

## AZZ Inc

Oct 10, 2024

### Second Quarter Financial Results Exceed Expectations

Industrial Goods

**AZZ**

NYSE

Rating

**Outperform**

Unchanged

Current Price

**\$81.57**

Target Price

**\$100.00**

Market Capitalization

**2.43b**

Shares Outstanding

**29.82m**

Float

**15.98m**

Institutional Holdings

**92.78%**

12-Month Low/High

**\$44.22/\$88.67**

Average 90-Day Volume

**159930**

Fiscal Year End

**02/28/2025**

**Second quarter financial results.** For the fiscal year (FY) 2025, AZZ reported second quarter adjusted net income of \$41.3 million or \$1.37 per share compared to \$37.2 million or \$1.27 per share during the prior year period and our estimate of \$40.8 million or \$1.35 per share.

Adjusted EBITDA increased 4.4% to \$91.9 million, roughly in line with our estimate, representing 22.5% of sales versus 22.1% of sales during the second quarter of FY 2024.

While sales of \$409.0 million were modestly below our \$410.5 million estimate, AZZ generated a 25.3% gross margin as a percentage of sales compared to 24.4% during the prior year period and our estimate of 24.4%. AZZ maintained its FY 2025 sales guidance range of \$1.525 billion to \$1.625 billion, lifted the lower end of adjusted EBITDA to a range of \$320 million (from \$310 million) to \$360 million, and increased adjusted diluted EPS expectations to a range of \$4.70 to \$5.10 from \$4.50 to \$5.00.

**Debt reduction.** During the first half of FY25, AZZ generated operating cash flow of \$119.4 million and reduced debt by \$45 million. Management expects to reduce debt by at least \$100 million during the fiscal year compared to prior expectations of \$60 million to \$90 million. At quarter end, the company's net leverage was 2.7x trailing twelve months EBITDA and cash and cash equivalents amounted to \$2.2 million.

**Investor webcast.** AZZ will host an investor conference call and webcast at 11:00 am ET this morning to discuss the company's quarterly financial results and outlook. A link to the webcast is [here](#). We look forward to more detailed commentary regarding sales and margin expectations in the second half of the fiscal year, along with an update on the new facility in Washington, Missouri. We will update our estimates and valuation in a note following the investor call.

**Rating is Outperform.** Relative to our estimates, the strong financial performance was margin driven, along with lower-than-expected selling, general, and administrative expenses. The Metal Coatings and Precoat Metals segments generated sequential and year-over year increases in adjusted EBITDA margin. We reiterate our Outperform rating which is based on the company's favorable cash flow growth profile and outlook.

#### Revenues (\$ MIL)

Period	2023 A	2024 A	2025 E
Q1	\$207.1 A	\$390.9 A	\$413.2 A
Q2	\$406.7 A	\$398.5 A	\$409.0 A
Q3	\$373.3 A	\$381.6 A	\$393.1 E
Q4	\$336.5 A	\$366.5 A	\$373.8 E
	\$1,323.6 A	\$1,537.6 A	\$1,590.6 E

#### EPS (\$)

Period	2023 A	2024 A	2025 E
Q1	\$1.10 A	\$1.14 A	\$1.46 A
Q2	\$1.21 A	\$1.27 A	\$1.37 A
Q3	\$0.78 A	\$1.19 A	\$1.24 E
Q4	\$0.30 A	\$0.93 A	\$0.95 E
	\$3.36 A	\$4.53 A	\$5.00 E

#### Equity Research

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## Company Profile

### Corporate Description

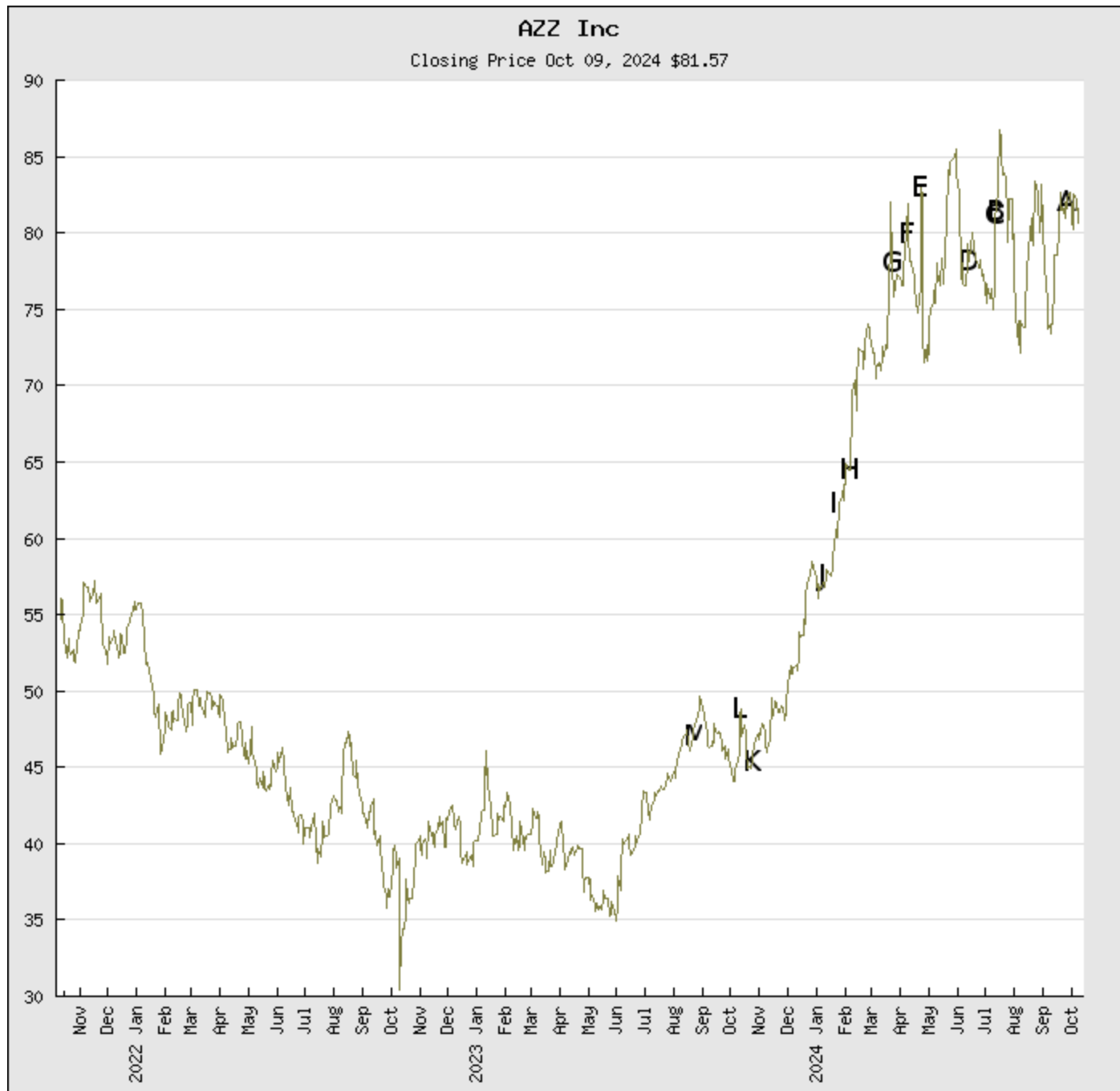
AZZ Inc. (AZZ) is North America's leading independent provider of hot-dip galvanizing and coil coating solutions to a broad range of end-markets. The company's Metals Coatings and Precoat Metals segments provide sustainable metal coating solutions that enhance the longevity and appearance of buildings, products, and infrastructure.

### Fundamental Analysis – 4.0 / 5.0 Checks

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes consisting of corporate governance/management, market opportunity, competitive position, operating leverage, and financial leverage. We assign 4.0 checks out of 5.0 checks, which falls within our "Above Average" range. The company's corporate governance practices are shareholder friendly with nine of ten directors (including the chairman) being independent. We view AZZ's market opportunity favorably given expected above-average top-line growth due to growing demand for its product. AZZ's competitive position is favorable in the areas it serves given the location and proximity of its manufacturing facilities. Operating leverage is favorable given higher pricing and fixed costs. Financial leverage is below average given AZZ's debt leverage but improving. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

### Valuation Summary

Our investment rating is Outperform with a 12-month price target of \$100 per share. Our price target is based on a blended average of valuations. These include discounted cash flow (DCF) analysis, enterprise value/EBITDA, and price/earnings.



09/26/2024 Outperform Target \$100.00 Current \$82.04  
 07/11/2024 Outperform Target \$95.00 Current \$81.15  
 04/23/2024 Market Perform Target \$80.00 Current \$82.93  
 03/22/2024 Market Perform Target \$75.00 Current \$78.02  
 01/25/2024 Outperform Target \$75.00 Current \$62.26  
 10/24/2023 Outperform Target \$60.00 Current \$45.31  
 08/21/2023 Outperform Target \$60.00 Current \$47.03

B - 07/12/2024 Outperform Target \$100.00 Current \$81.43  
 D - 06/11/2024 Outperform Target \$95.00 Current \$78.10  
 F - 04/09/2024 Market Perform Target \$80.00 Current \$75.00  
 H - 02/05/2024 Outperform Target \$75.00 Current \$64.45  
 J - 01/11/2024 Outperform Target \$60.00 Current \$57.49  
 L - 10/12/2023 Outperform Target \$60.00 Current \$48.79

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Noble is not a market maker in the Company.

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

### Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

### The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

### Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

### Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

### Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

### ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on Basic Materials & Mining. 20 years of experience in equity research. BA in Business Administration from Westminster College. MBA with a Finance concentration from the University of Missouri. MA in International Affairs from Washington University in St. Louis.

Named WSJ 'Best on the Street' Analyst and Forbes/StarMine's "Best Brokerage Analyst."

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<b>NOBLE RATINGS DEFINITIONS</b>	<b>% OF SECURITIES COVERED</b>	<b>% IB CLIENTS</b>
Outperform: potential return is >15% above the current price	90%	25%
Market Perform: potential return is -15% to 15% of the current price	10%	3%
Underperform: potential return is >15% below the current price	0%	0%

**NOTE:** On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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