

Pool Corp. (POOL)

\$259.13 (As of 05/28/20)

Price Target (6-12 Months): **\$272.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/19)

Prior Recommendation: NA

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: F

Growth: A

Momentum: A

Summary

Shares of Pool Corp have outperformed the industry in the past year. The company reported first-quarter 2020 results, wherein earnings and revenues not only beat the consensus mark but also grew year over year. Notably, earnings and revenues in the quarter increased 20.3% and 13.4% on a year-over-year basis, respectively. Notably, the company has been benefitting from solid performance of base business, large market presence and expansion through acquisitions. However, the coronavirus-related woes persist. The company has also trimmed its guidance owing to the outbreak. Also, high labor costs, seasonality woes and other macroeconomic headwinds remain. Notably, earnings estimates for 2020 have declined in the past 30 days, depicting analysts' concern regarding the stock's growth potential.

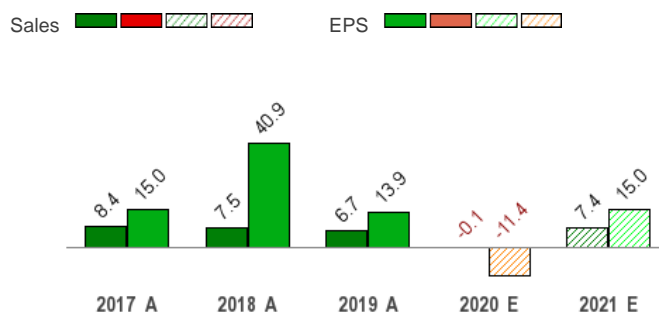
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$266.67 - \$160.35
20 Day Average Volume (sh)	320,432
Market Cap	\$10.3 B
YTD Price Change	22.0%
Beta	0.74
Dividend / Div Yld	\$2.32 / 0.9%
Industry	Leisure and Recreation Products
Zacks Industry Rank	Top 31% (80 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.2%
Last Sales Surprise	6.5%
EPS F1 Est- 4 week change	2.4%
Expected Report Date	07/16/2020
Earnings ESP	0.4%
P/E TTM	41.7
P/E F1	45.7
PEG F1	1.9
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,434 E
2020	677 A	1,068 E	871 E	581 E	3,198 E
2019	597 A	1,121 A	899 A	582 A	3,200 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.52 E
2020	\$0.71 A	\$2.81 E	\$1.71 E	\$0.39 E	\$5.67 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 05/28/2020. The reports text is as of 05/29/2020.

Overview

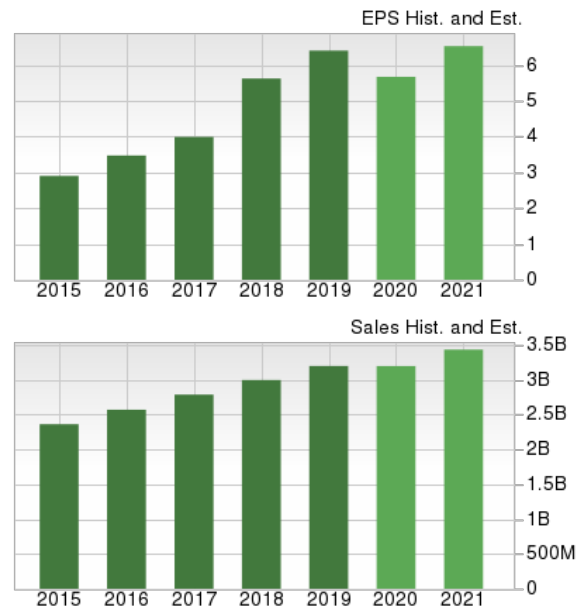
Based in Covington, LA, Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment and related products. In addition, the company is a leading regional wholesale distributor of irrigation and landscape products. The company was incorporated in the State of Delaware in 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 (98.6% of the first-quarter 2020 revenues) and the Excluded segment i.e. sale centers excluded from base business (1.4%). As of Apr 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



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 first-quarter 2020. Earnings and revenues in the first quarter increased 20.3% and 13.4% on a year-over-year basis, respectively.

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

▲ **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.

During the first quarter of 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 first-quarter 2020 too. The upside was mainly aided by higher replacement activities. The trend is expected to continue going forward.

In the first quarter of 2020, building materials sales grew 14% on the back of strong demand in construction and remodel markets. Equipment and chemical sales increased 18% and 16%, respectively, for the same quarter. The increase was primarily driven by solid demand in 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 first-quarter 2020, the company's base business segment contributed 98.6% 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 13.5% year over year to \$667.8 million compared with \$588.4 million reported in the prior-year quarter. In first, second, third and fourth quarter of 2019, base business increased 4.4%, 1%, 9% and 6.9%, year over year, respectively.

▲ **Healthy Balance Sheet:** The company's strong balance sheet should help it tide over the ongoing crisis. At the end of first-quarter 2020 (ended Mar 31), the company had debt-to-total capital ratio of 0.6, this gives an indication that its debt level is manageable. Moreover, the company's leverage ratio, as measured on a trailing twelve-month debt to EBITDA basis, improved to 1.49 in first-quarter 2020 from 1.61 at the end of fourth-quarter 2019. At March 31, 2020, POOL had \$552.4 million available for borrowing under its revolving credit facility.

▲ **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. In the first quarter of 2020, the company repurchased 362,000 shares for \$66.6 million.

Despite the coronavirus pandemic, the company announced a 5% quarterly dividend hike. The company raised quarterly dividend to 58 cents a share from the previous payout of 55 cents. The raised dividend will be paid out on May 29, 2020, to shareholders on record as of May 15, 2020.

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.

Owing to the pandemic and the associated stay-at-home orders, North American and European businesses were negatively impacted in the latter part of March. Moreover, uncertainties arising from the outbreak are likely to affect results going forward. Notably, the company has trimmed its earnings per share to the range of \$5.45-\$6.05 from the prior guidance of \$6.47-\$6.77.

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

- ▼ **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 15.3% from the prior-year quarter number. Selling and administrative expenses also increased 7.9% 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.
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Last Earnings Report

Pool Corp Q1 Earnings and Revenue Beat Estimates

Pool Corporation reported first-quarter 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. While the bottom line beat the consensus estimate for the fourth straight quarter, the top line surpassed the same for the third consecutive time.

Adjusted earnings of 71 cents per share in the quarter topped the Zacks Consensus Estimate of 65 cents and increased 20.3% from the year-ago quarter's tally. Quarterly net revenues totaled \$677.3 million, which surpassed the consensus mark of \$636.5 million and increased 13.4% year over year.

Revenue growth can be primarily attributed to robust performance of the company's Base business, primarily driven by strong demand for discretionary products and higher sales growth for construction materials and products used in the remodel and replacement of in-ground pools. Additionally, an extra selling day in the first quarter and early purchases from customers of the second quarter 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 13.5% year over year to \$667.8 million. However, operating income fell 7.9% to \$35.9 million. Moreover, operating margin contracted 120 basis points (bps) from the year-ago quarter's number to 6.6%.

The Excluded segment delivered net revenues of \$9.5 million, up from \$9.1 million registered in the prior-year quarter. The segment reported operating loss of \$0.3 million compared with the year-ago quarter's loss of \$0.6 million.

Operating Highlights & Expenses

Cost of sales in the first quarter increased 15.3% from the prior-year quarter's figure. Gross profit, as a percentage of net sales, declined 120 basis points (bps) to 28% from a year ago.

Operating income dropped 7% year over year to \$35.6 million. Also, the operating margin declined 110 bps to 5.3% from the prior-year quarter's level. Selling and administrative expenses inched up 8% year over year. Net income totaled \$30.9 million, down from \$32.6 million recorded in the year-ago quarter.

Balance Sheet

As of Mar 31, 2020, Pool Corp's cash and cash equivalents amounted to \$17.8 million compared with \$28.6 million as on Mar 31, 2019. Total net receivables, including pledged receivables, rose 10% and inventory levels rose 5% year over year. Its net long-term debt amounted to \$569.7 million, down 15.9% from the prior-year quarter's level. Goodwill increased to \$193.4 million compared with \$188.5 million reported in the prior-year quarter.

In the first quarter of 2020, the company repurchased 362,000 shares for \$66.6 million.

Despite the coronavirus pandemic, the company declared a 5% quarterly dividend hike. The company raised quarterly dividend to 58 cents a share from the previous payout of 55 cents. The raised dividend will be paid out on May 29, 2020, to shareholders on record as of May 15, 2020.

2020 Guidance

For 2020, Pool Corp expects earnings per share in the range of \$5.45-\$6.05 compared with the prior guidance of \$6.47-\$6.77. The Zacks Consensus Estimate for full-year earnings is pegged at \$5.88 per share, which is above the mid-point of the company's revised guidance of \$5.74 per share.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	6.47%
EPS Surprise	9.23%
Quarterly EPS	0.71
Annual EPS (TTM)	6.21

Valuation

Pool Corp's shares are up 22% in the year-to-date period and 44.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 14.2%, while the Zacks Consumer Discretionary sector are down by 13.2% in the year-to-date period. Over the past year, the Zacks sub-industry was up by 29.4%, while sector was down by 3.7%.

The S&P 500 index is down by 5.7% in the year-to-date period but up 8.7% in the past year.

The stock is currently trading at 43.07x forward 12-month earnings, which compares with 42.89x for the Zacks sub-industry, 30.38x for the Zacks sector and 22.06x for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.07x and as low as 21.71x, with a 5-year median of 26.6x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$272 price target reflects 45.25x 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	43.07	42.89	30.38	22.06
	5-Year High	43.07	43.01	30.38	22.06
	5-Year Low	21.71	12.9	16.21	15.23
	5-Year Median	26.6	15.5	19.92	17.49
P/S F12M	Current	3.14	2.82	2.11	3.42
	5-Year High	3.14	2.82	3.2	3.44
	5-Year Low	1.15	0.88	1.67	2.53
	5-Year Median	1.78	0.99	2.53	3.01
P/B TTM	Current	29.7	5.83	2.74	4.15
	5-Year High	33.76	5.83	5.05	4.56
	5-Year Low	11.01	2.52	2.17	2.83
	5-Year Median	20.74	2.99	4.22	3.65

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Top 31% (80 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Brunswick Corporation (BC)	Neutral	3
Clarus Corporation (CLAR)	Neutral	3
Callaway Golf Company (ELY)	Neutral	3
Malibu Boats, Inc. (MBUU)	Neutral	3
Marine Products Corporation (MPX)	Neutral	3
SeaWorld Entertainment, Inc. (SEAS)	Neutral	3
YETI Holdings, Inc. (YETI)	Neutral	3
Acushnet Holdings Corp. (GOLF)	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	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	B	-	-	D	F	F
Market Cap	10.35 B	594.19 M	21.49 B	309.91 M	1.43 B	2.47 B
# of Analysts	4	4	14	2	8	8
Dividend Yield	0.90%	0.00%	1.98%	0.96%	0.26%	1.87%
Value Score	F	-	-	C	D	F
Cash/Price	0.00	0.11	0.06	0.04	0.12	0.02
EV/EBITDA	29.74	10.35	12.50	16.69	8.82	11.92
PEG Ratio	1.96	2.01	2.87	NA	NA	NA
Price/Book (P/B)	29.70	2.68	2.95	1.71	1.89	2.68
Price/Cash Flow (P/CF)	38.81	11.47	11.81	11.39	7.73	15.04
P/E (F1)	45.97	25.57	21.33	28.86	37.07	34.90
Price/Sales (P/S)	3.16	1.23	2.28	1.40	0.88	1.49
Earnings Yield	2.19%	3.84%	4.50%	3.46%	2.69%	2.86%
Debt/Equity	1.98	0.36	0.76	0.18	0.83	0.36
Cash Flow (\$/share)	6.68	1.72	6.96	0.91	1.97	2.21
Growth Score	A	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	20.98%	25.23%	10.87%	130.48%	48.37%	19.30%
Proj. EPS Growth (F1/F0)	-11.45%	-27.64%	-10.48%	-47.71%	-62.63%	-40.55%
Curr. Cash Flow Growth	1.90%	10.71%	5.39%	5.40%	49.58%	17.05%
Hist. Cash Flow Growth (3-5 yrs)	16.13%	16.80%	8.55%	27.48%	37.35%	16.80%
Current Ratio	1.90	2.66	1.29	6.38	1.44	1.78
Debt/Capital	66.45%	26.27%	44.54%	15.01%	45.31%	26.27%
Net Margin	7.92%	5.74%	10.59%	6.86%	3.67%	5.74%
Return on Equity	69.42%	11.67%	16.26%	8.41%	9.95%	11.67%
Sales/Assets	2.05	1.22	0.55	0.98	0.82	0.90
Proj. Sales Growth (F1/F0)	-0.04%	-0.90%	-2.53%	-14.53%	-18.83%	-11.44%
Momentum Score	A	-	-	B	D	F
Daily Price Chg	1.83%	0.00%	-0.65%	-2.99%	-5.28%	-0.39%
1 Week Price Chg	6.82%	7.99%	4.99%	12.33%	15.46%	10.34%
4 Week Price Chg	22.43%	19.57%	4.28%	-2.49%	6.42%	21.17%
12 Week Price Chg	14.34%	20.96%	-3.05%	-10.46%	-2.56%	27.06%
52 Week Price Chg	44.82%	11.76%	0.01%	-20.32%	3.04%	37.87%
20 Day Average Volume	320,432	124,107	2,425,602	124,107	2,107,044	551,991
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.36%	-2.14%	-1.70%	23.01%	-32.48%	-18.89%
(F1) EPS Est 12 week change	-13.90%	-32.97%	-16.00%	-62.41%	-60.68%	-35.50%
(Q1) EPS Est Mthly Chg	1.81%	-39.12%	-3.25%	14.80%	-165.69%	-46.37%

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	A
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

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