

## Pool Corp. (POOL)

**\$233.55** (As of 02/14/20)

Price Target (6-12 Months): **\$245.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

## Summary

Shares of Pool Corp have outperformed the industry in the past year. The company's earnings and revenues surpassed the Zacks Consensus Estimate and increased year over year. The bottom line beat the Zacks Consensus Estimate for the third consecutive quarter and the top line topped the same for the second straight quarter. Notably, the company has been benefitting from solid performance of base business, large market presence and strategic expansions through acquisitions. It expects earnings per share in the range of \$6.47-\$6.77. However, seasonality of its business and macroeconomic headwinds due to solid global presence are worrisome. Of late, the company has witnessed downward earnings estimate revisions for 2020 in the past 30 days, which depicts analysts' concern regarding growth potential.

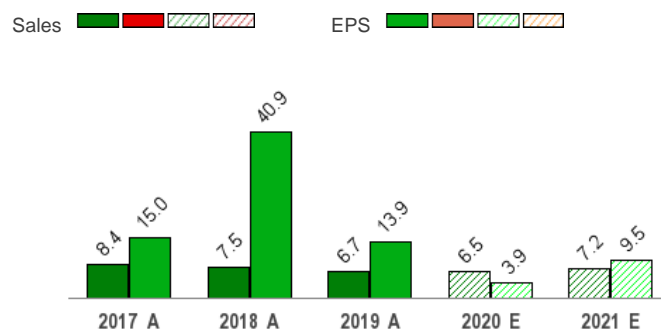
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$233.93 - \$148.90
20 Day Average Volume (sh)	176,823
Market Cap	\$9.4 B
YTD Price Change	10.0%
Beta	0.86
Dividend / Div Yld	\$2.20 / 0.9%
Industry	<a href="#">Leisure and Recreation Products</a>
Zacks Industry Rank	Top 9% (24 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.7%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	NA
Earnings ESP	-0.5%
P/E TTM	38.4
P/E F1	35.0
PEG F1	1.5
P/S TTM	2.9

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,654 E
2020	646 E	1,202 E	948 E	612 E	3,408 E
2019	597 A	1,121 A	899 A	582 A	3,200 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.28 E
2020	\$0.64 E	\$3.34 E	\$2.04 E	\$0.50 E	\$6.65 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 02/14/2020. The reports text is as of 02/17/2020.

## Overview

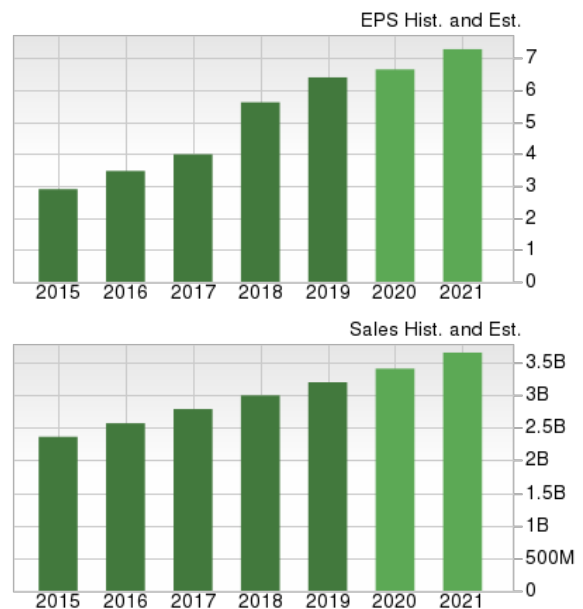
Based in Covington, LA, Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment and related products. In addition, the company is a leading regional wholesale distributor of irrigation and landscape products. The company was incorporated in the State of Delaware in 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 (98.9% of the fourth-quarter 2019 revenues) and the Excluded segment i.e. sale centers excluded from base business (1.1%). As of Jun 30, 2019, Pool Corp operated 372 sales centers in North America, Europe, South America and Australia, through which it distributes more than 180,000 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.



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## Reasons To Buy:

- ▲ **Share Price Gains on Strong Brand Presence:** Shares of Pool Corp have outperformed the industry in the past year. The appreciation in share price can be attributed to the company's market-leading position that offers it a cost advantage and allows it to generate higher return on investment than smaller companies. Further, housing market continues to boost the demand for Pool Corp's products despite numerous competitors and low barriers to entry. Moreover, healthy demand for construction materials and products used in the remodel and replacement of in-ground pools drove the company's results in fourth-quarter 2019. Earnings and revenues in the quarter increased 7.3% and 7.2% on a year-over-year basis, respectively. For 2020, Pool Corp expects EPS in the range of \$6.47-\$6.77.
- ▲ **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.
- ▲ **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 2015, 2016, 2017, 2018 and 2019. The upside was mainly aided by higher replacement activities. The trend is expected to continue going forward.
- In 2018, building materials maintained 11% growth. Both Equipment and chemical sales increased 7% each for the same period. Improvement in these product categories is expected to continue.
- ▲ **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 fourth-quarter 2019, the company's base business segment contributed 98.9% to total revenues. Pool Corp's sincere efforts to boost the base business are reflected in high demand in end markets. Revenues from base business increased 6.9% year over year in the fourth quarter following gains of 4.4%, 1% and 9% in the first, the second and the third quarter of 2019, respectively.
- ▲ **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. 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.

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

The share repurchase initiatives reflect the company's confidence in its fundamentals. At the same time, the buybacks will help the company reduce outstanding share count, thereby increasing earnings per share and return on equity. Such healthy capital deployment initiatives would also boost investors' confidence in the stock.

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## Reasons To Sell:

- ▼ **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 fourth-quarter 2019, cost of sales increased 9.8% from the prior-year quarter number. Selling and administrative expenses also increased 1.3% year over year. In fact, we believe that the company has to work hard toward cutting expenses in order to achieve high margins.
- ▼ **Valuation Looks Stretched:** As Pool Corp has outperformed the industry in a year's time, the stock's valuation looks quite stretched. Considering price-to-earnings (P/E) ratio — which is one of the most widely used valuation ratios, and best suited for evaluating leisure & recreational products providers — the stock looks pretty overvalued compared with the industry and the S&P 500 Index. The stock has a forward 12-month P/E ratio of 34.57. Meanwhile, the trailing 12-month P/E ratios for the industry and the S&P 500 are 28.92 and 19.36, respectively.
- ▼ **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. Resultantly, the intermittent hurricanes in Florida and Texas, along with the natural disasters in other places, affect the company's earnings and sales.
- ▼ **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.

Unfavorable seasonality along with macroeconomic headwinds remain potent headwinds for the company

## Last Earnings Report

### Pool Q4 Earnings and Revenues Beat Estimates

Pool Corporation reported better-than-expected fourth-quarter 2019 results. Adjusted earnings of 44 cents per share in the quarter topped the Zacks Consensus Estimate of 35 cents and increased 7.3% from the year-ago quarter's tally. Quarterly net revenues totaled \$582.2 million, which surpassed the consensus mark of \$572.7 million and increased 7.2% year over year.

Revenue growth can be primarily attributed to robust performance of the company's Base business, primarily driven by continuous expansion in commercial and building material products along with healthy demand for construction materials and products used in the remodel and replacement of in-ground pools.

### Segmental Performance

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

Revenues in the Base Business segment increased 6.9% year over year to \$575.8 million. Also, operating income moved up 3.8% to \$27.4 million. However, operating margin contracted 10 basis points (bps) from the year-ago quarter's number to 4.8%.

The Excluded segment delivered net revenues of \$6.4 million, up from \$4.5 million registered in the prior-year quarter. The segment reported operating loss of \$1.6 million compared with the year-ago quarter's loss of \$0.4 million.

### Operating Highlights & Expenses

Cost of sales in the fourth quarter increased 9.8% from the prior-year quarter's figure. Gross profit, as a percentage of net sales, declined 170 basis points (bps) to 27.8% from the year-ago quarter's figure.

Operating income dropped 0.7% year over year to \$25.8 million. Also, the operating margin declined 40 bps to 4.4% from the prior-year quarter's level. Selling and administrative expenses inched up 1.3% year over year. Net income totaled \$18 million, up from \$16.8 million recorded in the year-ago quarter.

### Balance Sheet

As of Dec 31, 2019, Pool Corp's cash and cash equivalents amounted to \$28.6 million compared with \$16.4 million on Dec 31, 2018. Total net receivables, including pledged receivables, rose 9% and inventory levels rose 4% year over year. Its net long-term debt amounted to \$499.7 million, down 24% from the prior-year quarter's level. Goodwill increased to \$188.6 million compared with \$188.5 million reported in the prior-year quarter.

### 2019 Highlights

In 2019, net sales amounted to \$3.2 billion, up 6.7% year over year.

Adjusted earnings per share (EPS) for the year ended Dec 31, 2019 was reported at \$5.83 compared with \$5.26 in 2018.

Operating margin increased 20 bps to 10.7% for the year ended Dec 31, 2019, compared with 10.5% reported in 2018.

### 2020 Guidance

For 2020, Pool Corp expects EPS in the range of \$6.47-\$6.77. The Zacks Consensus Estimate for current-year earnings is pegged at \$6.64.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	1.68%
EPS Surprise	25.71%
Quarterly EPS	0.44
Annual EPS (TTM)	6.09

## Valuation

Pool Corp's shares are up 53.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector increased by 16.8% and 13.4%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 34.57x forward 12-month Price to Earnings value, which compares to 28.92x for the Zacks sub-industry, 20.31x for the Zacks sector and 19.36x for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.58x and as low as 21.71x, with a 5-year median of 26.19x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$245 price target reflects 36.29x forward 12-month Price to Earnings value.

The table below shows summary valuation data for POOL.

Valuation Multiples - POOL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	34.57	28.92	20.31	19.36
	5-Year High	36.58	31.68	23.35	19.36
	5-Year Low	21.71	12.9	16.16	15.18
	5-Year Median	26.19	15.5	20.07	17.47
P/S F12M	Current	2.72	2.56	2.32	3.58
	5-Year High	2.72	2.66	3.19	3.58
	5-Year Low	1.14	0.88	1.81	2.54
	5-Year Median	1.75	0.99	2.54	3
P/B TTM	Current	22.8	5.25	3.56	4.36
	5-Year High	33.76	5.47	5.04	4.42
	5-Year Low	11.01	2.52	3.13	2.85
	5-Year Median	20.12	2.98	4.26	3.62

As of 02/14/2020

## Industry Analysis Zacks Industry Rank: Top 9% (24 out of 255)



## Top Peers

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

Industry Comparison Industry: Leisure And Recreation Products				Industry Peers		
	POOL Neutral	X Industry	S&P 500	CLAR Neutral	ELY Neutral	GOLF Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>A</b>
Market Cap	9.35 B	646.57 M	24.61 B	404.13 M	1.83 B	2.31 B
# of Analysts	4	4	13	1	9	7
Dividend Yield	0.94%	0.00%	1.78%	0.74%	0.21%	1.83%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Cash/Price	0.00	0.07	0.04	0.00	0.05	0.02
EV/EBITDA	29.17	10.67	14.06	25.82	14.83	12.21
PEG Ratio	1.49	1.23	2.09	NA	0.74	3.63
Price/Book (P/B)	23.03	2.39	3.29	2.39	2.39	2.38
Price/Cash Flow (P/CF)	35.84	10.76	13.65	15.56	9.86	16.17
P/E (F1)	35.01	16.49	19.21	16.29	18.59	18.16
Price/Sales (P/S)	2.92	1.29	2.70	1.79	1.08	1.39
Earnings Yield	2.86%	5.99%	5.19%	6.14%	5.40%	5.51%
Debt/Equity	1.62	0.32	0.71	0.15	0.76	0.33
Cash Flow (\$/share)	6.52	1.79	6.92	0.87	1.97	1.90
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>D</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	21.61%	31.06%	10.85%	56.78%	66.07%	NA
Proj. EPS Growth (F1/F0)	4.16%	8.72%	7.17%	22.06%	-4.85%	5.91%
Curr. Cash Flow Growth	34.09%	35.61%	8.56%	168.35%	49.58%	5.56%
Hist. Cash Flow Growth (3-5 yrs)	18.58%	18.11%	8.36%	16.19%	34.47%	14.16%
Current Ratio	2.68	2.16	1.23	4.32	1.51	1.95
Debt/Capital	61.81%	24.30%	42.91%	12.86%	43.09%	24.93%
Net Margin	8.18%	4.98%	11.81%	4.49%	4.67%	6.92%
Return on Equity	76.47%	13.57%	16.86%	10.58%	13.82%	12.07%
Sales/Assets	1.98	1.25	0.54	1.04	0.88	0.92
Proj. Sales Growth (F1/F0)	6.52%	5.19%	3.85%	9.70%	3.86%	2.83%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>D</b>	<b>F</b>	<b>C</b>
Daily Price Chg	2.37%	-0.49%	0.06%	-0.37%	-0.41%	-0.62%
1 Week Price Chg	3.47%	0.30%	2.47%	0.30%	-5.70%	-0.58%
4 Week Price Chg	6.91%	0.00%	0.59%	0.52%	-11.75%	-6.64%
12 Week Price Chg	14.07%	8.39%	6.98%	12.20%	-4.04%	1.09%
52 Week Price Chg	55.17%	2.32%	16.62%	20.29%	22.24%	30.68%
20 Day Average Volume	176,823	92,439	2,020,569	83,174	989,350	224,095
(F1) EPS Est 1 week change	-1.59%	0.00%	0.00%	0.00%	-13.93%	-0.08%
(F1) EPS Est 4 week change	-1.59%	0.00%	-0.05%	0.00%	-13.78%	-0.01%
(F1) EPS Est 12 week change	-1.73%	1.27%	-0.17%	0.00%	-13.78%	0.81%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	0.00%	-24.81%	0.51%

## 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	<b>D</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</b>

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.

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