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Core & Main, Inc. (CNM)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the Core & Main Q2 2026 Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Landon Althoff, Vice President of Investor Relations. Landon, please go ahead.

Landon Althoff

Vice President-Investor Relations, Core & Main, Inc.

Good morning and thank you for joining us. I'm Landon Althoff, Vice President of Investor Relations at Core & Main. We appreciate you taking the time to be with us today for Core & Main's fiscal 2026 second quarter earnings call.

Joining me this morning are Mark Witkowski, our Chief Executive Officer and Robyn Bradbury, our Chief Financial Officer. Brad Cowles, our President, is also with us and will be available for the question-and-answer portion of today's call. Mark will begin with a business update highlighting our quarterly performance and the continued momentum across the business, including large project opportunities, greenfield expansion and our M&A pipeline. Robyn will follow with a review of our financial results and outlook for fiscal 2026. We will then open the line for questions before Mark wraps 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 release and 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. Reconciliations to the most comparable GAAP measures are available in both our press release and the appendix of today's investor presentation. Thank you again for your interest in Core & Main.

I'll now turn the call over to our Chief Executive Officer, Mark Witkowski.

Mark R. Witkowski

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

Thanks, Landon and good morning, everyone. Thank you for joining us today. During the second quarter, we delivered growth in sales, adjusted EBITDA and EPS with momentum building across the business. We see it in our healthy backlog, growing participation in large complex infrastructure projects and increased activity across our acquisition pipeline. Combined with our strong cash generation and balance sheet flexibility, Core & Main is well positioned to capitalize on the opportunities ahead, drive long-term growth and create value for shareholders.

Net sales in the second quarter were approximately \$2.1 billion, up 2.5% compared with the prior year. Adjusted EBITDA grew approximately 3% to \$274 million, while adjusted EBITDA margin expanded 10 basis points to 12.8%, reflecting disciplined cost management and meaningful SG&A leverage. Adjusted diluted EPS was \$0.94, an increase of 8% over the prior year. These results reflect consistent execution throughout the business.

Growth in the quarter was driven by continued strength in treatment plant solutions and fire protection, along with a growing contribution from data center projects, which has nearly doubled year-over-year. Treatment plant, data center development and other large scale infrastructure work increasingly draw on what differentiates Core & Main, deep local expertise, strong supplier relationships and the technical and project support capabilities needed to execute reliably over the multi-year project cycles. As these projects become a more meaningful part of our growth profile, we continue investing in the capabilities and product breadth needed to capture the opportunity ahead.

We also continued to execute our long-term growth initiatives, expanded our footprint with new greenfield locations and advanced strategic opportunities across our M&A pipeline. Additionally, we put our strong cash generation and balance sheet flexibility to work and executed our second consecutive quarter of record open market share buybacks. Since our IPO, we have repurchased nearly 25% of the shares outstanding. Robyn will work through the details shortly, but these repurchases reflect our confidence in the long-term value of Core & Main and our disciplined, opportunistic approach to allocating capital where we believe returns are most attractive.

Turning to our end markets. Municipal demand continue to be a source of strength. The long-term need to repair, replace and expand critical water infrastructure remains significant and continues to support investment across the municipal end market. The EPA estimates the US drinking water, wastewater and stormwater systems require more than \$1.2 trillion of investment over the next 20 years to replace, rehabilitate and expand aging infrastructure. After decades of underinvestment and deferred maintenance, many water systems face increasing pressure to replace aging infrastructure before failures, water loss and service disruption become more frequent or costly.

At the same time, municipalities are investing to improve water quality, comply with evolving regulatory requirements, expand treatment capacity, adopt smart utility technologies, and support population-driven growth. These investments are essential, largely non-discretionary and supported by a diverse mix of state, local and federal funding sources. The vast majority of municipal water infrastructure spending is funded at the state and local level, which helps support consistent investment activity regardless of the federal funding environment. While the pace and timing of individual projects may vary, the underlying need remains clear. Water infrastructure continues to be a critical priority for municipalities and utilities, supporting our confidence in the opportunities ahead.

Our treatment plan initiative delivered another quarter of strong double-digit growth and remains one of the most compelling growth opportunities within our municipal platform. Leveraging our deep municipal relationships, we continue to expand our product offering, technical expertise and project support capabilities to support a larger share of treatment plant projects. As a result, treatment plant projects have grown to a mid-single digit percentage of our sales mix with substantial opportunity for further expansion.

We are particularly focused on increasing our mix of higher value specialty products, which deepen our involvement and expand the content we provide on each project. With significant runway ahead, we see meaningful opportunities to grow this business through both organic expansion and strategic acquisitions.

Within smart utility, we continue to see strong underlying demand and are winning projects across municipalities and utilities of all sizes. Recent wins reinforce our confidence in the business' growth trajectory, with a number of larger projects expected to continue over multiple periods as deployments ramp. We believe smart utility is well-positioned to benefit from continued investment and system visibility, water loss reduction, billing accuracy and operational efficiency.

Within non-residential construction, performance continue to vary across project types. But we saw encouraging strength across several key categories. Fire protection delivered another strong quarter, with sales increasing 14%. Growth was driven by higher volumes and continued share gains and higher steel pricing. Momentum remains strong across the business, supported by our expanding geographic footprint, broad capabilities and a steady stream of project wins.

Data center development remains one of the most active areas of infrastructure investment today and continues to drive opportunities across multiple product categories. We support these projects from the earliest stages of site development providing the water, wastewater and storm drainage infrastructure needed to prepare and serve these facilities. As construction progresses, we also provide the fire protection systems that support these critical assets. We continue to see a growing contribution from data center related activity across our business.

The impact extends beyond the data center itself. These large scale developments often require municipalities and utilities to expand water and wastewater capacity and can spur additional commercial and residential growth in surrounding communities. As a result, data center investments can create broader infrastructure demand over time.

Residential lot development remain challenged during the quarter as expected, particularly in markets that benefited from strong development activity last year. While affordability concerns and higher interest rates continue to influence near-term activity, we expect comparisons to become considerably more favorable in the back half of the year.

Over the long-term, the fundamentals remain strong. Population shifts, household formation and a structural housing shortage continue to support the need for additional residential development, giving us confidence in the long-term opportunity within this end market. As we look ahead, we continue to build for the long-term, expanding our large project capabilities, extending our geographic reach and advancing opportunities across our acquisition pipeline.

Geographic expansion remains an important part of our growth strategy. So far this year, we've opened seven new greenfield locations, including two recent openings in attractive markets, where we see opportunities to improve our customer proximity, expand our reach and gain share.

We evaluate new locations based on market size, infrastructure demand, customer needs, and our competitive position. While greenfield locations require investment and time to mature, they allow us to strengthen local relationships, expand service capabilities and build market density over time. We are on track to open a record number of greenfield locations this year, extending our national capabilities into new and underpenetrated markets.

Alongside our organic expansion efforts, we continue to see compelling opportunities to grow through M&A. Following quarter end, we completed the acquisition of [ph] Walker Industries (00:11:37), a provider of storm drainage products in Hawaii. This acquisition broadens our product offering in the market, complements our existing operations, and represents just one example of a growing number of larger opportunities ahead.

More broadly, our M&A pipeline has meaningfully accelerated. We continue to advance discussions across the range of opportunities, including acquisitions that expand our geographic footprint, broaden our product offering and capabilities, and strengthen our position in attractive end market. These opportunities span a range of transaction sizes, from complementary bolt-on acquisitions to larger strategic transactions.

Many of these businesses are seeking a long-term partner that can provide additional resources, expand product breadth and future growth opportunities while preserving the local relationships that have driven their success. For Core & Main, these acquisitions expand the solutions we can offer customers, help simplify increasingly complex projects and create opportunities to deepen customer relationships and drive long-term growth.

Our customer-focused operating model, strong culture, long record of successful integrations and commitment to local market leadership, continue to resonate with business owners. And we believe Core & Main remains uniquely positioned to be that partner. Supported by our strong balance sheet, ample liquidity and proven acquisition playbook, we remain well-positioned to pursue opportunities that expand our capabilities, extend our geographic reach and create long-term value for shareholders.

With that, I'll turn it over to Robyn for the financial update.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Thanks, Mark, and good morning, everyone. I'll begin on page 7 of the presentation with an overview of our second quarter results. Net sales increased 2.5% to \$2.1 billion, with volume, price and acquisitions each contributing positively. As Mark mentioned, municipal demand remained a key source of strength, supported by a broad range of activity across water and wastewater infrastructure.

Within non-residential, activity was led by data center construction, offset by ongoing softness in light commercial and retail. Residential lot development remain challenged against the tougher prior year comparison in line with our expectations.

Pricing was up slightly in the quarter as increases across much of our portfolio more than offset lower year-over-year PVC pricing. Gross margin was approximately 26.7% similar to the prior year, as benefits from our margin initiatives, including private label were offset by normal shifts in project mix and a stabilizing price environment within certain product categories. Our private label and sourcing initiatives remain on track and continue to support our long-term margin objectives.

Total SG&A was approximately \$301 million, roughly flat with the prior year period, while improving approximately 40 basis points as a percentage of sales. Notably, we held SG&A dollars flat while growing net sales 2.5% even as we continue to invest in greenfields, growth initiatives and acquisitions. This was enabled by disciplined cost management and executed savings initiatives that offset inflation and supported our strategic investments.

We delivered adjusted EBITDA growth of approximately 3% to \$274 million, compared with \$266 million in the prior year period. Strong SG&A leverage drove a 10 basis point increase and adjusted EBITDA margin to 12.8%. Adjusted diluted earnings per share increased 8% to \$0.94, compared with \$0.87 in the prior year, marking another quarter of strong per share earnings growth. The result reflects growth in adjusted net income and the benefit of a lower diluted share count resulting from our substantial share repurchase activity.

Turning to the balance sheet, cash flow and capital allocation. We ended the quarter with net debt of approximately \$2.2 billion and net debt leverage of approximately 2.3 times within our target range. Total liquidity was approximately \$1.5 billion, including over \$300 million of cash, with the remainder primarily available under our ABL facility. Operating cash flow was \$62 million during the quarter and \$144 million throughout the first half of the year. Our cash generation reflects disciplined working capital management and the strength of our asset-light business model.

As is typical with the seasonality of our business, we expect the majority of our operating cash flow generation to occur during the second half of the fiscal year. Over the last 12 months, we've generated a free cash flow yield of 7.5% of our market capitalization. That's more than double the average of S&P 500 companies and meaningfully above specialty distribution peers. During the quarter, we further strengthened our capital structure through refinancing transactions that extended our debt maturities and enhanced financial flexibility. These actions position us to support future growth opportunities while maintaining a strong and flexible balance sheet.

Our strong cash generation and balance sheet flexibility also allowed us to return significant capital to shareholders during the quarter. We deployed \$169 million to repurchase 3.7 million shares, marking our second consecutive quarter of record open market repurchases. Including buybacks completed subsequent to quarter end, we have now deployed nearly \$270 million to repurchase approximately 5.7 million shares during fiscal 2026.

Since our IPO, we have deployed nearly \$2 billion to repurchase approximately 58 million shares, representing almost 25% of the shares outstanding at the time of our IPO. This level of capital deployment reflects our ability to generate strong cash flow and our confidence in the long-term value of Core & Main. At the same time, our balance sheet and liquidity continue to provide substantial flexibility to invest organically, expand our greenfield footprint, pursue acquisitions and return capital to shareholders through opportunistic share repurchases.

Turning to our outlook. We are affirming our full year guidance for net sales of \$7.8 billion to \$7.9 billion, adjusted EBITDA of \$950 million to \$980 million and operating cash flow conversion of 60% to 70%. We remain confident

in our ability to deliver our full year outlook. Our second quarter results demonstrated the strength of our operating model driving meaningful SG&A leverage and adjusted EBITDA margin expansion.

Continued strength in fire protection, treatment plants, data centers and record greenfield openings are increasing our visibility into demand and reinforcing that confidence. Backed by a strong balance sheet, substantial liquidity and consistent cash generation, we are well-positioned to continue generating profitable growth while returning capital to shareholders through share repurchases over the short, medium and long-term.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question is from the line of Brian Biros with Thompson Research Group. Brian, your line is open. Please go ahead.

Brian Biros

Analyst, Thompson Research Group LLC

Hey, good morning, everyone. Thank you for taking my questions this morning.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Hi, Brian.

Brian Biros

Analyst, Thompson Research Group LLC

Good morning. Municipal, again, called out as a source of strength. Can you maybe just talk a little bit more about the end market kind of where we sit today? I know you provided some high-level details in the prepared remarks, but maybe if you could talk a little bit more direct to the quarter or even the near-term. I think, there may be some mixed views on the end market, just how strong it really is or can continue to be. So, maybe just talk about kind of what you're seeing in that segment on the ground would be helpful.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Yeah, sure. I'll take that one, Brian. Thanks for the question. So I'll start talking about municipal. And I would say, overall, the market is vastly in line with what we expected and in line with what we've been seeing over the last couple of quarters. Municipal continues to be strong, stable, steady, kind of up in that low-single digits range, good funding sources, consistent repair and replacement activity. And that's an end market that we expect to be strong and stable as we go forward.

On non-residential, it was kind of flattish to maybe up slightly a little bit in the quarter. Most project types within non-residential are on the weaker side, especially that traditional or light commercial type of work. But it's really being uplifted by that data center activity. And as you heard in our prepared remarks, we're seeing a lot of really good data center activity and a lot more projects for us there. So, that's really what's helping hold non-residential up.

And then, residential continues to be more of the same. We saw that decline in the back half of 2025. It hasn't really moved up or down since that point in time. So, it was down kind of high-single digits or so in the quarter. Those comps for us do get easier in the back half of the year as we anniversary the decline in last year. So, expect that the residential market would be flattish to down slightly in the back half of the year and residential would be down kind of mid-single digits for the full year.

Brian Biros

Analyst, Thompson Research Group LLC

Got it. Helpful. And then, second question, maybe on the fire protection share gains there, can you talk more about that? I guess, just how are you measuring kind of what counts as a share gain? Who you think are taking share from large competitors or mom and pops? And I guess, what's kind of triggering that customer to switch to the Core & Main offering?

Mark R. Witkowski

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

Yeah. Thanks, Brian. This is Mark. I'll take that one. We've been really pleased with the performance of our fire protection product line here over the last, I'd say, 12 to 18 months. It's definitely been supported by increases in steel pricing that we've laid out. So, that's been a portion of the strong growth. But, definitely from a volume perspective, they're seeing the same kind of softness across the construction at the rest of the businesses, but seeing a lot of really good share gains really across the board.

We have had some whitespace in the fire protection area. So, we've added some really good locations here over the last couple of years that are benefiting from share gains. And I'd say, beyond that, we've been a very consistent, kind of reliable partner to our contractors that we do work with there. And I believe we've been taking share really, from, I'd say various other competitors across the board of all sizes. So, that team is really firing on all cylinders right now. They're just doing a great job. So, really pleased with the performance there.

Brian Biros

Analyst, Thompson Research Group LLC

Yeah. Thank you.

Operator: Your next question comes from the line of Matthew Bouley with Barclays. Matthew, your line is now open. Please go ahead.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Good morning, everyone. Thank you for taking the questions. I wanted to touch on the overall guide for the year. So, obviously unchanged. Questions really just around some of the moving pieces in that. It seems like in the quarter, maybe you got a little bit of positive price. On the other hand, at least the gross margin was a little bit lighter than our own model. So, maybe if you can kind of dive into those couple of pieces. Is the gross margin coming in any lower than you guys expected internally and kind of what would be some of the offsets within the overall guide there? Thank you.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Sure, Matt. Thanks for the question. So, you're right, the guide is unchanged. Everything is coming in line with our expectations. The market's really in line with what we expected. EBITDA is in line with what we expected. Margins are down from the first quarter, which can happen. We can see variability from quarter-to-quarter, but we really made up for that on the SG&A. So, we look into, like the second half of the guide, we expect our EBITDA rate to be positive year-over-year, expect that to be mostly driven by the fourth quarter. But do expect for the full year to get a little bit of improvement in gross margin and a little bit in SG&A to meet that guide. And overall, we're confident in our gross margins being supportive and our SG&A being supportive and meeting that EBITDA guidance for the year.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. That's helpful. And then, secondly, just diving into the smart utilities and the meters business. I mean, it look like, at least in the commentary that you may have had some positive price there. And I wasn't sure if the volumes had actually pulled back a little bit in that business. So, maybe you can kind of, if there's anything there around large project timing or just kind of your broader visibility into how the smart utilities business may play out here into how you're expecting the second half of the year in that segment. Thank you.

Bradford A. Cowles

President, Core & Main, Inc.

A

Yeah. Hey, Matt. Thanks for the questions. It's Brad. I'll take this one. There was a little bit of price, but volume was essentially flat. It didn't go backwards at all. So, it's kind of a – netted out to about that [ph] plus 1% (00:26:45) for the quarter. We see in that business pretty good fundamental flow on our – think of the business we've got as an installed base across a growing list of municipalities as our smart utility initiative has had tremendous success, particularly in the recent years.

We've got a pretty good installed base and that installed base is performing well. It's delivering kind of that groundswell of flow. We are winning an increasing number, as we've talked about of really large and exciting, smart utility projects that are of significant size and complexity. And I think with that definitely comes some challenges getting some of these projects started. The early phases of these large projects have a lot of variability in the timing pilot phases, all sorts of interesting challenges to overcome.

And so, we are seeing a little bit of a large project start timing impact here that's keeping us kind of in that flat range on top of that great run rate business. But, we have a tremendous backlog. We do continue to win some projects, medium, large, that are going to give us some exciting execution we think starting in latter in the year, into 2027 for sure.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Q

Got it. Well, thanks, Brad. Good luck, guys.

Bradford A. Cowles

President, Core & Main, Inc.

A

Thank you.

Operator: Your next question comes from the line of Matt Johnson with UBS. Matt, your line is open. Please go ahead.

Matthew Johnson

Analyst, UBS Securities LLC

Q

Hey, good morning, guys. I appreciate the time. I guess, my first question is on pricing. I know last quarter, PVC pricing was, I think, a bigger topic, but it sounds like a lot of those price announcements from earlier this year didn't really stick. I guess, could you guys just kind of give us an update on what you saw in terms of municipal PVC pipe pricing through the quarter, your expectations into the back half? And then, also, I guess, kind of similar to that, but different is just on HDPE pricing, what you've seen there, given the similar disruption in the resin costs?

Bradford A. Cowles

President, Core & Main, Inc.

A

Yeah. Got it. This is Brad, again. I'll take that. Just kind of what I'm seeing from the field, there were a lot of price signaling, when we talked at the last quarter that prices might go up. And we were – we didn't have full confidence in that. We weren't seeing in this particular end market the likelihood of that price sticking. And that's why we weren't overly excited about changing anything with respect to PVC price.

On the bright side, we are encouraged that PVC pricing has kind of stabilized and been in a pretty flattish mode as opposed to its continual decline that we've been living through for the last period. So, that part of it has been pretty good. But, we have just seen an inability, I guess, of the market, given where it's at, to support any pricing increases. So net, we continue to remain steady with pricing and on PVC and we see it kind of sitting there for the time being. We don't really have any indication until demand really picks up in those end markets that are heavy PVC consumers that that's likely to change. And on HDPE, I'll hand it over to Mark.

Mark R. Witkowski

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

A

Yeah, Matt. I'll cover the HDPE. We've got two different pipe categories there that utilize that kind of product. There's corrugated HDPE that goes into the storm drainage market and then there's fusible HDPE that's used across various different applications. I would tell you on the corrugated HDPE storm drainage side, I'd say the pricing in that, that area has been relatively steady. On the fusible HDPE side, it's little bit more of a commodity type product. That's a very small percentage ultimately of what we sell. But that has seen some spikes recently. The disruption in the Middle East definitely impacted resin. That product typically follows some of those resin spikes. So, we've seen some increases there with pricing in that category. A little bit of a mixed bag just depending on the nature of that application.

Matthew Johnson

Analyst, UBS Securities LLC

Q

That's great. Appreciate that color. And, I guess, if I could just follow-up on the meters business, is there any update you guys could give or have just on the status of the Miami-Dade contract and when that could begin shipping? And just any additional color on kind of the timing or magnitude of some of these additional large project wins you guys talked about? And then, I guess, also just bigger picture, I guess, as you guys mix towards more of these large projects moving forward in the meters business, is there any sort of margin impact we should think about there as you guys take on some of those additional services?

Bradford A. Cowles

President, Core & Main, Inc.

A

Yeah. I'll take that one. Let me see if I can unpack all of that, starting with Miami-Dade. That's the largest project we think there's ever been in this space and we're excited to be a part of it. That said, it probably exemplifies the

amount of pilot work and pre-work that has to be done before that project really hits its stride. We're anticipating, in fact, we're in the middle right now of a number of small pilot stages that are going to start to ramp up. We think we'll see some Miami-Dade volume move towards the end of the year.

It'll be a relatively small percentage of the overall project, somewhere between 5% and 10%, I would estimate. And then, we fully expect by 2027 for that to hit its full run rate, it's about a five-year project implementation. So, it's a pretty strong number, 100,000 meters being installed and connected to the systems per year, is approximately what we would expect. So, pretty significant volume, the most significant we've done. But with that, there's a lot of challenges and a lot of moving parts that we just continue to manage with our team there.

On the – some other – just one mention I'll make, we were able to win a project with Connecticut Water that's a pretty substantial scale and that's pretty exciting for us. We've become a really strong metering, smart utility player in our Northeast region, which has really paired up perfectly with our core waterworks distribution growth in the area. Again, that's a pretty substantial project. So, it's got a lot of work between here and the starting point of getting that really up and running. So, that's pretty characteristic of what we're seeing a nice win like that popping up every now and then and a number of smaller ones along the way.

And I think your final question was talk about pricing. The larger these projects, there can be a competitive nature there where you got to be at the right price and you've got to partner with the best manufacturers to get the solution in place. But the solutions that we provide, which do extend into services and software and integrations and the like, those can carry some exciting margin profiles along with it. It kind of tends to blend up, if you will, any volume effects that we might have on pricing in the projects. So, we see them as pretty much in line with the rest of our meter business, which is still kind of to the exciting side on the margin line.

Matthew Johnson

Analyst, UBS Securities LLC

Thanks, guys.

Q

Operator: Your next question comes from the line of Joe Ritchie with Goldman Sachs. Joe, your line is open. Please go ahead.

Q

Hi, this is [ph] Anvi (00:34:17) on for Joe. Good morning.

Mark R. Witkowski

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

Good morning.

A

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Good morning.

A

Q

I just wanted to follow-up on the gross margin piece. I know you discussed it briefly in your prepared remarks as well. But I'm just trying to understand or like bridge into the back half. Can you touch upon some of the puts and takes, be it product mix, end markets, even the pricing comments that you made? What would it really take to see a sequential or even a year-on-year expansion in the back half? And then, what are some of the things maybe private label, if you could size the benefit coming from that as well?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah, sure. Thanks for the question. So, we had a really good gross margin in the first quarter. We always can expect fluctuation from quarter-to-quarter depending on seasonal mix, project mix and timing. The way that our gross margin works is it's very local and it's based on local project wins and what some of that seasonal mix and project mix can come with some lower SG&A and some lower load for the branch and favorable EBITDA rate, which is what we saw in the quarter. As we look into the back half of the year, we do expect EBITDA expansion, like I mentioned in the back half of the year, most of that driven by Q4.

We expect overall EBITDA margin expansion and expect that to be driven a portion by gross margin and a portion by SG&A. We do have a kind of a tougher margin comp in Q3 versus Q4, so, we'd see kind of more of a year-over-year margin benefit in Q4 versus Q3. From an SG&A standpoint, as we start to see growth in the back half of the year, we'll be able to leverage that more. And so, should see some good SG&A leverage in the back half of the year given our cost-out actions plus some growth that we can leverage in the back half.

Q

Got it. That's helpful. And if I can just follow-up on the M&A and the greenfield activity that you've seen. It was good to see the seven greenfield locations opened year-to-date. I think, from an M&A standpoint, like what would you call out as your key focal points today in terms market, where are you seeing the attractive opportunities? And then, how are you balancing some of this incremental buyback that you're doing against the M&A?

Mark R. Witkowski

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

A

Yeah. Thanks for the question. I'll take that one. I think what's most exciting about our strategy that we have to grow this business is that, we're fully capable, given our cash flow characteristics of delivering on all three fronts there. So, we continue to invest in the business organically. You've seen that through the greenfield additions there. We added three locations, kind of Western part of the US, two locations kind of in the Southeast area and then two up in Canada, where we continue to build out our presence [ph] soon (00:37:25) in that market.

So, that's been really exciting growth for us. I would say, over the last 12 to 18 months, the M&A activity that we've seen in the market has just been pretty limited. We've been able to complete some M&A, as you've seen, despite it, just being limited opportunities. But, we've seen that I'd say, pick up pretty significantly here over the last three to six months. And I've been really excited about the opportunities that have come across our desk that our team has sources from a proprietary standpoint and we've seen some other ones kind of come to market. So, it's been exciting to see that activity pick up. We've advanced now several, I'd say, through the LOI stage, so we're making some really good progress there.

And I'd say the focus there continues to be what we've looked at historically, which is continued bolt-ons, right as, right in line with kind of the core waterworks business and fire protection. And then, we look for ways to continue to add complementary products and solutions to our offering that fit right with our existing customer base.

So, no change in focus there and really, really like what we're seeing. And given some of the actual M&A activity, has been a little lighter that we've closed over recent quarters, we've been able to do a lot of repurchase activity in the market as well. So, again, we've got all three of those opportunities and we'll continue to look at it and deliver on that going forward.

Operator: Your next question is from David Manthey with Baird. David, your line is now open. Please go ahead.

David John Manthey

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

Thank you. Good morning, everyone. Good to hear on the M&A pipeline. And from what I'm hearing you say, Mark, it was just a, for whatever reason, a lack of targets that were available and that has since started to free up. Am I hearing you right on that?

Mark R. Witkowski

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

Yeah. That's exactly it, Dave. Yeah.

David John Manthey

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

Okay. Main question here is on the major commercial projects and data center, can you size those for us just in terms of percentage of your sales that are going to some of these major projects. I assume data centers, the low-single digit. But could you just sort of frame what that is for you? And then, second, there's a lot of talk around water usage at these data centers. And I'm just wondering from a Core & Main standpoint, as you're selling into these, does it matter if the data center is a traditional evaporative situation or if they're engineering that to be more of a closed loop or zero water system?

Bradford A. Cowles

President, Core & Main, Inc.

Hey, Dave, this is Brad. I'll try to unpack all of that. First of all, on the size, we've said that the data centers, especially as they've become such a widely dispersed phenomenon across the country, it plays so well into our strengths, because we've got branches everywhere. As you know, they're all outstanding service providers and have great local relationships.

And when a data center gets built in a place like Indiana, ultimately the people that are putting the underground water, utilities or treatment plant into the area are local and we own those relationships. And so, as that been occurring, we've seen our data center project run rate. As Mark said, we've doubled this quarter year-over-year, which is pretty exciting from my seat. That's taken it from, I would say, low-single digit to the mid-single digit range in terms of our total business.

And what's exciting for me is, we talked about data center kind of making up for a lot of drag in the classic light commercial work that has been a mainstay for years, offices and retail and the like. The data center is now in the high-single digit range as a percentage of our non-residential work. So, it's great for us. We're well-positioned. It looks a lot like our core business. It's not significantly different from a technical perspective. It just requires an elevated level of service and that's what we're really good at. So, again, it's kind of sweet spot meet sweet spot and we're pretty excited about it.

As far as the types of demand, different data centers and their cooling approaches, almost all data centers have some mix of cooling that can be recirculated or there's a lot of HVAC component that still evaporates a lot of water. Regardless, they need water and so sometimes the water volumes we're delivering are higher, sometimes they're lower. But, it's always good and it always leads to a pretty material percentage of the project being underground water utility.

And then, I think, one of the biggest switches that can flip is whether the local municipality is already prepared or not to supply treated water to that data center or whether there needs to be some private investment in water treatment either onsite or near site or some other public private coupling to kind of accelerate local water demand. So, we're kind of excited about the first order effect of the data center itself. And then, that second order effect is just increasing municipal water demand from that business and all the businesses that grow up around it.

David John Manthey

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

That's helpful. And I guess, what we're seeing with electricity, it sounds like you're seeing the similar effect on the water side. It's sort of bring your own water as opposed to just tapping into the municipalities that you're seeing.

Bradford A. Cowles

President, Core & Main, Inc.

That is what I'm saying and it's an interesting comment because there's sort of a trade-off between how much electricity you have to spend cooling versus how much water you can evaporate to cool. So, we kind of – the data centers are trying to find those locations where they can get both and they often cannot get both and get one or the other. And so, more electricity for the closed loop systems to refrigerate that water and move the heat. And if not, they need more water to evaporate. So, it's kind of driving general municipal demand for energy and water, whichever way you slice it.

David John Manthey

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

Yeah. Very interesting. Thanks a lot, Brad.

Bradford A. Cowles

President, Core & Main, Inc.

Thank you.

Operator: Your next question comes from the line of Sam Reid with Wells Fargo. Sam, your line is open. Please go ahead.

Sam Reid

Analyst, Wells Fargo Securities LLC

Thanks, everyone. I wanted to dig a little bit deeper into resi. You mentioned on the call that the comps obviously get easier in the second half, which is great. Can you just decompose a little bit more what you're embedding specifically in the second half for resi relative to the high-single digit decline in the second quarter?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Sure, Sam. I'll take that one. So, for resi the way that the year is trending, it was down about low-double digits in the first quarter and the second quarter, it was down kind of high-single digits. And then, in the back half of the year, when we anniversary the decline, we expect it to be flat or maybe down slightly. So, overall, that gets you to kind of a mid-single digit down on residential. But that doesn't assume residential gets any better or worse. It's been kind of bumping along at the same levels and that's what we've got assumed in the overall guide. So, that assumes kind of flattish overall markets for the full year.

Sam Reid

Analyst, Wells Fargo Securities LLC

That's helpful, Robyn. And then, switching gears here, there are some questions that we're getting on ARPA funding rolling off at the end of this year. So, just curious, your perspective on how much that was potentially benefiting the [ph] muni (00:45:33) segment through 2026? And then, also just any updated perspective on highway funding initiatives? Mixed reads there, but I've heard potentially some of that coming in light. So, just curious, any implications. Thanks.

Mark R. Witkowski

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

Yeah. Sam, I would tell you just in general on municipal funding, we definitely have heard some mixed messages in the market. And I would just reiterate that, vast majority of the funding of the type of work that we do on the municipal area is funded through those local water municipalities and the rates they charge the consumers. And we've continued to see that as a positive from the standpoint of – they continue to look to pass rate increases to help close the funding gap between the need for those municipalities to upgrade their systems and the funding they have available. So, that overall kind of big, large of funding continues to rise.

And then, beyond that, there's been additional funding mechanisms at the state and federal level that have been supportive in the backdrop, ARPA funding being one of them. So, that was helpful, I'd say back several years ago and obviously funding is coming off. But you've had the increase in IJA money that sits at that state level that's now been kind of fully allocated down to the states. But municipalities have just pulled a small portion of that to the local level.

So, there's plenty of federal funding out there to go get. It becomes whether the municipalities have the capacity and resources to go through the requirements and regulations to go get that funding. So, I don't see that as any kind of a risk or slowdown with that federal side of it. And we're really positive on the fact that 50,000-plus municipalities still continue to try to get the value of water to align more with what the needs are and continue to believe that will be a good backdrop to support our municipal and market demand over the next several, several years.

Sam Reid

Analyst, Wells Fargo Securities LLC

Thanks, guys. I'll pass it on.

Operator: Your next question comes from the line of Anthony Pettinari with Citigroup. Anthony, your line is open. Please go ahead.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Good morning. On fire protection, I was wondering if it's possible to parse out the sales growth that you saw in the quarter between volume and price. And given the strength in the category, do you run into kind of tougher comps in the second half? I was just wondering if you can talk about sort of the sustainability of the strength we've seen there.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah. Thanks for the question and like mentioned earlier, we're really excited about the fire protection product line and the growth that we've had there. For the quarter, it was split between price and volume, a little bit more weighted towards volume. A lot of that driven by share gain and performance and things like that. But there was about two-thirds of it, of the growth or so that was pricing related specifically related to steel pricing. And then, as we get into the back half of the year, the fire protection product line has been performing well for a while now. But I wouldn't say the comps are meaningfully different. We do expect to see a good finish to the year for fire protection.

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

Great. Great. That's very helpful. And then, maybe just kind of a random one. With Canadian tariffs, do you see any impact on product price hikes or products that cross the border or just demand, like their Canadian branches with any potential impact there?

Mark R. Witkowski

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

A

Yeah. Thanks for the question. At this point, we don't see any major movement there. Our exposure in Canada as we sit here today is still pretty, pretty light relative to the overall business. But, at this point, as we unpack all the tariffs and retaliatory tariffs there between the countries, we don't see any major implications [ph] of that today (00:49:59).

Anthony James Pettinari

Analyst, Citigroup Global Markets, Inc.

Q

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

Mark R. Witkowski

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

A

[ph] Yeah. (00:50:04).

Operator: Your next question comes from the line of Mike Dahl with RBC Capital Markets. Mike, your line is open. Please go ahead.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my questions. Robyn, just to go back to the gross margin dynamic one more time, understanding there's always elements of mix that can produce differentials. I think, your guidance or your comments that gross margin will still end up slightly for the full year would require you to be back in that [ph] 27-ish (00:50:41) range in the back half. So, up sequentially. So, can you be a little more specific about some of the

mix dynamics or other drivers that you see in the second half that would produce a slight uptick relative to what you just posted in 2Q?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

A

Yeah, sure. And it depends what we see in the back half of the year as far as project mix. And like I said, a lot of that is local and kind of those local project wins will help drive some of that. But, if we do see gross margins a little bit lower in the back half, then we would expect to see lower SG&A to come along with that. But, as far as you know, the project mix and like I said, we can see sequential declines from the first quarter to second quarter. Some of that given seasonality, there's projects that are more underground. There can be more direct ships. So, there can be less demand on that local branch, less variable cost associated with that. We also – it is – our underground business is more seasonal.

So, as you see quarters like the first quarter when we have areas like fire protection that's less seasonal, we've got more of a private label mix in there. So, it can vary from quarter-to-quarter. But the good news is that, if that gross margin is a little bit lower because of project mix, then we would expect the SG&A to be lower. And so, that would help support the EBITDA margins overall.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Okay. Yeah. That's helpful. Understanding that it'd be really is just that mix dynamic, not necessarily getting squeezed on something idiosyncratic to gross margin. The second question, I mean, just a little more near-term, can you talk through kind of the growth, how we exit the quarter and what you're seeing quarter-to-date? And obviously, you've maintained the full year sales guide, but maybe a little more color on how 3Q is shaping up so far would be great. Thanks.

Mark R. Witkowski

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

A

Yeah, sure. I'll take that one. As we exited the second quarter, I'd say we felt really good with the momentum building, especially into July and then, August reflected that momentum as well. So, that's what gave us those couple of points that we saw some good acceleration that was supportive of the bidding activity and the project wins that we were seeing. So, that felt really good.

And as we talked about some of the comps and resi that's been a headwind for us, get a little easier. Now, obviously, we're not expecting resi to get a lot better, but it helps to have a little softer comp in the back half and allows a lot of progress that we've made with many of our growth initiatives to shine more without that headwind. And that coupled with the stability we've seen with PVC has – should put us in a good position to show some really good growth here in the second half.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

That's great. Thanks, Mark. Thanks, Robyn.

Operator: Your next question is from the line of Keith Hughes with Truist. Keith, your line is now open. Please go ahead.

Keith Hughes

Analyst, Truist Securities, Inc.

Thank you. How much did acquisitions add in the quarter? I know it's a small number, but what is it exactly?

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

It's a little less than 1 point, Keith. So, we had 2.5% growth in the quarter and we had volume, price and acquisitions all contribute slightly to that 2.5% growth.

Keith Hughes

Analyst, Truist Securities, Inc.

And you made some positive comments early in the call about potential deals coming down the pipe. It's been a slow period here. Assuming you get a reasonable number of those, what kind of future growth would those represent to sales?

Mark R. Witkowski

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

Yeah, Keith, we've laid out in terms of our long-term strategy. We expect M&A to contribute in the kind of 2 to 4 points of growth range. And obviously in the recent year or two, we've been under that. So, it's possible we could exceed that in any given year as activity picks up. But we generally expect it to be in that kind of 2 to 4 points of incremental sales growth just based on our long-term strategy. And I tried to highlight that we've got several the kind of advance through that LOI stage and we're in diligence now. So, we're expecting a good finish to the year and should set us up for some really good growth in 2027.

Keith Hughes

Analyst, Truist Securities, Inc.

Okay. Final question, you had talked, very beginning in the call that it was about mid-single digit growth coming from the treatment centers. Is data centers part of that? Is that a separate number? I heard about high single digits of non-resi. I'm just trying to get as a percentage of total sales, get it straight.

Robyn Bradbury

Chief Financial Officer, Core & Main, Inc.

Yeah. So, Keith, treatment plant is kind of in the mid-single digit percent of our overall sales, but it grew double-digits in the quarter. So, that's been performing really well. That's been an area that's been performing strong for us quarter-over-quarter. It's typically separate from data centers. We've been doing a lot of activity and making investments in treatment plant and growing that business.

But like Brad mentioned, there can be treatment facilities needed that go along with the data center. So, it can be both. It can be kind of core municipal water, infrastructure treatment plant or it could be treatment plant growth related to water needs from data center activity growth. So, in either regard that area is growing well for us and growing overall and we expect to see continued growth in treatment plants in the back half of the year.

Keith Hughes

Analyst, Truist Securities, Inc.

Okay, great. Thank you.

Operator: Your next question comes from the line of Ryan Merkel with William Blair. Ryan, your line is now open. Please go ahead.

Ryan Merkel

Analyst, William Blair & Co. LLC

Hey, everyone. Thanks for fitting me in. Mark, I think I heard you mention large projects. There was a bit of lumpiness. Can you talk about where that was and what some of the issues are? And then also, if there's any better visibility to better releases in the second half?

Mark R. Witkowski

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

Yeah, Ryan. I think, Brad referenced some of the project timing on some of the smart utility wins that we have. I'd say, there's no issues or problems, but it's just a part of the nature of doing large meter implementations in a municipality. There can be various elements that impact the timing to really get those launched into full run rate. You've got multiple systems that municipalities typically running that we're simplifying. I mean, there's a number of factors that come into play. I wouldn't really indicate there's issues or challenges. It's just a matter of when those get off and running.

And then, beyond that, just with large projects, I'd say that, we feel really good about what's in the pipeline. But, sometimes those can be just core water infrastructure projects, can have delays with timing due to weather and various other factors in a particular market that impact timing and availability.

So, feel good with what's in the pipeline, as Brad mentioned, I think, we'll see some of that smart meter release here in the second half and really get off and running in 2027 and continue to see a lot of great wins across the other large capital projects like we've mentioned with data centers and other awards. So, it's been, I'd say mostly positive, just timing and when is all that going to really get out and shipped.

Ryan Merkel

Analyst, William Blair & Co. LLC

I see. Okay. That helps me with second question, because you said in the release that the smart meters was mostly price, the growth there. So, that's – the volume is just sort of a timing issue, it sounds like. And what kind of pricing are you seeing on the smart utility side? How much did price contribute in the quarter?

Mark R. Witkowski

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

Yeah. Just a small amount of price increase there. Overall, the growth was 1 point of growth in the quarter. So, a little bit of price. No offset and volume was neutral to slightly positive.

Ryan Merkel

Analyst, William Blair & Co. LLC

Got it. All right. Thank you.

Operator: This concludes our Q&A session. I will now turn the call back to Mark Witkowski for closing remarks.

Mark R. Witkowski

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

Thank you again for joining us today. We are pleased with the performance we delivered this quarter, but what excites us most is what we see ahead. Our growth and our margin initiatives are delivering results and we are encouraged by opportunities emerging across our acquisition pipeline. Looking at the second half, we believe the elements of our growth framework are increasingly falling into place and markets are stabilizing.

Large project activity is expanding and we are seeing a growing set of opportunities to strengthen our business both organically and through M&A. Combined with our demonstrated operating discipline and significant financial flexibility, these trends give us confidence in our ability to accelerate profitable growth and create long-term shareholder value. Thank you for your continued interest in Core & Main. Operator, that concludes our call.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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