



Advanced Drainage Systems, Inc. (WMS)

Updated May 15th, 2025, by Kody Kester

Key Metrics

Current Price:	\$114	5 Year CAGR Estimate:	15.0%	Market Cap:	\$8.9B
Fair Value Price:	\$146	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	05/30/25
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	06/16/25
Dividend Yield:	0.6%	5 Year Price Target	\$225	Years Of Dividend Growth:	5
Dividend Risk Score:	A	Sector:	Industrials	Rating:	Buy

Overview & Current Events

Since its founding in 1966, Advanced Drainage Systems, Inc. (hereafter referred to as ADS or WMS) has grown into a leading manufacturer of innovative stormwater and onsite septic wastewater solutions. The company's products include single, double, and triple-wall corrugated polypropylene and polyethylene pipes, septic tanks and accessories, water-quality filters and separators, PVC hubs, and stainless-steel bands. These products are sold to residential, infrastructure and agriculture, and non-residential customers.

The Pipe segment comprised the majority (53.6%) of ADS' \$2.9 billion in total net sales in its fiscal year 2025 ended March 31. The Allied Products & Other segment (additional water management products like storm retention/detention and septic chambers) contributed another 24.4% to the company's FY 2025 net sales. The Infiltrator segment (e.g., septic tanks and accessories) contributed 20.5% of ADS' FY 2025 net sales. Finally, the International segment chipped in the remaining 7.1% of FY 2025 net sales (percentages don't add up to 100% because of \$162.8 million in intersegment eliminations in FY 2025).

ADS routinely executes acquisitions as part of its growth strategy. Earlier this month, the most recent deal announced was the acquisition of River Valley Pipe, a privately owned pipe manufacturing company located in the Midwest. ADS believes that this deal grows its market-leading position in its core stormwater and agriculture drainage markets in important agricultural states, including Illinois and Iowa.

On May 15th, ADS shared its fiscal fourth-quarter financial results for the period ended March 31st, 2025. The company's net sales declined by 5.8% over the year-ago period to \$615.8 million in the quarter. ADS' Pipe segment net sales dropped by 10.7% year-over-year to \$330 million during the quarter. The company's International segment net sales fell by 24.2% over the year-ago period to \$31.4 million for the quarter. ADS' Allied Products & Other segment experienced a 3.6% year-over-year decrease in net sales to \$150.4 million in the quarter. These more than countered the 12.2% rise in Infiltrator Water Technologies segment net sales to \$140.1 million during the quarter. ADS' adjusted diluted EPS declined by 16.3% year-over-year to \$1.03 for the quarter. That was \$0.07 below the analyst consensus in the quarter. On the same day, ADS also announced a 12.5% hike in its quarterly dividend per share to \$0.18, marking its fifth consecutive year of dividend growth.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
EPS	\$0.48	\$0.58	\$0.87	\$1.22	\$0.82	\$3.08	\$4.29	\$6.08	\$6.39	\$5.89	\$6.10	\$9.39
DPS	\$0.20	\$0.24	\$0.28	\$0.32	\$0.36	\$0.36	\$0.44	\$0.48	\$0.56	\$0.64	\$0.72	\$1.11
Shares¹	55.2	55.6	56.3	57.6	63.8	71.6	72.9	83.3	79.0	78.1	78.1	85.4

Since its IPO in 2014, ADS has substantially compounded its earnings base. In our view, we continue to think the days of 20%+ annual diluted EPS growth are behind the company. We still believe that high-single-digit to low-double-digit annual diluted EPS growth from its anticipated FY 2026 adjusted diluted EPS base of \$6.10 is realistic. This is because ADS operates in a \$15 billion total addressable market in the U.S. and has room for bolt-on acquisitions in the future.

¹ Share count is in millions.



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Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Avg. P/E	52.3	37.8	29.9	21.2	31.2	34.9	27.9	13.7	27.0	18.5	18.7	24.0
Avg. Yld.	0.9%	1.1%	1.1%	0.8%	1.4%	0.3%	0.4%	0.6%	0.3%	0.6%	0.6%	0.5%

ADS' P/E ratio has significantly fluctuated over the years, ranging from as little as the low teens to as much as the low 50s. Over the past five years, the company's P/E ratio has averaged just above 24. We think that ADS' shift to high-margin categories in recent years makes up for the reduced growth prospects due to the law of large numbers. That's why we still believe the fair value for ADS is a P/E ratio of approximately 24. A decline in the share price and moving into FY 2026 has pushed the current year P/E ratio down to just 18.7, which suggests shares are meaningfully undervalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	42%	41%	32%	26%	44%	12%	10%	8%	9%	11%	12%	12%

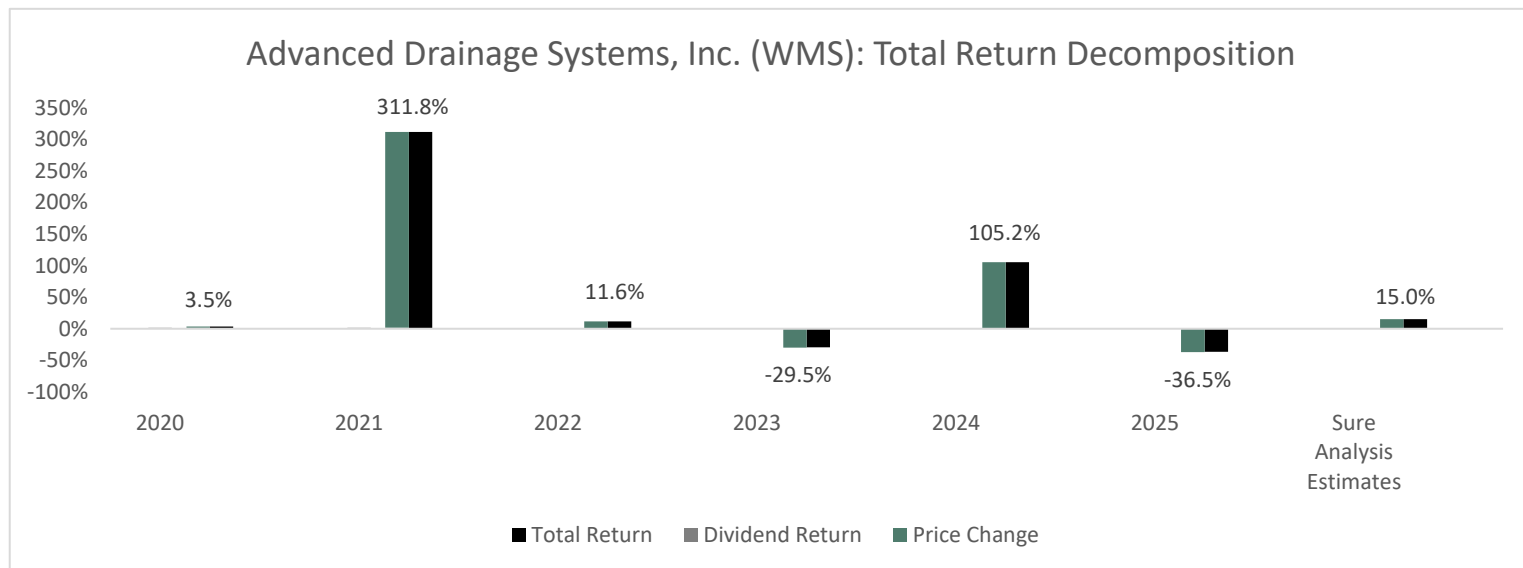
ADS' major advantage in the marketplace boils down to the complementary nature of its product offerings. Its Allied Products are complementary to its Pipe products. Allied Products offers adjacent technologies to its core Pipe offering. This provides customers with a complete drainage solution. That has led to very steady earnings growth for ADS over the years.

As of March 31st, 2025, ADS' financial health was also solid. The company had nearly \$1.1 billion in liquidity on its balance sheet. Its leverage ratio stood at just 1.1x as well. ADS' dividend is also well-covered, with the payout ratio expected to be in the low-double-digits for FY 2026. That should give it plenty of flexibility to build on its five-year dividend growth streak.

Final Thoughts & Recommendation

ADS' 0.6% dividend yield, 9.0% annual EPS growth prospects, and 5.1% annual valuation multiple expansion potential could generate 15.0% annual total returns through FY 2031. As a result, we're reiterating our buy rating.

Total Return Breakdown by Year





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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,180	1,291	1,257	1,330	1,385	1,674	1,983	2,769	3,071	2,874
Gross Profit	205	285	296	302	327	316	690	800	1,118	1,146
Gross Margin	17.4%	22.1%	23.5%	22.7%	23.6%	18.9%	34.8%	28.9%	36.4%	39.9%
SG&A Exp.	156	181	202	191	186	349	268	321	340	371
D&A Exp.	65	71	72	75	72	125	146	142	145	155
Operating Profit	39	95	85	103	133	(90)	349	415	724	724
Operating Margin	3.3%	7.4%	6.7%	7.8%	9.6%	-5.4%	17.6%	15.0%	23.6%	25.2%
Net Profit	(8)	25	33	62	78	(193)	224	271	507	510
Net Margin	-0.7%	1.9%	2.6%	4.7%	5.6%	-11.5%	11.3%	9.8%	16.5%	17.7%
Free Cash Flow	42	90	53	95	108	239	373	126	541	534
Income Tax	6	23	25	11	30	14	86	110	151	159

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,035	1,037	1,046	1,043	1,042	2,370	2,414	2,650	2,901	3,269
Cash & Equivalents	4	7	6	18	9	174	195	20	217	490
Accounts Receivable	142	159	161	159	171	196	234	340	305	319
Inventories	261	230	258	264	265	282	301	494	464	464
Goodwill & Int. Ass	164	168	160	158	153	1,164	1,081	1,042	1,028	970
Total Liabilities	727	730	704	618	542	1,585	1,350	1,545	1,906	1,988
Accounts Payable	112	120	122	106	94	107	171	225	210	254
Long-Term Debt	400	348	349	298	235	1,097	789	928	1,284	1,271
Shareholder's Equity	(29)	(18)	24	117	204	503	809	893	977	1,262
LTD/E Ratio	1.37	1.19	1.07	0.73	0.48	1.42	0.75	0.85	1.31	1.01

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-0.8%	2.4%	3.2%	5.9%	7.5%	-11.3%	9.4%	10.7%	18.3%	16.5%
Return on Equity	-2.9%	8.1%	10.1%	16.2%	16.8%	-30.1%	24.3%	25.0%	48.3%	44.8%
ROIC	-1.1%	3.7%	4.9%	8.8%	10.7%	-14.8%	12.0%	14.0%	23.5%	21.1%
Shares Out.	51.3	55.2	55.6	56.3	57.6	63.8	71.6	72.9	83.3	79.0
Revenue/Share	22.98	23.39	22.60	23.62	24.04	26.23	27.71	37.98	36.85	36.38
FCF/Share	0.82	1.64	0.95	1.69	1.88	3.74	5.22	1.73	6.49	6.76

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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