflation and/or stagnation in subscription penetration could limit operating leverage.

## Analyst Certification

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### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



## US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**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 & 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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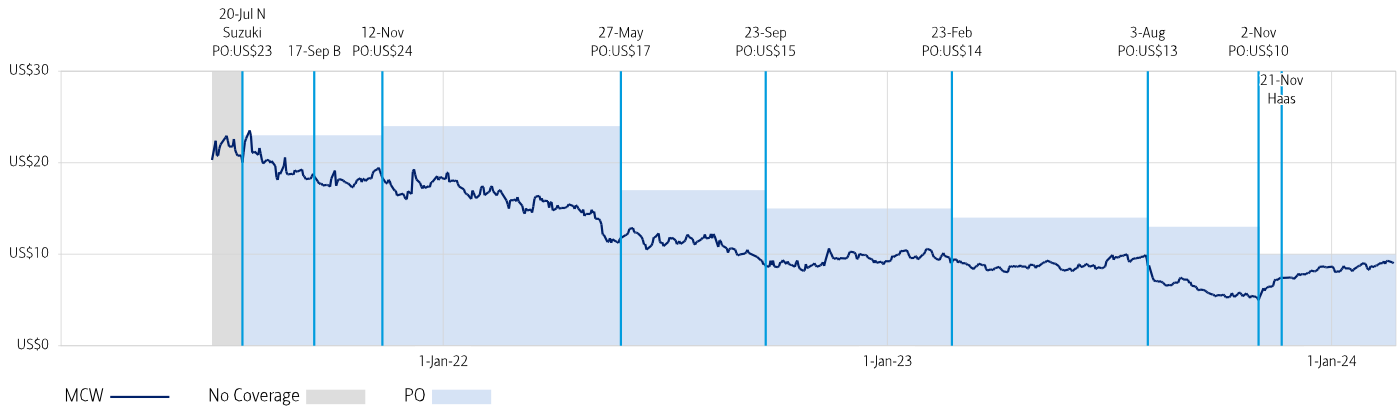
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### Mister Car Wash (MCW) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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