Aug 05, 2020

Pool Corp. (POOL)

$324.81 (As of 08/04/20)

Price Target (6-12 Months): **$374.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/30/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:C
	Value: F | Growth: A	Momentum: D

Summary

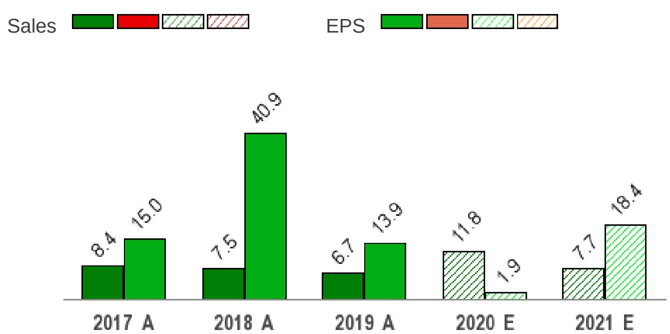
Shares of Pool Corp have increased sharply so far this year. Recently, the company reported solid second-quarter 2020 results, wherein earnings and revenues not only surpassed the Zacks Consensus Estimate but also increased on a year-over-year basis. Notably, earnings and revenues in the quarter increased 20.2% and 14.2% on a year-over-year basis, respectively. The company has been benefitting from solid performance of base business, large market presence and expansion through acquisitions. Moreover, solid demand across swimming pool maintenance supplies, above ground pools, spas, and automatic pool cleaners, heaters, pumps, lights, chemicals and filters drove the company's results. Also, the company's strong balance sheet should help it tide over the coronavirus crisis. Of late, earnings estimate for 2020 have witnessed upward revisions.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$327.61 - $160.35**
20 Day Average Volume (sh)	**338,016**
Market Cap	**$13.0 B**
YTD Price Change	**52.9%**
Beta	**0.87**
Dividend / Div Yld	**$2.32 / 0.7%**
Industry	**Leisure and Recreation Products**
Zacks Industry Rank	**Top 2% (6 out of 254)**
Last EPS Surprise	**25.2%**
Last Sales Surprise	**11.6%**
EPS F1 Est- 4 week change	**21.5%**
Expected Report Date	**10/15/2020**
Earnings ESP	**0.0%**
P/E TTM	**47.4**
P/E F1	**49.8**
PEG F1	**2.1**
P/S TTM	**3.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					3,853 E
2020	677 A	1,281 A	986 E	632 E	3,576 E
2019	597 A	1,121 A	899 A	582 A	3,200 A

EPS Estimates

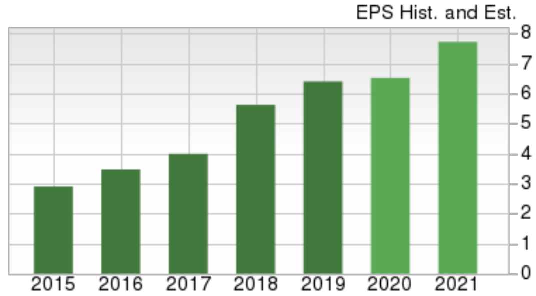
	Q1	Q2	Q3	Q4	Annual*
2021					$7.72 E
2020	$0.71 A	$3.87 A	$2.14 E	$0.55 E	$6.52 E
2019	$0.59 A	$3.22 A	$1.84 A	$0.44 A	$6.40 A

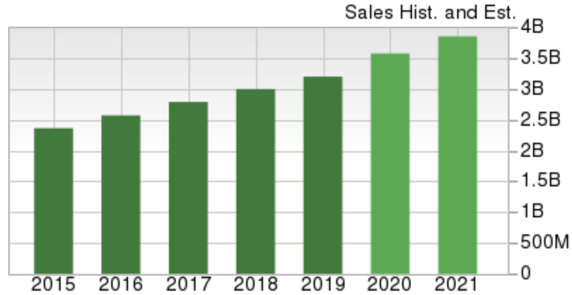
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

Based in Covington, LA, Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment and related products. In addition, the company is a leading regional wholesale distributor of irrigation and landscape products. The company was incorporated in the State of Delaware in 1993 and grew from a regional distributor to a multi-national, multi-network distribution company.





The company reports operations under two segments – the Base Business segment (99.7% of the second-quarter 2020 revenues) and the Excluded segment i.e. sale centers excluded from base business (0.3%). As of Jul 23, 2020, Pool Corp operated 378 sales centers in North America, Europe and Australia, through which it distributes more than 200,000 national brand and private label products to roughly 120,000 wholesale customers.

The company serves five types of customers: a) swimming pool remodelers and builders, b) retail swimming pool stores, c) swimming pool repair and service businesses, d) landscape construction and maintenance contractors, and e) golf courses. Most of its customers include small, family-owned businesses.

The company offers customers products in the following categories: 1) Pool maintenance — including a wide array of chemicals, supplies and repair parts, 2) Pool construction and renovation — such as pool pumps, filters, heaters and cleaners, pool surfacing materials, pool tile, coping, deck equipment, pool control systems, lighting and above-ground pool kits, 3) Irrigation and landscape — including a complete line of commercial and residential irrigation products, landscape maintenance and equipment products and parts, 4) Outdoor living — such as outdoor lighting, grills, outdoor kitchen components and hardscape products.

Pool operates through three distribution networks: the SCP Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon network. Swimming pool supplies, equipment and related leisure products are distributed through the SCP and Superior networks, while irrigation and landscape products are distributed through Horizon. The SCP and Superior channels are referred to as the Blue side, while Horizon is referred to as the Green side.

Reasons To Buy:

The company's large market presence along with strategic expansions through acquisitions are the key revenue drivers

- **Solid Brand Presence:** Pool Corp benefits from its market-leading position that offers cost advantage and allows it to generate higher return on investment than smaller companies. Further, the housing market continues to boost demand for Pool Corp's products despite numerous competitors and low barriers to entry. Moreover, solid demand for swimming pool maintenance supplies, above ground pools, spas, and automatic pool cleaners, heaters, pumps, lights, chemicals and filters drove the company's results in second-quarter 2020. The company also witnessed healthy demand for construction materials and products. Notably, earnings and revenues in the second quarter increased 20.2% and 14.2% on a year-over-year basis, respectively.

- **Opportunistic Expansion Strategy Bodes Well:** Pool Corp is focused on expansion to drive revenues. It is foraying in newer geographic locations, expanding in existing markets and launching innovative product categories that will boost its market share. To this end, the company is also trying to expand through various acquisitions. It completed six acquisitions in the last year. And so far this year, it has added five facilities. We believe Pool Corp will continue to capture market share from regional pool and irrigation distributors, given its economies of scale, which drives higher rebates, better sourcing, IT resources, and product availability. Additionally, there are opportunities to acquire share from other distributors that are not pool-focused. In February 2020, the company acquired Master Tile Network, a seven-location distributor of swimming pool tile and hardscape.

- **Existing Pools Provide Regular Income:** Pool Corp generates a large portion of its earnings from existing pools. More than half of its gross profits are generated from products related to maintenance and repair of pools, while the remainder is derived from construction and installation of pools and landscaping. Over the past five years, the pool industry has been showing signs of recovery, mostly supported by gradual improvement in remodeling and replacement activities. The company's existing pool business witnessed revenue growth throughout 2016, 2017, 2018 and 2019. The growth continued in second-quarter 2020. The upside was mainly aided by higher replacement activities. The trend is expected to continue going forward.

  In the second quarter of 2020, building materials sales grew 7% on the back of strong demand in construction and remodel markets. Equipment and chemical sales increased 20% and 8% year over year, respectively, for the same quarter. The increase was primarily driven by solid demand for maintenance, repair and replacement products.

- **Robust Base Business Encourages:** Pool Corp generates the majority of its revenues from the base business, which excludes sales centers that are acquired, closed or opened in new markets for a period of 15 months. In second-quarter 2020, the company's base business segment contributed 99.7% to total revenues. Pool Corp's sincere efforts to boost the base business are reflected in high demand in end markets. In the first quarter, revenues from base business increased 14.2% year over year to $1,276.6 million compared with $1,117.9 million in the prior-year quarter.

- **Healthy Balance Sheet:** The company's strong balance sheet should help it tide over the ongoing crisis. At the end of second-quarter 2020 (ended Jun 30), the company had debt-to-total capital ratio of 0.5, this gives an indication that its debt level is manageable. Moreover, the company's leverage ratio, as measured on a trailing 12-month debt to EBITDA basis, improved to 1.26 in second-quarter 2020 from 1.49 at the end of first-quarter 2020. Moreover, the company expects cash flow from operations to remain strong in order to support the business amid such trying times.

- **Boosts Shareholder Return Regularly:** Pool is committed toward returning more value to shareholders. Apart from share buybacks, there is a dividend distribution program in place. Since 2004, the company has raised its dividend repeatedly. For the six months ended Jun 30, 2020, the company paid out cash dividends worth $45.3 million compared with $39.8 million in the prior-year quarter. Moreover, recently, the company's share repurchase program was expanded by $150 million. In 2016, 2015, 2014 and 2013, the company returned almost $228 million, $136 million, $169 million and $128 million, respectively, through stock repurchases and dividends. In 2017 and 2018, the company repurchased 1.3 million and 140,000 shares at an average price of $108 and $148, respectively. In 2019, the company repurchased 149,000 shares at an average price of $148, amounting to approximately $21 million. Going forward, the company anticipates to continue with share repurchases to keep its leverage ratio in the range of 1.5X to 2X.

- **2020 Guidance Raised:** For 2020, Pool Corp expects earnings per share in the range of $7.05-$7.45 compared with the prior guidance of $5.45-$6.05. However, the earnings guidance assumes average weather conditions and no adverse impacts from a resurgence of COVID-19 and related government responses. Net sales growth for 2020 is anticipated in the range of 11% to 13%.

Risks

- **Coronavirus Likely to Hurt 2020 Results:** The COVID-19 pandemic has significantly impacted economic activity and markets throughout the world. During the second quarter of 2020, the company witnessed increasing number of COVID-19 cases, thereby resulting in the extension of regulatory restrictions. Notably, the company's business was hurt by new stay-at-home orders (or government mandates) along with unfavorable economic conditions owing to the COVID-19 pandemic. Markets in Florida, Arizona, Texas and Southern California were negatively impacted by the same.

- **Rising Costs a Concern:** Pool Corp has been witnessing increased expenses, lately. Higher labor and delivery costs and investments in information technology systems and hardware are leading to higher expenses. In first-quarter 2020, cost of sales increased 14.7% from the prior-year quarter number. Selling and administrative expenses also increased 6% year over year. In fact, we believe that the company has to work hard toward cutting expenses in order to achieve high margins.

- **Unfavorable Seasonality to Affect Business:** Pool Corp's business is susceptible to weather changes. Normally, sales are favored by weather conditions in the second and third quarters of a calendar year while unseasonably warm conditions in spring or early winters affect sales. Meanwhile, roughly 50% of the company's branches and sales are in California, Florida, Texas and Arizona. This reflects a high degree of concentration and dependence on these areas and their weather conditions.

- **Macroeconomic Headwinds:** Pool Corp conducts business internationally which increases its dependence on other economies. Thus, unfavorable political and regulatory conditions in the market where it functions, as well as negative currency translation, might dent the company's international sales. Additionally, any restrictions placed on water usage due to government ruling or ethical standards, during drought conditions, remains a major cause of concern for the swimming pool market.

Last Earnings Report

Pool Corp Q2 Earnings Beat Estimates, Increase Y/Y

Quarter Ending	06/2020
Report Date	Jul 23, 2020
Sales Surprise	11.63%
EPS Surprise	25.24%
Quarterly EPS	3.87
Annual EPS (TTM)	6.86

Pool Corporation reported solid second-quarter 2020 results, wherein earnings and revenues not only surpassed the Zacks Consensus Estimate but also increased on a year-over-year basis. While the bottom line beat the consensus estimate for the fifth straight quarter, the top line surpassed the same for the fourth consecutive time.

Adjusted earnings of $3.87 per share in the quarter topped the Zacks Consensus Estimate of $3.09 and increased 20.2% from the year-ago quarter's tally. Quarterly net revenues of $1,280.8 million surpassed the consensus mark of $1,147 million and increased 14.2% year over year.

Notably, the upside can be primarily attributed to solid performance by the base business segment and Excluded segment. Moreover, relaxations on stay-at-home restrictions coupled with increased demand among the pool construction and remodel companies added to the upside.

Segmental Performance

Pool Corp reports operations under two segments — The Base Business (constituting majority of the business) and the Excluded (sale centers excluded from the Base business).

Revenues at the Base Business segment increased 14.2% year over year to $1,276.6 million. Operating income increased 18.9% year over year to $205.4 million. Moreover, operating margin expanded 60 basis points (bps) from the year-ago quarter's number to 16.1%.

The Excluded segment delivered net revenues of $4.3 million, up from $3.4 million registered in the prior-year quarter. The segment reported operating income of $0.4 million against the year-ago quarter's loss of $0.3 million. The segment's operating margin came in at 9.9% against a negative 9.5% in the prior-year quarter.

Operating Highlights & Expenses

Cost of sales in the second quarter increased 14.7% from the prior-year quarter's figure. Gross profit, as a percentage of net sales, declined 30 basis points (bps) to 29.2% from a year ago primarily due to increased sales of lower margin, big-ticket items, such as in-ground and above-ground pools and pool equipment, in the second quarter from the year-ago period.

Selling and administrative expenses inched up 6% year over year to $167.6 million.

Although operating income increased 19% year over year to $205.9 million, operating margin declined 70 bps to 16.1% from the prior-year quarter's level.

Nonetheless, net income totaled $157.6 million, up from $131.3 million recorded in the year-ago quarter.

Balance Sheet

As of Jun 30, 2020, Pool Corp's cash and cash equivalents amounted to $44.2 million compared with $60.7 million as on Jun 30, 2019. Total net receivables, including pledged receivables, rose 9% and inventory levels increased 10% year over year. Its net long-term debt amounted to $429.2 million, down 35.8% from the prior-year quarter's level. Goodwill increased to $193.8 million from $188.7 million reported in the prior-year quarter.

During second-quarter 2020, net cash provided by operating activities came in at $201.5 million compared with $68.6 million in the year-ago period.

For the six months ended Jun 30, 2020 the company paid out cash dividends worth $45.3 million compared with $39.8 million in the prior-year quarter.

2020 Guidance

For 2020, Pool Corp expects earnings per share in the range of $7.05-$7.45 compared with the prior guidance of $5.45-$6.05. The Zacks Consensus Estimate for 2020 is currently pegged at $5.97.

Valuation

Pool Corp's shares are up 52.9% in the year-to-date period and 69.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 62.9%, while the Zacks Consumer Discretionary sector are down by 5.5% in the year-to-date period. Over the past year, the Zacks sub-industry was up by 77.9% and sector was up by 4.4%.

The S&P 500 index is up 2.3% in the year-to-date period and 14.7% in the past year.

The stock is currently trading at 44.9x forward 12-month earnings, which compares with 44.9x for the Zacks sub-industry, 33.97x for the Zacks sector and 22.58x for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.34x and as low as 21.71x, with a 5-year median of 26.94x. Our Outperform recommendation indicates that the stock will perform better-than the market. Our $374 price target reflects 51.72x forward 12-month earnings.

The table below shows summary valuation data for POOL.

Valuation Multiples - POOL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	44.9	44.9	33.97	22.58
	5-Year High	46.34	46.45	33.97	22.58
	5-Year Low	21.71	12.9	16.12	15.25
	5-Year Median	26.94	15.46	19.84	17.55
P/S F12M	Current	3.47	3.25	2.36	3.6
	5-Year High	3.59	3.34	2.95	3.6
	5-Year Low	1.15	0.88	1.68	2.53
	5-Year Median	1.8	1	2.5	3.04
P/B TTM	Current	26.65	8.8	3.23	4.52
	5-Year High	33.76	8.91	4.96	4.56
	5-Year Low	11.01	2.52	2.22	2.83
	5-Year Median	21.18	3.02	4.21	3.72

As of 08/04/2020

Industry Analysis **Zacks Industry Rank:** Top 2% (6 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Brunswick Corporation **(BC)**	Outperform	1
Malibu Boats, Inc. **(MBUU)**	Outperform	2
YETI Holdings, Inc. **(YETI)**	Outperform	1
Clarus Corporation **(CLAR)**	Neutral	3
Callaway Golf Company **(ELY)**	Neutral	3
Acushnet Holdings Corp. **(GOLF)**	Neutral	3
Marine Products Corporation **(MPX)**	Neutral	2
SeaWorld Entertainment, Inc. **(SEAS)**	Neutral	3

Industry Comparison Industry: Leisure And Recreation Products

				Industry Peers		
	POOL	X Industry	S&P 500	CLAR	ELY	GOLF
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	C	-	-	C	F	D
Market Cap	13.02 B	1.12 B	22.75 B	364.50 M	1.86 B	2.92 B
# of Analysts	2	4.5	14	2	8	5
Dividend Yield	0.71%	0.00%	1.76%	0.82%	0.20%	1.58%
Value Score	F	-	-	C	D	D
Cash/Price	0.00	0.08	0.07	0.04	0.09	0.02
EV/EBITDA	36.52	14.46	13.09	19.46	10.80	13.90
PEG Ratio	2.12	3.00	2.95	NA	NA	NA
Price/Book (P/B)	26.74	2.98	3.16	2.01	2.45	3.18
Price/Cash Flow (P/CF)	48.64	13.25	12.32	13.40	10.01	17.82
P/E (F1)	49.82	29.23	21.81	30.94	60.54	55.25
Price/Sales (P/S)	3.79	1.66	2.46	1.64	1.14	1.76
Earnings Yield	2.01%	3.27%	4.40%	3.27%	1.67%	1.80%
Debt/Equity	1.15	0.34	0.76	0.18	0.83	0.36
Cash Flow ($/share)	6.68	1.72	6.94	0.91	1.97	2.21
Growth Score	A	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	21.09%	20.24%	10.46%	130.48%	48.37%	19.30%
Proj. EPS Growth (F1/F0)	1.87%	7.06%	-7.16%	-42.62%	-70.34%	-55.50%
Curr. Cash Flow Growth	1.90%	6.99%	5.47%	5.40%	49.58%	17.05%
Hist. Cash Flow Growth (3-5 yrs)	16.13%	17.86%	8.55%	27.48%	37.35%	16.80%
Current Ratio	2.06	2.75	1.32	6.38	1.44	1.78
Debt/Capital	53.38%	25.48%	44.36%	15.01%	45.31%	26.27%
Net Margin	8.32%	4.81%	10.25%	6.86%	3.67%	5.74%
Return on Equity	69.72%	11.67%	14.67%	8.41%	9.95%	11.67%
Sales/Assets	2.16	1.10	0.51	0.98	0.82	0.90
Proj. Sales Growth (F1/F0)	11.78%	0.00%	-1.71%	-13.64%	-17.99%	-9.97%
Momentum Score	D	-	-	A	F	B
Daily Price Chg	0.80%	0.00%	0.42%	-0.33%	3.84%	1.60%
1 Week Price Chg	4.09%	1.96%	0.14%	1.96%	6.48%	2.26%
4 Week Price Chg	19.46%	14.21%	4.97%	13.62%	16.38%	16.60%
12 Week Price Chg	46.58%	46.39%	15.30%	37.15%	60.70%	42.95%
52 Week Price Chg	69.67%	44.84%	2.34%	6.51%	14.16%	57.74%
20 Day Average Volume	338,016	114,461	2,082,836	150,279	1,673,289	284,288
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	21.49%	12.96%	0.93%	12.96%	-5.09%	0.00%
(F1) EPS Est 12 week change	29.46%	17.84%	0.78%	38.96%	-39.30%	-24.27%
(Q1) EPS Est Mthly Chg	12.80%	7.71%	0.17%	13.04%	-6.72%	7.71%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures