Q3 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

- Collin Verron, Analyst, Deutsche Bank
- David MacGregor, Analyst, Longbow Research
- David Manthey, Analyst, Baird
- Garik Shmois, Analyst, Loop Capital
- Jeffrey Hammond, Analyst, KeyBanc Capital Markets Inc.
- Ryan Merkel, Analyst, William Blair & Company
- Sam Reid, Analyst, Wells Fargo
- Scott Schneeberger, Analyst, Oppenheimer
- Steven Forbes, Analyst, Guggenheim Securities, LLC
- Susan Maklari, Analyst, Goldman Sachs
- Trey Grooms, Analyst, Stephens Inc.

Presentation

Operator

Good day, and welcome to the POOLCORP Third 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>}

Welcome, everyone, to our third quarter 2025 earnings conference call. During today's call, our discussion, comments and responses to questions 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 any non-GAAP financial measures included in our press release will be posted to our corporate website in the Investor Relations section. Additionally, we have provided a presentation summarizing key points from our press release and today's call, which can also be found on our Investor Relations website.

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

Peter D. Arvan {BIO 17669961 <GO>}

Thank you, Melanie, and good morning, everyone. I'm excited to share that our teams have maintained the momentum we established in the second quarter, delivering another solid performance in Q3. Thanks to their hard work and dedication, we continue to drive growth with top-line sales up 1% and gross margin expansion of 50 basis points. This was fueled by consistent maintenance activity and encouraging signs of stabilization in both new pool construction and remodel.

I'm also pleased to see that we achieved year-over-year growth in building materials for the first time since Q3 of 2022, driven by improvements in remodel activity and share gain.

As you know, we have continued innovating and investing in our POOL360 applications, and I'm pleased to say that our adoption rate of these industry-leading tools continues to grow as our customers realize their full potential. Building on these successes, we recently shared our strategic roadmap for the next year and beyond with the entire management team at our international sales conference, and their excitement was palpable.

The innovative products and ambitious growth plans we unveiled are already gathering a buzz, and our teams are ready to hit the ground running as new initiatives start rolling out immediately. We're focused on key areas of our business where we know we can win. This forward-looking approach not only positions us to close 2025 with momentum, but also lays a strong foundation for an even more dynamic 2026.

Looking at the macroeconomic environment, uncertainty around tariffs and elevated borrowing rates continue to weigh on consumer sentiment and limit discretionary demand, particularly for pool projects that require financing. While we observed overall permit data down mid-single-digits year-over-year through August, with considerable variability across the country, recent easing of interest rates policy offers a promising path forward towards relief.

For clarity here, we believe it will take further reductions to bring borrowing rates to a level that will motivate potential entry-level pool owners to build. Despite these challenges, however, our new pool construction sales have outperformed industry permit data, indicating continuous share expansion. On the remodel side, consumers remain focused on essential repairs and targeted improvements rather than large-scale upgrades.

In response, our teams are leveraging our robust product portfolio, our strong private label offerings, and enhanced technology while partnering with vendors to deliver innovative solutions and drive future growth. Overall, I am more than confident in our team's ability to adapt, execute, and position us for long-term success.

Now, I will walk through our third-quarter results. We reported $1.5 billion in net sales, up 1% building on the growth we generated during peak season. Maintenance product sales performed well, particularly parts and private label chemical volumes. As mentioned, we saw growth in building materials used in new construction and remodel projects.

Mid-season price increases created a slight lift on top line, but were diluted some by chemical deflation. Related to our geographic markets, Florida produced 1% growth, with Texas flat, and California and Arizona each down 3%. Florida remains steady across our product categories and leads the country with new pools being built in 2025. While flat, Texas showed sequential improvement compared to recent quarters.

New pool builds in Texas remain pressured, but continued to improve throughout the year, and maintenance-related product sales showed resilience. In California, we see continued pressure on new pool builds, particularly in areas affected by recent wildfires. Arizona showed some deceleration in permits compared to earlier this year, but we believe this may be related to timing versus reversion, while maintenance held up for both California and Arizona during the quarter.

In Europe, net sales decreased 1% for the quarter in local currency and increased 6% in US dollar. Similar to last quarter, we saw growth in the Southern countries while impacts from political strain and related consumer uncertainty pressured sales in France. For Horizon, net sales increased 3% in the quarter, supported by solid maintenance growth and improvement in sales for outdoor living products like landscape lighting, hardscapes, and synthetic turf.

Shifting to product categories, total chemical sales declined 4% this quarter, reflecting some additional deflation. Overall, I consider the demand for chemicals and our performance to be stable. Our private label offerings generated volume growth during the quarter, showing that our teams are being successful in showing the power of our brands and the innovative products and systems that we offer. With our new product showroom displays and marketing support, our customers continue to see strength of our value proposition, and this bodes well for the upcoming selling season.

Building materials sales increased 4%, again driven by our expansive private label offering and elevated customer experience. We recently rebranded NPT, formerly National Pool Tile to National Pool Trends to align our brand name and marketing efforts to highlight our many offerings. The new name brings greater clarity to our value proposition, showing NPT as our customers' partner for complete backyard transformations using our tile pool finish, decking, to name a few.

Our premier product offering, product sales specialist, and consumer showrooms offer a one-of-a-kind customer experience, and it is shown in our results. Equipment sales, which excludes cleaners, increased 4% during the quarter, mostly reflecting benefit from price and steady replacement volume for critical components.

Turning to end markets. Our commercial sales increased 2% in the third quarter, showing steady momentum from a strategic focus area. We continue to make investments in our team during the quarter and created greater connections to key designers and builders to better support commercial aquatic projects. Sales to our independent retail customers declined 3%, chemical deflation created mild headwinds here, while DIY consumers continue to be hesitant with discretionary purchases like cleaners and above-ground pools, spas, and some equipment.

For our Pinch A Penny franchise group, represented -- sales represented our franchisees' sales to their end-customers declined 1% during the quarter. Also of note, we have not seen any meaningful shift between do-it-for-me and do-it-yourself customers.

Before covering progress on our initiatives, I want to briefly highlight gross margin ahead of Melanie's prepared remarks. I'm extremely pleased with the team's effort to expand gross margin by 50 basis points this quarter. Although the operating environment remains challenging, our teams continue to deliver by making strategic and efficient supply chain choices, refining our network, and applying disciplined buying and sales strategies, all while providing an unparalleled customer experience.

A key investment area and differentiator for POOLCORP is our technology suite. POOL360 is the largest and most comprehensive set of customer-facing tools in the industry, and our adoption rate continues to grow. For the quarter, sales through the tool represented an all-time high of 17% of our total sales for the third quarter, which demonstrate the customer's desire for technology that creates value. While still in the early stages, this growth shows the output of our technology investments over the past few years.

Our targeted spend in our digital ecosystem is driving technology adoption and fueling not only growth in private label chemicals, but also service and traditional B2B offerings. Our deliberate investments in innovation and enhancements of our tools have been key drivers of POOL360's impressive sales results. These advancements empower us to support higher sales efficiently, while creating capacity for future growth.

Increased POOL360 transaction adoption delivers significant benefits, not only strengthening our margins, but also elevating the customer experience, accelerating private label and exclusive product growth, and enhancing our long-term competitive advantage. We competed -- completed one acquisition during the quarter, adding two locations in key markets. Additionally, we opened one greenfield, bringing our year-to-date opening to six sales centers. We remain on track for additional openings in the fourth quarter to reach 8 to 10 new sales centers for the full year.

Our Pinch A Penny franchise network added one new store in the quarter, adding to our Arizona presence and bringing the Pinch A Penny locations to 303 franchise stores. Touching on guidance, as we exit the pool season and enter the fourth quarter, we expect full-year sales performance to be relatively flat to up slightly. We are confirming our diluted EPS guidance for the year to a range of $10.81 to $11.31, updated to reflect the $0.11 in realized ASU benefits year-to-date.

At POOLCORP, our relentless pursuit of continuous improvement is driving us to lead the way on innovation across products and processes. Recognizing the industry's need for fresh ideas and solutions, we are making a new and intentional push to discover, shape, and bring new innovation to market for our customers and as the strongest channel to market for our supplier partners.

By identifying emerging opportunities and thoughtfully guiding them from concept to market, we are helping to expand the total addressable market while delivering value unique to POOLCORP. Our team's product expertise is unmatched, backed by superior inventory availability, robust operating system, and customer relationships that span decades in nearly every market we serve.

Even as the macroeconomic environment presents challenges, the underlying strength of our industry and POOLCORP's distinctive capabilities remain clear. Our long-term growth trajectory is secure, pools continue to be highly desirable, and no company is better positioned in POOLCORP to help build and maintain the growing installed base.

We have a strong competitive advantage and we are continually strengthening it through strategic investments in our people, facilities, acquisitions, digital platforms, innovative private label and exclusive products, retail support systems, advanced chemical repackaging capabilities and consumer-facing marketing tools. Our commitment is focused and our path forward is clear.

We mark our 30th anniversary as a public company. I want to thank our entire team for their exceptional dedication, which has driven our long-term success and positions us for the future. Over the past three decades, our growth and sustained success have been driven by the talent and commitment of our field leadership and support teams, all united by a focus on delivering the best customer experience and cultivating a go-to-market relationship with our valued suppliers.

Looking ahead, I am confident that this foundation and our continued investment will equip us to enhance the differentiated value we provide to the pool and outdoor living industry while growing sales, expanding margin and generating strong cash flows and delivering exceptional returns for our shareholders.

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. For the third quarter, we saw year-over-year improvement in sales, driven by increased maintenance on the installed base, favorable pricing and market share gains, while noting that the impact from lower discretionary spend levels was less of a drag on a comparable basis compared to the third quarter of prior year.

During the quarter, we realized a 3% benefit from pricing, reflecting the full-quarter impact of price realization on the mid-season vendor price increases implemented in April and May. Trichlor selling prices continued to be impacted by the lower level of spend in the industry and somewhat offset our positive price realization in the quarter.

Throughout the quarter, in certain markets, we saw some positive months where there were permit increases year-over-year from the prior period. However, in total, year-to-date permits remain below last year's levels. Our estimate of new pool construction remained flat to slightly down, consistent with our expectations included in last quarter.

Overall, the lower level of discretionary spend had a 2% impact on our sales for the quarter, similar to the impact we saw in the second quarter, with both Horizon and Europe having positive sales growth in the quarter.

As Pete mentioned, we added two new sales centers through acquisition during the quarter as well as one newly acquired location in October. These additions did not have a significant impact on our base business results, so we have not reported base business performance separately for the quarter.

Our gross margin in third quarter was 29.6%, representing a 50 basis point improvement over prior year. This improvement was driven by favorable pricing, successful supply chain initiatives and an increase in sales of our expanded private label offerings, all areas that we continue to focus on and excel in despite the persistent impact of the macro-environment and lower levels of consumer discretionary spend. The sequential change from the second-quarter margin is consistent with our typical seasonal trends.

Operating expenses increased 5%, slightly ahead of the quarter-over-quarter changes we reported during the first half of the year. This increase includes the impact for our cumulative new greenfield locations that were not open in both periods. Also, as Pete described, the positive results we have seen with our expanded POOL360 initiatives, we accelerated some incremental technology costs during the quarter because we believe that this further differentiates us from our competition and will yield better sales and operating leverage in the future.

Operating income improved $2 million over prior year and was $178 million for the quarter. Interest expense of $12 million continues to compare favorably to prior year. Our effective tax rate was 23.5% for the quarter compared to 23.4% in prior year. ASU benefits contributed $0.01 in both periods presented. We generated diluted earnings per share of $3.40, up 4% from the $3.27 we realized in the third quarter of last year.

Next I'll discuss our balance sheet cash flows and capital allocation. We finished September with inventory balances of $1.2 billion, up 4%, our lowest level of inventory we expect during the year as we exit the season. The increase includes product inflation and also includes stocking for our nine new locations, including both our greenfield and the acquisition completed during the quarter.

Total debt of $1.1 billion resulted in a leverage of 1.58, remaining at the low end of our stated target range of 1.5 to 2 times.

We generated $286 million in cash flows from operations year-to-date compared to $487 million in the prior year. The decrease was primarily due to higher tax payments and investments in working capital. We expect to achieve our current year target of converting 90% to 100% of net income into cash flow from operations, which includes the deferred tax payment from prior year.

We continue to execute on our share repurchases opportunistically under the authorization provided by the Board. We have completed $164 million of share repurchases through the third quarter with an additional $20 million through our earnings call, ahead of $159 million through third quarter of last year. We have $493 million remaining under our share repurchase authorization.

Starting out the year, we continue to expect full-year sales to be relatively flat compared to the prior year with one less selling day. This outlook reflects a modest decline in discretionary spending compared to last year, offset by positive impacts from maintenance growth and pricing realizations. In the prior year, we benefited 1% in the fourth quarter from weather-related hurricane activity, which at this time is not expected to reoccur in the fourth quarter.

Our full-year gross margin rate is forecasted to be similar to the prior year, which on an ongoing basis reflects improvement, as the prior year rate included a non-recurring import tax benefit recorded in first quarter of prior year. This would include some improvements on a year-over-year basis in gross margins in the fourth quarter. While customer mix remains less favorable, these impacts are being offset by growth in private label sales, ongoing supply chain improvements and pricing benefits.

Our estimates for full-year operating expenses remain in line with last quarter, with an expected annual increase over prior year of approximately 3%. This reflects productivity improvements offsetting inflationary cost pressures with increases attributable to our investments in greenfield locations and our focus on technology initiatives.

Forecast for interest expense, estimated tax rates and share count for the full year are included in our quarterly earnings presentation posted on our website. There have been no significant changes to these estimates since last quarter, with interest expense updated to include share repurchase activity.

As we typically see, our third-quarter tax-rate is lower than the annual rate due to discrete timing differences and we expect our fourth-quarter rate to be in-line with the first and second-quarter rates. We are confirming our diluted EPS range of $10.81 to $11.31, including $0.11 in ASU tax benefits realized year-to-date, of which we reported an additional $0.01 in third quarter that is now included in the range.

I am pleased with our team's ability to perform and remain focused on our internal strategic initiatives, which have delivered tangible results year-to-date. This highlights the strength of our team and the significant value that industry-specific talent contributes across the outdoor living value chain. While we continue to manage the business effectively, we are also investing in our key strategic growth areas to create long-term value for our shareholders.

With that, I will now turn the call over to the operator to begin our Q&A session.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Please limit yourself to one question and one follow-up. At this time, we will pause momentarily to assemble our roster. The 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.

Q - Susan Maklari {BIO 15751111 <GO>}

My first question -- good morning, Pete. My first question is diving in a bit on the comments you made around seeing some early signs of stabilization, which is encouraging given what we've seen in housing and the consumer as we think about the summer and into the fall. Can you talk a bit more about what is driving that and how you're thinking about the trends that you're seeing on the ground as we exit this year and maybe even into early 2026?

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

Yeah. As I mentioned, the permit data, when you look at that, which again only represents a portion of the market, is very sporadic. And so there isn't a consistent theme. But when you look at them from geography to geography, but I guess when we look at them in totality and then combine that with our comments that we're getting from the -- our builder customers and remodel customers, I would tell you that the activity level is -- seems to have firmed up, and we are encouraged, as evidenced by our growth in building material sales in the quarter, which has been -- it's been a long time since we've seen that.

So I would say that overall, the comments tend to be more positive now. I think it's going to take further interest rate cuts to really drive the entry-level pool buyer to jump in. But I think that overall, the consumer sentiment on new construction and large renovation projects seems to be fairly consistent and more optimistic than it was.

Q - Susan Maklari {BIO 15751111 <GO>}

Okay, that's good to hear. And then my second question is on the innovation side. You mentioned that you accelerated some spend in the summer. It sounds like you've got some really good initiatives that are coming through the business. Can you talk about how you're thinking of the investments and the trends that we should expect into the fall and year-end? And then what that can mean for your ability to outgrow the market even if things do stay relatively more challenging for next year or the next several years?

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

Sure. So let -- I'm going to break this down into a couple areas. I'll talk about technology as it relates to POOLCORP's technology, and then I'll talk about technology related to the market. You know, all of our investments in technology from a POOLCORP perspective are really designed to enhance the customer experience to give them greater access, greater convenience, and allow them to be more productive.

I look at our suite of tools, whether it's the POOL360 service, which allows our service customers to essentially operate their business, invoice, market, schedule, do everything with the tool, which allows them to be more productive. It allows them access to their catalog of products in POOL360, allows them to schedule pickups for products, have them delivered, and frankly, have access to the entire network. Or whether you're talking about our industry-leading water test technology that we provide for our independent retailers that are selling our proprietary pool chemicals.

Again, great product, very good reviews for the homeowners. And we've also extended that into an at-home app, so you can either bring the water test or bring your water to the store for testing or you can buy our proprietary Regal and E-Z Clor test strips, take them home and then use our -- again, our proprietary app to test the water and get the same recipe, if you will for correcting any water chemistry imbalances. So we look at our standard B2B tool, which is the -- where the preponderance of our traffic is, and said, what can we do in order to enhance the customer experience to make that tool easier to use? And the team has been relentless on that, which again provides more convenience, more information, more access for our dealers.

And then the last thing that we have recently started launching is the -- an app that our counter people can use in our branches outside in the yard, so that our customers don't even have to come inside. So if they're just getting product that is outside, they'll be met outside with a tablet, and they can tap to pay. If they don't have an account, they can tap to pay or swipe a credit card out in the yard, which again gets them back to work. So feel really, really good about the technology suite that we're rolling out for our customers.

And I think that allows us to provide more convenience to our customers, a better experience, and allows them to grow their business faster. And those all feed into our marketing tools, too, which our consumer-facing marketing tools are designed to help our customers grow. So, just a plethora of tools available, and the adoption rate continues to grow. So very, very pleased with that.

The other side of the technology that I mentioned has to do with product technology for the industry. I think our industry needs innovation and new product technology in order to grow. I think customers are craving technology, convenience and value as it relates to those new products, which will give them reasons to invest in their backyard, in their swimming pool to make the ownership of a pool, whether you're talking about managing the water chemistry or managing your equipment pad easier, more convenient and at a price point that is available for everybody. So we're very excited about the -- how technology will continue to impact this business and POOLCORP's role in driving that.

Q - Susan Maklari {BIO 15751111 <GO>}

Okay, thank you for all the color, and good luck with the quarter.

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

Thank you.

Operator

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

Q - David MacGregor {BIO 1721790 <GO>}

Yes, good morning.

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

Hey, good morning.

Q - David MacGregor {BIO 1721790 <GO>}

I wanted to start by just -- good morning, Pete. I just wanted to start by going back to the graphic in your deck where you referenced customer risk or customer mix, I guess. And just, I presume we're talking about larger consolidated contractors and the kind of growing presence in the remodel work. But just thinking about longer-term margin implications here, and what are the levers that you have available to offset against that impact?

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

I think what we -- what it means is that we continue to see consolidation at the customer level. And when you have consolidation at the customer level, they're looking for more tools and more convenience in order to help them be more effective. So, for us, I actually think it's a big opportunity because nobody has the technology suite that we have today in order to integrate with them. So our systems are very flexible. It allows us to integrate with them. It allows -- some of the customers are choosing to use our software to operate their businesses, and some of them are just choosing to integrate with us.

So I actually think that it creates a competitive advantage for us. On one hand, it actually makes -- it makes them easier to deal with, because we get more advanced notice, which allows us to be more productive when we're handling their orders. And it also gives them access to information on a self-service basis versus having to call and make inquiries, which again is -- just drives our cost-to-serve. So very comfortable with our ability to leverage our technology suite in order to help the larger companies be more efficient and grow their business.

Q - David MacGregor {BIO 1721790 <GO>}

That makes sense. Thank you for that. And just as a follow-up, I wanted to go back to the 4% growth on equipment and how much of that would have been just kind of parts going into maintenance and repair versus equipment sales in the remodel segment?

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

I think most of it right now is -- I mean, of course, every new pool gets a set of equipment. A portion of the renovation and remodel will get -- we'll get new equipment, but the vast majority of the products that we sell are related to a -- one of the critical components on the pool failed and had to be replaced, whether it was a pump or whether it was a heater or filter, lights, the vast majority of our equipment sales, and it's -- frankly, it's always been this way are for the replacement business for failed components.

Q - David MacGregor {BIO 1721790 <GO>}

Got it. Okay, thank you very much.

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

Yep, thank you.

Operator

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

Q - David Manthey {BIO 1498060 <GO>}

Thank you. Good morning, everyone. The first question on chemicals. I was surprised at the weakness there. I think it's been recently flat to moderate growth. And could you talk about inflation, deflation broken down by the -- by chemicals, building materials, equipment? And I'm just wondering is that chemicals? Is that something that happened recently? It seems like a slight change in trend versus what we've been seeing lately.

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

Yeah, I'll take that. Dave, I think the way -- here's the way I think about chemicals, I don't know that there's been any trend. I think we've mentioned on the last couple of calls that there's been some deflation on track. Well, now remember, we break chemicals down into three buckets, right? There's the sanitizer, then there's balancers, and then there's specialty.

So the most deflation that we have seen, and again, I wouldn't put it in the category of significant, I would just say that there -- there's been some deflation is really in the sanitizer category. I don't think it should be -- I don't look at that in alarm. In fact, in my comments, I looked at our overall chemical business, and I said, you know what? Our sales out the door on chemicals, I would consider, are fairly normal, because you have to remember that it's -- our sales of chemicals goes into our service professionals and into our retail stores. So when you're within a few percent of the total, I don't really look at that as an alarming trend one way or the other because that could be absorbed in just inventory on people's trucks when they actually bought an inventory in the store.

So overall, I would say there's been slight pressure in the sanitizers, right, and sanitizers are in shock. But I would say that the rest of the business balancers and the rest of the specialty products are actually holding up just fine. So nothing really alarming or noteworthy there.

The rest of the inflation that you mentioned, building materials, I would say, not a tremendous amount of inflation there. I would call that a slight. And then on the equipment side, the equipment guys are all out with their pricing for the upcoming season. And I would say that that's fairly consistent to what we have seen over the last couple of years.

Q - David Manthey {BIO 1498060 <GO>}

Okay. Thank you. That's helpful. On looking out to next year, I'm not asking for guidance, I'm just thinking about how the model works here. And I think typically you talk about if you're growing normal kind of 6% to 9% in that growth algorithm, you often have talked about keeping SG&A growth to 60% to 80% of the top-line growth rate. And I know there's also some costs that creep back in when you start reinstating bonuses, incentive comp and that sort of thing. So I just wanted just -- how the model works mathematically when we think about year one of mid-single-digit growth, let's say? Do we see that kind of normal 60% to 80% of growth rate in SG&A leverage or is it slightly higher than that in year-one, and then we start to get that leverage as we go forward?

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

So the model stays intact. We will see some upfront kind of recovery of expenses. So, incentive compensation, as you mentioned, would be the one area. But of course, that would only track as far as our growth tracks. And then outside of that, what we've talked about from an expense-based standpoint is we've managed variable expenses. And so when you think about kind of volume increases coming back, we will have some add-backs as it relates to drivers and warehouse personnel, but that will be kind of limited from that standpoint because we've maintained all of our professional staffing, our sales center managers and our BDRs. So initially, there will be those volume-related expenses as well as the incentive compensation that would come back in with the sales growth.

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

So, Dave, this is Pete. Really nothing new to report in that area. It's same as we always have done. I guess what is noteworthy, though, is we continue to invest in the business for the long term. So we continue to increase the number of sales centers that we have in the markets that we believe are either at capacity now or poised for additional growth and opportunity. And we also continue to invest in technology because we are convinced that it's something that customers really want and value. It is an area that allows us to differentiate POOLCORP and an area that customers have been -- have been very happy with the investments that we've made.

Now, again, those investments are -- none of those are short-term. Those are all long-term investments that we believe we make. They become foundational and become part of our operating system, become part of the customer's operating system, and the leverage on those will continue to climb in the out years.

Q - David Manthey {BIO 1498060 <GO>}

That's very clear. Thank you both.

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

Thank you.

Operator

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

Q - Ryan Merkel {BIO 17097977 <GO>}

Hey, everyone. Thanks for the question. I want to start with the commodity pricing down one in the chart. How much is trichlor down year-over-year? And then are you also seeing deflation in PVC? Just what else is in there?

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

Yeah. So we still are not seeing PVC stabilize. So it's getting better when you look at the quarter-over-quarter rates on the PVC, but it is still within the quarter a decline. And then when you look at trichlor, the overall impact of the pricing is one, but the chemical pricing is down more than that, since it's just a portion is about 12% of the sales overall. So it varies. Right now, it's somewhere kind of in the mid-to-high single-digits, down from a pricing standpoint of where it was last quarter.

Q - Ryan Merkel {BIO 17097977 <GO>}

Okay. Yeah, it's pretty interesting to see this persistent chemical deflation. I mean, usually that commodity is kind of up one to two points pretty consistently every year just because more of a maintenance item. Like, what is different today about trichlor? Why do we continue to see this persistent deflation?

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

Yeah, I think, Ryan, that trichlor, as you know, went up dramatically during COVID. It went from -- for -- when I look at the price of trichlor today compared to what it was pre-COVID, it is significantly higher than it was. It was a crazy high number. It's -- it has come down from what I thought was an unsustainable number at the time. But it is still up significantly over what it was during the COVID era.

So again, what's changed? Really, nothing has changed from a demand perspective. I think in any given year, you're going to see ebbs and flows in demand that's tied to overall demand, which is weather, when the pools open, how hot the weather is, how wet the weather is. But honestly, when I look at it, it's not a number that I think is moving -- what would concern me is if it was moving sharply one way or the other. I think the movement is muted, and I don't know that it is affecting anybody's long-term trend.

I think that import regulation can have an impact on that depending on what the administration decides on that because some of the chemical is domestically produced. Some of it is sourced from imports. But overall, I don't get too excited about that number because, again, it's not moving sharply. During COVID, when it skyrocketed and like a lot of things that was moving sharply, that was much more of a concern. But I look at the movement today and say, yeah, it's down slightly, but in six months, it could be back where it was too, and I don't know that I could explain why it would be up 4% or down 4% one way or the other.

Overall, though, it's a portion of our chemical mix. And I think trichlor just happens to be the product that everybody pays very close attention to. But when we look at it in total, it's a much smaller part of the total.

Q - Ryan Merkel {BIO 17097977 <GO>}

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

Operator

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

Q - Trey Grooms {BIO 6990288 <GO>}

Hey, good morning. So just from one comment earlier, I want to make sure I have this right. So, sales still expected to be kind of flat to -- and I think, Pete, you said flat to slightly down for the year, but we're still thinking 4Q overall should be up year-over-year. Is that still the right way to think about it? And then, I guess with the EPS range, you reiterated clearly, but given where we are this kind of late-stage in the -- with the pool season pretty well behind us, I guess what would maybe get us to the higher end versus the lower end of the guide range here, given the expectation for sales? And then I think you mentioned gross margin to be roughly flat year-over-year for the year. So any color on that would be great. Thank you.

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

Sure. So for sales, fourth quarter, we would expect that to be kind of flat to slightly up. And what we're seeing there is we'll see incremental benefit from a pricing standpoint in fourth quarter. That's really offsetting the weather-related hurricane benefits that we got in fourth quarter of last year.

And then from a margin standpoint for fourth quarter, we are also expecting margin there to be up. So we would expect to continue to see all the benefits of the things that we've been working on all year long, and we'll see that it should be kind of up slightly from where we are in third quarter with some benefits from product mix.

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

The other thing I would too mention, which is always the case, our fourth quarter -- a portion of what happens in the fourth quarter is construction and remodel. And again, that is going to be dictated largely by weather in the seasonal markets is what I'm referring to. So right now, weather up north is still pretty good, pretty warm. And the folks that have contracts to build are still building, which is encouraging. So the longer the weather stays warm, that bodes well for the fourth quarter for us.

Q - Trey Grooms {BIO 6990288 <GO>}

Okay, great.

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

And then in order to get to the higher end of the range, that would really be weather-dependent. So at this point, thankfully, we don't have any near-term hurricane or weather impact, significant weather impacts that we're seeing. But that would -- that benefit from last year would -- if we saw that similar benefit, that would be where it would fall in the range.

Q - Trey Grooms {BIO 6990288 <GO>}

Okay. All right. Perfect. Got it. I'll pass it on. Thanks for the color and best of luck.

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

Thank you.

Operator

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

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much. Good morning. I guess, Melanie, I'll start with you, but Pete, if you have anything to add, I'd love to hear it. In the third-quarter gross margin improvement, it looks like pricing and supply chain were about equal. It's a two-part question. In pricing, could you just delve into a little bit now that we have the full impact of the tariff increase in the third quarter? A level or two deeper, Melanie, on what you're seeing, how have competitors reacted, how we should think about that going forward? There's some uncertainty, obviously, in November 1st as well. But just how we should think about the sustainability of that trick going forward?

And then the second half of the question is on the supply chain piece, could you just take us into what -- how structural is that? How permanent are the fixes? Maybe some anecdotes of the improvements you're conducting there? Thanks very much.

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

Okay. Yeah, so sure. On the pricing front, we are seeing that the -- we did have a full quarter of the price increases that went into effect kind of mid-season. And those are, at this point, I would say, fully flush through the cycle. And so, when we're looking at the acceptance of that pricing overall within the market, we -- that is through the pricing channel, and we're not seeing any impact on what we're doing versus our competitors doing as it relates to pricing.

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

And I'll take the second part of the question as it relates to supply chain activity. We have become more and more sophisticated with supply chain over the last couple of years. Very happy with the team's effort in that regard. I think we have better technology. They have embraced the AI tools that we have available to us. So I look at the actions that the supply chain team, which has to do with what we buy, when we buy, whom we buy, how we buy, and making sure that we are partnering with our vendors to maximize our opportunities and benefits, and say that we are as good in that area, if not better than we've ever been. So I would look for the gains that we see in that area to be sustaining.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Great. Thank you both.

Operator

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

Q - Garik Shmois {BIO 16348192 <GO>}

Hi, thanks. You spoke to equipment price increases that have been announced for the next season. I'm just curious if you can speak to the early buy programs and if your approach for the coming season is taking any different shape than usual.

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

Yeah, really nothing new to report there. The vendors have -- there was only, I think, one year during the peak of COVID when the vendors modified their traditional early buy program. So the early buy programs are very, very similar to what they've always been. And we are certainly participating in those in a very strategic way, as we always have. So there's really not much new to report on there.

Q - Garik Shmois {BIO 16348192 <GO>}

Okay. And then just a follow-up question, just on SG&A in the guide for the year. A little bit of a nitpicky question, but I think, Melanie, you mentioned in your remarks an outlook for 3% SG&A growth this year. I think last quarter it was maybe 2% to 3%. I just wanted to confirm that. And is that different or? And if so, is it just related to the expenses that you saw primarily in the third quarter?

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

Yeah, we had the 5% increase for the third quarter, so that increased slightly because we did accelerate some of those technology investments. When we look forward to fourth quarter, we'll expect to see that rate higher than what we saw earlier in the year, I would say, in the range of a 3% to 4% increase for the fourth quarter.

Q - Garik Shmois {BIO 16348192 <GO>}

Got it. Thank you.

Operator

The next question comes from Jeff Hammond with KeyBanc Capital Markets. Please go ahead.

Q - Jeffrey Hammond {BIO 1983820 <GO>}

Hey, good morning.

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

Good morning.

Q - Jeffrey Hammond {BIO 1983820 <GO>}

Just on pricing in the next year, I guess we've gotten the price lists or from some of the equipment guys ahead of the early buy. It seems like they're putting kind of normal plus 2 points to 3 points with tariff. And I'm just wondering, one, what are you hearing from kind of the rest of like your other categories around pricing into next year? And just kind of the level of fatigue as we -- it looks like we're seeing kind of another year of above-average price increases.

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

Yeah, I think as it relates to the rest of the suppliers, I would say fairly normal cadence. I think the equipment guys are above the -- where most of -- the rest of our suppliers are. Your comment on that level of fatigue from our customers that is certainly something that we hear. Quite frankly, all of that is solved with innovation, right? So new products, new innovation, make those price increases far more palatable for the customers, because it gives them something new to go sell and grow their business, and to help address the concerns of the homeowners and pool owners.

Q - Jeffrey Hammond {BIO 1983820 <GO>}

Okay, great. And then just on POOL360, continue to see good adoption there. I'm just wondering if you have a target or the way to think about what you think you know that percentage of adoption is a couple years out? And the -- what the pushback or feedback is on people that are may be more reticent to adopt?

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

Hey, that's actually a really good question. I would tell you that, you know, when I look at the range, what gives me good comfort on this number, as well as many others, as I look across the expanse of our quantitative metrics at POOLCORP, is the range. So whenever I see a very tight range on something, I look at it and say, okay, if the range is very tight, it tells me that, okay, this is really kind of what process capability is for the particular thing that we're talking about.

In the case of POOL360, I can tell you that our range is pretty broad, which again, I have people that are well above. I mentioned that we were at 17% for the quarter, which is an all-time high for us. We have people that are nearly double that. And in fact, I think, there's a few that are actually above that. So I look at that and say that there is still significant room to improve the adoption of the tool. What we hear consistently from customers, it's an education thing, right? So first of all, we have to have something that is worth using. And I think we have that.

I think the teams work very, very hard to make sure that we have a relevant set of tools that is best in class, that exists primarily for the benefit of the customer. So this is not, hey, how can I operate POOLCORP cheaper? It's about how can we help our customers be more productive and improve the overall customer experience. And I think the teams have worked very hard to do that.

So I look at the adoption rate. In some areas, it is significantly higher than what it is for the total. So what's my target? I guess my target is still significantly higher than where we are. Do I think we could be as a company 25%, 30%? Yeah, I think we could -- I think we absolutely could do that. Could it be higher? And the answer to that is probably yes. But we don't have quite enough experience with it, and we need to spend more time with our customers to say, okay, what would it take in order to have this be your go-to every time?

Q - Jeffrey Hammond {BIO 1983820 <GO>}

Okay, great. Good color. Thanks, Pete.

Operator

The next question comes from Steve Forbes with Guggenheim. Please go ahead.

Q - Steven Forbes {BIO 20413212 <GO>}

Good morning, Pete and Melanie. Thanks for taking the question.

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

Hey, good morning.

Q - Steven Forbes {BIO 20413212 <GO>}

Yeah. Maybe just a follow-up on Jeff's there around POOL360. Is there a way to help frame to us sort of how a customer spend or wallet share evolves, sort of 6 months, 12 months after initial adoption, as we sort of build support right around that achievement of target that you just laid out?

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

Yeah, I think the way I think about it is this, the customers that have a very strong digital connection with their supplier tend to be -- we tend to grow faster with those companies. In particular, when you look at our digital tools related to water test, obviously, the water test was developed to support our private label chemicals, whether that's our Regal or E-Z Clor brand. So every dealer that uses the software, every homeowner that buys the test strips and tests their water using either the test strips or the in-store experience, they're going to get a recipe, if you will, or prescription of chemicals to add to their water, which are all private label products.

So the more -- the faster we drive adoption in that area, the faster we'll be able to grow our chemical business. And it becomes less about, well, I could buy this bottle of algaecide for $1 cheaper from someplace else that becomes, well, wait a minute, this is part of the recipe and the program that I'm using to manage my pool water that produces these great results in crystal clear. So whether it's that or whether it's the service tech that is using POOL360 service, because every time that person needs something, he's drawing the quote from our -- his POOL360 -- his or her POOL360 account rather than shopping around. So we see much greater stickiness for customers that use that.

And frankly, every time we integrate with our customer software, again, that drives stickiness. So we love the potential in -- of growing the business through closer technological connections with our customers. And as those businesses or as those connections grow, we believe our sales will grow faster than the average, if you will.

Q - Steven Forbes {BIO 20413212 <GO>}

Helpful. And then, as we think about sort of future innovation and technological advances, when you talk to the builder community today, what's sort of in the pipeline as you think about opportunities to sort of continue to create a digital advantage and sort of drive further share capture? Like, is there -- are there certain specific things that the builder community is asking you to innovate beyond or behind?

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

Yeah. I don't know that I focus specifically on the builders, right? Because the builder in our mind is the -- certainly it's foundational because that's how the installed base grows, but the percentage of our business that is driven from builders as compared to the installed base of pools, which is maintenance from repair, the latter is far larger. So that's initially where we are focused. Now, a lot of those tools can be used for the builders too. So we're investing for the builders with our -- a lot of the builders, in particular the smaller builders, if you will, are very much in tune with and use our design centers and our digital catalogs for our building materials.

But our focus right now is more with the maintenance and repair operations. Certainly, builders can use the same tools to get -- to prepare their quotes and order materials and order equipment sets for construction projects. That is something. And then -- and don't forget about our retailers too, because the retailers, many of them, are using their systems integrated with ours to do essentially replenishment to the stores to manage their inventory. So it is -- I wouldn't focus just on builders, I would just say we are looking to improve our customer experience on all facets of the business.

Q - Steven Forbes {BIO 20413212 <GO>}

Thank you.

Operator

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

Q - Sam Reid {BIO 16586962 <GO>}

Awesome. I wanted to touch on the relationship you've historically seen between home equity line of credit rates, or HELOCs, and the demand for remodel and new pool. Anecdotally, kind of what's the lag typically between lower HELOC rates and spend for some of those more discretionary categories?

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

Yeah. I don't know that I could quantify a strong link that says, okay, at this HELOC number, the project is a go. At 50 basis points higher, it's a no-go. I mean, I would just tell you instinctually the that homeowners today have a higher level of home equity than they've ever had before. And I think pools and new pools and renovation remodels certainly are still highly desirable. It stands to reason that as those rates come down, HELOC is one of the sources of financing that homeowners use to finance those projects. There's also other ways that they are doing it. But we just look for kind of overall more liquidity and lower rates is going to bode well for large renovation projects and allowing more customers that are -- have been waiting on the sidelines to get a pool to go ahead and pull the trigger and start construction.

Q - Sam Reid {BIO 16586962 <GO>}

That helps, Pete. And the second question here. I know it's early, but I think you're going to be hosting an Analyst Day next year. You're going to follow your consistent kind of biannual schedule. So just along those lines, any high-level thoughts at this point around things that you think you might share or not share? Just looking to get a sense for are we going to potentially get an update to your algorithm or something along those lines? Thanks.

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

I can't give you all of my secrets now. It's way too early. It's not even Christmas. I would just -- I would tell you, we put a lot of time and effort into our Analyst Days to make them -- Investor Days in order to make them worthwhile and show the best parts of the company and our focus areas, and what gives us confidence in the future, and what differentiates our value proposition. So at this point, that's all I'm going to give you is that I believe you're going to -- hopefully, you attend and I believe that you'll leave there convinced more than ever that nobody is better positioned than POOLCORP to capitalize on this industry.

Q - Sam Reid {BIO 16586962 <GO>}

Sounds exciting, Pete. Thanks.

Operator

Since we've run out of our time, our last question comes from Collin Verron with Deutsche Bank. Please go ahead.

Q - Collin Verron {BIO 24205428 <GO>}

Hi, thanks for taking my questions here. The technology sounds really exciting and it sounds like you've already done quite a bit of investment behind it already. So I was hoping you could just help us think about the magnitude of the spend that you're doing there and how much more SG&A investment is there left to drive these initiatives, or are those pretty much behind you when you start to reap the benefits as we move out to '26 and '27?

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

Yeah. I think when you start with technology, I look at the spend that we have on -- I don't -- it's not an alarming number. It's not a huge amount for a company of our size at all. And when I compare it against the benefits that we are seeing and will potentially and should see going forward. I think that in order to have anything relevant in the technology world, it's nothing -- it's not like, hey, I spent a little bit of money and it's done. Technology changes at a very, very rapid pace, and we have to make sure that we change with it.

AI is certainly going to have an impact on our business, the way we develop technology, and the way we deploy technology. And I think it's going to be helpful on both ends. But I don't look at the spend and say, wow, okay, we are spending hundreds of millions of dollars on an ERP system. We are not. We're spending as part of our normal course of business to make sure that we have the best, most relevant set of technologically up-to-date tools that create value for our customers, which again drives them to adopt the tools, which makes for a stickier transaction because of the value that it creates for the customer.

So I guess that's a long way of saying that I don't think we're spending a lot of money today, but I -- we're certainly not done spending. But like everything we do at POOLCORP, we try and squeeze the nickel just as hard as we can. And I think AI is helping us in that regard.

Q - Collin Verron {BIO 24205428 <GO>}

Great. That's really helpful color. And then maybe a more near-term question here. Melanie, you mentioned a few times the weather benefit that you guys saw last quarter. Any way you can help quantify just the magnitude of what you don't expect to repeat this year?

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

It was a 1% benefit in fourth quarter of last year.

Q - Collin Verron {BIO 24205428 <GO>}

Great. Thank you.

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

That was a top-line sales number.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Peter Arvan, President and CEO, 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 hosting our year-end call on February 19, when we will release our fourth-quarter 2025 results and full-year results. Thank you for your interest and support in POOLCORP, and I hope you all have a happy and safe holiday season and New Year.

Operator

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