

# Q2 2025 Earnings Call

## Company Participants

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

## Other Participants

- Andrew Carter, Stifel
- Colin Barrow, Deutsche Bank
- David J. Manthey, Robert W. Baird
- Garik Shmois, Loop Capital Markets
- Ryan Merkel, William Blair & Company
- Sam Reid, Wells Fargo Securities LLC
- Scott Schneeberger, Oppenheimer & Co.
- Shaun Calnan, Bank of America
- Susan Maklari, Goldman Sachs
- Trey Grooms, Stephens Inc.

## Presentation

### Operator

Good day, and welcome to the Pool Corporation Second Quarter 2025 Conference Call. All participants will be in listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

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

### Melanie M. Hart [{BIO 16411204 <GO>}](#)

Thank you, and welcome to our second 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 included in our press release are posted to our corporate website in the Investor Relations section. We have included a presentation on our Investor website to summarize key points from our press release and call comments.

Peter Arvan, our President and CEO, will begin today's call with his comments.

### Peter D. Arvan [{BIO 17669961 <GO>}](#)

Thank you, Melanie, and good morning, everyone. We were very pleased to see positive sales growth in the second quarter, along with stable gross margins and steady

operating margins versus the prior year.

Given all the challenges affecting the broader economy and industry dynamics, I consider these results to be very solid. They are a testament to the team and reflect our ability to deliver outstanding value and exceptional service to our customers, further reinforcing POOLCORP's leadership position in the industry.

The second quarter started off similar to how we exited the first quarter. We saw encouraging trends in most areas of the business, through April and early May. Unfavorable weather conditions in certain markets through mid-June tempered demand, but turned more favorable towards the end of the quarter, helping us post a modest sales gain.

The macro uncertainty and constantly developing policy decisions, combined with no signs of interest rate easing, continue to pressure new pool construction and larger renovation projects. Despite this, our construction-related sales fared better than the permit data would have suggested.

As you all know, permit data indicates that new pool construction is down, high-single-digit, but it's still too early to call the year. It is worth noting that the second quarter trends improved from the first quarter, but still represent a headwind on a year-over-year basis. The remodel activity we expect will be modestly better than the new construction activity for the balance of the year.

The aging installed base necessitates certain remodel and renovation projects each year, creating ongoing demand. We believe that larger renovation projects in the most recent quarters have been split into phases, allowing consumers to reduce their spend per project or spread out the spend over a longer timeframe.

For the second quarter results, we reported \$1.8 billion in net sales, up 1%, reflecting our team's effort in executing on strategic areas of our business. Maintenance products performed well, including strong growth in our private label chemical products.

On sales related to new construction and renovation activities, we saw improving trends during the quarter, creating less of a drag on sales than in recent quarters. Tariff-driven price increases had a modest impact on the quarter due to timing and was somewhat offset by deflation in our commodity categories.

Regionally, we saw distinct trends across our four major U.S. markets. Florida and Arizona each delivered solid 2% sales growth for the quarter, outperforming national averages. In both states, ongoing population growth in migration and favorable weather patterns fueled continued demand across maintenance, renovation, and new construction categories.

Our strong local presence, robust distribution network, and targeted marketing initiatives have kept us top of mind with pool professionals, allowing us to expand our customer base and capture additional market share. Additionally, franchise growth and emerging builder partnerships in these states further strengthens our positions for long-term success.

Texas and California continue to experience this challenge in new pool construction with sales down 2% and 3% respectively, reflecting macroeconomic headwinds and tempered consumer confidence. However, maintenance and aftermarket sales in these markets

remain resilient, highlighting the value of our established installed base and trusted service partnerships.

Our teams in Texas and California are focused on supporting remodel activity and enhancing customer support to ensure we are well positioned for recovery as local economies and construction activities rebound in the future.

We remain confident that our disciplined investment and regionally tailored strategies will enable us to continue outperforming the broader market across all our core geographies. Additionally, we were encouraged by the sequential improvement in permit data for Texas as the quarter developed, although it is still negative.

In Europe, net sales increased 2% for the quarter in local currency and 7% in U.S. dollar. We saw sales growth in most European economies, particularly in the Southern countries while France dealt with colder temperatures but showed some improvement in June. We are encouraged that this trend for Europe continued into July.

For Horizon, net sales declined 2% in the quarter. Maintenance product sales were solid, however, weakness in larger development areas -- sorry, larger development related construction projects muted those gains.

Pricing for the most part has stabilized in the market and we are encouraged with the month-to-date July sales trends. Looking to our product sales mix, chemical sales grew 1% despite price deflation and weather headwinds in certain markets, highlighting the power of our brands and expanding offering for our customers.

When combined with our P00L360 WaterTest platform, it is a very strong chemical offering that will continue to take share as our brands grow. Customer feedback is excellent and our confidence in this area and our entire retail support offering is strong.

Building material sales declined 1%, a sequential improvement from what we saw in the first quarter and much of last year, and better than the underlying trends would suggest. The results highlight the value of our NPT-branded offering, improving trend -- including improved trends in our proprietary pool finish, and the effectiveness of our consumer-facing showrooms and refreshed dealer showrooms that support our customers and enhance the pool owner's design experience.

Equipment sales, which include cleaners, increased 1% during the quarter, which exclude cleaners, increased 1% during the quarter, reflecting modest price realization and stable replacement volumes, mitigating the year-over-year decrease in new construction units. For context, the most recent price increase went into effect late in the quarter.

Looking at our end-markets, our commercial sales increased 5% in the second quarter, supported by the investments we have made in developing our commercial team, designating commercial warehouses, and expanding start-to-finish project capabilities.

Sales to our independent retail customers declined 3% in the quarter, showing a similar cadence during the quarter on what we saw in overall sales, but with greater headwinds -- weather headwinds on our DIY maintenance in May and early June, considering our retailers' heavy concentration in Northern markets.

We saw much improved retail sales in these markets in the latter half of June. For our Pinch A Penny franchise group, representing our franchisees' sales to their end

customers, sales increased 1% for the quarter, reflecting their best-in-class offering and customer experience, while also noting their sunbelt concentration with less weather headwinds this quarter.

Now let me comment on gross margin results. As you saw, the business posted a solid 30% gross margin for the quarter, consistent with the same period last year. I'm pleased with our team's collective effort and focus in this critical area. We have seen historically downward cycles place additional pressure on winning business, and through collaborating with our supply chain teams and pricing specialists and making smart decisions on the ground, we have been able to maintain gross margins in-line with the prior year in a very challenging and dynamic environment. Melanie will cover this in more detail in her prepared remarks.

Our continued investment in digital innovation are paying off, with POOL360 platform transactions now represent 17% of net sales, up from 14.5% last year, reflecting enthusiastic customer adoption and creating durable competitive advantages that are hard to replicate.

We celebrated the opening of our 450th branch during the quarter. Strategic openings in the market with higher pool densities continue to be the driver in further building out our footprint and positioning ourselves for further share expansion. We opened two new locations during the quarter and four year-to-date. Our Pinch A Penny franchise network added five new stores in the quarter, including the first new store in North Carolina and increasing the Pinch A Penny locations to 302 franchised stores.

As we move through the peak season, we expect sales in the back half of the year to be modestly up with a full-year performance anticipated to be relatively flat. In the absence of an interest rate cut or external catalyst, we are updating our diluted earnings per share guidance for the year to a range of \$10.80 to \$11.30, which includes a \$0.10 realized benefit from the ASU year-to-date.

We remain highly confident in the long-term fundamentals of our industry with the demographic trends, desirability of at-home leisure and continued need for maintenance and renovation supporting ongoing demand. We believe that when the macro backdrop improves and the housing turnover resumes, new pool construction and renovation activity will accelerate and POOLCORP will be uniquely positioned to capitalize on that growth.

Finally, I want to thank the entire POOLCORP team for your dedication and adaptability. Your commitment enables us to deliver exceptional value and reliability to our customers and partners and importantly drive success for our shareholders. We look forward to the opportunities ahead.

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

## **Melanie M. Hart** [{BIO 16411204 <GO>}](#)

Thank you, Pete. And good morning again, everyone. We continue to see robust maintenance activity benefiting from both volume and industry pricing. While new construction permits are improving in several key markets, we have not yet seen a consistently positive trend across all regions. We are closely monitoring these variations and remain prepared to capitalize on opportunities as they arise.

Both the traditional pool season price increases implemented earlier in the year and the subsequent late April, early May price increases enacted by certain vendors to react to higher expected tariffs has passed through and have been accepted into the marketplace. Although initially up for discussion, there was not a third wave of June price increase that impacted our costs to-date. Pricing for the quarter benefited sales 2% to 3%, but continues to be offset by 1% related to chemical and commodity selling prices.

Chemicals, specifically Trichlor, are seeing selling prices less than what we saw in the second quarter of prior year. This pricing, although lower than last year, still represents a significant premium over 2020. We saw volume increases in particular in our private label chemical sales activity.

Negative comparisons from discretionary spend leveled out with just a 2% impact overall on the sales for the quarter. As Pete highlighted, our investments at our NPT showrooms continue to pay dividends in showcasing for our builder customers and homeowners, the many options where unique NPT-branded tile, decking, and pool finish products are available to customize their backyards. Our resulting building material sales decrease of 1% is outpacing the market activity compared to permit trends.

I'm very pleased to be reporting a positive comp sales quarter. We continue to showcase our ability to get pricing in the market as a result of both our service levels and our focus on the aftermarket resulting in a 1% sales benefit. Impacts of discretionary spend in remodel and new pool construction were a 2% headwind but again improving from a 3% impact in the first quarter. We were encouraged to see the positive results in Europe and better Horizon trends.

Gross margins of 30% for the quarter remain strong. We continue to see our internal initiatives related to supply chain improvement, private label growth, and effective pricing enabling us to maintain margins even with lower building material product sales and impacts from customer mix. We saw normalized second quarter seasonal margin benefits.

We reported a 1% increase in operating expenses for the second quarter. Through our earnings release date we have now opened eight new locations since the same time last year contributing around 1% to the expense increase with our disciplined operations offsetting other cost increased drivers. Our volume related expenses for both compensation and freight remain very well managed.

During the quarter, we were able to maintain expenses as a percentage of revenue of 14.7%. We realized operating income of \$273 million and improvement compared to \$271 million in prior year. Interest expense of \$12.2 million represented a reduction of \$1.8 million. Altogether generated diluted earnings per share of \$5.17 compared to \$4.99 which is up 4% from second quarter of last year.

Summarizing our second quarter results, we are pleased with the positive signs related to discretionary spend in the pool and outdoor living space and our ability to utilize our technology tools to grow our private label chemical sales while leveraging our network to generate positive income over prior year.

Moving on to our balance sheet. We finished the quarter with inventory balances of \$1.3 billion which is up 3% from the prior year. This increase includes new product offerings and supply chain actions to stock our network locations for the season. We expect that

our inventory patterns for the rest of the year would follow a typical seasonal pattern with balances drawn down through the third quarter, which will position us to evaluate our needs for the 2026 season during the fall and winter early buy offerings.

Inventory days on hand improved 1.5 days from prior year second quarter. Our 1.47x leverage ratio remains at the lower-end of our targeted leverage range. In early July, we amended and extended our term loan facility to increase capacity, lessen the maturity, and obtain more favorable borrowing terms.

Cash flow for the quarter remains in-line with our annual expectation of achieving 90% to 100% of net income in cash flow from operations weighted more heavily to the second half of the year from a cash generation standpoint.

Consistent with first quarter 2025, we increased the pace at which we have completed share repurchases, purchasing \$104 million during the quarter, an increase of \$36 million over prior year second quarter. Year-to-date, we have exceeded prior year repurchases by \$76 million and have \$516 million remaining under our share repurchase authorization.

As we look out over the second half of the year, on our first quarter call, we referenced an expected future dated June equipment cost increase. With the changing tariff landscape, we do not actually see an increase in cost with a June effective date. However, there were some additional vendors over the initial group of 20 that did push through May effective price increases.

Sales for the full-year now are expected to be relatively flat with last year, reflecting some pricing benefit from the April-May price increases, but no significant change in discretionary spending from current levels for the rest of the year. Although trends have improved throughout the year, based on the activity to-date, we do not anticipate a pace that would provide a significant benefit to 2025.

Gross margin rate is also expected to be in-line with the prior year full-year, which would represent an improvement after considering the non-recurring positive import tax included in 2024. Execution on realization of tariff-driven price increases and supply chain improvements are net positives that are offsetting any impact from product and customer mix.

As you have come to expect from us, SG&A expenses will continue to reflect productivity to offset inflationary increases and be adjusted real-time based on actual volumes at each sales center location. The year-over-year increases in the back half are expected to be higher than the current quarter, likely ranging from a 2% to 3% increase for the full-year, an improvement from the 3% previously estimated, and will include the cost spent on the new sales centers we will open this year.

We do not have any significant changes to our expectations regarding interest expense and our estimated tax rate. We have included those ranges along with our forecasted share count as part of our quarterly earnings presentation posted to the website.

The update on our interest expense range to be \$46 million to \$47 million includes the incremental share repurchases we have done year-to-date. Having completed our largest quarter of the year, we have updated our expected diluted EPS range to \$10.80 to \$11.30, including the \$0.10 ASU tax benefit recognized year-to-date.

We continue to focus on running a strong business through this period of higher interest rates and reduce consumer spending. Our actions on sales that support market share gains and on our gross margins holding up in a slower demand environment suggest strong fundamentals that will support the business when discretionary growth returns. Our capital allocation, expense management, and strategic actions remain focused on long-term profitability.

Thanks everyone for listening in on today's call. We will now begin our Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Susan Maklari with Goldman Sachs. Please go ahead.

### Q - Susan Maklari {BIO 15751111 <GO>}

Thank you. Good morning, everyone.

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

Good morning, Susan.

### Q - Susan Maklari {BIO 15751111 <GO>}

Good morning, Pete. My first question is, I want to get a better sense of how you're thinking about the full-year, appreciating Melanie's comments around some of the dynamics with tariffs and pricing and the implications that that will have. But when you think about some of the momentum that you're seeing around some of the company's specific initiatives, how should we think about what that will add to the year, especially given the strength you saw in the second quarter relative to some of those incremental headwinds that may come through as you consider some of the moves in the operating environment and tariffs?

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

Yes. Good question, Susan. I think the business is performing well with a lot of uncertainty in the market. I think one of the shining stars is the fact that the maintenance and repair business of the growing install base is still very resilient. So that's good. People still love their pools. People have to repair their pools. That is continuing as we talked about.

I would say that the renovation business is different than it was a few years ago. As I mentioned in my comments, I -- we feel like many of the larger renovation projects are being broken up into phases to make them more digestible and I think that trend is going to continue for the balance of the year as long as there's no interest rate relief.

I believe that in the -- on the construction side, the larger builders are the ones that are winning in this environment and more specifically it's larger builders in the highly desirable areas, right, so the Southern cities that are still doing well. So from where we

are spending our time and effort, we've invested in the NPT centers in the areas where we do see new pool construction growing.

We have refreshed our product offering there. We have invested as you know, with developing our private label chemical brands and are we're seeing great traction in those areas and again that just ties into the maintenance business and making sure that we are the preferred brand.

Our technology is getting good reviews and we're seeing a nice increase in adoption. And for context, remember we never said that it was going to rock it straight up. We're looking for consistent progressive growth in our -- the adoption of our tools and we are certainly seeing that. The feedback on the tools has been good. We continue to invest in those tools to improve the overall customer experience and I think that's what's driving further adoption.

And I guess lastly we continue to open locations in areas that we see continued growth both short-term and long-term. We look at markets like Texas for instance, and in our commentary we said that the construction in Texas has been under pressure or is down but our view on that is that that's really tied to the greater Texas housing market which appears to be a little bit overbuilt. Existing inventory continues to climb.

So I think this is a short-term problem for Texas but long-term we believe Texas is a great pool market for us now and in the future it will be too so we continue to invest in those markets. So some of our investments are paying off short-term, certainly our focus on capacity expansion or capacity creation and our focus on customer experience which is allowing us to win at the dealer level.

I think making sure that our value proposition for the customer is unmatched is helping us win at the dealer level. I think our demand creation activities from a marketing perspective again are helping us win at the dealer level. So I think the company is -- in given the current environment and where we have -- where we've placed our investments as those that I've mentioned and perhaps the investments that we've made in improving our supply chain team and investments in our commercial team those are all highlighted in our results and are helping drive POOLCORP.

### **Q - Susan Maklari** [{BIO 15751111 <GO>}](#)

Okay. That's great color. And then maybe following up, when you do think about the pricing that has been passed through to the market this year relative to some of those headwinds that you mentioned around some of the consumers breaking down renovation projects and those types of things. I mean, how are you thinking about the elasticity of demand in the industry? Do you think that some of your suppliers are thinking more about price versus volume as they consider the outlook for the macro and how maybe they'll be approaching that going forward?

### **A - Peter D. Arvan** [{BIO 17669961 <GO>}](#)

I think it falls into two categories, Susan. I think that, a portion of our sales of all products are discretionary and a portion of them are non-discretionary. So I think, as it relates to price and price going up on equipment, I would tell you that if it's a -- if your pump has failed, whether your pump is 10% more or 5% more or 2% more than it was last year, I really think it's irrelevant. You have to replace the pump.

I would tell you that we do see, our dealers are reporting that some consumers are opting to fix pumps and repair pumps. So if we look at our parts sales, for instance, our parts sales are outpacing total sales growth in almost every market. So I think that there are some trade-offs being made with, well, can I fix it versus replace it? So I think in non-discretionary areas, I don't really think the pricing is having an impact on whether it gets repaired or replaced. Although sometimes people are opting to have it replaced if the repair cost is too high.

I also think that there's some things on a pool pad, for instance, whether you're talking about if the heater is bad and it's June, something like that can be deferred to later in the year when you need the heater. So again, that would fall into the discretionary area. And certainly new construction is discretionary.

But when I look at the price of material as it relates to new pool construction, so even if the pad is up 5%, 6%, 10%, depending on what you have, given that you're talking about a \$15,000, \$16,000 line item in a project average pools now are \$85,000 to \$90,000. If the pool pad was \$1,000 more or \$1,000 less, I don't know that that causes a consumer to opt in or opt out as a result of that. So I think the -- it's a long answer to your question, but I think it really depends on the circumstance and how the consumers are navigating that.

**Q - Susan Maklari** {[BIO 15751111 <GO>](#)}

Yes. Okay. That's all very helpful color. Thank you, and good luck with the quarter.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Thank you.

**Operator**

Our next question comes from Ryan Merkel with William Blair. Please go ahead.

**Q - Ryan Merkel** {[BIO 17097977 <GO>](#)}

Hey, good morning. Thanks for taking the question. Pete, just the first question on the outlook. What's the bottom line on why you lowered EPS guidance for the year? Is it that the first half was just a little bit below what you thought, or is it something else?

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

No, it's really -- I think the first half we had anticipated that there would be some interest rate cuts, which didn't happen in the first half. And at this point, I have my doubts whether they happen in the second half at all. And if they do, whether in time to really, kind of impact demand in the second half. So we just -- the adjustment was, it was relatively minor that we made.

I think that the maintenance business is good. The install base is in great shape, whether it at this part of the season, you could see in the weather maps, just like I have, it's very hot. And that's good for our business. But I think it's really looking at the outlook on new pool construction and saying without an interest rate cut, that will address the greater housing market. I think it would be tough to say that we believe that new pool construction is going to rebound this year. And if without new pool construction

rebounding, even with a little bit of price working its way into the industry, those two things are going to offset.

**Q - Ryan Merkel** {[BIO 17097977 <GO>](#)}

Yes. I agree with that. Okay. That's helpful. And then my second question on gross margin. I was happy to see the 2Q and even the first half results pretty good in a tough market. I guess my question is on the first quarter call, you talked about more price competition. Has this abated as you've gotten to the meat of the season?

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes. If you remember, we talked about it. We said it's always more pronounced in the first quarter because of the timing of early buy payments and it's a smaller quarter. So, from our perspective at this point, I don't really see anything new going on in that area. So, I mean, we still -- we called out in our commentary, we still have seen some deflation on some of the chemicals, but by and large, I would say -- I would classify competitive activity as nothing out of the norm.

**Q - Ryan Merkel** {[BIO 17097977 <GO>](#)}

Got it. All right. Thanks. Pass it on.

**Operator**

Our next question comes from David Manthey with Baird. Please go ahead.

**Q - David J. Manthey** {[BIO 1498060 <GO>](#)}

Pete, just to follow on your comment on rates, I'm just wondering, are you referring to a cut in the Fed funds rate somehow impacting mortgage rates and the housing market in general?

And then second, as it relates to the monthly payment buyer down here in Tampa, Florida, the minimum you pay for a pool is \$60,000, which is higher than the industry average was back in 2021. So, I'm wondering, given the pool content and general inflation we're seeing, is there even an interest rate that pulls that monthly payment buyer back in? So, two-part question there on rates.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

I think there's a couple of things, Dave. I think the interest rate is -- has to do with housing turnover. Right? Not -- so, there's people that are in their home, I'm not moving, but I need to borrow money to buy the home, but at the elevated rate, good news is my home equity is high, bad news is the access at home equity is very expensive.

But I think if the Fed cuts rates and that works its way through the lending community, all the way through mortgages, for the family that isn't moving, it will have some impact on them, although I don't know that it would be a tremendous amount, as you mentioned.

I do think the bigger impact is housing turnover, because we see a lot of activity as it relates to housing turnover, and I think there's people sitting on a lot of equity in their homes that if they could access that as part of a house transaction, if you will, to move

to that bigger forever house where they want to build a house, I think that's where we'll see it.

**Q - David J. Manthey** [{BIO 1498060 <GO>}](#)

Got it. Okay. And then to follow on to Ryan's question, as it relates to the outlook. In the past, I know you've said that once you sort of get past the midpoint of the third quarter and into the fourth quarter, the discretionary portion of your sales can have a greater impact on the overall. But as we look at the report here, you said that you saw an upturn at the end of June, you were encouraged by July trends, and yet the guidance went lower. I'm just -- is it the expectation for second half growth in new and R&R what's lower today versus 90 days ago, or was there something else in there?

**A - Peter D. Arvan** [{BIO 17669961 <GO>}](#)

Yes, I think that's exactly right, Dave. It's the expectation on new. I don't really see any improvement, material improvement, if you will, in permit data that would suggest the back half of the year that new construction and large reno projects are going to increase.

So I think we're looking at, okay, here's the trends we had for the first six months of the year, and those don't really look like they're changing all that much on a month-over-month basis, but the rest of the business, the maintenance portion of the business is doing quite well. So I just don't see enough -- I don't see enough in the near-term to suggest that new pool construction is going to improve materially. So that's why we made the small adjustment.

**Q - David J. Manthey** [{BIO 1498060 <GO>}](#)

Makes sense. Thank you, Pete.

**A - Peter D. Arvan** [{BIO 17669961 <GO>}](#)

Thank you.

**Operator**

Our next question comes from Trey Grooms with Stephens. Please go ahead.

**Q - Trey Grooms** [{BIO 6990288 <GO>}](#)

Hey, good morning. Pete, could you talk about any inventory benefits to the margin in the second quarter? You have supply chain as a benefit in the bridge there, but any more color around that? And then also as you kind of think about the puts and takes on the gross margin for the balance of the year. Either Pete or Melanie, sorry.

**A - Melanie M. Hart** [{BIO 16411204 <GO>}](#)

Yes. So as it relates to the current quarter, the supply chain benefits are made up of a combination of multiple things that we're working on from a process standpoint and initiatives that we're doing. So we're continuing the throughput that we're getting from our CSLs that help to lower our overall product cost. We're actually continuing some improvements as well on our freight activity there.

So those are helping our product cost. When we look at the incremental margins that we're getting on our private labels, products, those are also helping us. And then we did get some minor benefit, which would be a little bit more pronounced as we move forward for the rest of the year from the price increases that went into effect late in the quarter.

So as we look out for the balance of the year, we'll see a little bit of margin benefit from some of those incremental prices in third and fourth quarter. And then we'll also see a little bit of improvement from the year-over-year change in the building materials as that started to moderate when you compare it to prior years.

**Q - Trey Grooms** {[BIO 6990288 <GO>](#)}

Got it. Okay. All right. That's helpful. Thank you. And just to kind of circle back on the discretionary piece, it sounded like in the press release that there was some improving trends in discretionary. There was some mention of maybe some year-over-year -- a year-over-year increase there. But is it -- and I think from the -- from some of the slides, it implies that volume -- I believe, is the way to think about it, is volume is still down there, but you're getting some benefit from pricing that's maybe slightly more than offsetting that. Is that the right way to kind of bridge that commentary around discretionary?

**A - Melanie M. Hart** {[BIO 16411204 <GO>](#)}

Yes. So, the improving trend was -- is really more sequential versus we're not seeing any net positives on the trends on building materials. But even when you look at permits, they're moderating from a decline year-over-year. So, they are improving throughout the year. And then our actual building materials sales activity is showing much better results than that.

So, when you looked at building materials specifically we were down about 5%, quarter-over-quarter in the first quarter, and that improved to 1% in the second quarter. The pricing impact on building materials is not significant. So, they just saw kind of more normalized 1% to 2% as it relates to inflationary pricing benefits.

**Q - Trey Grooms** {[BIO 6990288 <GO>](#)}

Okay. Got it. Thanks for helping clear that up and good luck. Thank you.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Thank you.

**Operator**

Our next question comes from Andrew Carter with Stifel. Please go ahead.

**Q - Andrew Carter** {[BIO 1848938 <GO>](#)}

Hey. Thank you. Good morning. What I wanted to ask is just stepping back on the questions around new construction. You've talked about the rates on one side and the hope of kind of lower rates to get existing home sales moving. But I guess with where we are now with dealer capacity and obviously the dealer profit pool, I would argue is likely meaningfully expanded from 2019.

Do you think they will actually turn their attention to try to grow volumes that's kind of supportive of the mid -- of kind of the mid-to high-single-digit for your algorithm? Or better said, I guess just to step back from all of it, do you think mid-single-digit to high-single-digit construction is still possible with where pool costs are and where dealer capacity is today? Thanks.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

It's a very interesting question. And I would say the answer is, I think it really depends on the dealer. I think we have some dealers that are trying to find a way to make the price of a pool more affordable. At the same time, if you survey the dealers, they would tell you that their SG&A, their operating costs, their labor costs, insurance, taxes, fuel, everything is also up.

So I think there is a -- I think there is -- there are some folks that are looking at it differently. There's some folks that say, like some of our dealers, Andrew, are actually doing quite well. So like the folks, again, that concentrate at the high-end, that business, as we've said, it sounds like we repeated every call, but that business is good, was good, and the outlook is still strong. It's really at the lower-end. And I don't know that you'll see a material drop in the basic costs of a pool.

What I will say is, keep in mind that the average price of a pool has come up as much from mix as anything else. I mean, as Dave mentioned, the basic price for a small pool is -- in Florida is still around \$60,000. In other parts of the country, you can get an entry level pool for that or a little bit less. The average is pulled up because of the current mix. And the reason for that is more about financing, the associated financing costs at the lower-end where they're much more highly leveraged versus the cash buyer at the upper-end.

**Q - Andrew Carter** {[BIO 1848938 <GO>](#)}

Thanks for that. Second question I would ask, with all the kind of tariffs, kind of impact to supply chains and second order effect, have you seen anywhere out there where there's any tightness on products? And I know you're domestic, maybe tightness that would hit the lowering guys, and might as well while I'm on the topic. Anything on the labor front that you've seen out there, obviously from your contractors, customers, but anything you would obvious -- that would be second order to you guys. Thanks.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes. I -- we talked to our dealers, we don't get the sense that there's a labor problem. I think everybody has enough labor to do the work that there is today.

As far as your other question on second order effect on tariffs, I'm not quite sure I understand that. Maybe you could expand a little bit so I make sure I answer the right question.

**Q - Andrew Carter** {[BIO 1848938 <GO>](#)}

Yes, I apologize. I meant more on the -- any kind of product shortage you're seeing. I know that you source domestically, but just the supply chain whips and saws, if that's hit you at all.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes, nothing out of the ordinary. In any given year, there'll be an issue with something, but there's nothing that we can point to that says that, hey, there's a shortage of this material or that material that's affecting everybody. I would say supply chains are generally in very good shape.

**Q - Andrew Carter** {[BIO 1848938 <GO>](#)}

Thanks. I'll pass it on.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Thanks.

**Operator**

Our next question comes from Scott Schneeberger with Oppenheimer. Please go ahead.

**Q - Scott Schneeberger** {[BIO 5302695 <GO>](#)}

Thanks very much. I'm curious, you guys mentioned in the -- in inventory, it's a little bit higher year-over-year. You mentioned ensuring customers have good access, but the first list was expanding product offering. I'm just curious if there's anything we should read into there, if you could elaborate on what that is and then I'll have a follow-up. Thanks.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes. There's really nothing to read into that. Every year, manufacturers introduce new products into the market and we have to make sure that we have those products available for sale as the sales development efforts are underway. So nothing really to read into that. And what I would also say is not -- we have really no concern on our end as to the inventory balances. We're actually very, very good at managing inventory, so we'll be exactly where we need to be at year-end.

**Q - Scott Schneeberger** {[BIO 5302695 <GO>](#)}

All right. Thanks, Peter. And then as a follow-up, I guess, Melanie, probably more for you, recent passage of the One Big Beautiful Bill. Is that -- might that have a favorable impact on your cash flow? Have you assessed where that might impact you is the primary question?

And then I guess maybe either one of you, do you think it could have a derivative impact on your consumers and could you possibly see it as soon as this year, potentially perception of tax benefit individually assisting in discretionary spending. Thanks.

**A - Melanie M. Hart** {[BIO 16411204 <GO>](#)}

Yes. So from the company standpoint, our tax team has done a very detailed analysis and now you're prepping me for my answer to the Board next week. But we see it as some slight benefits. There's a couple of things on the international side that really won't have a material impact on our tax rate overall, but the biggest thing that we expect to see as

a benefit is the change in the accelerated depreciation. So that will, for us, be a positive as it relates to cash flows on the tax side.

On the homeowners, I don't know that we'll be able to see any type of quick reaction on that. Most people, I would suspect, are still kind of digesting the impacts, and we really haven't seen any significant changes in consumer confidence or spending of discretionary income at this point.

**Q - Scott Schneeberger {BIO 5302695 <GO>}**

Thanks very much.

**Operator**

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

**Q - Sam Reid {BIO 24200073 <GO>}**

Awesome. Thanks so much. I wanted to touch on chemicals and dig deeper on pricing. So it sounds like the price backdrop in chems is still negative, just based on the commentary, but it also sounds like you're not seeing a change or a deterioration, I should say, in the competitive backdrop. So if things are not getting more competitive, I guess the question is kind of why is pricing still negative here?

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

That's -- Sam, that's a really good question. As we look at the market, there isn't a macro backdrop that says that there should be -- that we should see deflation on chems. We're in the heat of the season. Demand is good. I think what I would tell you, here's the way I would characterize it, is there was pressure earlier in the year. Now there is -- things really haven't changed.

So I think -- I don't think things are getting any worse. I think from a chemical perspective, prices are not much different than we saw, earlier in the year. But I can't give you a scenario that says, hey, I think there's a backdrop that's going to lead to a decline -- a further decline in chemical pricing.

**Q - Sam Reid {BIO 24200073 <GO>}**

No, that's helpful, Pete. I appreciate it. And then maybe just touching on Q2 sales in the context of some of the tariff noise during the quarter. And just want to maybe put a finer point, did any of your customers, as best you can tell, pull forward demand ahead of tariff? If there was any demand pull forward, what would be the implications on Q3 in that scenario? Just any help on that would be appreciated. Thanks.

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

Yes. No, I can't tell you that we really saw any material pull forward. Remember, so much of our business is pickup business every day. 70% of our business takes place at the counter, our transactions, if you will, take place at the counter in pickup. So I don't know that anybody -- we didn't see any material change in buying patterns. So I don't expect there to be a whipsaw into third or fourth quarter as a result of that. We would characterize buying patterns as normal for in-season.

**Q - Sam Reid {[BIO 24200073 <GO>](#)}**

That's really helpful. Thanks so much. I'll pass it on.

**A - Peter D. Arvan {[BIO 17669961 <GO>](#)}**

Thanks.

**Operator**

Our next question comes from Garik Shmois with Loop Capital. Please go ahead.

**Q - Garik Shmois {[BIO 16348192 <GO>](#)}**

Hi. Thanks. First, just hoping you could review the gross margin bridge in a little bit more detail for the back half of the year, just as far as the puts and takes go. With respect to the supply chain, the pricing, the mix, you outlined in the slide deck. I'm just wondering which of these categories are getting more favorable to get to gross margin growth in the second half?

**A - Melanie M. Hart {[BIO 16411204 <GO>](#)}**

Yes. So as we look at the second half, we'll see pricing will be a little bit more favorable. And we would expect that product mix, although it would still be a negative year-over-year when you're looking at individual quarters. It's trending more positive, so it'll be a little bit less negative on the product mix side.

**Q - Garik Shmois {[BIO 16348192 <GO>](#)}**

Okay. That's helpful. A smaller part of your business, but the improvement in Europe was notable. Wondering how much of that is improvement in the underlying market or -- I know the continent had a bit of a heat wave, especially in June. I was wondering if maybe that was a big driver of the growth there.

**A - Peter D. Arvan {[BIO 17669961 <GO>](#)}**

Yes. I think that, as I mentioned, it's really -- if I look at Europe, obviously our largest market in Europe is France. France had a -- France didn't help a lot, so France was down slightly for the quarter, even though Europe -- the more Southern countries in Europe are the ones that were leading the charge.

I would tell you that I think the weather is good, and it appears that there's a little more stability over there. So I was over there last quarter, and I came away more encouraged at the outlook for Europe, which has been a -- they've been in a tough spot for a few years, but the team appears to be more optimistic, and we're seeing it at -- on the sales line. So we're encouraged.

**Q - Garik Shmois {[BIO 16348192 <GO>](#)}**

Okay. Very good. Thank you.

**Operator**

Our next question comes from Colin Barrow with Deutsche Bank. Please go ahead.

**Q - Colin Barrow** {[BIO 23886807 <GO>](#)}

Good morning, and thanks for taking my questions. In your prepared remarks, you provided some high-level commentary, but can you just provide any more color or put some numbers around how demand trended by month and how things are tracking thus far in July? Just trying to understand if underlying demands, excluding some of those weather impacts, accelerated throughout the quarter and as it exited June, and if volumes could inflect positively at some point in '25, just with the discretionary end market decline shrinking?

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes. I think we attempted to kind of frame that up as follows. The -- early in the quarter, the markets, April and May, were stronger than the beginning of June. June is the biggest month of the year is always going to be, excuse me, May or June.

So in the beginning of June, we saw a bit of a -- I wouldn't characterize it as a huge slowdown, but it wasn't as positive as it was earlier in the quarter for a couple of weeks. And then on the back half of June, things picked up again. And I would say that those trends have carried out into July. So we are encouraged at the near-term outlook.

**Q - Colin Barrow** {[BIO 23886807 <GO>](#)}

Okay. I understood. And then just on the pricing dynamics, I understand that one of the manufacturers walked back some of a second price increase here, but I think another large manufacturer is out publicly saying that they might be looking to take further price in the market later this year. So can you just talk about what you're seeing and hearing maybe about second half price increases from suppliers and what's baked into your guidance currently?

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes. I don't think we're going to see any increases aside from the normal increase that the manufacturers are going to put in at the end of the year. There was some contemplation about another in-season increase prior to the pre-buy or early buy and pricing for next year. That seemed to have abated. But now we're looking at -- we're starting to receive increases -- increased letters for the upcoming season. They'll take effect depending on the manufacturer sometime either in September or October. And those are contemplated in our guidance, what we know of now.

**Q - Colin Barrow** {[BIO 23886807 <GO>](#)}

Great. Thank you for the color.

**Operator**

Our next question comes from Shaun Calnan with Bank of America. Please go ahead.

**Q - Shaun Calnan** {[BIO 18823085 <GO>](#)}

Hi, guys. Thank you for taking my question. Just first, on the 2% to 3% net price you realized outside of commodities, it looks like the manufacturers were realizing like more mid-single-digits. So, can you just break out what's included in commodities versus that other 2% to 3% bucket? Is that just equipment? And you guys are kind of getting squeezed

a little on price there, or are there other things we should be thinking about that are included?

**A - Melanie M. Hart** {[BIO 16411204 <GO>](#)}

Yes. No, the main difference between what we're realizing from a price increase versus the equipment is that only 30% of our product mix overall is equipment. So, when you're looking at the higher price realization that the equipment manufacturers are getting, that's only on a portion of our business. So, things such as the building materials, those are seeing much more normal increases, 1% to 2%. And so, really, the difference there is going to be product mix overall.

As it relates to the commodities, what we have grouped in there, is generally going to be chemicals, plumbing, and rebar. And to some extent, there is a little bit of decking material as well, some of our decking building materials.

**Q - Shaun Calnan** {[BIO 18823085 <GO>](#)}

Okay. Great. And then the private label chemicals continue to show good results despite what kind of seemed like a tough backdrop for chemicals for the industry. Can you talk about what's driving that growth and then where private label sales are as a percentage of total chemical sales today versus the last couple of years?

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

Yes. I would say what's driving the growth is we have a great portfolio of brands for the chemical space. So we, last year, refreshed all of the brands. We completed the lines. We added the POOL360 WaterTest software. And decisions to change brands on chemicals are not short-cycle decisions that the large retailers and our -- some of our other dealers make.

So they -- it takes time for them to decide whether they're going to change and to gain confidence. So we know we have a good product. We know that we have really kind of best-in-class, a complete value proposition for chemicals, whether it's the POOL360 WaterTest, the consumer apps for the WaterTest, and the -- how those all work together.

So we think that we have a good product. We think we have a great value proposition for the customer. And we think in time, or as time goes on, that will continue to grow, especially when you couple that with the rest of the things that we do for our dealers.

**Q - Shaun Calnan** {[BIO 18823085 <GO>](#)}

Great. Thank you.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Peter Arvan, President and Chief Executive Officer, for any closing remarks.

**A - Peter D. Arvan** {[BIO 17669961 <GO>](#)}

I just want to thank you all for joining us today. We look forward to our next call, which is on October 23, when we will review our third quarter 2025 results. Enjoy the remainder of your summer, and have a great day.

## Operator

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

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