

Initiated 2026-09-27 · Price \$133.13 (as of 2026-09-25 close, stockanalysis.com) · Mkt cap \$10.04bn · Industrials / building products (stormwater and wastewater) · Model: verified

Rating: Hold — Conviction: Low

ADS earns ~29% EBITDA margins on plastic pipe and stormwater systems that keep taking share from concrete, and it converts most of that into free cash flow (~\$550mm TTM). At ~12.5x trailing EBITDA the stock is fairly priced for a good cyclical business: the model's exit method in the base case lands on today's price, and the bull case adds only 18%. The near term is a squeeze between resin inflation and a weak residential market. Conviction is Low because the two valuation methods disagree widely, and because resin is volatile.

MODEL VALUE RANGE VS PRICE



Business overview

ADS makes corrugated high-density polyethylene and polypropylene pipe, stormwater chambers and retention systems (Stormwater, \$809.4mm in Q1 FY2027, +24.2%). It also makes Infiltrator septic tanks and advanced treatment units (Wastewater, \$191.7mm, +7.5%). It sells through distributors to non-residential, residential, infrastructure and agricultural projects. NDS, a maker of residential drainage and irrigation products bought in February 2026, added \$94.7mm in the quarter. Q1 revenue was \$1,001.1mm (+20.6%; organic +9.2%, including \$25–30mm pulled forward ahead of price increases). Non-residential grew 14% organically on commercial, data-center and warehouse sites, while residential was flat. Earnings turn on construction volumes, the spread between price and resin cost, and how much recycled resin goes into the product (target 50%). FY2027 (March 2027) guidance is net sales of \$3.35–3.55bn and adjusted EBITDA of \$1.00–1.05bn.

Competition

ADS's main rival is not another plastic-pipe maker; it is concrete and corrugated-steel pipe. The conversion case is well established but the best public datapoint is dated. ADS's 2014 IPO filing put thermoplastic at ~26% of the storm sewer market in 2013, against under 10% a decade earlier, with an installed-cost advantage of roughly 20% over concrete (S-1, 2014). No current share figure was retrieved. In chambers and septic tanks, ADS/Infiltrator is the scale player. If pressure shows up, it will show in price when resin falls, because regional plastic-pipe makers can undercut. None of the listed water-flow peers is a direct comparable. On one definition (stockanalysis TTM EV/EBITDA, 2026-09-25), Mueller Water trades at 9.2x, Atkore 12.9x, Zurn Elkay 17.0x and Watts 20.3x. The thesis does not rest on a tariff regime; Section 232 metals tariffs, if anything, raise the cost of steel pipe that ADS competes against.

Bull case

1. **Non-residential and conversion keep compounding.** Q1 non-residential grew 14% organically and stormwater storage 18%, helped by data centers and warehouses. Plays out if commercial and infrastructure spending holds and conversion from concrete continues. *Model: rev_growth, exit_ev_ebitda*
2. **NDS cross-selling works.** NDS is growing, but cross-selling has "not yet generated substantial revenue", so trial programs are still early. Plays out if the combined distributor network adds a few points of growth by FY2029. *Model: rev_growth*
3. **Recycled resin lifts margins.** The Cordele expansion is nearly done, and each point of recycled content cuts exposure to virgin resin. Plays out if margin reaches ~31% on this model's definition. *Model: ebitda_margin*

Bear case

1. **Construction rolls over.** Residential is already flat, and "modestly worse" than expected, on affordability and rates. Excluding the pull-forward, organic growth was only mid-single digits. Plays out if non-residential follows housing down in 2027. *Model: rev_growth, wacc*
2. **Resin outruns price.** Management expects resin to be a significant headwind, peaking in the September and December quarters, and plans to offset it only dollar for dollar. Plays out if oil and polyethylene prices keep climbing (Brent traded near \$108–109 in mid-September, per `state.md`) while volumes soften. *Model: ebitda_margin*
3. **A building-products multiple in a downturn.** Cyclical pipe and flow-control names trade at 9–13x. *Model: exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, aggregator (TTM)	12.3x	n/a (unverified)	MWA 9.2x · ATKR 12.9x · ZWS 17.0x · WTS 20.3x	stockanalysis.com, 2026-09-25
EV/EBITDA, model basis (EV \$11.86bn incl. finance leases)	13.4x FY2026 · 12.5x TTM · 11.6x FY2027 adj. guide (before SBC)	n/a	n/a (peers not restated)	<code>model-inputs.json</code>
Forward P/E (stockanalysis consensus)	20.8x	n/a (unverified)	MWA 14.0x · ATKR 15.3x · ZWS 23.9x · WTS 26.8x	stockanalysis.com, 2026-09-25
FCF yield (TTM)	5.5% (FCF \$550.2mm)	FCF \$534mm FY2024, \$369mm FY2025, \$569mm FY2026	n/a	stockanalysis.com, 2026-09-25

Model-implied value range (from `model-summary.json`; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$52.54 · Base \$107.34 · Bull \$157.08 per share, i.e. implied returns of –60.5% / –19.4% / +18.0% vs \$133.13. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits about halfway between base and bull, so the market is paying for a modest version of the bull case.

Re-rating and why the base return doesn't make this a Sell. The base exit of 12.5x equals today's 12.5x TTM multiple and is a 7% de-rating from 13.4x FY2026, so the exit method embeds no re-rating. It gives \$128.69, 3% below the price. The Gordon method gives \$85.99, 33% lower, because a 10.5% WACC with 3% terminal growth embeds a lower terminal multiple. The negative base return comes from that method, not from a view that the business will deteriorate. So the rating is Hold rather than Sell.

Tail. No single customer or product is ≥50% of revenue, so no concentration run was required. A downturn sensitivity was run on a scratch copy anyway. Revenue +10% / –10% / –5% / +2% / +3%, EBITDA margin falling to 22–23%, NWC 18% of revenue, an 8.5x exit and a 12% WACC give \$32.16 (–75.8%).

Balance sheet: net leverage 1.8x FY2026 EBITDA (model Credit; the company reports 1.5x TTM adjusted EBITDA), coverage 8.6x, liquidity \$900.9mm (\$162.3mm cash plus \$738.6mm of facility availability). Nearest material maturity: \$500mm of 6.375% notes in 2030; finance leases amortize meanwhile; the term loan runs to 2033 and the 5.375% notes to 2034. Ratings: Moody's Ba2 / S&P BB- on the 2034 notes (February 2026).

Model note:

- Tier `full` on four fiscal years (FY2023–FY2026; FY2022 D&A not retrieved). Status `built`, verification `verified` (LibreOffice recalculation matched all 3,207 formula cells). No unverified inputs; no assumptions without basis. Scenario consistency `OK` on all 14 rows.
- The company guides adjusted EBITDA, not EPS. Base Y1 (FY2027) GAAP EPS of \$6.43 compares with \$5.77 TTM, and with a 20.8x forward P/E that implies ~\$6.40 of NTM consensus (est.).
- The term loan coupon (6%) and finance lease rate (5%) are estimates; they affect EPS only. Shares are the 77.024mm Q1 diluted average, above the 75.41mm outstanding after buybacks (conservative).
- Revenue comes from stockanalysis figures rounded to \$1mm.

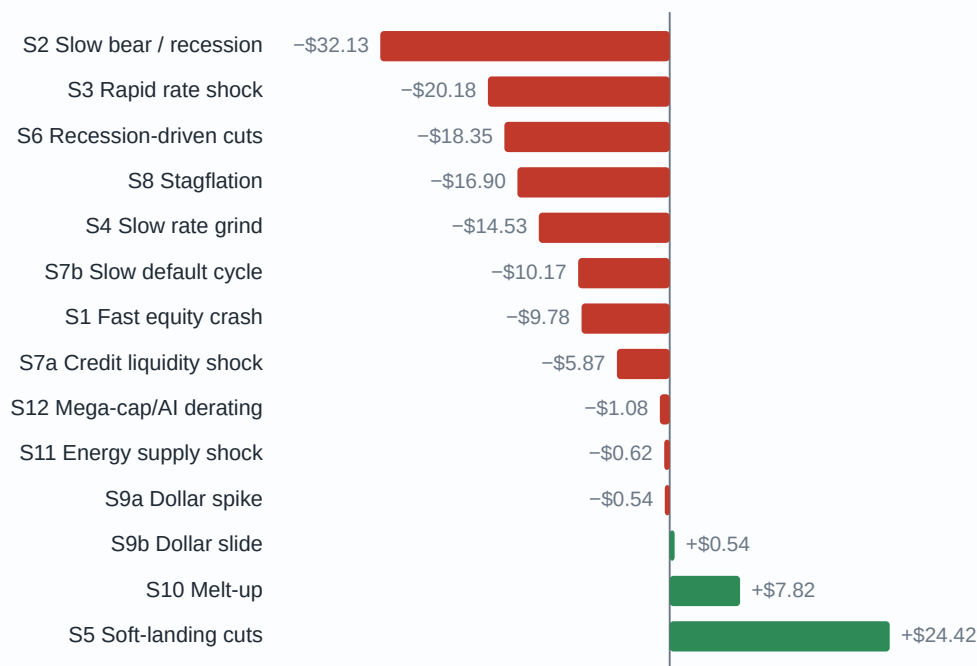
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Market de-rating of cyclical building products; demand unaffected	Low	–\$9.78
S2 Slow bear / recession	–	Residential and non-residential construction fall together; volume deleverage on plant costs. About 60% of Base – Bear (\$54.80): transitory, where the bear case also compresses the exit multiple	High	–\$32.13
S3 Rapid rate shock	–	Mortgage and construction-loan rates hit residential development (already flat) first, then commercial starts	High	–\$20.18
S4 Slow rate grind	–	Same channel, grinding	Med	–\$14.53
S5 Soft-landing cuts	+	Lower rates revive residential development, the weakest end market	High	+\$24.42
S6 Recession-driven cuts	–	Construction volume falls faster than lower rates help	High	–\$18.35
S7a Credit liquidity shock	–	BB spreads widen and forced selling hits; 1.5x leverage, no note maturity before 2030	Low	–\$5.87
S7b Slow default cycle	–	Developers lose credit; floating term-loan cost rises	Med	–\$10.17
S8 Stagflation	–	Resin and diesel costs rise ahead of price while construction slows	Med	–\$16.90
S9a Dollar spike	–	Small Canada/Mexico business translates lower	Low	–\$0.54
S9b Dollar slide	+	Mirror of S9a	Low	+\$0.54
S10 Melt-up	+	Cyclicals re-rate	Low	+\$7.82
S11 Energy supply shock	–	Resin and diesel spike with oil; price follows with a lag. Small because the model applies it for one year	Low	–\$0.62
S12 Mega-cap/AI derating	–	Some data-center site work slows; small channel through non-residential stormwater	Low	–\$1.08

Currently active/on watch per the playbook: `state.md` lists S3 as partially active; the macro log records all three legs crossed from 2026-09-24 (10Y 5.17% on 2026-09-25). S8, S10 and S11 are on watch. S3 is High here, S8 Med, and S10 and S11 Low.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if:

- The price falls toward ~10x TTM EBITDA with margins intact; or
- Adjusted EBITDA margin holds $\geq 30\%$ through the resin peak (Q2–Q3 FY2027), and organic growth stays mid-single digit or better excluding pull-forward.

Downgrades if:

- Q2 FY2027 organic sales fall year over year by more than the \$25–30mm pull-forward explains; or
- FY2027 adjusted EBITDA guidance is cut below \$1.0bn on resin.

Watch items

- **W1:** Adjusted EBITDA margin through the resin peak (Q1: 35.8%) and FY2027 guidance (\$1.00–1.05bn). Source: Q2 FY2027 release (early November 2026, date n/a unverified). *Model: ebitda_margin*
- **W2:** Organic growth by end market after the pull-forward (Q1: non-residential +14%, residential flat). Source: Q2 FY2027 release and call. *Model: rev_growth*
- **W3:** NDS revenue and cross-selling (Q1: \$94.7mm). Source: Q2 and Q3 FY2027 releases. *Model: rev_growth*
- **W4:** Share count and leverage after buybacks (Q1: 1.6mm shares for \$228.5mm; leverage 1.5x). Source: Q2 FY2027 10-Q. *Model: none*

Sources

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- Advanced Drainage Systems Q1 FY2027 results (8-K ex. 99.1, 2026-08-06) — <https://www.sec.gov/Archives/edgar/data/1604028/000160402826000034/wms-08062026x8kex991.htm> — accessed 2026-09-27
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- 5.375% senior notes due 2034 pricing (ratings) — <https://investors.ads-pipe.com/press-releases/press-release-details/2026/Advanced-Drainage-Systems-Announces-Pricing-of-500-Million-of-5-375-Senior-Notes-Due-2034/default.aspx> — accessed 2026-09-27 (via search summary)
- 6.375% senior notes due 2030 pricing — <https://www.businesswire.com/news/home/20220602005933/en/Advanced-Drainage-Systems-Announces-Pricing-of-24500-Million-of-6.375-Senior-Notes-Due-2030> — accessed 2026-09-27 (via search summary)
- Form 10-K FY2026 (term loan, 2027 notes redemption) — <https://www.sec.gov/Archives/edgar/data/0001604028/000160402826000019/wms-20260331.htm> — accessed 2026-09-27 (via search summary)
- Form S-1/A 2014 (storm sewer thermoplastic share, installed-cost advantage) — <https://www.sec.gov/Archives/edgar/data/0001604028/000119312514228800/d695165ds1a.htm> — accessed 2026-09-27 (via search summary)
- Peer statistics: MWA <https://stockanalysis.com/stocks/mwa/statistics/> · ATKR <https://stockanalysis.com/stocks/atkr/statistics/> · ZWS <https://stockanalysis.com/stocks/zws/statistics/> · WTS <https://stockanalysis.com/stocks/wts/statistics/> — accessed 2026-09-27
- Daily macro log (10Y, S3 status, Brent), `logs/macro-2026-09.md`, 2026-09-24/25 entries

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.