

## Pool Corp. (POOL)

**\$219.95** (As of 01/24/20)

Price Target (6-12 Months): **\$231.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

### Summary

Shares of Pool Corp have outperformed the industry in the past year. The outperformance is mainly due to the company's large market presence along with strategic expansions through acquisitions. Meanwhile, the company also raised 2019 earnings guidance. It expects earnings per share in the range of \$6.20-\$6.40 compared with prior guidance of \$6.09-\$6.34. Its base business continues to perform impressively. The company is also trying to expand through various acquisitions. It completed six acquisitions in the last year. So far this year, it has added five facilities. 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 60 days.

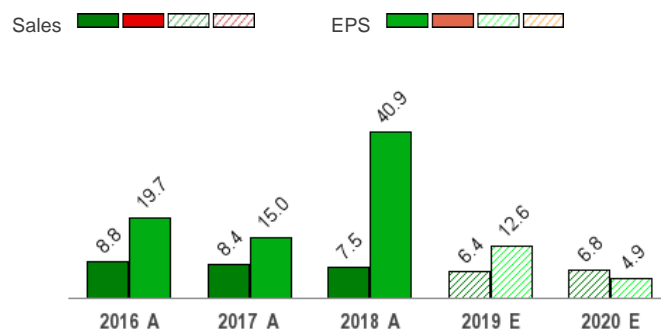
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$228.19 - \$147.76
20 Day Average Volume (sh)	156,916
Market Cap	\$8.8 B
YTD Price Change	3.6%
Beta	0.86
Dividend / Div Yld	\$2.20 / 1.0%
Industry	<a href="#">Leisure and Recreation Products</a>
Zacks Industry Rank	Top 8% (20 out of 255)

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



Last EPS Surprise	4.0%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	36.3
P/E F1	33.1
PEG F1	1.4
P/S TTM	2.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	646 E	1,202 E	948 E	612 E	3,408 E
2019	597 A	1,121 A	899 A	573 E	3,190 E
2018	586 A	1,058 A	811 A	543 A	2,998 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.69 E	\$3.38 E	\$2.08 E	\$0.47 E	\$6.64 E
2019	\$0.59 A	\$3.22 A	\$1.84 A	\$0.35 E	\$6.33 E
2018	\$0.75 A	\$2.80 A	\$1.66 A	\$0.41 A	\$5.62 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 01/24/2020. The reports text is as of 01/27/2020.

## Overview

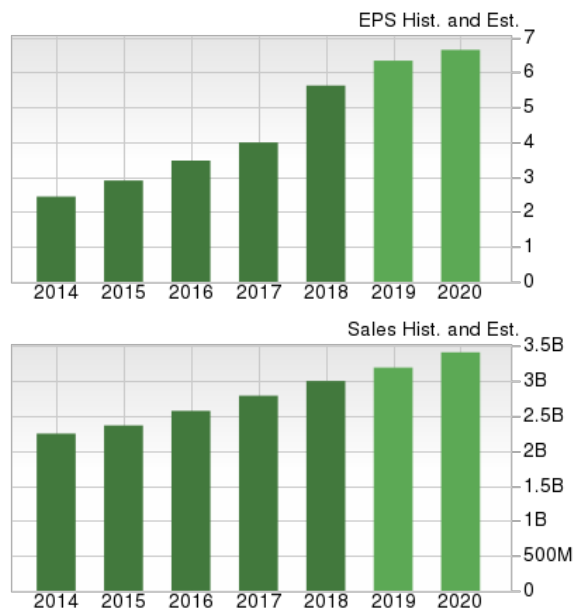
Based in Covington, LA, Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment and related products. In addition, the company is a leading regional wholesale distributor of irrigation and landscape products. The company was incorporated in the State of Delaware in 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% of total revenues in 2018) and the Excluded segment i.e. sale centers excluded from base business (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: a) Maintenance Products such as chemicals, supplies, and accessories, b) Repair and Replacement parts for cleaners, filters, heaters, pumps, etc., c) Packaged Pool kits including liners, walls, bracing, filters, etc., d) Pool equipment and materials for new pool construction and remodeling, and e) Complementary 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, solid demand for pool and outdoor living products drove the company's results in third-quarter 2019. Earnings and revenues in the quarter improved 16% and 11%, respectively, on a year-over-year basis. For 2019, Pool Corp expects EPS in the range of \$6.20-\$6.40 compared with prior guidance of \$6.09-\$6.34.
- ▲ **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 and 2018. 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 2018, the company's base business segment constituted 99% of total revenues. Pool Corp's sincere efforts to boost the base business are reflected in high demand in end markets. Revenues from base business improved 9% in the third quarter following gains of 4.4% and 1% in the first and second quarter of 2019, respectively. Overall gross profit and operating margins also improved substantially, given the improvement in the company's base business.
- ▲ **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.
- 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.

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

---

## 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 third-quarter 2019, cost of sales increased 11.2% from the prior-year quarter number. Selling and administrative expenses also increased 7.5% year over year. Net income totaled \$243.6 million, up from \$217.6 million reported in the year-ago quarter. 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 32.83. Meanwhile, the trailing 12-month P/E ratios for the industry and the S&P 500 are 29.64 and 18.94, 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 Q3 Earnings & Revenues Beat Estimates

Pool reported better-than-expected third-quarter 2019 results. The bottom line beat the Zacks Consensus Estimate for the second straight quarter and the top line beat the same after missing in the preceding two quarters.

Adjusted earnings of \$1.84 per share in the quarter topped the Zacks Consensus Estimate of \$1.77 and increased 16% from the year-ago quarter's tally. Quarterly net revenues totaled \$898.5 million, which surpassed the consensus mark of \$887 million and improved 11% year over year. Additionally, sales increased 1% from an extra selling day in the third quarter of 2019 compared with 2018 tally.

Revenue growth can be primarily attributed to robust performance of the company's Base business, which registered an increase of 8% year over year. Base business growth was driven by sales growth of 7% each from California, Florida and Arizona and rise of 9% from Texas. The company also witnessed strong demand from France, Germany and Spain.

**Let's discuss the quarterly numbers.**

### 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 9% year over year to \$886.7 million. Also, operating income improved 13% to \$104.5 million. Operating margin expanded 40 basis points (bps) from the year-ago quarter's number.

The Excluded segment delivered net revenues of \$11.8 million, up from about \$0.30 million registered in the prior-year quarter. The segment reported operating loss of \$0.18 million compared with the year-ago quarter's loss of \$0.06 million.

### Operating Highlights & Expenses

Cost of sales in the third quarter increased 11.2% from the prior-year quarter's figures. Gross profit, as a percentage of net sales, declined 30 bps to 28.7% from the year-ago quarter's figure.

Operating income increased 13% year over year to \$104.5 million. Also, the operating margin expanded 20 bps to 11.6% from the prior-year quarter's level. Selling and administrative expenses too increased 7.5% year over year. Net income totaled \$243.6 million, up from \$217.6 million recorded in the year-ago quarter.

Adjusted EBITDA increased to \$115.5 million in the quarter from \$102.5 million in third-quarter 2018.

### Balance Sheet

As of Sep 30 2019, Pool Corp's cash and cash equivalents amounted to \$36.7 million compared with \$35.7 million on Sep 30, 2018. Total net receivables, including pledged receivables, rose 6% and inventory levels grew 1% year over year. Its long-term debt amounted to \$535.7 million, down 6% from the prior-year quarter's level. Goodwill fell 0.5% year over year.

In the first nine months of 2019, cash provided by operations increased to \$243.3 million in the quarter under review compared with \$51.3 million in the prior-year quarter.

### 2019 Guidance

For 2019, Pool Corp expects EPS in the range of \$6.20-\$6.40 compared with prior guidance of \$6.09-\$6.34. The Zacks Consensus Estimate for current-year earnings is pegged at \$6.21.

**Quarter Ending** **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	1.26%
EPS Surprise	3.95%
Quarterly EPS	1.84
Annual EPS (TTM)	6.06

## Valuation

Pool Corp's shares are up 45.1% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector increased by 21.7% and 17.2%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 32.83x forward 12-month Price to Earnings value, which compares to 29.64x for the Zacks sub-industry, 20.08x for the Zacks sector and 18.94x 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 26.1x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$231 price target reflects 34.48x 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	32.83	29.64	20.08	18.94
	5-Year High	36.58	31.68	23.35	19.33
	5-Year Low	21.71	12.9	16.16	15.17
	5-Year Median	26.1	15.5	20.08	17.44
P/S F12M	Current	2.57	2.62	3.52	3.52
	5-Year High	2.68	2.62	3.52	3.52
	5-Year Low	1.11	0.88	2.54	2.54
	5-Year Median	1.74	0.99	3	3
P/B TTM	Current	21.69	5.27	3.51	4.5
	5-Year High	33.76	5.32	5.04	4.55
	5-Year Low	11.01	2.52	3.13	2.85
	5-Year Median	19.88	2.98	4.28	3.62

As of 01/24/2020

## Industry Analysis Zacks Industry Rank: Top 8% (20 out of 255)



## Top Peers

Brunswick Corporation (BC)	Neutral
Clarus Corporation (CLAR)	Neutral
Callaway Golf Company (ELY)	Neutral
Acushnet Holdings Corp. (GOLF)	Neutral
Malibu Boats, Inc. (MBUU)	Neutral
Marine Products Corporation (MPX)	Neutral
SeaWorld Entertainment, Inc. (SEAS)	Neutral
YETI Holdings, Inc. (YETI)	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>B</b>	-	-	<b>F</b>	<b>A</b>	<b>C</b>
Market Cap	8.81 B	767.24 M	24.13 B	399.64 M	2.01 B	2.38 B
# of Analysts	5	4	13	1	9	8
Dividend Yield	1.00%	0.00%	1.78%	0.75%	0.19%	1.77%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>D</b>
Cash/Price	0.00	0.08	0.04	0.00	0.04	0.02
EV/EBITDA	27.58	9.52	14.02	25.55	15.92	12.55
PEG Ratio	1.42	1.20	2.03	NA	0.70	3.74
Price/Book (P/B)	21.69	2.46	3.30	2.37	2.58	2.46
Price/Cash Flow (P/CF)	33.75	10.43	13.52	15.39	16.23	16.67
P/E (F1)	33.29	16.26	18.92	16.11	17.55	18.72
Price/Sales (P/S)	2.79	1.30	2.65	1.77	1.28	1.43
Earnings Yield	3.02%	6.09%	5.28%	6.21%	5.68%	5.34%
Debt/Equity	1.62	0.31	0.72	0.15	0.74	0.33
Cash Flow (\$/share)	6.52	1.50	6.94	0.87	1.31	1.90
<b>Growth Score</b>	<b>A</b>	-	-	<b>D</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	21.61%	32.57%	10.60%	56.78%	66.07%	NA
Proj. EPS Growth (F1/F0)	4.90%	8.72%	7.59%	22.06%	9.05%	6.12%
Curr. Cash Flow Growth	34.09%	35.61%	13.90%	168.35%	72.23%	5.56%
Hist. Cash Flow Growth (3-5 yrs)	18.58%	18.11%	9.00%	16.19%	34.47%	14.16%
Current Ratio	2.68	2.56	1.22	4.32	1.79	1.95
Debt/Capital	61.81%	23.49%	42.99%	12.86%	42.65%	24.93%
Net Margin	8.24%	5.20%	11.35%	4.49%	5.10%	6.92%
Return on Equity	82.52%	13.25%	17.10%	10.58%	13.17%	12.07%
Sales/Assets	2.08	1.25	0.55	1.04	0.93	0.92
Proj. Sales Growth (F1/F0)	6.84%	5.95%	4.03%	9.14%	5.07%	2.84%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>B</b>	<b>F</b>
Daily Price Chg	-0.38%	0.00%	-1.01%	-0.96%	-2.11%	-1.46%
1 Week Price Chg	1.28%	2.59%	2.29%	7.64%	2.90%	2.21%
4 Week Price Chg	3.41%	0.16%	1.02%	-3.81%	1.52%	-3.24%
12 Week Price Chg	6.05%	7.41%	6.85%	4.86%	5.39%	11.14%
52 Week Price Chg	44.12%	-0.41%	20.39%	22.32%	28.53%	36.12%
20 Day Average Volume	156,916	95,965	1,536,379	88,737	662,952	180,578
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.67%	0.00%
(F1) EPS Est 12 week change	-0.24%	1.71%	-0.23%	-17.24%	-0.49%	5.30%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-3.40%	0.00%

---

## 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	D
Growth Score	A
Momentum Score	B
VGM Score	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.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.