# Q2 Fiscal 2024 Financial Results

November 2, 2023



# Management Presenters

## Scott Barbour
President and Chief Executive Officer

## Scott Cottrill
Executive Vice President, Chief Financial Officer

## Mike Higgins
Vice President, Corporate Strategy & Investor Relations

# Forward Looking Statements and Non-GAAP Financial Metrics

**Forward Looking Statements**

Certain statements in this press release may be deemed to be forward-looking statements. These statements are not historical facts but rather are based on the Company's current expectations, estimates and projections regarding the Company's business, operations and other factors relating thereto. Words such as "may," "will," "could," "would," "should," "anticipate," "predict," "potential," "continue," "expects," "intends," "plans," "projects," "believes," "estimates," "confident" and similar expressions are used to identify these forward-looking statements. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include: fluctuations in the price and availability of resins and other raw materials and our ability to pass any increased costs of raw materials on to our customers in a timely manner; disruption or volatility in general business and economic conditions in the markets in which we operate; cyclicality and seasonality of the non-residential and residential construction markets and infrastructure spending; the risks of increasing competition in our existing and future markets; uncertainties surrounding the integration and realization of anticipated benefits of acquisitions; the effect of weather or seasonality; the loss of any of our significant customers; the risks of doing business internationally; the risks of conducting a portion of our operations through joint ventures; our ability to expand into new geographic or product markets; the risk associated with manufacturing processes; the effect of global climate change; cybersecurity risks; our ability to manage our supply purchasing and customer credit policies; our ability to control labor costs and to attract, train and retain highly qualified employees and key personnel; our ability to protect our intellectual property rights; changes in laws and regulations, including environmental laws and regulations; the risks associated with our current levels of indebtedness, including borrowings under our existing credit agreement and outstanding indebtedness under our existing senior notes; and other risks and uncertainties described in the Company's filings with the SEC. New risks and uncertainties emerge from time to time and it is not possible for the Company to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this press release. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the Company's expectations, objectives or plans will be achieved in the timeframe anticipated or at all. Investors are cautioned not to place undue reliance on the Company's forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Non-GAAP Financial Measures**

This presentation includes references to Adjusted EBITDA and Free Cash Flow, non-GAAP financial measures. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These measures are not intended to be substitutes for those reported in accordance with GAAP. Adjusted EBITDA and Free Cash Flow may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures.

EBITDA and Adjusted EBITDA are non-GAAP financial measures that comprise net income before interest, income taxes, depreciation and amortization, stock-based compensation, non-cash charges and certain other expenses. The Company's definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key metric used by management and the Company's board of directors to assess financial performance and evaluate the effectiveness of the Company's business strategies. Accordingly, management believes that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as the Company's management and board of directors. In order to provide investors with a meaningful reconciliation, the Company has provided reconciliations of Adjusted EBITDA to net income.

Free Cash Flow is a non-GAAP financial measure that comprises cash flow from operating activities less capital expenditures. Free Cash Flow is a measure used by management and the Company's board of directors to assess the Company's ability to generate cash. Accordingly, management believes that Free Cash Flow provides useful information to investors and others in understanding and evaluating our ability to generate cash flow from operations after capital expenditures.

# PUT SIMPLY /// OUR PROMISE

**To protect and manage water, the world's most precious resource, safeguarding our environment and communities.**

# Investing in World Class Facilities

## Manufacturing Facility

Lake Wales, FL



- Groundbreaking in 2024
- Enables growth in key regions of Florida and Southeast
- Designed to promote safety, efficient flow of materials and traffic, and incorporates ADS' most advanced automation technology

## Engineering and Technology Center

Hilliard, OH



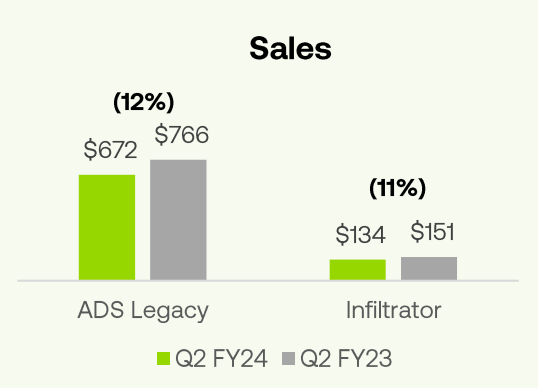
- On track for opening in 2024
- World's most advanced stormwater engineering, research and development facility
- Brings product design, material science and manufacturing technology under one roof to increase pace of innovation and incorporate more recycled content into products

# Q2 Fiscal 2024 Highlights

## Demand

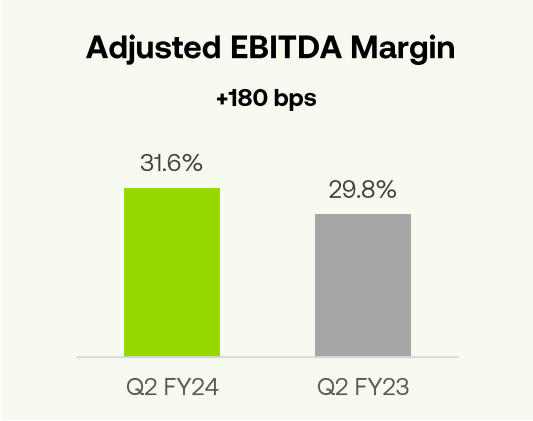
- Demand remains largely in line with expectations.
- Non-residential construction outlook remains uncertain due to higher interest rates and tighter credit standards not fully digested by market.
- Infrastructure activity picking up on locally funded public projects and airports.
- Continued focus on material conversion opportunities through products such as HP pipe, Allied product portfolio, onsite septic tanks and active onsite treatment solutions.

## Revenue




- Infiltrator business and Allied products portfolio continued to perform better than expectations.
- Legacy ADS pipe business remains in line with expectations.
- Overall pricing is in line with expectations.

## Profitability




- Second quarter Adjusted EBITDA Margin of 31.6%, +180 basis points vs. prior year.
- Price/cost remains favorable year-over-year.
- Higher manufacturing cost due to lower fixed cost absorption. Transportation costs continue to improve.

## Business Updates

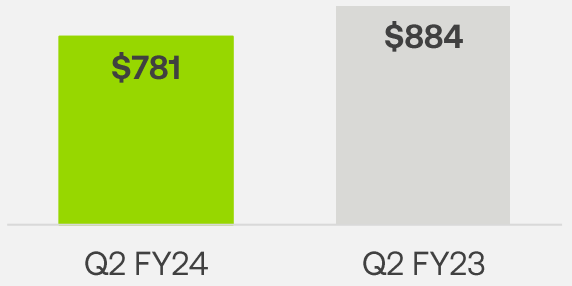
- Acquired land in Lake Wales, Florida for new manufacturing facility to support market conversion in Florida / Southeast.
- Automation investments (e.g., equipment, software, design tools) continue coming online.
- Fiscal 2023 Sustainability Report issued in September; ADS became signatory to UN Global Compact in August.

# Q2 Fiscal 2024 Financial Performance

## Revenue

(12%)

(USD, in millions)




### Revenue Performance

#### By Business

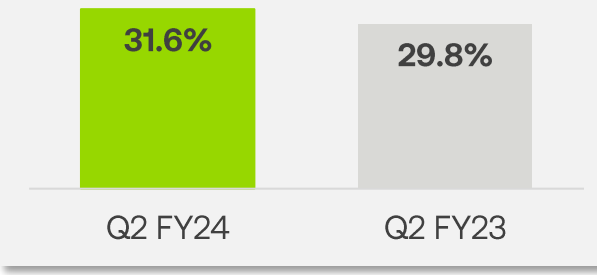
- ADS Legacy (12%)
  - Pipe (14%)
  - Allied Products (9%)
- Infiltrator (11%)

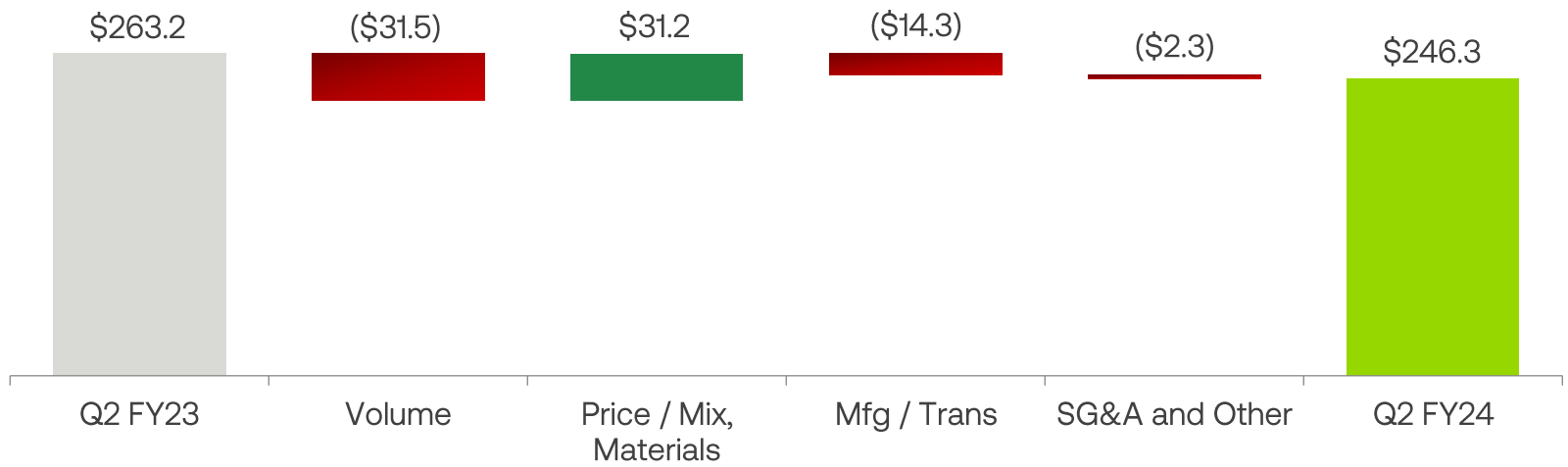
#### Domestic Markets

- Construction (12%)
  - Non-Residential (14%)
  - Residential (12%)
  - Infrastructure 0%
- Agriculture (17%)

## Adj. EBITDA

+180 bps



# Free Cash Flow and Capital Structure

## Free Cash Flow [1]

| | FY 2024 | FY 2023 | Δ |
|---|---|---|---|
| Consolidated Adjusted EBITDA | $528 | $562 | $(34) |
| Working capital[2] | 48 | (21) | 69 |
| Cash tax | (78) | (101) | 23 |
| Cash interest | (33) | (18) | (15) |
| Transaction costs[3] | (2) | (2) | 0 |
| Other | (4) | 17 | (21) |
| Consolidated cash flow from operations | $459 | $437 | $22 |
| Capital expenditures | (83) | (76) | (7) |
| Consolidated Free Cash Flow | $376 | $361 | $15 |

## Debt & Capital Leases

| *(in millions)* | September 30, 2023 | March 31, 2023 |
|---|---|---|
| Term Loan Facility | $ 424 | $ 427 |
| Senior Notes | 850 | 850 |
| Revolving Credit Facility | - | - |
| Total debt | $ 1,274 | $ 1,277 |
| Finance leases & Equipment financing | $ 58 | $ 59 |
| Leverage | 1.0x | 1.2x |

## Liquidity

| *(in millions)* | September 30, 2023 |
|---|---|
| Cash | $ 470 |
| Availability under Revolving Credit Facility | 589 |
| Total Liquidity | $ 1,059 |

Note: all figures in USD, $mm. Figures may not add due to rounding.

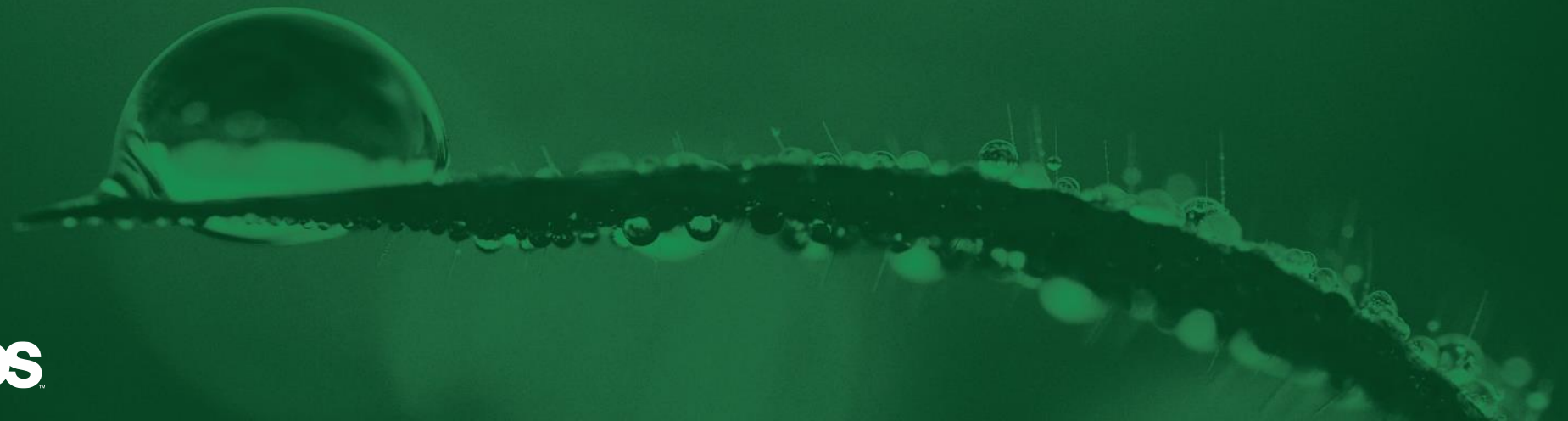
1. Operating Cash Flow less capital expenditures
2. Inventory, Trade Receivables, Accounts Payable
3. Legal, accounting and other professional fees incurred in connection with business or asset acquisitions and dispositions

# Updated Fiscal Year 2024 Guidance

| Fiscal 2024 Expectations | | | |
|---|---|---|---|
| **Key Metric** | **FY 2023** | **FY 2024** | **Y-o-Y Change** |
| **Net Sales** (in Millions) | $3,071 | $2,700 - $2,800 | Down 9% to 12% |
| **Adj. EBITDA** (in Millions) | $904 | $800 - $850 | Down 6% to 12% |
| **Adj. EBITDA Margin** | 29.4% | 29.6% - 30.4% | +20 to +100 basis points |


Q&A

# Appendix

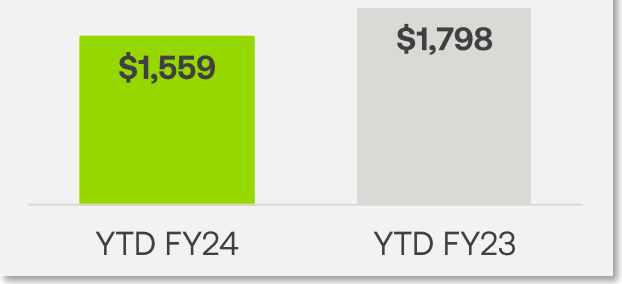


# Year-to-Date Fiscal 2024 Financial Performance

## Revenue

(13%)

(USD, in millions)




### Revenue Performance

**By Business**

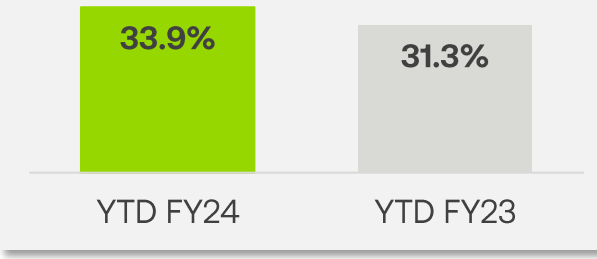
- ADS Legacy (14%)
  - Pipe (17%)
  - Allied Products (8%)
- Infiltrator (13%)

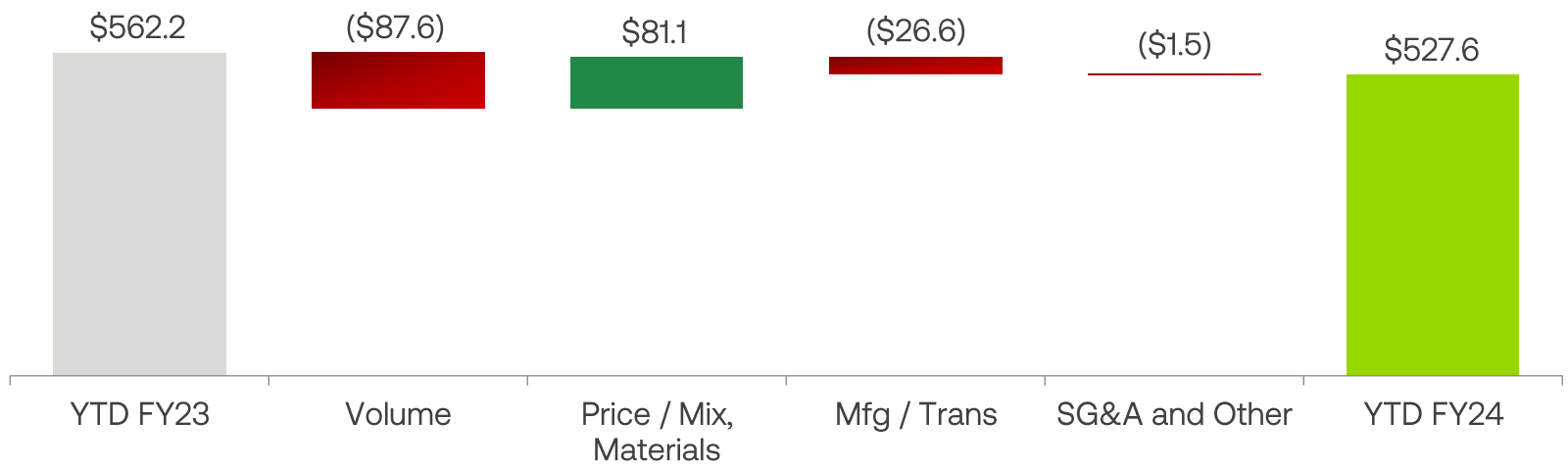
**Domestic Markets**

- Construction (14%)
  - Non-Residential (16%)
  - Residential (13%)
  - Infrastructure +1%
- Agriculture (14%)

## Adj. EBITDA

+260 bps



# Reconciliations

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2023 | | | September 30, 2022 | | |
| (In thousands) | Net Sales | Intersegment Net Sales | Net Sales from External Customers | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | $ 430,389 | $ (9,563) | $ 420,826 | $ 500,978 | $ (10,770) | $ 490,208 |
| Infiltrator Water Technologies | 133,731 | (17,553) | 116,178 | 150,735 | (22,450) | 128,285 |
| International | | | | | | |
| International - Pipe | 52,405 | (1,020) | 51,385 | 56,461 | (7,339) | 49,122 |
| International - Allied Products & Other | 17,027 | (26) | 17,001 | 17,002 | - | 17,002 |
| Total International | 69,432 | (1,046) | 68,386 | 73,463 | (7,339) | 66,124 |
| Allied Products & Other | 183,304 | (8,474) | 174,830 | 202,200 | (2,608) | 199,592 |
| Intersegment Eliminations | (36,636) | 36,636 | - | (43,167) | 43,167 | - |
| **Total Consolidated** | **$ 780,220** | **$ -** | **$ 780,220** | **$ 884,209** | **$ -** | **$ 884,209** |

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2023 | | | September 30, 2022 | | |
| (In thousands) | Net Sales | Intersegment Net Sales | Net Sales from External Customers | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | $ 858,961 | $ (17,707) | $ 841,254 | $ 1,025,835 | $ (20,644) | $ 1,005,191 |
| Infiltrator Water Technologies | 275,217 | (36,131) | 239,086 | 317,025 | (51,356) | 265,669 |
| International | | | | | | |
| International - Pipe | 89,583 | (1,548) | 88,035 | 109,880 | (13,198) | 96,682 |
| International - Allied Products & Other | 32,625 | (26) | 32,599 | 35,097 | - | 35,097 |
| Total International | 122,208 | (1,574) | 120,634 | 144,977 | (13,198) | 131,779 |
| Allied Products & Other | 366,749 | (9,457) | 357,292 | 401,109 | (5,353) | 395,756 |
| Intersegment Eliminations | (64,869) | 64,869 | - | (90,551) | 90,551 | - |
| **Total Consolidated** | **$ 1,558,266** | **$ -** | **$ 1,558,266** | **$ 1,798,395** | **$ -** | **$ 1,798,395** |

# Reconciliations

| (Amounts in thousands) | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Six Months Ended September 30, 2023 | Six Months Ended September 30, 2022 |
|---|---|---|---|---|
| **Segment adjusted gross profit** | | | | |
| Pipe | $ 125,856 | $ 146,153 | $ 286,505 | $ 314,732 |
| Infiltrator Water Technologies | 73,663 | 71,278 | 147,927 | 147,072 |
| International | 21,339 | 17,630 | 37,368 | 38,114 |
| Allied Products & Other | 106,239 | 106,030 | 212,424 | 215,071 |
| Intersegment Eliminations | (454) | 430 | (2,509) | (385) |
| Total Segment Adjusted Gross Profit | 326,643 | 341,521 | 681,715 | 714,604 |
| Depreciation and amortization | 22,622 | 20,800 | 45,421 | 41,102 |
| ESOP and stock-based compensation expense | 1,344 | 758 | 2,157 | 1,432 |
| **Total Gross Profit** | **$ 302,677** | **$ 319,963** | **$ 634,137** | **$ 672,070** |

| (Amounts in thousands) | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Six Months Ended September 30, 2023 | Six Months Ended September 30, 2022 |
|---|---|---|---|---|
| **Net income** | $ 137,027 | $ 153,377 | $ 310,932 | $ 341,859 |
| Depreciation and amortization | 36,721 | 35,922 | 73,961 | 71,500 |
| Interest expense | 21,941 | 18,261 | 43,653 | 29,333 |
| Income tax expense | 47,476 | 47,508 | 102,534 | 102,573 |
| EBITDA | 243,165 | 255,068 | 531,080 | 545,265 |
| (Gain) loss on disposal of assets and costs from exit and disposal activities | 123 | (102) | (13,181) | 201 |
| Stock-based compensation expense | 9,331 | 7,460 | 16,234 | 13,733 |
| Transaction costs | 52 | 368 | 2,024 | 2,083 |
| Interest income | (5,137) | (2,108) | (8,626) | (1,991) |
| Other adjustments (a) | (1,284) | 2,516 | 32 | 2,954 |
| **Adjusted EBITDA** | **$ 246,250** | **$ 263,202** | **$ 527,563** | **$ 562,245** |

Notes:

a) Includes derivative fair value adjustments, foreign currency transaction (gains) losses, the proportionate share of interest, income taxes, depreciation and amortization related to the South American Joint Venture, which is accounted for under the equity method of accounting and executive retirement expense.