

Pool Corp. (POOL)

\$184.76 (As of 04/21/20)

Price Target (6-12 Months): **\$201.00**

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:F

Value: F

Growth: C

Momentum: D

Summary

Shares of Pool Corp have outperformed the industry in the past year. Notably, the company has been benefitting from solid performance of base business, large market presence and strategic expansions through acquisitions. Moreover, its foray into new geographic locations, are likely to boost its market share. However, the coronavirus pandemic remains a major concern. Notably, earnings estimate revisions for 2020 have declined in the past 30 days, depicting analysts' concern regarding stock growth potential. The company has also been witnessing high labor, delivery and investment related costs. Moreover, seasonality of its business and macroeconomic headwinds due to solid global presence are also worrisome.

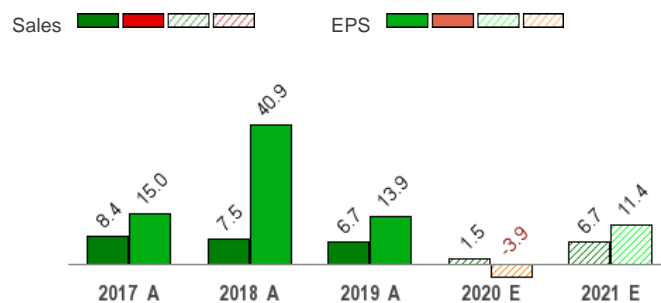
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$238.23 - \$160.35
20 Day Average Volume (sh)	283,628
Market Cap	\$7.4 B
YTD Price Change	-13.0%
Beta	0.78
Dividend / Div Yld	\$2.20 / 1.1%
Industry	Leisure and Recreation Products
Zacks Industry Rank	Bottom 26% (186 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.7%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-6.3%
Expected Report Date	04/23/2020
Earnings ESP	-0.8%
P/E TTM	30.3
P/E F1	31.4
PEG F1	1.3
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,463 E
2020	640 E	1,111 E	893 E	603 E	3,247 E
2019	597 A	1,121 A	899 A	582 A	3,200 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.85 E
2020	\$0.65 E	\$3.02 E	\$1.85 E	\$0.53 E	\$6.15 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 04/21/2020. The reports text is as of 04/22/2020.

Overview

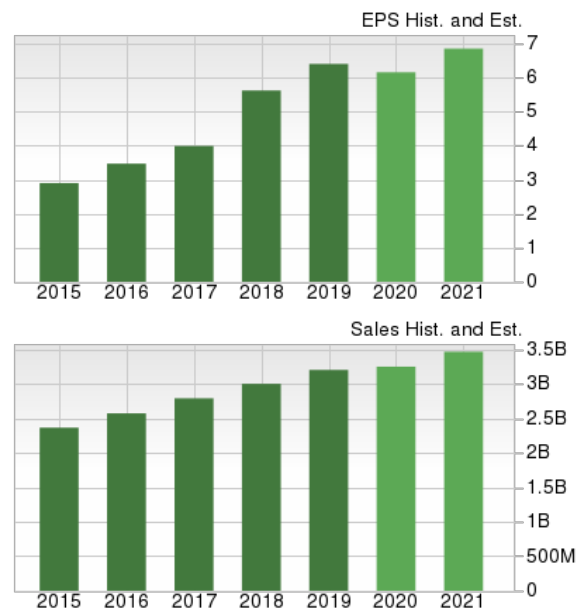
Based in Covington, LA, Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment and related products. In addition, the company is a leading regional wholesale distributor of irrigation and landscape products. The company was incorporated in the State of Delaware in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



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.

Reasons To Sell:

- ▼ **Coronavirus Likely to Hurt 2020 Results:** The recent outbreak of coronavirus in China has now become a global crisis. The Leisure and Recreation Products industry is currently grappling with the situation and Pool Corp isn't immune to the trend. Although, the company's 2020 guidance does not include any impact of the coronavirus outbreak and there have been no reported cases of COVID-19 at any Pool Corp property, uncertainties arising from the outbreak may affect results going forward.
- ▼ **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.
- ▼ **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 down 9.8% in the year-to-date period, but up 7.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 13.4% and 21.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down by 9.1% and 16.6%, respectively.

The S&P 500 index is down by 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 28.2x forward 12-month earnings, which compares with 35.37x for the Zacks sub-industry, 20.76x for the Zacks sector and 19.52x 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 26.34x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$201 price target reflects 29.60x 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	28.2	35.37	20.76	19.52
	5-Year High	36.58	35.37	23.23	19.52
	5-Year Low	21.71	12.9	16.15	15.19
	5-Year Median	26.34	15.5	19.89	17.45
P/S F12M	Current	2.21	2.23	1.88	3.2
	5-Year High	2.75	2.66	3.19	3.44
	5-Year Low	1.14	0.88	1.67	2.54
	5-Year Median	1.77	0.99	2.52	3.01
P/B TTM	Current	18.8	4.28	2.67	3.8
	5-Year High	33.76	5.36	5.04	4.55
	5-Year Low	11.01	2.52	2.18	2.84
	5-Year Median	20.28	2.98	4.24	3.64

As of 04/20/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Clarus Corporation (CLAR)	Neutral	3
Acushnet Holdings Corp. (GOLF)	Neutral	3
Malibu Boats, Inc. (MBUU)	Neutral	5
Marine Products Corporation (MPX)	Neutral	3
SeaWorld Entertainment, Inc. (SEAS)	Neutral	2
YETI Holdings, Inc. (YETI)	Neutral	3
Brunswick Corporation (BC)	Underperform	5
Callaway Golf Company (ELY)	Underperform	4

Industry Comparison Industry: Leisure And Recreation Products				Industry Peers		
	POOL	X Industry	S&P 500	CLAR	ELY	GOLF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	C	F	B
Market Cap	7.44 B	524.01 M	19.37 B	266.94 M	981.55 M	1.75 B
# of Analysts	5	4	14	1	9	9
Dividend Yield	1.19%	0.00%	2.23%	1.11%	0.38%	2.63%
Value Score	F	-	-	C	D	C
Cash/Price	0.00	0.10	0.05	0.01	0.10	0.02
EV/EBITDA	22.42	7.38	11.66	14.78	6.86	9.18
PEG Ratio	1.34	1.43	2.20	NA	NA	NA
Price/Book (P/B)	18.03	1.62	2.61	1.48	1.28	1.87
Price/Cash Flow (P/CF)	28.69	6.07	10.30	9.94	5.39	11.04
P/E (F1)	31.42	14.87	17.85	27.18	13.53	16.56
Price/Sales (P/S)	2.32	0.74	2.04	1.16	0.58	1.04
Earnings Yield	3.18%	6.56%	5.48%	3.68%	7.38%	6.06%
Debt/Equity	1.52	0.35	0.71	0.13	0.76	0.35
Cash Flow (\$/share)	6.68	1.72	7.01	0.91	1.97	2.21
Growth Score	C	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	21.41%	25.33%	10.92%	53.94%	55.97%	21.51%
Proj. EPS Growth (F1/F0)	-8.06%	-18.12%	-3.67%	-52.17%	-29.90%	-10.90%
Curr. Cash Flow Growth	1.90%	14.95%	5.93%	5.40%	49.58%	17.05%
Hist. Cash Flow Growth (3-5 yrs)	16.13%	20.48%	8.55%	27.48%	37.35%	16.80%
Current Ratio	2.49	2.16	1.24	4.92	1.51	2.07
Debt/Capital	60.25%	25.85%	42.83%	11.12%	43.09%	25.85%
Net Margin	8.18%	5.19%	11.64%	8.27%	4.67%	7.20%
Return on Equity	71.75%	13.24%	16.74%	10.84%	13.82%	12.67%
Sales/Assets	2.02	1.23	0.54	1.04	0.88	0.92
Proj. Sales Growth (F1/F0)	1.48%	0.00%	-0.39%	-5.20%	-2.14%	-1.49%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	-3.61%	0.00%	-2.18%	-2.36%	-2.83%	0.58%
1 Week Price Chg	-0.35%	0.00%	0.42%	-4.81%	-5.68%	-1.70%
4 Week Price Chg	13.16%	11.20%	26.24%	-1.41%	48.60%	15.27%
12 Week Price Chg	-13.53%	-22.46%	-20.02%	-30.35%	-49.36%	-23.04%
52 Week Price Chg	7.57%	-28.39%	-12.49%	-28.93%	-36.82%	-3.02%
20 Day Average Volume	295,160	153,134	3,036,163	153,134	1,472,752	496,563
(F1) EPS Est 1 week change	0.00%	0.00%	-0.14%	-65.63%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.27%	-23.73%	-6.66%	-65.63%	-23.73%	-8.09%
(F1) EPS Est 12 week change	-7.35%	-23.28%	-10.02%	-69.44%	-36.48%	-15.59%
(Q1) EPS Est Mthly Chg	-8.62%	-37.49%	-9.67%	-350.00%	-31.07%	-11.77%

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	C
Momentum Score	B
VGM Score	D

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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