

Zurn Elkay: where should the next dollar go?

Internal ID: S&F-STR-607

Topic: Mergers & Acquisitions, Capital Allocation, Pricing Strategy

Industry: Building Products

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Student strategy case · Draft for review

Information cutoff: February 6, 2024, end of day Eastern Time

Global sequence: 2952

The decision

Zurn Elkay Water Solutions Corporation has just reported its first full fiscal year after combining Zurn and Elkay. At the close of February 6, 2024, students are asked to advise senior leadership on a forward-looking capital-allocation policy: how should the company prioritize clean-water organic investment, selective bolt-on acquisitions, debt reduction and shareholder returns while it completes the Elkay integration?

This is a classroom decision exercise, not a claim that the company had called a specific meeting or approved a new budget. No acquisition target, proposed transaction or internal investment return is disclosed in the public record. The February 7 earnings call and all later information are outside the case.

A broader water portfolio

The July 2022 combination added Elkay's drinking-water products and commercial sinks to Zurn's commercial plumbing and water-management products. Management described the combination as a way to broaden the company's clean-water portfolio and serve customers across more of the water journey. The acquisition closed on July 1, 2022, for a final purchase price of \$1,457.8 million, including \$1,411.9 million in Zurn stock and \$45.9 million of net cash payments. ([Merger completion announcement](#); [Q3 2023 Form 10-Q](#), Note 2, pp.8-9.)

For 2023, Zurn Elkay reported sales of \$1,530.5 million, up 19.4%. The company said sales associated with the Elkay merger increased 20%; core sales decreased 1%, including a 400-basis-point impact from planned exits of certain residential sink products. The 10-K also cites softer residential demand and shipment timing. The reported growth and core-sales measures therefore describe different bases.

Management said drinking-water sales and orders grew at double-digit rates during 2023, with attention on K-12 schools and higher education. It also said the company had delivered a previously committed \$25 million in cost synergies and had substantially completed the work for an additional \$25 million expected in 2024. These are management statements, not independently verified project-level results. The 10-K reports operating margin increased 410 basis points in 2023 and attributes the change to productivity synergies and restructuring as well as lower material and transportation costs, partly offset by other items. The filing does not isolate the effect of synergies.

Cash generation and capacity

The February 6 release reported FY2023 operating cash flow of \$253.9 million and capital expenditures of \$21.3 million. The company's defined free cash flow (FCF) was \$232.6 million, rounded to \$233 million in the headline. Zurn Elkay defines FCF as operating cash flow less capital expenditures and cautions that it is not cash available for discretionary investment because it does not deduct debt service. The 2023 cash-flow statement includes a \$65.0 million source from inventories and a \$60.8 million use from accounts payable; these two lines alone do not describe total working capital or establish a recurring cash-conversion pattern.

The company forecast approximately \$250 million of FCF for 2024. That is a management estimate, not committed or normalized cash. Management also said it was balancing the acquisition funnel with repurchases and dividends. It did not disclose target names, target count, prices, transaction terms, deal timing or expected returns.

The year-end 10-K reported \$136.7 million of cash, \$495.3 million of GAAP debt, and \$189.0 million of additional revolving-credit capacity after letters of credit. GAAP debt included \$473.6 million of term-loan debt and \$21.7 million of finance leases. The release's headline net-debt leverage was 1.1x. The credit agreement separately reported a 1.19x Net First Lien Leverage Ratio, based on its own definitions: \$403.4 million consolidated indebtedness divided by \$339.5 million adjusted EBITDA. The ratios are not interchangeable.

During 2023, the cash-flow statement reported \$125.1 million of cash outflow for common-stock repurchases, alongside \$50.4 million of dividends and \$64.9 million in net cash debt payments. Note 18 reports \$125.0 million as the cost of shares repurchased and canceled, plus \$1.0 million of excise tax. At year-end, \$390.5 million remained under the repurchase authorization. Authorization does not require the company to buy shares or specify when or at what price it must do so (FY2023 Form 10-K, Item 7 "Cash Flows" p.37; Note 18 p.81).

Choices for leadership

The public record supports several strategic paths, each with costs and unanswered questions:

1. **Build and integrate first.** Put priority on clean-water customer adoption and completion of the Elkay integration. Preserve flexibility and allow only acquisitions that meet clearly specified strategic-fit and integration-capacity tests.
2. **Pursue selective bolt-ons.** Continue evaluating the proprietary funnel and consider a deal only when product, customer or channel complementarities and execution requirements are compelling. Continue balancing any deal with organic investment, debt and shareholder returns.
3. **Favor resilience and returns.** Limit new acquisition commitments while integration and cash conversion remain uncertain; emphasize debt reduction and sustainable dividends or repurchases, while supporting the core business.

These are analytical alternatives for the case, not disclosed management plans. The company's public statements do not provide enough information to assign exact amounts to each use.

Exhibits

Exhibit 1. FY2023 allocation context

Measure	FY2023 or year-end figure	Basis
Net sales	\$1,530.5m; +19.4% reported	GAAP; company reports Elkay-related sales increase of 20% and core sales decline of 1%
Operating cash flow	\$253.9m	GAAP
Capital expenditures	\$21.3m	GAAP cash expenditure
Company-defined FCF	\$232.6m	Operating cash flow less capital expenditures; excludes debt service
2024 FCF outlook	Approximately \$250m	Management estimate
Adjusted EBITDA	\$340m; 22.2% margin	Company non-GAAP measure; rounded
Net-debt leverage	1.1x	Company headline non-GAAP measure
Credit-agreement Net First Lien Leverage Ratio	1.19x	\$403.4m consolidated indebtedness / \$339.5m adjusted EBITDA under credit-agreement definitions
Cash / GAAP debt	\$136.7m / \$495.3m	Audited year-end balance; GAAP debt includes finance leases
Additional revolver capacity	\$189.0m	After \$11.0m of letters of credit; subject to facility terms
Cash outflow for common-stock repurchases / dividends / net cash debt payments	\$125.1m / \$50.4m / \$64.9m	FY2023 cash-flow statement outflows; Note 18 reports \$125.0m share purchase/cancel cost plus \$1.0m excise tax
Repurchase authority remaining	\$390.5m	As of Dec. 31, 2023; not a required expenditure

Sources: Zurn Elkay [FY2023 Form 10-K](#), filed Feb. 6, 2024, Item 5 p.26; Item 7 pp.32, 36-37; Item 8 pp.44, 48; Notes 11 p.63 and 18 p.81. [Q4/FY2023 results release](#), Feb. 6, 2024, highlights, outlook, CEO comments and non-GAAP definitions/reconciliations.

Exhibit 2. Cash conversion and integration claims

Item	Reported amount / statement	Reading note
Operating cash flow	\$253.9m	FY2023 reported amount
Inventory change	+\$65.0m cash source	One cash-flow line; not a forecast
Accounts-payable change	–\$60.8m cash use	One cash-flow line; not the full working-capital picture
Capital expenditures	–\$21.3m	FY2023 reported amount
Defined FCF	\$232.6m	Company calculation; debt service not deducted
Synergies	\$25m described as delivered; an additional \$25m expected for 2024	Management-defined statement/estimate
Drinking-water activity	Sales and orders described as double-digit growth	Management statement; no base, margin or project return disclosed

Source: FY2023 Form 10-K, Item 7 “Cash Flows” p.37 and Item 8 Consolidated Statements of Cash Flows p.48; February 6 results release, CEO comments and FCF definition. **Derived:** the inventory and accounts-payable rows net to \$4.2m; this is not the entire working-capital change.

Exhibit 3. Peer context available by the cutoff

Watts Water Technologies reported flat organic sales in its third quarter ended September 24, 2023, and announced that it had completed its \$303 million Bradley acquisition on October 23. Bradley sells commercial washroom and emergency-safety products. A. O. Smith’s January 30, 2024 release reported FY2023 sales of \$3.9 billion and FCF of \$598 million and discussed water-heating and North American water-treatment demand.

These disclosures offer context on adjacent product scope and water-sector conditions. They do not show comparable target economics or provide a direct Zurn Elkay benchmark.

Sources: [Watts Water Q3 2023 release](#), Nov. 1, 2023; [Bradley close announcement](#), Oct. 23, 2023; [A. O. Smith FY2023 results release](#), Jan. 30, 2024.

Assignment

Recommend a capital-allocation policy for the next phase of Zurn Elkay’s strategy. In your response:

- State which priorities should lead and which should be conditional.
- Explain what evidence should be required before funding a bolt-on acquisition or expanding an organic initiative.
- Identify how management should monitor integration, customer adoption, cash conversion and balance-sheet resilience.
- Address what information is missing and how that uncertainty affects the policy.

Do not assume a named target, a competing bidder, an undisclosed liquidity minimum or an exact return hurdle. If you use a numerical hurdle or capital guardrail, label it as your own assumption and explain why it helps the decision.

Information note: All financial amounts are USD. Reported results and year-end balances are company filings; FCF, adjusted EBITDA and leverage are company-defined non-GAAP measures where specified. Management's synergy, growth and 2024 FCF statements are attributed claims or forecasts. Any arithmetic shown is labeled **derived**; any numerical policy hurdle added by a student is a **hypothetical teaching assumption**, not company guidance. No post-cutoff results or decisions are included.