Q1 2025 Earnings Call

Company Participants

- Melanie M. Hart, Senior Vice President, Chief Financial Officer and Treasurer
- Peter D. Arvan, President and Chief Executive Officer of Pool Corporation

Other Participants

- Andrew Carter, Stifel
- Collin Verron, Deutsche Bank
- David MacGregor, Longbow Research
- Ethan Roberts, Stephens
- Garik Shmois, Loop Capital Markets
- Quinn Fredrickson, Baird
- Ryan Merkel, William Blair & Company
- Sam Reid, Wells Fargo
- Scott Schneeberger, Oppenheimer
- Stephen Volkmann, Jefferies
- Susan Maklari, Goldman Sachs

Presentation

Operator

Good day, and welcome to the Pool Corporation First Quarter 2025 Conference Call.

All participants will be in listen-only mode. (Operator Instructions) Please note that this event is being recorded.

I would now like to turn the conference over to Melanie Hart, Senior Vice President and CFO. Please go ahead.

Melanie M. Hart {BIO 16411204 <GO>}

Good morning, and welcome to our first quarter 2025 earnings conference call. Our discussion, comments, and responses to questions today may include forward-looking statements, including management's outlook for 2025 and future periods. Actual results may differ materially from those discussed today. Information regarding the factors and variables that could cause actual results to differ from projected results are discussed in our 10-K.

In addition, we may make references to non-GAAP financial measures in our comments. A description and reconciliation of our non-GAAP financial measures is included in our press release and posted to our corporate website in the Investor Relations section. We have also included a presentation on our Investor website to summarize key points from our press release and call comments.

We will begin today with comments from Peter Arvan, our President and CEO.

Peter D. Arvan {BIO 17669961 <GO>}

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Thank you, Melanie, and good morning to everyone on the call. Earlier this morning, we reported our first quarter results and affirmed our full-year guidance for 2025. While the first quarter started off with some challenging weather in key markets, we began to see some improvement in conditions in March. Also meaningful this year, the Easter holiday occurred three weeks later than last year, falling into the second quarter versus the first.

As expected, our maintenance product sales performed well during the quarter and so far into the season. The recurring non-discretionary demand of these products is durable in all economic cycles, and we believe we can continue to achieve above-market growth based on our strategic initiatives around customer experience, private-label products, POOL360, and our expanded footprint.

At the time of our last call, there appeared to be some signs of macro stability approaching, but we have seen the challenging economic environment continue to weigh on new pool construction and, to a lesser degree, renovation activities.

Our dealers are reporting that the uncertainty of the macroeconomic environment and persistently high interest rates is causing a wait-and-see pattern in demand for large discretionary purchases. By and large, they are reporting that inquiries are steady but time to contract is still protracted. In aggregate, the permit data in the first quarter was softer than 2024, which is somewhat surprising given the more optimistic outlook prior to the recent tariff actions. We are hopeful that, as things settle, consumer confidence will help stabilize that.

When we compare our new pool construction-related sales to the permit data, almost without exception, we are outperforming the market, which gives us confidence that our overall value proposition to our customers continues to help us gain share in this area. Remodel activity will continue, but there may be some deferrals of discretionary remodel and replacement or reconfiguration of plans to complete projects in phases. Despite these persistent conditions, we are encouraged by improving trends in our top-line performance, and we expect our initiatives will allow us to perform better than the market in all areas of our business as we push through the transition to a more normal industry environment.

Another topic we would like to add some color on prior to discussing the quarter is our exposure to tariffs and how they are affecting the business as of the latest information that we have. Our exposure to direct imports in total is relatively small and would amount to less than 1% of revenue. For clarification, this includes some building material and maintenance products. Chemicals, as a category, have little exposure because of domestic supply arrangements or exemptions. The biggest tariff impact in our business is being felt in the equipment area, where the manufacturers have exposure for whole goods or components that are impacting their costs.

Since our last earnings call, our largest equipment vendors announced and implemented an in-season price increase that ranged from 3% to 4% that took effect in April to address the March tariff announcements, and we increased our selling prices accordingly. We observed similar patterns during the pandemic years, and those increases passed through the channel with no reversals. Our current thinking is this will be the case this time as well.

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In addition to that, on Tuesday of this week, an additional 4% increase was announced by Pentair that will take effect on June 2 of this year. We will, in the normal course, raise our prices accordingly as these and future increases are announced and come into effect. Melanie will add additional color in her remarks in how we see these impacting our results. No doubt we are living in a dynamic market condition, but the team is focused on execution and is very experienced.

Next, let me turn to our first quarter results. We reported $1.1 billion in net sales as our teams continue to execute on our strategic priorities. First quarter sales were down 4% versus last year, but down 2% on a same-selling-day basis, a similar improving trend to what we saw in the end of 2024. After a challenging January and February with tougher weather comps, we saw overall top-line growth in March.

Maintenance product sales performed well, with chemicals showing volume and revenue growth, including double-digit growth in our private-label chemical products. On new construction and remodel, we saw the continued effects of tight discretionary spending under the current macro backdrop, but this area provided less of a drag on top-line than we have seen in recent quarters.

Next, I will recap the P&L. Gross margins came in at 29.2% versus the 30.2% in the first quarter of 2024. Recall that, last year, we realized 110 basis point benefit from an import tax accrual reversal. Without that benefit, our prior-year gross margin was closer to 29.1%, reflecting some year-over-year improvement, largely driven by our pricing optimization and supply chain initiatives. Competitive pricing became more prevalent in the first quarter, similar to what we observed at this time last year and typical for this time of year. However, using price appears to be a more pronounced tactic by our competitors of late.

We evaluate these circumstances on a market-by-market basis and respond as we feel appropriate on a market-by-market basis. Both our field and support team managed controllable expenses, and even with inflationary increases and investments in our network expansion, operating expenses increased only 2% during the first quarter. We generated operating income of $77.5 million, an operating margin of 7.2%, reflecting structural improvements in the first quarter operating margin as compared to our pre-pandemic first quarter operating margins that ranged from 5.7% to 6.5%. We generated diluted earnings per share of $1.42, including a $0.10 ASU tax benefit.

Covering sales in more detail, by major geographic market, sales increased 2% in Arizona, came in flat for California, and declined 1% in Florida and 11% in Texas. As we mentioned on our year-end call, we saw challenging weather in January and February in varying markets, which notably impacted sales in Texas and to a lesser extent some areas in Florida. Again, we did see improvement in March as total company revenues turned positive in contrast to January and February and continues in April.

In Europe, net sales declined 4% in local currency and 6% in U.S. dollars as it continues to work through the macro uncertainties, but is mostly holding the improved trends we began to see in the back half of 2024. While France, our largest presence in Europe, sees pressure from tough market conditions on new construction, we see positive trends in Spain and Portugal signaling a solid setup for the season in those markets.

For Horizon, net sales declined 4% in the quarter. While commodity pricing has shown sign of stabilization, deflation impacted Horizon results by 4% on a year-over-year basis,

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most notably in PVC. Volumes came in flat overall for the period, tempered by weather and a soft macro. Maintenance-related sales are helping offset pressure on both commercial and residential irrigation, but our team remains encouraged by our pipeline of projects heading into the second quarter.

Related to our product sales mix, chemicals sales were up 1% for the quarter with volume increasing as well as total sales. Our observed -- as we observed last year, market prices declined during the first quarter compared to year end, but we believe pricing will rationalize further as the industry enters the busier selling season. We remain focused on gaining shelf space in dealer stores with our best-in-class chemical programs. Converting dealers' chemical lines is a strategic focus area for our business, but it is a longer-than-normal selling process. Our success so far in this area is encouraging.

Building materials sales declined 5%, a sequential improvement from what we saw in the fourth quarter and much of last year. The improvement in our NPT-branded product finish -- pool finish and tile, particularly in a tight environment, highlights the power of our offering and the unmatched value seen by our customers. Equipment sales, which excludes cleaners, declined 4% during the quarter following spikes from repair activities in much of Florida during the first quarter of 2024.

Our inventory is well positioned for the season as our early-buy terms allow for delivery from our vendors in the fourth quarter or the first quarter of each year based on manufacturers' capacity. Aftermarket demand remains healthy. Automation and innovation remain top priorities for homeowners and our ability to partner with our vendors and utilize our expansive network to effectively bring those products to market, highlighting the strength and value of our team.

Looking at our end-markets, our commercial business sales increased 7% in the first quarter. We are pleased with the continued progress in this area as we leverage knowledge gained from recent acquisitions to align with our sales force, leverage brand names, and expand our warehouse distribution capabilities and enhance our expertise serving this robust market. Sales to our independent retail customers declined 1% in the first quarter, showing some improvement trends ahead of the peak season.

For the Pinch A Penny franchisees group, representing our franchisee sales to their end customers, sales came in flat for the quarter, showing some impacts from varying Texas and Florida weather patterns and the normalization after hurricane repairs in the fourth quarter. Collectively, these results show the stability of the maintenance market and our progress to expand our capabilities to serve the key do-it-yourself end-markets.

For POOL360, orders processed continued to expand at close to or continued to expand and we're close to 13% of total sales for the first quarter of 2020 -- for the first quarter, growing from 11% in the first quarter of last year. Utilize the opportunities that the first quarter offers through industry shows and retail events to educate our consumers and potential customers on these value-added tools. Along with growth in orders processed, we observed double-digit growth in our private-label chemical sales, further highlighting our progress from the streamlined abilities of the POOL360 WaterTest and POOL360 Service to direct our customers to our private-label solutions, driving growth and productivity for our dealers and for Pool Corp.

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We continue to expand our wholesale distribution network, opening two new locations in the first quarter, bringing our total locations to just shy of 450. Our Pinch A Penny franchise network added its first store in Arizona, positioning us to expand into this key do-it-yourself market. With three stores opening this quarter, we are now coming close to 300 Pinch A Penny franchisees.

As we enter the industry's seasonally most significant time of year, we confirm our full-year EPS guidance range of $11.10 to $11.60, including the 10% -- including an updated $0.10 estimated benefit from ASU. Through our thoughtful and innovative investments, we believe we have positioned ourselves to capture more available demand than anyone else in the industry during the most critical part of the season. Our teams will focus on providing the best customer experience while leaning into advanced POOL360 offerings to help our customers grow their business.

Pools remain highly sought after with continued concentration towards the higher end. Remodeling activity will continue despite some projects being spaced out over multiple projects or longer time spans. Through our robust distribution network, we will continue to focus on best serving both the professional contractors and servicers as well as the retailers to also reach the do-it-yourself pool owner. We will utilize our four domestic central shipping locations to create supply chain efficiencies and fulfill demand needs better than anyone in the industry, benefited by our ample cash flows and disciplined capital allocation practices, we will invest in strategic growth and shareholder returns while maintaining a strong balance sheet.

With the seasonally significant second quarter underway, our teams will be relentless in providing industry-leading customer experience and improving on capacity-creation through utilizing of our innovative technology solutions, best-in-class team, unmatched value proposition, and continued investment in the industry that builds upon itself. Unlike a year ago, this year, we have additional in-season price increases that will help offset the slower start to the year on discretionary spending.

I would like to thank our POOLCORP team, who I can always count on to operate on our initiatives, particularly well in this key time of year. They continue to battle and win in a challenging market, and through our teaming with supply partners, creating value for our customers. I look forward to seeing what they will accomplish during the season.

I will now turn the call over to Melanie Hart, our Senior Vice President and Chief Financial Officer, for her detailed commentary. Melanie?

Melanie M. Hart {BIO 16411204 <GO>}

Thank you, Pete. Exiting the quarter, we saw improved momentum in March sales. Finishing the month on a same-day basis at 2% over prior year. The improvements we saw in March were not enough to cover for the tough weather we saw early in the quarter in January and February, resulting in a 2% decrease on the same-selling-day basis compared to the prior year for the full quarter.

We were successful in the quarter in passing through the vendor price increases that were put in place at the beginning of the year. These previously announced increases were expected to benefit sales by 1% to 2% on an overall product blend, with continued negative 1% impact for chemicals and commodities, netting to an overall plus 1% for pricing in the quarter.

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We continue to be encouraged by our progress on our chemical business, which is a good proxy for the over 60% of our sales that are derived from the maintenance of the installed base. Volumes increased for these products and benefited total sales for the quarter by an estimated 1%. Discretionary spend in the new construction and remodel areas have still not seen a recovery, resulting in an estimated 3% drag on sales activity. We did see negative comparables and permits across most of our large states. However, the trend continues to improve in some of our key markets.

Coming up to sales impact for the quarter, we saw a plus 1% on maintenance volumes, plus 2% on realized vendor price increases, offset by a negative 1% on pricing impact from chemicals and commodities, a 2% loss on one less selling day, a decline of 3% on volumes on sales of discretionary products for new pools and remodel activity, and a 1% impact on sales for declines in Horizon and Europe combined. The first quarter included one less selling day than prior year for a total of one less selling day for the full year 2025 compared to 2024.

Our gross margin for the quarter finished at 29.2% or 10 basis points higher than prior year when considering the 110 basis points positive impact recognized in first quarter 2024 related to import taxes. We realized benefits during the quarter from our pricing initiatives and supply chain, including higher levels of private-label chemical sales with offsets from less favorable customer mix.

In the current period with lower discretionary demands, our larger customers are still winning a higher proportion of the business in the market. While this may put some pressure on margins, the stickiness of these larger customers is evidenced in our ability to capture sales in periods where demand for discretionary products is slower as we are best at serving their broader needs. Early-buy sales were similar in both periods and they did not have a meaningful impact on margins.

Product mix was a slight drag with lower building materials and strong growth in commercial sales, which also had a slight negative margin impact. We saw some instances of aggressive competitive pricing for certain orders that appears to be in response to continued softness in the market. On the margin side, this was the main difference from our initial forecast and diluted some of the benefits we have seen on our internal initiatives.

Operating expenses for the first quarter were $235 million, an increase of only 2% over prior year. First quarter includes the impact of our annual merit increases, continued investments in our technology offerings, as well as increased spend for the six sales centers operating second quarter of last year. This modest expense increase demonstrates leveraged gains from our ongoing capacity-creation efforts and disciplined variable cost management.

Operating income of $78 million was a decrease of $31 million compared to prior year, including the $13 million import tax impacts that benefited first quarter of 2024. We reduced interest expense by $2.3 million compared to the first quarter of 2024 and reported diluted earnings per share of $1.42 compared to $2.04 in prior year, which included an additional $0.09 from ASU and $0.24 from import taxes. Operationally, the resulting change in EPS would have been $0.29, primarily driven by top-line activity.

Overall for the quarter, we relied on continuing improvement in sales trends, consistent performance in maintenance product categories, and strong volume growth in private-

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label chemicals driven in part by our POOL360 applications. We also continue to grow both our wholesale distribution sales center network and franchisee store network while executing with strong expense discipline. We continue to benefit from our strong balance sheet position. Our day sales outstanding of 25.9 days reflects an improvement compared to 26.9 days in prior year, reflecting our continued strong credit management process and collections discipline.

In view of market conditions, we thoughtfully executed early-buy ordering to ensure the right inventory was on hand. Inventory balances increased $171 million from year-end as we receive products across our vast footprint to position for sale. The balance at the end of March of $1.46 billion reflects less than the prior year of $1.5 billion for the inventory stocking improvements we have made. Inventory days on hand improved three days from prior-year first quarter.

We ended the quarter with total debt of $1 billion. Debt and interest expense typically increases from first to second quarter as we build inventory for the season and as early-buy payments are due during the second quarter. Even early in the season, as we increased our inventory position, we have been able to maintain our leverage ratio of 1.47x at the lower end of our target.

We reported $27 million in cash flow from operating activities during the quarter. This year, higher inventory purchases and timing of related payments used incremental cash of $70 million. We also made the payment of the 2024 deferred tax amount, which reflected $68.5 million less than cash flow during the quarter, unrelated to the current year activity.

During the quarter, we completed total share repurchases of $56 million, an increase of $40 million over prior year and have $291 million remaining under our share repurchase authorization. At our upcoming Board meeting, we will present our request to the Board to increase our authorization so that we have plenty of capacity to continue our opportunistic share repurchase activity within the parameters of our disciplined capital allocation approach.

Moving into our expectations for the current year, I'll start with the expected impacts to our business of tariffs. We primarily source our products domestically and so expect that announced tariffs will have a minimal impact on our direct import, examples of which would be in the tile and maintenance product categories and represent less than 1% of our total annual purchasing activity.

Recently announced tariffs, we have received an incremental 3% to 4% price increase from around 20 or so of our vendors. As we have historically, we would expect that those cost increases will be passed on to our dealer customers. We communicate as these increases are announced by our vendors and adjust pricing as quickly as the market circumstances allow.

The impact to (Technical Difficulty) our business will be less than 1% for the full year. This will increase our pricing benefit to 2% for the annual period. Our initial sales guidance are flat to a low-single-digit increase, included 1% to 2% net on pricing, volume growth on maintenance, and flat discretionary spending.

Permit data, a reasonable approximation of new construction activity, remains lower than the prior-year levels through the end of the first quarter. There has also been a new level of uncertainty in the macro environment since February, including sustained higher

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interest rates, increased tariffs, a volatile stock market, which we believe could be more impactful to our traditional homeowner demographic.

Where our larger customers are confident in a similar number of builds as last year, other dealers in the market are still trying to fill (Technical Difficulty) to gain more visibility in May and June, our two largest months of the year. However, at this point, we have considered in our range the possibility that we may still see some negative impact in the current year from lower discretionary spend.

Our forecasted gross margin range of 29.7% to 30% included our estimates that internal initiatives related to supply chain, pricing, and increased private-label would make up for the 20 bps of non-recurring positive import tax benefit included in 2024. At this point in the year, we are not anticipating any significant gross margin benefit recovery from new pool construction and remodel activity, which is a significant component to reach the top end of our 30% gross margin target and now believe that product mix could be a slight drag for the year. Additionally, we have considered that the current market environment may result in a competitive pricing environment, putting pressure on margins outside of just the first quarter.

Our forecast for sales considers at the low end, similar discretionary sales levels as first quarter, offset by the additional 1% tariff pricing. At the midpoint, continued improving trends on discretionary, as we have seen late in 2024 and into early 2025, and the additional 1% tariff pricing. Our forecast for margins considered at the low and midpoint, lower sales of higher-margin discretionary product, customer mix skewed to larger customers, and ongoing market pricing pressure, and, at the top end, a more traditional seasonal recovery of the market pricing.

Expenses will continue to be very well managed and in accordance with the top-line trend. Including the investments in the new sales centers and some incremental compensation expense, we expect expenses for the year to increase around 3% over prior year. Our estimates for interest expense are still expected to be around $40 million to $45 million, with higher interest expense in the second quarter after payment of early buys, turning lower during third and fourth quarters as we collect on receivables from seasonal sales activity.

Cash flow in 2025 is expected to be between 90% and 100% of net income and will be impacted by the deferred tax payment made in the first quarter of 2025 related to 2024. Our consistent capital allocation strategy consider a spend of approximately $50 million to $60 million on CapEx for the existing business, including new sales center openings. An estimated $25 million to $50 million on acquisitions. Dividends of around $200 million, with the remainder of the cash to be used for debt pay down and to repurchase shares opportunistically.

Our annual tax rate is expected to be approximately 25%, excluding ASU. This rate is estimated to be 25.5% during the second and fourth quarters and lower in the third quarter. We are expecting approximately 37.8 million weighted-average shares outstanding that will be applied to the net income attributable to common shareholders for the rest of the quarter. Our guidance remains unchanged at a diluted EPS range of $11.10 and to $11.60, including the $0.10 ASU tax benefit recognized in the first quarter.

We have proven our ability to manage the business in a profitable way during various market conditions and (Technical Difficulty). Our POOLCORP team provides value to the

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pool industry, our customers, and our vendors, thus has a unique ability to outperform the market. The strategic actions we have taken in pricing, supply chain, technology, and network expansion are all showing positive results and position us for strong future performance as industry conditions ultimately normalize. The remainder of 2025 will continue along that positive path as we build upon our capabilities.

Thanks to everyone for participating in today's call. I will now turn the call over to the operator to begin our question-and-answer session.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from the line of Ryan Merkel from William Blair. Please go ahead.

Q - Ryan Merkel {BIO 17097977 <GO>}

Good morning. Thanks for the question. I wanted to start with the second quarter. I just want to get everyone on the same page. Are you expecting low-single-digit top-line in the second quarter, which would be consistent with the full year? And is that what you're seeing in April so far?

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah, I think that's a fair way to look at it, Ryan.

Q - Ryan Merkel {BIO 17097977 <GO>}

Okay, and what would you be seeing about 2 points of price in the second quarter, or is that price more second-half?

A - Peter D. Arvan {BIO 17669961 <GO>}

I think it's probably going to be more second-half because of the latest increase won't take effect until the beginning of June. So we'll see some in the second quarter, but the majority will come after second quarter.

Q - Ryan Merkel {BIO 17097977 <GO>}

Okay. And then, I just want to go over the full year guidance again, and we'll just talk the midpoint. I just want to make sure I heard everything correctly. So it sounds like, 2 points of price, gross margins still flat, and then you think new pools, you could still see some growth in the second half of the year as we sit here today?

A - Melanie M. Hart {BIO 16411204 <GO>}

Yeah, so, as we -- if you look at the trends all the way throughout 2024 and even into the first quarter of 2025, although we're still comping negatively, they are continuing to improve with the exception of Texas. So really the improvement we're seeing is in the Florida market in California and in Arizona.

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And so if that continues to improve we would see expected in the back half kind of minus the hurricane comps, we could start to see some volume improvements when you're looking at kind of the midpoint of the range. The low end of the range would be take a little bit more pessimistic view of that and would suggest that because of what's going on just in the macro environment that we may continue to see some pressure from discretionary spend throughout the full year.

A - Peter D. Arvan {BIO 17669961 <GO>}

The outlier, Ryan, for us really in terms of construction activity so far this year is Texas. Texas is definitely softer than the other key markets. What we're hearing from dealers is that was a very tough start to the year, and, honestly, there's a lot of reasons why, and I talked to several dealers myself, and I gave a lot of different assumptions but some are weather-related, some are the macro, some are interest rates. Of late, things have improved, so the latest calls that we have with those dealers is they're feeling better than they were 30, 60 days ago. But still that's the one that is harder to predict right now is how Texas is going to end up in terms of construction.

Q - Ryan Merkel {BIO 17097977 <GO>}

Okay, got it. And then just on gross margins is flat still the right outlook there that that would assume a little lift in the second half? I asked just because you mentioned product mix might be a little more hurt now and then you mentioned competitive market conditions.

A - Melanie M. Hart {BIO 16411204 <GO>}

Yes. I would say, in the modeling, flat would be -- now flat again recognizing that flat is actually an improvement of 20 basis points. So flat would recognize that we're getting some benefits from our internal initiatives, but it would also continue to see some of that really the margin and product mix and customer mix could impact that. So when you look at kind of the range we have, the flat as the high end with some kind of modest impact from some of the other external factors at the lower end.

Q - Ryan Merkel {BIO 17097977 <GO>}

Okay, that's helpful. Thank you. I'll pass it on.

A - Peter D. Arvan {BIO 17669961 <GO>}

Yes. Thanks, Ryan.

Operator

Thank you. The next question comes from Quinn Fredrickson from Baird. Please go ahead.

Q - Quinn Fredrickson

Yes, hey, thanks. Good morning.

A - Peter D. Arvan {BIO 17669961 <GO>}

Morning.

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Q - Quinn Fredrickson

Curious what your expectation is for new pool ASPs and/or bigger-ticket remodels this year and if that's changed at all? I recognize the typical pool owner is an affluent consumer, but there seems to be some signs that even affluent consumers are being a bit pressured right now. So, wondering if you're contemplating any trade-down in terms of features, automation, or lower ASPs.

A - Peter D. Arvan {BIO 17669961 <GO>}

That's a good question. We've gotten a lot of feedback from dealers that are what we see in the past is still true that the higher-end consumer or higher-end pool buyer, if you will, that business is good, was good, and will be good. In fact, most dealers would tell you at that work in that part of the market that they're ASPs, so I can't tell you that those pools are getting more fancy. I think they're pretty much staying the same, but given the continued softness at the entry-level pool point, if you did just an average on the ASP of the pool, I would tell you that it is solid to up a little bit, and that's purely based on mix. So, I'm not hearing a lot of, at the construction side, a lot of trade-downs.

I did mention on the remodel side. I mean, the remodel market is interesting because, A, it's a very big market, and there is a lot going on in that has to be unpacked. Large remodel projects, what we are seeing what dealers are telling us is that whereas in the past, and we started to see this, frankly, a couple of years ago, yes, just do the whole thing. They're breaking those up, right? To say, okay, let's do the pool finish. Let's do the interior. Let's do the decking or let's do the equipment, but let's break it up over time in order to get that done. So, in total, the job is getting done is being more spaced out, but the ASP, to answer your original question, is probably up a little bit, but that's purely based on mix.

Q - Quinn Fredrickson

Thank you. That's helpful. And then, Melanie, a question about gross margin, if at the low end of the guidance that building materials do remain in the range of declines that you saw in 1Q, like, you mentioned, how should we be thinking about gross margin in that scenario? Are there enough tailwinds from private-labels supply chain and pricing still to be approximately stable, or we see some pressure in that scenario?

A - Melanie M. Hart {BIO 16411204 <GO>}

We might see some pressure in that scenario because of the lower mix of those higher-margin products.

Q - Quinn Fredrickson

All right. Thank you.

Operator

Thank you. The next question comes from Susan Maklari from Goldman Sachs. Please go ahead.

Q - Susan Maklari {BIO 15751111 <GO>}

Thank you. Good morning, everyone.

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A - Peter D. Arvan {BIO 17669961 <GO>}

Good morning.

Q - Susan Maklari {BIO 15751111 <GO>}

Good morning, Pete. My first question is adding to your comments on consumers, breaking down some of that remodel work into smaller projects, do you see any risk to the industry perhaps testing some of the price elasticity that we've seen? And any thoughts on how that could impact perhaps certain areas of the business relative to others such as equipment, where there is more maintenance and a necessary replacement nature to them?

A - Peter D. Arvan {BIO 17669961 <GO>}

No, not really. Honestly, I think that there is some competitive situations where homeowners are -- so, dealers are slower, so there are some competitive situations, but honestly, that that's typical for the industry. The only time that that really didn't happen was during the height of the pandemic, when people were saying, please come, I'll pay you.

But right now, I would tell you the competitive dynamics are -- there's always going to be some work that's done to try and win a contract. It could be, I'll be a little more competitive here, or I will defer parts of the project. But remember the material is the smallest part of the job, right? The labor piece is far bigger than the material piece. So, even if you shaved a little bit on material, if a dealer wanted to be a little more aggressive, the bigger portion of the job is going to be the labor and the profit.

Q - Susan Maklari {BIO 15751111 <GO>}

Okay. That's helpful. And then it's encouraging to hear that you continue to see a path to pool outperforming the industry even with all these headwinds that are coming through. It sounds like you're gaining some good traction on some of these initiatives that you've got in place. Can you just talk a bit more on how you're thinking about those coming together as we enter the core of the season this year and anything that's incremental there as you're looking out to perhaps later this year, even 2026?

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah, I think the investments that we've made in in our chemical line, for instance, is -- and, as I mentioned, for a dealer to what to switch the chemical line that's in the store, those are -- that's not -- you just don't walk in today and say, hey, please buy my chemicals, and they take everything off the shelf and put yours on a shelf. That's a longer selling cycle because that's part of the identity of the retail store.

So we have a we have a great chemical line, and we have great technology to go with it. And it's -- that's going to be something that will carry us for many years in the future. So it's nothing that, hey, we go in, we gobble up all the market share and then -- we said this is going to be just a continued process to gain share. We have great product, we have great technology, we have great marketing that goes with it, and I think that's something that will be a longer-term growth avenue for us.

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Technology is another area, too. The technology continues to get better. Adoption continues to increase, and our customers, our dealers continue to see value in that, so that's good. And, again, in the pool industry nothing changes fast. Everything is a -- everything takes time to do, so we are working on that.

So, in terms of technology, we've always mentioned that, at work, even chemical brands, too, once you get into the season, nobody's going to do that. So we're really at the end of the selling season for that. We'll start to see benefits for the sales that we made and conversions that we made, and then we'll go right back to the conversion selling at the end of the season. Because right now, the dealers are going to run with what they have, because the stores are busy, and everybody's trying to open pools, and getting somebody to switch right now is just not how the industry works.

Q - Susan Maklari {BIO 15751111 <GO>}

Yeah. Okay. Thank you for the color. Good luck with everything.

A - Peter D. Arvan {BIO 17669961 <GO>}

Thanks.

Operator

Thank you. The next question comes from David MacGregor from Longbow Research. Please go ahead.

Q - David MacGregor {BIO 1721790 <GO>}

Yes. Hello, everybody, and my first question was really with regard to what happens if the macro should take a turn for the worse here, and where do you have the greatest opportunity to flex the model in order to protect margins?

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah, that's a good question. So, if the macro takes a turn for the worse, it's really going to affect us on the discretionary spending, which is on new pool construction and, to a lesser degree, on remodel. The good news is, is that even as the macro has gone up and down, the maintenance and repair portion of our business, which is the largest portion of our business, and it's also where in the most important part of the year, this is when people are getting ready to swim, want to swim. So, that business is good. We continue to have a great value proposition.

We always staff up this time of year in anticipation of the full season being in swing, and there's full season in swing, your major construction season and the maintenance and repair. I would tell you that we are very judicious in terms of staffing up and adding expenses. Many of our expenses, as you can imagine, are variable as it relates to transportation and labor. We take -- we keep a great eye on inventory, so we pay very close attention to the demand trends and what we're going to do from an inventory perspective.

So I think POOLCORP has demonstrated over the years that we're very good at flexing from a cost perspective. There is -- if you look at our -- we're a performance-based company, so compensation expense is directly tied to performance of the company. So you have the variable portion of compensation that would flex too. But, again, this is

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nothing new for Pool. I think we are a team of very skilled operators, and this is not something that we haven't seen before.

Q - David MacGregor {BIO 1721790 <GO>}

Okay, thanks for that. Second question is just on Pinch. Does a pullback in consumer confidence translate to growth in DIY versus do-it-for-me? And if so, how is the Pinch business positioning for this?

A - Peter D. Arvan {BIO 17669961 <GO>}

Interestingly enough, there hasn't been that pullback. You would think that if the macro softens that it turns to a do-it-for-me -- or DIY versus do-it-for-me, but we really haven't seen a major shift in that area. I would tell you that most of our dealers, and Pinch A Penny as well, not only do they have great stores, for people, for the DIY'er to come in and do their own thing, but they also do cleaning and service and maintenance.

So I think both of our channel partners here, which is obviously the independents, which vastly outnumbers the Pinch A Penny stores, very big channel for us. They do a great job in terms of value proposition and catering to both. And I think Pinch A Penny does that as well. But we have yet to see a shift to DIY versus do it for me. Those trends remain relatively intact.

Q - David MacGregor {BIO 1721790 <GO>}

Thanks, Pete. Good luck.

A - Peter D. Arvan {BIO 17669961 <GO>}

Yes. Thanks.

Operator

Thank you. The next question comes from Stephen Volkmann from Jefferies. Please go ahead.

Q - Stephen Volkmann {BIO 1539931 <GO>}

Hey, good morning, guys. Thanks for taking the question. I wanted to follow up, Pete, on your comments about certain areas of price-competitiveness. Is there any more detail relative to the types of products or perhaps the types of competitors where you're seeing this?

A - Peter D. Arvan {BIO 17669961 <GO>}

So, as I've mentioned on almost every call, so the competitiveness from a price perspective is nothing new. Most of our competitors that we have, whether it's the newer folks that have entered the market or the traditional players, in terms of their value proposition to the market, don't have what we do. So the way that they compete with POOLCORP is they walk in and say, whatever POOLCORP is selling you for, we will sell it to you for less.

We also have, in most cases, the majority or have a significant market share, so we would be a target. Again, nothing new. When you have a quarter, like the first quarter

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where demand was, I would say, nothing to get excited about, right, in terms of the discretionary and semi-discretionary portion of the business, it basically means that people are going to push harder and do things that, in my opinion, are unsustainable.

And, as I mentioned in the comments, we compete head-to-head in these markets. We're in it for the long term. We've always been a value provider. We always focus on being the easiest company to do business with and providing the best customer experience. Sometimes we have to be a little more aggressive on pricing where we're not going to lose share. There's other times where we see things that I know and, more importantly, our operators know are not sustainable, and they don't chase things into the ground.

Q - Stephen Volkmann {BIO 1539931 <GO>}

Great; that's helpful. Thank you. And then maybe related to this, but maybe this is for Melanie, but last time we went through a period of inflation, that had a very nice positive impact on your gross margin, and you don't seem to be really baking much of that in this time. So I'm curious, is it just not widespread enough yet, or is the fact that this is happening against perhaps a weaker end-market environment than the last bout of inflation, does that sort of cap the opportunity here relative to gross margin?

A - Melanie M. Hart {BIO 16411204 <GO>}

So it's really a little bit of all of the above. When we look at the number of vendors that we've heard from to date, so kind of caveating that, that represents around 30% of our cost of products, which is how we get to the 1% benefit on the pricing for the rest of the year.

When you look at kind of our current inventory balances, because many of that is made up of our larger vendors, so it's going to be the big vendors on the pool side, the big vendors on the irrigation side, for them, we actually have probably a little bit less of a proportion of inventory on hand because we have the ability to turn that inventory quicker. With that being said, as we did last time, with the price increases, we certainly have the capital and the balance sheet to be able to kind of strategically take advantage of opportunities as they come through the market. And so we are positioned to do that, but do not have that kind of built into our current guidance at that point in time.

A - Peter D. Arvan {BIO 17669961 <GO>}

Steve, I think you made an astute observation that where -- what is similar to last time is the pricing increases. You've been covering us for a long time, so you know that in-season price increases are very atypical. So, the last time we had them was during the pandemic, and it was a crazy demand environment. This time, we have increases that are coming from many of the large vendors. We expect them to flow through to the market.

On the announced dates, we will take -- we take those prices up. The vendors have opportunity -- vendors have offered us opportunities to participate in some pre-buys. However, given the difference in the overall demand environment, we look at those on a case-by-case basis. So, where they're financially attractive to us, we certainly have the capital and the infrastructure to take advantage of that. Where we view it as maybe not as attractive, given the demand environment, we may be a little more tempered.

Q - Stephen Volkmann {BIO 1539931 <GO>}

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It's a great color. I appreciate it.

Operator

Thank you. The next question comes from Scott Schneeberger from Oppenheimer. Please go ahead.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much. Good morning. I'll follow on that last one, tariff pricing specifically. Melanie, it's -- you mentioned, 30% of the cost of product has been what's been put to you by suppliers thus far. What do you anticipate from other suppliers? I know it's a very fluid environment. I'm just curious.

And then Pete answered a question earlier saying, hey, probably more back-half-weighted because of this incremental price increase from suppliers or a primary supplier in June. But you have the lower-priced inventory from early-buy in the second quarter. So, could you just kind of walk us through the impact -- the timing impact here, second quarter and back half? Thanks.

A - Melanie M. Hart {BIO 16411204 <GO>}

Yes. So, as it relates to kind of forecasted impacts from other suppliers, we have not considered any at this point in time. So, if we do get additional price increases from other suppliers, we would update as those come through.

When you think about the timing of the increases, the bulk of that pricing went into effect really on Monday. So, most of the vendors had an after Easter as the effective date for those price increases, with the most recently announced one coming through with a June effective start date.

And the answer as far as kind of the overall impact on the sell-through, the same thing is that we would expect that there is the opportunity for some benefits in margin for that sell-through. But when you think about kind of overall pricing-sensitivity in the market, how quickly the customers are willing to accept those price increases, it's going to depend on the demand environment, so a little bit different from COVID, where the price increases were able to pass through because the consumers were beating down the door to in order to get those pools installed.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Understood. Thanks. And then as a follow up and, Pete, for you, and it's been somewhat of a common theme, but on your confidence in new pool construction volumes going forward, yeah, I heard you on Texas. It looked like permits in the first quarter in Florida looked particularly strong though. Was that weather-related perhaps, or is that truly organic, and how much are you factoring permits into your guidance expectation? And that includes not only permits, but just feedback you're hearing. It's a thematic question of how your level of confidence in the volume of new construction. Thanks.

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah, permits are a piece of the puzzle. So we have -- we look at that. We certainly look at the permit data, and permit data can also be a bit misleading just because of timing and the timing that it takes to turn a permit in some areas. And then you have the

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weather component on, okay, yes, I pulled a permit, but then the weather has to cooperate in order to execute on that permit.

So it's a piece of it. So we look at the permit data. We look at weather. And then we also talk to our dealers every day, frankly, about the demand environment. But, again, that's a -- as I mentioned, it's a portion of our business. It's not the largest. It's not the largest portion. It's not even the second-largest portion of the business, right? It's the of the three: maintenance and repair, renovation/remodel, and new construction. It's the smallest part of the three.

So it's something that we watch. As I mentioned, Texas is an area that we are paying particular attention to just because of the decline in permits. Florida is performing well. Florida is an amazing market for us. And Florida is performing well. So, I guess, I would tell you the -- I don't really have any new color to add on my confidence in new construction. There's just so many factors at play everything we discussed and then lay on top of that the macro and how people are feeling about their disposable income, discretionary income, 401(k) value. And then, of course, interest rates on those pools that will require some financing.

I think if the Fed were to ease rates, that would certainly help encourage people. I think it would loosen up the housing market, which would also be a nice catalyst for new pool construction.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks for that, and thanks, Melanie, too.

Operator

Thank you. The next question comes from Andrew Carter from Stifel. Please go ahead.

Q - Andrew Carter {BIO 1848938 <GO>}

Hey, thank you very much. First question I want to ask. I just want to be crystal clear about the gross margin. You're now assuming flat. The previous guidance was flattened up slightly, which you said in the script. Do you have -- does that incorporate a weak new construction remodel environment, therefore building materials? And just to be clear, is the high end of EPS guidance achievable at the flat gross margin? That's my first question.

A - Melanie M. Hart {BIO 16411204 <GO>}

The high end of the guidance is achievable at a flat gross margin.

Q - Andrew Carter {BIO 1848938 <GO>}

Okay, thank you. That's easy. Second question I guess I would ask, and just to drill down is, I think you said it, is we get the price communicated to us. We take it as soon as possible. And obviously that was the COVID story. Are you able to -- in this environment, have you taken the price increases immediately when they were announced? And kind of how is your competition proceeding here? Or is there a longer delay? Are you waiting, et cetera?

A - Peter D. Arvan {BIO 17669961 <GO>}

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So, no, we're not waiting. So, as in the normal course of business for Pool Corp, with the effective date of the price increase, that's when we elevate the prices to our dealers. We notify the dealers when we get the receipt of the price increases, and then the manufacturers notify them too. And then on the effective date, we take the price up, which is something that is just what we always do. Your question on what competitors do, I mean, there is, by and large, the competitors do as well. I can tell you, I mean, we'd have to go market by market.

And there are some cases where somebody might say, hey, I'm going to hold the price for you in an attempt to lure business. The other thing somebody may do, and we do too, which is, if our dealers come to us and said, hey, Pete, we have got 10 pools sold and we used your quote, which was pre-price increase, these pools are going to start imminently. Can we count on support on that? And, of course, those are things that we would support as well.

So, it's not like on Monday, the price increase, and therefore everything goes up. The majority of the price moves on Monday, and then we would make exceptions to support dealers for pre-quoted jobs and to address competitive situations. But, as a rule of thumb, by and large, when the price goes up, the date it goes into effect, we take the prices up too.

Q - Andrew Carter {BIO 1848938 <GO>}

Thanks. I'll pass it on.

A - Peter D. Arvan {BIO 17669961 <GO>}

Thank you.

Operator

Thank you. The next question comes from Sam Reid from Wells Fargo. Please go ahead.

Q - Sam Reid {BIO 16586962 <GO>}

Awesome. Thanks so much. So, noticing a pretty big swing in equipment spend between Q4 and Q1, up 6% to down 4%. It does sound like most of the impact was from demand shifts in Florida around storm recovery, which makes total sense. That said, kind of is a piece of the negative inflection also a function of discretionary pullback, maybe trade-down from let's call it better, best to good? And then more broadly, we all know equipment accounts for 30% of your mix, but how much of that is pure maintenance versus perhaps discretionary?

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah, I think your assumption on the difference between fourth quarter and first quarter is essentially Florida and the hurricanes and the amount of equipment that got replaced in many cases twice for the back-to-back storms. I think that's a fair assessment.

On trade-downs, I don't really see a lot of trade-downs. I was just looking through our product data set earlier this week, and I was thinking that we might see it, and I haven't seen it. People are still very tech, the demand for tech for new pool equipment, especially if somebody's going to spend that kind of money to replace something that should have a 10-year lifespan, they're not looking to go backwards and say, hey, give me

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old technology and mechanical time clocks and no automation. I think the trend is solidly in place there.

The last part of the question that I think is related to equipment demand, how much is maintenance and how much is new construction, certainly in the first quarter, with new construction not being robust, that certainly plays a bigger portion, plays a bigger part in the maintenance and equipment. Now, remember, think about the market. So, in your seasonal markets, the equipment that you sell in the seasonal market is usually early buys that the dealers are taking because they're not installing the equipment.

They would have started to do some repairs in the seasonal markets in March time frame. Most of that is stocking their shelves for the upcoming season. When you get into the year-round markets, then the percentages don't really change. As a rule of thumb, we look at equipment and say for every pump we would sell for a new pool, we probably sell four for repair and maintenance.

Q - Sam Reid {BIO 16586962 <GO>}

That's helpful, Pete. Follow-up here, I think I asked something similar on the last call but maybe just to revisit, we're one quarter down in '25. Just philosophically, how should we be thinking about '26, recognizing you're not providing guidance? You're starting the year off arguably with an easy comp, but then on the other hand, we might not get a big lift in new pool in '25, which really means the base isn't going to be moving up all that much into next year. So I guess the question is, adding those dynamics up, kind of how are you thinking about 2026 as it stands today, especially in the context of your algo? Thanks.

A - Peter D. Arvan {BIO 17669961 <GO>}

Yes, I wish I had a great answer for you on 2026. Quite frankly, we're trying to figure out what's going to transpire in 2025 because there seems to be no shortage of surprises. Overall, what gives me great confidence in the business and the industry is that most of our business comes from the maintenance and repair of a growing installed base. So the installed base next year is going to be bigger than it is this year. So there will be more pools to service.

The demand for newer product with automation-connected pools, if you will, is going to continue to grow. There's still an extremely large number of pools that are in place that have old technology. So if I assume that the macro improves a little bit, which is really kind of my assumption, is that the macro will improve a little bit, then I think we should see some recovery in demand for new product.

If, for some reason, the economy takes a turn for some unknown reason at this point, then I think where you'd see the effect, most notably, would be in new construction. However, in terms of new construction, we're down so much from the peak. So we're down about 50% from the peak, in terms of how much more it can fall, I mean, we're basically slightly above the GFC number right now. So I don't see that taking a step down significantly more because most of the pools being built today are for the more affluent buyer that aren't really affected as much by the interest rate sensitivity that I think took out many of the entry-level pool buyers.

Q - Sam Reid {BIO 16586962 <GO>}

That's helpful, Pete. I'll pass it on.

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A - Peter D. Arvan {BIO 17669961 <GO>}

Thank you.

Operator

Thank you. Your next question comes from Trey Grooms from Stephens. Please go ahead.

Q - Ethan Roberts {BIO 20336908 <GO>}

Hey, good morning, everyone. This is Ethan on for Trey. Thanks for taking the question. Maybe first off, just higher-level, the tariff impacts, given where things stand today, you mentioned you feel confident in your ability to pass through these increases, particularly on the equipment side, given that the majority of those products are sold through R&R, and you know that has a non-discretionary component. So, my question being, to what extent do you believe tariffs could potentially drive any demand destruction via higher prices or at the very least a trade-down?

And, with that in mind, given that the new construction backdrop has been so difficult for several years now, if that were to happen, would it be more on the discretionary R&R side or the new build side? Thanks.

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah, I think that the price increases, as I mentioned before, I think they're going to pass through the market because, again, the vast majority of that product is sold for maintenance and repair, non-discretionary, the pump stopped working, the filter's leaking, the heater is leaking, I have to replace that, I can't operate the pool without it. So I think that's one way to think about it.

And then In terms of an overall pool project, given the escalating cost of a pool, an in-ground pool, $80,000 to $100,000 depending on where you are now, and the type of pool that you build, if you told me that the equipment, and the equipment pad is, let's call it $15,000, if you told me that it was going to be 3% higher, I don't know that that's going to cause people to say, okay, 3% of the $15,000 is up, so I'm out.

So I don't really think it's going to have a material demand destruction impact on the new pool construction.

What I do think people look at is the overall market. So if tariffs were to continue, or tariffs were to get worse, and 401(k)s and equity values would continue to drop, I think that's far more meaningful to new pool construction than a 3% increase.

Q - Ethan Roberts {BIO 20336908 <GO>}

No, yeah, that's fair. That's very helpful. And then last one, maybe one for Melanie, any changes to the operating expense cadence for the year? You previously mentioned that you're going to do some investments into the retail centers, and there's going to be some incentive comp to think about. And then maybe how you might flex the OpEx, given various possibilities on where gross margin could end up for the year, depending on what new build ends up doing. Thanks.

A - Melanie M. Hart {BIO 16411204 <GO>}

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Yeah, no real change on the cadence. So timing of investments should be relatively consistent. We will depending upon where the top-line falls, we will be managing the variable expenses as it relates to that, particularly around our adds for incremental warehouses and drivers, particularly freight expense. And then, ultimately, at the lower end of the range, we wouldn't see the incremental adds for the incentive compensation that we talked about earlier.

Q - Ethan Roberts {BIO 20336908 <GO>}

All right; makes sense. Thanks.

Operator

Thank you. Your next question comes from Garik Shmois from Loop Capital. Please go ahead.

Q - Garik Shmois {BIO 16348192 <GO>}

Oh, hi, thanks. Two quick clarification questions for me. Just the first one, just to simplify the pricing outlook, is it fair to assume that the April price increases are in your guidance, but the June 1, pending additional support, is not yet? Just wanted to be clear on what exactly is in the guide and what's not.

A - Melanie M. Hart {BIO 16411204 <GO>}

Yeah, so we do have both. So June 1, at this point in time, we've only heard from one vendor. And because we knew about that ahead of the call, that is included in the 1% that we provided.

Q - Garik Shmois {BIO 16348192 <GO>}

It is. Okay. Thanks for that. And then, secondly, just on the sales piece coming back, showing growth in March, it sounds like that's continued here in April, is there anything kind of unusual, that occurred that drove the growth, any kind of one-time items or markets? I think you cited maybe Florida or maybe the delay in Easter this year, maybe that helped here in April, but just wondering, kind of, anything unusual that helped support the growth and just the level of confidence that's sustainable?

A - Peter D. Arvan {BIO 17669961 <GO>}

Yes, I think the Easter holiday was certainly a part of it, too. I also recall that last April, from a weather perspective, wasn't great, so I think that's probably helping out at least earlier in the month, but that's really it. There would be nothing else of any significance.

Q - Garik Shmois {BIO 16348192 <GO>}

Okay. Thank you very much.

A - Peter D. Arvan {BIO 17669961 <GO>}

Thanks.

Operator

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Thank you. The next question comes from Collin Verron from Deutsche Bank. Please go ahead.

Q - Collin Verron {BIO 20944784 <GO>}

Thank you for taking my questions. I guess I was just curious on your thoughts on why Texas is underperforming your other large markets, just since the macro environment and interest rate environment is pretty nationwide, and just why you're comfortable in thinking that those headwinds might not bleed into your other large states?

A - Peter D. Arvan {BIO 17669961 <GO>}

Because we -- it's an interesting question. I've spoken to a lot of builders in Texas, and I think that there's still a -- so, if I look at Texas weather, and I look at the southern part of Texas, the southern Texas market, I would say that the weather in the first quarter of the year was pretty wet, pretty miserable.

What's interesting about Texas is the new construction market in Texas has been, and if you look at the permit data it shows, it's been very tough. But the maintenance business in Texas has been very good as a result of the weather. So I think that in talking to the dealers who are obviously much closer to it, and they're looking at their lead flow and phone calls, if the dealers were telling me that, hey, I just think this is -- we can't explain it, it's going to be really bad, then I would pass on that same information.

But right now they're saying that phones are still ringing. First quarter was tough, from a contract conversion perspective, weather didn't help, macro uncertainty didn't help, but we also talked to dealers in all of the other markets, and they seem to be holding up better. I can't think of anything specifically that would lead me to think it's going to bleed over into the other markets because they're, frankly, aside from the weather, isn't anything unique about Texas.

Q - Collin Verron {BIO 20944784 <GO>}

That's helpful color. And I guess I just wanted to touch real quick on the private-label growth you called out, and chemicals being up double digits. Can you talk about the opportunity for private-label in this macro backdrop and the puts and takes from top-line and gross margin perspectives that that could have?

A - Peter D. Arvan {BIO 17669961 <GO>}

Yeah. I think that there's still significant room to grow the private-label products. I think our suite of products, frankly, has never been better. But, again, these are products that are part of the brand associated with our dealers, if you will. I'm talking on the retail side. So those are longer cycle sales. We recognize that, we know that, and we've been working very diligently towards that. I've been very pleased with the results.

So I think that there's still significant runway on the private-label sales. I think that it's margin-accretive to us, and it also from a competitive perspective is great because they can only get those products from us. You combine that with the technology, the value proposition that the dealer has, is very, very good and puts them in a very, very competitive situation in their local markets.

Q - Collin Verron {BIO 20944784 <GO>}

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Great. Thank you. I appreciate the color, and good luck with the rest of the year.

A - Peter D. Arvan {BIO 17669961 <GO>}

Thanks.

Operator

Thank you. This concludes our question-and-answer session. I would now like to turn the conference back over to Peter Arvan, President and CEO, for any closing remarks.

A - Peter D. Arvan {BIO 17669961 <GO>}

Thank you, all, for joining us today. We look forward to our next call, which will be on July 24, when we release our second quarter 2025 results. Have a wonderful day. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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