

## Mister Car Wash

## MCW Bloomberg card data shows accelerating growth from Jan to Feb

Maintain Rating: BUY | PO: 9.60 USD | Price: 8.37 USD

## Bloomberg Second Measure shows correlation

Bloomberg Second Measure credit and debit card data shows that there is a 57% correlation between MCW's total revenue growth and average transaction value growth (Exhibit 1) and 41% correlation between comps and observed sales growth (Exhibit 2). We're currently modeling 8.1% revenue growth and 1.5% comps in 2024, with sequential acceleration through the quarters. This is in-line with the company's 2024 guidance in which it expects \$988-1,016mn revenue on a 0.5-2.5% comp. 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.

## 2024 is off to a solid start for MCW

Quarter-to-date, Bloomberg Second Measure credit and debit card data shows mostly positive y/y change in MCW's observed sales (Exhibit 3). January showed a slight dip, but observed sales started to accelerate after mid-January. Growth continued in February and reached over 12%. During the 4Q earnings call, the company commented that it expects positive comps in 1Q24. Historically, March is the stronger month in 1Q, so the trend from Bloomberg data is an encouraging sign.

## Confident in MCW's long-term trajectory

We maintain our PO of \$9.6 based on 25x '25E P/E, a premium to auto aftermarket companies (15x), which we view as warranted given MCW's long track record of strong growth & high margins. We maintain 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 [aggregated BAC 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	0.32	0.39
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	19.5x	20.9x	26.2x	26.2x	22.0x
EV / EBITDA*	NA	17.2x	17.0x	16.3x	14.6x
Free Cash Flow Yield*	1.8%	1.4%	-4.7%	-4.9%	-3.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

29 February 2024

## Equity

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

**Robert F. Ohmes, CFA**  
Research Analyst  
BofAS  
+1 646 855 0078  
[robert.ohmes@bofa.com](mailto:robert.ohmes@bofa.com)

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

## Stock Data

Price	8.37 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)	2,629 USD / 314.1
Free Float	28.9%
Average Daily Value (mn)	11.02 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™	NLA

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 29 February 2024 03:09PM 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 5.

## 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

1,316,709

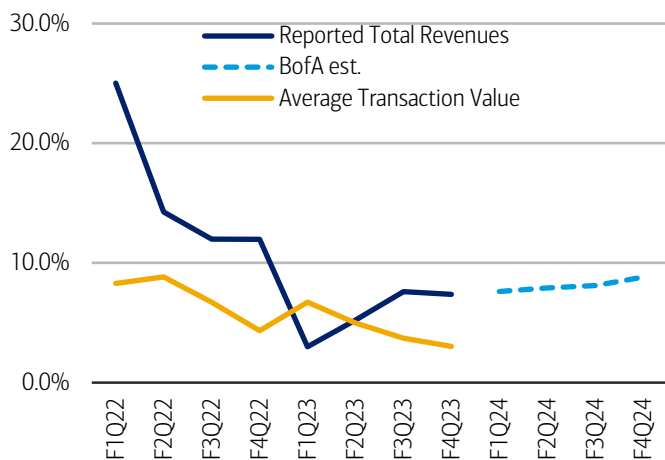
## Quarterly Earnings Estimates

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

# Bloomberg Second Measure data

## Exhibit 1: Bloomberg Second Measure credit and debit card data – Average Transaction Value (ATV)

Average Transaction Value (ATV) decelerated in 2023 from 6.70% y/y in F1Q to 3.01% y/y in F4Q

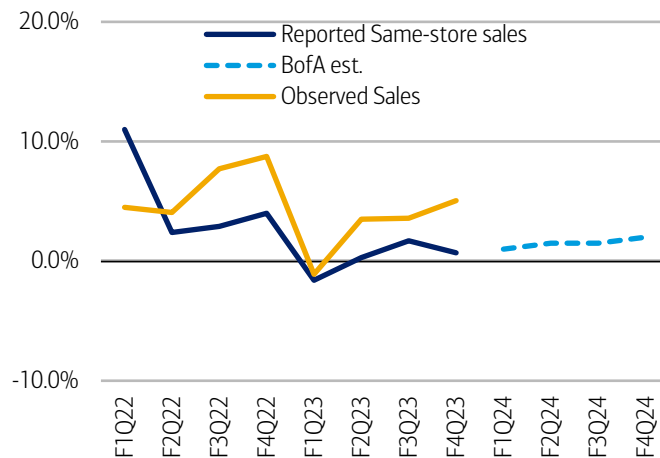


Source: Bloomberg Financial LP – ALTD <GO>, Company filings

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## Exhibit 2: Bloomberg Second Measure credit and debit card data – Observed Sales

Observed sales accelerated from 3.58% y/y in F3Q to 5.06% y/y in F4Q

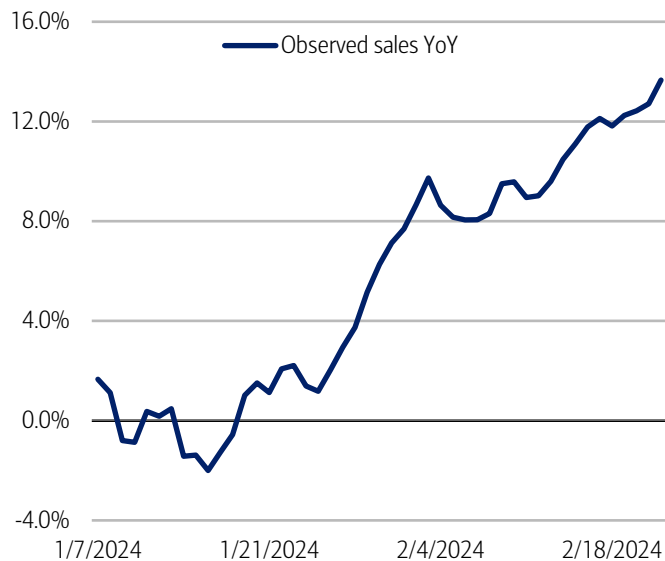


Source: Bloomberg Financial LP – ALTD <GO>, Company filings

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## Exhibit 3: Bloomberg Second Measure credit and debit card data – Observed Sales

Observed sales growth accelerated from January to February and reached over 12%



Source: Bloomberg Financial LP – ALTD <GO>

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## 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

I, Jason Haas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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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
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	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
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	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

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

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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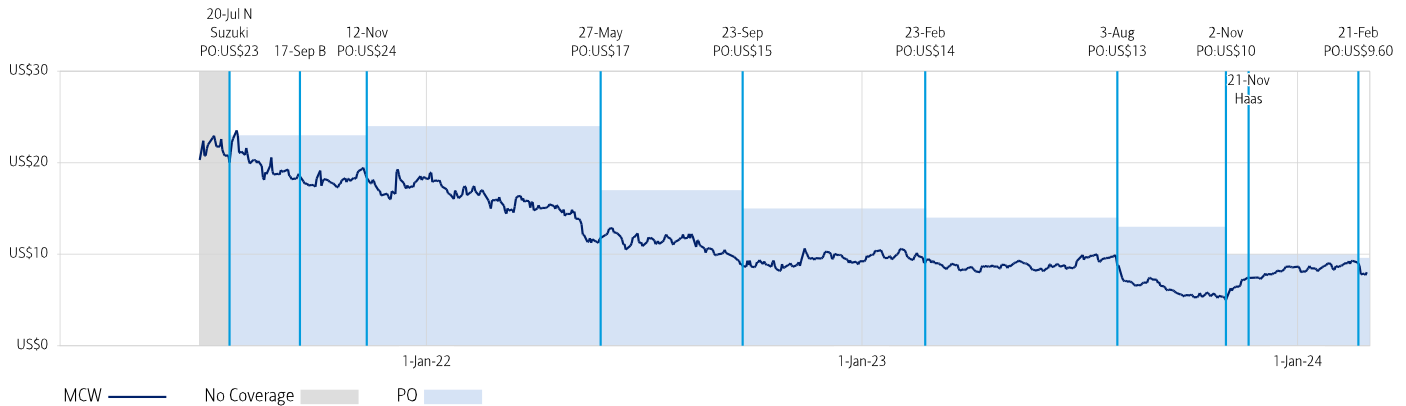
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### Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

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%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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