Q4 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

- Analyst
- David J. Manthey, Baird
- David MacGregor, Longbow Research
- Garik Shmois, Loop Capital Markets
- Ryan Merkel, William Blair & Company
- Susan Maklari, Goldman Sachs

Presentation

Operator

Good day, and welcome to the Pool Corporation Fourth 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 CFO. Please go ahead.

Melanie M. Hart {BIO 16411204 <GO>}

Welcome, everyone, to our fourth quarter and year-end 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 2026 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.

Peter Arvan, our President and CEO, will begin our call today. Pete?

Peter D. Arvan {BIO 17669961 <GO>}

Good morning, everyone, and thank you for joining us. Let me begin with a look back at 2025. This was the year of continued industry developments, shifting demand patterns, persistent customer uncertainty, and evolving customer expectations. We stayed true to our long-term strategy, investing in new capabilities, expanding our exclusive brands, and advancing our digital and distribution platforms. These efforts allowed us to address current market pressures while maintaining a strong foundation for future growth.

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One important industry theme this year was the ongoing decline in general construction activity, including new pool construction. It is important to note that this trend is not unique to our business, but is felt across the broader construction sector. In 2025, we estimate that just under 60,000 new pools were built in the U.S. amid single-digit decline from last year. This is about half of what we saw at the height of the pandemic and 40% lower than in 2022. Even in this environment, we maintained our position and gained share in several important areas driven by our differentiated offering and commitment to service. While new pool construction remained down, maintenance spending proved resilient. Also see the likelihood of pent-up demand in the pool industry. Although it's difficult to predict the timing, we do believe that as consumer confidence returns deferred pool projects and upgrades will come back to the market. This opportunity encourages us, even though it remains difficult to put a timeline on it.

Operationally, we took a disciplined approach to 2025. While the broader industry continued to add capacity, we slowed our own facility expansion and focused instead on driving more value from our existing network. While early, we are seeing measurable benefits from our strategic investments, including increased efficiency from our technology upgrades, improved customer experiences through digital platforms, and enhanced profitability from our supply chain initiatives. The progress underscores the effectiveness of our approach and we expect these gains to become even more significant in 2026 as our initiatives continue to scale and evolve.

Moving to financial performance. Our annual revenue was $5.3 billion, holding steady year-over-year. This stability was supported by steady maintenance demand with early indications of improvements in some discretionary categories, even with lower new pool starts. In the fourth quarter, our sales totaled $982 million, just 1% below last year's level, a period that, as a reminder, benefited from significant hurricane-related repairs in Florida and thus was a particularly tough comparison. We delivered strong gross margin performance in 2025, reaching 29.7% for the year, up 20 basis points from the prior year when adjusted for one-time items. This reflects the strength of our market leadership, disciplined pricing strategies, and operational excellence through our supply chain. In the fourth quarter, gross margins rose to 30.1%, an improvement of 70 basis points year-over-year.

We delivered our commitment to shareholder returns, distributing $530 million in cash this year, a 10% increase over last year. This includes $341 million in share repurchases and a 4% increase in our quarterly dividend, underscoring our confidence in the business and our disciplined capital allocation. Inventory, as we have done successfully in the past, we acted opportunistically to secure pre-price increase purchases. This proactive investment positions us to protect and expand our gross margins, and we expect to sell through this inventory in the normal course of business.

When we look at our performance by region, Florida sales declined 2% for the year and 9% in the fourth quarter, reflecting last year's post-storm activity. However, on a two-year basis, fourth quarter sales in Florida were still up 2%. Texas showed early signs of recovery late in the year. Sales grew 1% in the fourth quarter, which helped offset a 3% decline for the full year. California declined 3% for the full year and 4% for the fourth quarter. Arizona was flat for the full year and down slightly in the fourth quarter. Elsewhere, horizon sales declined 2% declined 2% for the year.

In Europe, we posted local currency growth for the first time in three years, including a 4% increase in the fourth quarter. If we look at our results by product category,

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Chemicals were down 1% for the year, mostly due to price, and 3% in the fourth quarter, driven by tough comps with post-hurricane cleanup. Building Materials finished flat for the year and were up 4% in the fourth quarter, driven by demand for our national pool trend products and our differentiated customer experience. Equipment sales, excluding cleaners, were flat year-over-year and down 3% in the fourth quarter, cycling against prior year hurricane recovery comps. Commercial pool products rose 3% for the year.

Now, let me highlight performance in two important channels, independent retail and Pinch A Penny franchise network. Sales to our independent retail customers decreased 3% for the year and 4% in the fourth quarter. This reflects softer retail demand compared to hurricane-driven surge we saw late in 2024, which created a high benchmark for year-over-year comparisons. Additionally, we did see pressure on chemical pricing, which is why the team is focused on proprietary product differentiation.

For Pinch A Penny, sales from franchisees to their end customers declined 2% for the full year and 9% in the fourth quarter. It's important to remember most Pinch A Penny stores are in Florida, and last year's fourth quarter saw a 15% jump in franchise sales due to the hurricane activity. At year-end, our Pinch A Penny network grew to just over 300 locations after adding 10 new stores during the year, including five in Texas and one each in Arizona and North Carolina. Our franchisees continue to provide essential services to customers and remain a key growth driver for our business.

Turning to the digital side, we continue to make investments in technology. The launch of POOL360 Unlocked and new artificial intelligence features expanded customer access to our product and improved their experience across our network. Digital sales reached 13.5% of total revenue in the fourth quarter, up from 12.5% last year and peaked at a record 17% during the pool season. For the full year, we finished at 15% of sales, which is an all-time high, and we believe this will continue to grow.

We also expanded our physical footprint, opening eight new locations and acquiring three, bringing our total to 456 sales centers at the end of the year. Between these investments in digital and our distribution network, we remain well-positioned to support both the professional and the DIY end markets moving forward.

Looking ahead to 2026, we anticipate net sales will grow in the low single-digit range. This outlook assumes new pool constructions will stay close to the 60,000 units we saw in 2025. Maintenance revenues should remain resilient, and we expect to continue to capture to continue to capture share through exclusive brands, enhanced technology, and differentiated services. We expect our work to drive greater efficiency, especially the network optimization and operational improvements launched at the end of 2025 will produce more meaningful gains in 2026 as those initiatives scale. We will continue our disciplined approach to capital allocation, focusing investments on opportunities with the highest returns. With all these factors in mind, our diluted EPS range for 2026 is $10.85 to $11.15. Melanie will provide further details on our financial outlook in just a moment.

To summarize our focus in 2026, we'll have three priorities that guide us as we move forward. First, delivering an unmatched customer experience through exceptional service, tailored solutions, and the reliability our customers count on. By raising the bar on customer engagement and satisfaction, we reinforce our position as the partner of choice in the industry. Second, expanding our exclusive brands and deepening our OEM relationships to offer innovative differentiated products that set us apart in the market.

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And third, fully leveraging our technology and network investments from POOL360 to our distribution platform, driving greater efficiency, reach, and agility across our business. We will continue to exercise strict discipline in execution and investment, ensuring we generate strong returns and stay nimble as the market conditions evolve. Feedback on our new products and digital tools have been very encouraging. We look forward to providing more detail on our strategic roadmap and innovation plans at our upcoming Investor Day.

Investing in our people remains fundamental to our long-term strategy and culture of excellence. We are relentless in attracting, developing, and retaining top talent, empowering our team members to lead, innovate, and drive meaningful results. Their expertise and commitment not only fuel our current success, but also ensure we are well-positioned to seize future opportunities and shape the next phase of our growth.

Before I conclude, I would like to thank our employees, our vendor partners, and our customers for their ongoing commitment and trust. Through another demanding year, we delivered solid results and laid the groundwork for further progress. I am confident that together, we are well-positioned to drive continued leadership and value creation in the years ahead.

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

Melanie M. Hart {BIO 16411204 <GO>}

Thank you, Pete, and thanks to everyone for joining us on today's call. I'll begin with a summary of our fourth quarter results, discuss our full year 2025 achievements, and then look ahead to 2026 expectations.

For the fourth quarter, sales decreased by 1% compared to the prior year. The prior year's fourth quarter included a 2% benefit from increased maintenance activity and weather from hurricane recovery efforts, primarily in the Florida market. We continued to see an effect from lower discretionary spending, which had a drag on sales of 2% this quarter, including the results from Horizon. However, the impact has continued to moderate throughout the year, as we have seen permit declines across most of our markets begin to improve. Net pricing benefits for the quarter was approximately 2%.

Fourth quarter gross margins was 30.1% and reflect a 70 basis point improvement over the prior year's margin of 29.4%. Improvements to gross margin were a result of pricing, supply chain benefits, expanded private-label sales activity, and a favorable product mix. The favorable product mix includes the fact that the prior year's weather impact led to increased equipment sales, which generally have lower margins than our overall product mix.

Operating expenses in the fourth quarter increased by $14 million, or 6%, compared to the prior year. This year-over-year expense increase is higher than the trend to date, primarily due to incremental technology investments made in the fourth quarter to ensure that POOL360 Unlocked, as Pete outlined, was ready and available for use across the network.

In addition, we have our new sales center openings and sales transformation expenses. We also saw self-insured medical costs continue to rise, significantly outpacing general inflation rates. We reported operating income for the quarter of $52 million, compared

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to $61 million in the prior year, and diluted earnings per share of $0.85, as compared to $0.98 in the fourth quarter of 2024. For the full-year of 2025, we maintained sales of $5.3 billion, consistent with the prior year, despite having one less selling day.

Discretionary activity related to remodels continued to make progress, with new pool construction remaining a challenge, resulting in approximately 2% to 3% lower sales for the full-year. We have successfully implemented both pool season and mid-season price increases, while effectively managing evolving market pricing for chemicals, resulting in a 2% net pricing benefit. Maintenance activity overall for the year was positive.

In 2025, we estimate that maintenance items accounted for roughly 64% of our pool product sales, while renovation and remodel projects made up 22%, and new pool construction contributed 14%. These are consistent with our 2024 estimates. Our sales of products primarily used in new pool construction and remodels finished the year flat, which was better than the overall new build market we have estimated to be down 3% to 5%.

Gross margin for 2025 was 29.7%, up 20 basis points compared to the prior year reported margin, which was also 29.7%, but included a 20 basis point benefit from import taxes. This improvement reflects effective supply chain management and disciplined pricing practices. These results were achieved through a consistent focus on operational execution and proactive engagement with customers. Regarding product mix, building materials accounted for 12% of sales in 2025 and 2024.

Operating expenses increased $34 million, bringing the total to $992 million. Key investments this year included in the 3.5% expense increase are approximately 1% for incremental costs related to the eight new greenfield locations and 1% in incremental technology spend. These increases were partially offset by ongoing improvements from our capacity creation efforts, which helped mitigate the impact of broader cost inflation.

For the year, operating income reached $580 million compared to the $617 million in the previous year. Interest expense decreased by $3 million year-over-year, benefiting from lower overall rates, including benefits from refinancings during the year. We have continued to benefit from our treasury management efforts and mix a fixed and variable rate debt. The effective tax rate was 23.8%, slightly higher than last year's 23.4% with ASU benefits. On a full year basis and excluding the impact of ASU, the tax rate was 24.7%.

Diluted earnings per share of $10.85 compared to $11.30 in the previous year and includes an ASU benefit of $0.12 per diluted share for the full year versus $0.23 in 2024. Adjusted diluted EPS was $10.73 compared to $11.07 last year, representing a 3% decrease. The $11.07 includes the $0.25 import tax benefit.

Moving to our balance sheet and cash flow. Inventory at year end was $1.45 billion, an increase of $165 million or 13% from last year's balance of $1.29 billion. In anticipation of estimated cost increases for certain products for the 2026 season, we evaluated early buy opportunities and made strategic purchases. We expect normal inventory seasonality for 2026 with a peak in March ahead of the season and lower inventory levels by the end of the third quarter. This is an area where our team has proven to excel and we are comfortable with the lift in the inventory that is focused on our faster moving product line.

Total debt increased $249 million to $1.2 billion at year end. Debt balances were primarily used to fund incremental working capital and share repurchases. Our year end

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leverage ratio was 1.67, consistent with our target range of 1.5 times to 2 times. As expected, our cash flow from operating activities was $366 million, representing 90% of net income of $406 million. Cash flow in 2025 was reduced by the $69 million in deferred tax payments made in the first quarter of 2025 related to those impacted by the hurricanes in 2024.

Cash flow from operating activities in 2025 would have been 107% of net income without the deferred tax payment. We finished 2025 with solid earnings performance. We continued to invest forward into the business with 8 new greenfield locations, 3 acquired sales centers, 10 new Pinch A Penny franchise stores, including two new states, and enhanced capabilities within our POOL360 ecosystem. We have invested capital in inventory, dividends, and increased share of purchases to benefit the business and the shareholders.

Next we'll move on to our discussion of 2026. Heading into 2025, we face a challenging macro environment including higher than historical interest rates, increased cost, continued inflation, impacts from tariffs, and uncertainty around when consumers will return to more typical discretionary spending in the pool and irrigation market. While we saw some improvements in the comparative trends, we are still awaiting more positive consumer spending. Our focus has been on improving the business outside of the macro trends and we accomplished that in 2025 as we were able to realize benefits from pricing and maintenance activity that offset the decline in discretionary spending.

In 2026, we expect our maintenance business to remain resilient supported by the addition of approximately 60,000 new pools built in 2025. We also anticipate vendor cost increases and corresponding pricing pass-throughs to result in a 1% to 2% pricing benefit. Given that we have not yet observed a positive inflection in discretionary spending trends, we will continue to monitor these dynamics before projecting the timing of any significant recovery. Overall, we expect 2026 to continue to be a challenging market. However, we anticipate our market position and execution will allow us to achieve low single-digit sales growth.

In 2026, we will have the same number of selling days each quarter and for the full-year compared to 2025. Our gross margin for 2026 is projected to be consistent with 2025. We expect ongoing positive contributions from the effective supply chain, pricing strategies, and increased private-label sales, offsetting continued shifts to larger customers. At this time, we do not anticipate a significant increase in new pool construction or remodel activity, so product mix is not expected to have a material positive impact on 2026 gross margins.

For 2026, we estimate we will incur approximately $5 million in additional costs to open five to eight new sales centers. As part of our commitment to being an employer of choice, we also plan to increase employee rewards in-line with higher earnings. This means that assuming we achieve low single-digit growth revenue, incentive-based compensation expenses are projected to rise by $10 million to $15 million. As we have proven over the last several years, this incentive compensation reload only occurs in-line with improved results and has not yet been normalized through 2025. The management team remains confident in our ability to generate returns from recent investments in technology and infrastructure. These investments have positioned us to proactively manage staffing and facility needs more efficiently across our network. With low single-digit sales growth, we expect operating margin to improve in 2026, although this improvement will be partially offset by the one-time increase in incentive

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compensation. We are also seeing positive momentum at the more than 50 new greenfield locations we've opened since 2021.

The operating costs associated with new locations added in 2025 will result in higher year-over-year expenses in the first quarter. However, we expect expense growth to moderate as these sites reach scale and efficiency gains are realized throughout the year. Our continued focus on operational excellence and process optimization provides us with confidence that we can leverage our growing platform, drive productivity, and achieve further cost efficiencies as the year progresses.

We expect interest expense to approximate $50 million in 2026 based on current rates. Interest expense is typically higher in the first and second quarters due to inventory buildup for the swimming pool season. For depreciation and amortization, we have included estimates of $55 million to $57 million. In 2026, we do not anticipate any significant changes to our capital allocation. It would include reinvesting roughly 1% to 1.5% of net sales back into the business, and we plan to allocate between $25 million and $50 million toward acquisitions. Subject to approval, dividend payments are expected to use around $200 million in cash, and we intend to continue repurchasing shares on an opportunistic basis.

We project that cash flow for 2026 will be aligned with our goal of achieving 100% of net income. Annual tax rate is estimated to be approximately 25%, excluding the impact of ASU. This rate typically runs closer to $25.5 in the first, second, and fourth quarters and lower in the third quarter. We do not expect to see a significant benefit from ASU in the first quarter when restricted shares, vests, and stock options expire, and therefore have no projected ASU benefit in our 2026 guidance.

We estimate approximately 36.8 million weighted average shares outstanding at the end of the first quarter and 36.9 for the remainder of the year. Our guidance for 2026 is a diluted EPS range of $10.85 to $11.15 with no ASU tax benefits. The improvement in earnings at the midpoint would be approximately 2% to 3%.

Looking ahead, we remain confident in our strategy to drive performance through steady maintenance activity, discipline pricing, and ongoing operational improvements. While we continue to monitor broader macroeconomic conditions for signs of sustained recovery in discretionary markets, our strong balance sheet positions us well to capitalize on future opportunities. We remain committed to delivering exceptional cash returns to shareholders through a balanced and disciplined approach.

We will now begin the Q&A portion of our call.

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from David Manthey with Baird. Please go ahead.

Q - David J. Manthey {BIO 1498060 <GO>}

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Thank you. Good morning, everyone. First question on SG&A. Melanie, you pointed out that the low single-digit growth rate that you were guiding to is enough to trigger the incentive comp reset. So I assume that that, whatever that is, 25 basis points or 30 basis points of a drag is factored into your earnings guidance. The question is, if revenue were to come in flat, let's say, unexpectedly, would that imply that you would not trigger the incentive comp reset? I'm trying to get an idea. Is this a sliding scale? Is it binary? How should we think about how that layers in or doesn't layer in given various ranges of revenues?

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

It's definitely a sliding scale. So, within kind of that range of low single-digits, we would expect different points of recovery.

With flat sales, the way that our incentive programs are structured, we would not see any change to the overall incentive compensation from '25 to '26.

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

And -- good morning, David. And what I would say is that, additionally, if sales -- if the market lags even more and sales do come in flat, then, frankly, from a cost perspective, we would do other things to be in-line with the market.

Q - David J. Manthey {BIO 1498060 <GO>}

Okay. Yes. Thanks, Pete. And then on gross margin, you're guiding that flat. I'm just -- as you're going through scenario planning and setting your budgets, what are some factors that you think about where that could come in above or below flat with 2025, some of the key things that you're considering?

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

That's a good question. It's a broad topic, as you know, so when I think about the drivers of gross margin, certainly customer mix and product mix are part of that. Our work in pricing optimization, which continues to improve factors into that, I was particularly encouraged with the fourth quarter gross margin expansion, and I think that was driven by a couple of things. It was driven by a great effort by our supply chain teams. I think it was partially driven by the pricing work that the field is doing. I look at a product mix.

Now, on one hand, I would say if renovation and remodel, which continues to outpace new pool construction, frankly, if that continues on the same path that it's on, that will create some lift for us from a product mix perspective. And then I look at the proprietary or exclusive brands that we have been building over the years and our continued work in those areas as, I would say, tailwinds that would help drive the number.

The other side of that is that in a market like we are in, there's always, I would say, competitive pressures, which, again, I don't really get too concerned about because we have them. I don't expect the competitive pressures to be, frankly, any different in 2025 or 2026 as they were in 2025, and as you can see by the numbers, I think the business did a very good job of more than offsetting that. So, yes, they're there, but does it really drive our behavior? No. I mean, we did see some deflation on chemicals, but again, in my comment, I mentioned that's why we're kind of focused on the chemical side, that we have some products that are exclusive and proprietary where we don't see that type of

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headwind that we are also leaning into. So overall, when I look at gross margin, I think the team did a very good job in '25, and I also think we have the same levers plus more to pull in 2026, which will help us out in that area.

Q - David J. Manthey {BIO 1498060 <GO>}

Great. I appreciate your thoughts, Pete. Thank you.

Operator

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

Q - Ryan Merkel {BIO 17097977 <GO>}

Hey, everyone. Thanks for all the thoughts on '26. I also wanted to ask on SG&A, when I plug in some of the parameters that you gave, I'm coming up with like 1.5% SG&A growth for '26. Just given some of the things you talked about with the employee rewards and new sales centers, is that, am I in the right ballpark there?

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

Yes. So, I would say if you're thinking about sales growth and expense growth and trying to match those, we would expect that the expense growth would come in slightly less than the sales growth to give us a similar operating income margin, maybe slight leverage for next year. So we're going to be looking to offset the -- some of that incentive comp recovery overall by looking at utilizing the capacity that we have put into the market. So, the term that you may hear for 2026 will be capacity absorption.

As we've talked about the investments that we've made in technology and the investments that we've made in building out our footprint on the greenfield side, we feel very well-positioned with what we've done to date. And so our actions in 2026 will primarily be focused on starting to further enhance the generation of returns that we have on those investments.

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

Hey, Ryan, good morning. I'll give you a couple of thoughts in this area. So I think we are particularly focused on the SG&A of the business, because I think in the last couple of years, rightfully so, we invested in order to make sure that we maintained our market leadership position in terms of capabilities, customer experience. At the same time, we also have opportunities from, as Melanie mentioned now, from a capacity absorption perspective, we made some investments. We're starting to see positive traction on those investments. And I believe that the new facilities, as they continue to mature with a great degree of focus from the management team, that our operating leverage on those facilities will continue to improve. I mean, if you look at our operating margins across the fleet, if you will, we have some -- most of our facilities, frankly, are in fantastic shape. They're doing well. We added new, which mixes us down, but it's the same formula that propelled the fleet to a high average is now being applied to the 50 some odd new facilities that we've added over the years. And a focus on our lower performing locations, which you've been covering us for a long time, implies our focus list. They're getting a particularly high level of attention right now.

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So, when I look at SG&A and I say, well, will we be in-line with the market from the top-line perspective? If the market improves, then SG&A will be easier to deal with from a percentage basis. If the market doesn't improve, then we're going to have to do other things to make sure that we stay in-line. But we're okay with that because we believe that the investments that we've made over the last couple of years don't need to be repeated and we should start to harvest the benefit.

Q - Ryan Merkel {BIO 17097977 <GO>}

Got it. Okay. That's very helpful. My second question is just on 1Q. Are you assuming the first quarter is also up low single-digits like the full year? Just want to just see if there's any cadence things we should be thinking of and there is a bit of weather in 1Q? I'm not sure if that had an impact or not. And then could you also comment on chemical prices? Will those be down in the first quarter?

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

So I'll take the first one on how 1Q is performing. I think, so as you know, 1Q is our least significant quarter. That's not to diminish that the contribution to the to the business. I mean when I look at first quarter we're not -- we're basically halfway through it but March is bigger than January obviously. So, at this point I would tell you that I am encouraged with what we've seen. Too soon for me to tell you that hey we're going to blow the doors off of first quarter but what I will say is that if we have a normal weather pattern for March and the rest of this month then I think our expectations for the first quarter will be in-line.

And then your second question about chemicals. A little too soon to tell because remember, in first quarter this is when there's some noise in the system with chemical pricing. I can tell you I'm not particularly concerned about deflation at this point on chemicals. I think things are fairly steady so I don't I'm not at this point spending a lot of time thinking that chem prices are going to get worse. But what we are focused on is getting customers introduced to and using the proprietary chemicals where we have a differentiated value proposition which makes us less susceptible to swings in the market on anything but pure commodities.

Q - Ryan Merkel {BIO 17097977 <GO>}

All right. Thanks for the thoughts. Best of luck.

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

Thanks.

Operator

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

Q - David MacGregor {BIO 1721790 <GO>}

Yeah. Good morning, and thanks for taking my questions. I guess just a question on store ops. And what's the opportunity you made passing reference a moment ago to the focus list? But just what is the opportunity improve the profitability at the bottom performing quintile stores? And what are some of the actions that you're taking there maybe you

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could talk about that? And I guess related to that just given the near-term market outlook, does it make sense to begin consolidating some of these locations and just achieve better four-wall economics?

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

Yeah. I'll take that and then Melanie can chime in. So part of our work at the focus list level which is our bottom performing branches and this is nothing new, nothing new for Pool Corp, but the branches that fall into the focus list which the focus list, which I would argue, what is a focus list branch for us would be considered by most others to be a very well-performing branch because our standard is pretty high on what we consider a focus branch. I mean, the levers that you have there are a couple. One, obviously the biggest lever that you have is sales growth. Are you growing -- are we growing sales? Are we becoming more important, more relevant to the customers? And that's done with creating a best-in-class customer experience and frankly, customer engagement. So from a lever perspective, the biggest one we have for the focus branches is just that. Then there's the operational execution side of that. So the teams are focused on exactly what we do, how we do it, how efficient we are in doing that and making sure that we're utilizing all of the competitive advantages that we have to give us the most efficient cost to serve those customers.

Your last comment as it relates to, is there some opportunity for consolidation? And the answer is maybe. So when we look at each individual market, we look at our footprint and there are a couple markets where I would say, as we have expanded our capabilities in some areas, we may have opportunities to consolidate some of those if we don't see the market at an individual particular market, continuing to grow and expand. Those would be ones where we look at, how else can we most efficiently serve the market without letting down our customers and ceding any share? So, I mean, you've known us for a while, so this is nothing new. This is what we do. We've been focused the last couple of years on continuing to build out the network and making sure we were where the pools were going to be built and where our customers needed us to be. We've added capabilities as it relates to technology and supply chain, which allow us to be frankly more efficient. And now we're starting to see the gains from that.

To put an opportunity to size it, if you will. I mean, when I look at the -- our focus list branches, I would just say that when I look at the overall operating margin improvement, I think there's plenty of opportunity to work there to achieve our goals, really kind of independent of the market improving. So when I look at our operating margin improvement and expansion, yes, would the industry growing make that easier? Yes, but it still wouldn't mean that we wouldn't do what we're doing on focus list branches to make them more profitable and contribute more to the business.

Q - David MacGregor {BIO 1721790 <GO>}

Got it. Thanks for that detailed answer. My second question really just with respect to kind of the longer term growth algorithm, and you've included within that growth of 2% to 3% above the market, mostly through store openings and private-label. And private label, I guess a little bit of acquisitions. I guess, how are you thinking about your ability to achieve that above market growth in 2026?

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

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Yeah. I think part of it is, there is still plenty of opportunity. When I look at our market share across the fleet, we have plenty of markets that are still below the median. So I think, just improving our customer engagement, frankly, our customer experience and our operational efficiency helps. I also think that there is an opportunity from a demand creation perspective, because pragmatically, when I look at the market overall and the products that are still being sold into the market, there is still a more than significant opportunity to expand the TAM, if you will, by selling the more technologically advanced products, which are ultimately very, very good for the homeowner.

And I think our job is to help expand the adoption of those. So you're going to see at the Investor Day presentation, something we call the Pro Zone, which is designed to do just that, to teach the builders and the service professionals when they come into the branch to be able to see the full range of products, to be able to see the benefits from the more innovative and technologically advanced products that have more full feature automation and are frankly more efficient for the homeowner. So rather than take a more passive approach on that, we're going to take a much more active approach on that in the showrooms to make sure that our customers understand all of those new products and what benefits they provide, either them as a servicer or for hopefully, or so that they can explain to the homeowner, I should say.

Q - David MacGregor {BIO 1721790 <GO>}

Interesting. Thanks, Pete.

Operator

Our next question comes from Susan Maklari with Goldman Sachs. Please go ahead.

Q - Susan Maklari {BIO 15751111 <GO>}

Thank you. Good morning, everyone. My first question is on the gross margin. You're thinking about the path for that as we look over the year. Can you talk about what that inventory bill that you made in the fourth quarter will mean for profitability? And how we should be thinking about that relative to the guide for the pricing to be up one to two points this year?

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

Yes. So one thing, so we do expect that we will see some continued pricing benefits from the investments that we've made in inventory. We would expect that certainly we would see that in first quarter. As a reminder, when you look back from a comparable standpoint for 2025, we did have that mid-season price increase in 2025. So starting kind of May forward, there were some benefits from that mid-season price increase, which at this point in time, we wouldn't anticipate what occur again in 2026. So, I would say that we would see slightly better margins in first quarter. The remaining of the quarters would be relatively comparable with fourth quarter because it's so -- it's a smaller portion of the year. We may not see as many benefits.

The only thing that we've seen to date is we have seen a second wave of price increases on certain products for salt sales, but when we look at it kind of consolidated wise, we don't think that will have a significant impact on margins overall.

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

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Hey, Susan, good morning. This is Pete. Let me add just a little bit to that, if I could. I think the team did a very good job of exercising good financial judgment with the investment in inventory, and I think they were very surgical about it. So, when we allocate capital to something, one of the things that is a hallmark of the company is that we have been very judicious allocators of capital, whether that is investment in long-term or whether that is investment in working capital. So, I think the team did a very good job and was very surgical about making investments in areas that will help us through the 2026 season. Now, obviously, given the amount of inventory that we have and what our cogs are on a full-year basis, that we will burn through most of that benefit by mid-season, and then, of course, we will be reordering. But I think we feel very good about realizing benefits, but they will be more weighted to the beginning of the year than the end of the year, subject to what happens in the industry from a pricing perspective.

Q - Susan Maklari {BIO 15751111 <GO>}

Yes. Okay. Thank you for that. And then I want to go back to thinking about the growth for the business over time. Can you talk about how you are thinking of organic growth, given the investments that you have made in the last several years, relative to the inorganic growth opportunity that is out there? Are we really sort of shifting now to this period where it's going to be driven by your initiative, a lot of these efforts that you have implemented in the business, whereas the inorganic piece will just inherently become just a smaller and smaller part of that algorithm? Any thoughts around that and what that would mean for capital allocation?

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

Sure. I would tell you that from an organic growth perspective and what gives us confidence in the long-term growth algorithm for the business is that, we believe that the product that the industry that we serve and the product that we primarily sell either through new pool construction or remodel and renovation is still highly desirable. And we have been talking about -- we are kind of bumping along the bottom. There was a slight drop in new pool construction in 2025. I cannot tell you that I think that, that was driven by any wild change in consumer sentiment. I think it's more a function it's more a function of certain geographies and the housing market per se. So when I look at our opportunity to grow and I look at our market share and I look at that on a market-by-market basis, I would tell you that we have opportunity to continue to grow even if the market continues to stay towards the bottom. I would also tell you that there's a couple of things that we're going to start to see benefit from as it relates to equipment. So when the industry switched from single speed motors to variable speed motors, they inherently lasted longer, but now we're starting to get close to the period where from when we started selling a lot of single speed motors or single speed pumps to variable speed pumps, that they will start coming into their replacement cycle, number one.

Number two, I still believe that there is a significant opportunity to modernize the pad. If I looked across the, we talked to many, many customers, we talk about what they're seeing in the backyard when they go into these backyards and they look, if what we were seeing over and over again was ultra-modern pads are fully adopted everything that is available to the consumer, I would say, okay, so now we're more in a replacement cycle, but today what I would say is there is still an outsized opportunity to modernize the pads with the new equipment. Now, part of this demand creation is incumbent upon us, I believe, in order to teach the servicers, right, and get word out, so to speak, through marketing programs and demand creation in conjunction with our OEMs that says, hey,

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you can improve your customer experience in the backyard if you adopt and use these new products versus just replacing what's there. So I think there is still an opportunity, the install base is going to continue to grow. I think that there is pent up demand on renovation and remodel, and we're starting to see some of that realized as evidenced by the building material sales increasing and the fact that we have, I believe we've taken share in the new construction area for those as well.

And then lastly, your question on inorganic growth, I think that there are still opportunities for inorganic growth out there. I think the team is very focused in that area as well as just one of our long-term growth levers. And I don't know that anybody in the industry is any better positioned to do that than Pool Corp.

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>}

Thanks.

Operator

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

Q - Analyst

Hi, guys. It's Daniel on for Scott. Thank you for taking our question. Could you please discuss the key factors that would put you at the low end versus the high end of the EPS guidance range? Thank you.

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

Yes. The range is primarily going to vary depending upon overall market conditions and the resulting sales growth from that standpoint.

Q - Analyst

Got it. And as far as the assumptions on new pool to be flat year-on-year as well as renovation and remodel slightly up, could you speak to what you're hearing from the customers regarding backlog and how confident you are in those projections? Thank you.

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

Yes. I'll take that. So we've just come out of our show season. So January, there's a lot of shows. We spent a lot of time with dealers in January and frankly, early February, even as recent as this week. So I will tell you that the level of optimism from the customers right now is pretty good. I don't know that I've talked to many customers that say we're going to build just as many pools as we built last year and the phones are ringing so we feel comfortable in that assessment. Is that as many pools as they built during the peak? Absolutely not. But I would tell you that the general sentiment on new pool construction is that based on the dealers we have spoken to, which is a sample size of the total, is actually pretty good. So it's not a doom and gloom, the phone's not ringing. It's basically -- yes, I think we'll build at least as many pools as we built last year with many dealers saying that, hey, you know what, we're actually optimistic. But saying that they're

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optimistic in February and actually having those contracts come to realization during the season are two different things. But I will tell you, it feels much better to me that the dealers are saying, hey, I'm going to build at least as many pools as I built last year.

And there's many of them that are optimistic. And then like every sample, right? You have opposite ends of the spectrum. You have people at the high end that they would tell you, hey, business is great. I'm turning customers away. I'm going to build as many pools as I can this year. And I'm taking orders into next year. And at the low end, you have people that would be struggling. But by and large, I would say the industry confidence level is more encouraging than not.

Q - Analyst

Got it. Thank you so much.

Operator

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

Q - Analyst

Yes. Hi, Peter and Melanie. This is Ethan on for Trey. Thanks for taking the question. I wanted to dive deeper, maybe in digging into more of a market by market look. So directionally, what are you seeing on the new pool or broader discretionary side from a market-by-market standpoint, some of these more challenged markets on the new residential construction side, like Florida and Texas, may be starting to show signs of a potential trend improvement? I know you called out in the prepared remarks improving trends in Texas in the back half of 2025. Obviously, these are important markets on the new pool side, so any more color on market specifics would be really helpful. Thanks.

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

Sure. The information coming out of Florida right now is still encouraging. As I mentioned, even with the storm issues that we had in Florida and the housing prices and insurance and costs and everything else in Florida, if you do a two-year stack on Florida, in the fourth quarter, they were still up 2%. So again, very encouraging for me. Builders in Florida, I really think it depends on where you are. So for instance, if you're in, there's a lot of people moving into South Florida, into Miami. Miami, that market is very good, but it runs the spectrum, if you will, but overall, Florida is a cornerstone market for us. I think very soon will be the largest market that we have in terms of the install base, and it's still a destination for homeowners. So, I'm encouraged with that. Texas is the one that was, I think, surprising for a lot of people, the slowdown that we saw in Texas, but it's also a bit bifurcated, too, because it wasn't universal in, let's call it DFW and Austin, San Antonio, and Houston. They all moved at different rates. We're starting to see the Dallas market improve, the Austin market improve, Houston lags a little bit, but the near-term commentary out of Houston is that there's some optimism on the new build side.

Arizona and California, Arizona was encouraging, and if you remember when schools really started to die off, Arizona was one of the first ones to drop. They seem to have firmed up, and California is okay. I don't look for a big change in California. In my mind, California is much more of a renovation market than it is going to be a new pool construction market.

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Q - Analyst

Got it. That's super helpful color, so thank you for that. And second question, just putting a finer point on an earlier question on the top-line cadence, it sounds like 1Q training pretty well, but it's still early, but just wanted to clarify, was hurricane repair activity still a major contributor to the 1Q '25, perhaps to a lesser degree than the 4Q, but perhaps still enough to call out, because if 1Q is training well, in spite of this comp dynamic, obviously that would be a positive?

And then maybe any thoughts on a first-half or second-half weighted top-line half-weighted top-line profile relative to broader new res expectations, which at this point appear to be skewed more towards a modest second-half uptick?

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

Yes. We -- you're correct in your assumption that fourth quarter was a bigger lift, fourth quarter of '24 storm-related. They were still working into first quarter, so there was still some work that most of which has repeat, has been finished. The only exception to that would be the areas where the houses were completely destroyed and they had to get permitted to build a new house and the pools come last. So, there's still some of that, but by and large, I would say the storm work for anything but complete destruction is certainly done by now. Most of it was done in the fourth quarter and some lagging. So when I look at first quarter, it's not like we had a huge comp to overcome. There are some, but again, that makes our results even more encouraging from a firmness of the market perspective.

And then your comment on second half, first half, second half, it's really, frankly, it's just too early to say. There's so many factors in there that can affect the discretionary. So I'm talking about new pool construction and renovation and remodel, but rest assured that the majority of our business is driven from the maintenance and repair. And I think that there is more than ample opportunity. And quite frankly, I think the business performs well in that area. And we've also added capabilities, which should allow us to continue to take share.

Q - Analyst

Yes. Understood. That's all very clear. Thank you.

Operator

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

Q - Garik Shmois {BIO 16348192 <GO>}

Thanks for taking my question. I'm wondering if you could update us on what you're assuming for new sales center openings in 2026 and just giving them more muted demand environment. Have your expectations on the ROI on the new sales centers changed at all versus more normalized demand period?

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

Yes. So when I look at the number of locations, I mean, Melanie gave a range of five to eight. I would tell you, I don't know that it'll be more than eight. I mean, there could be a scenario, I guess, where it could be, but it's highly unlikely at this point based on the

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capacity investments that we have already made and the footprint that we have. I think our focus is more about execution this year and driving growth in the facilities that we have. As you know, we have a very disciplined process that goes with every new facility open. There is a proforma, there's a budget that proforma and budget are carried forward. So the facility that we've opened in the last couple of years, the operating expectations and budgets associated with them were not adjusted. If I looked at some of the facilities that we would have opened in 2022 when things were, when there was a lot more new pool construction, if I look at some of those, we had to go back and say, well, maybe our expectation on new pool construction growth was a little bit too aggressive, but basically anything in the last couple of years the number is the number.

So I think the team is really focused on execution and realizing what the commitments were in the pro formas that were submitted to fund those. And when I look at new ones, so I look at the, the, anything that we may do this year. I mean, we -- as I mentioned in my, in my comments, I think we've kind of sharpened our expectations on return on investment and making sure that when we go out and do a branch, I mean, we're going to open new branches again in 2026 without a doubt. Are we going to open as many? No, we're not going to open as many. Will there be a lot of attention paid to the ones that we open for the last couple of years to make sure that we're realizing benefit on those? Absolutely. So the amount of attention and scrutiny on new locations right now is and should be pretty high.

Q - Garik Shmois {BIO 16348192 <GO>}

Okay. That makes sense. Thanks for helping with that. Follow up questions just on Horizon. It's a smaller part of your business now, but just curious as to the deceleration in growth or the negative five and in Q4. And also, what are you assuming for 2026?

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

Yeah, I mean, the, the Horizon business is tied mostly to new construction. The biggest product line that we have in the Horizon business is irrigation, which, as you know, most of that goes in when, when the housing business, or when the house is constructed, there's some that happens around big large renovation and there's also a commercial portion of the business. When I look at the overall results for the full year, I would tell you that they're not terrible. I look at, they didn't have the same benefit of price that we had in other parts of the business.

I think we have a limited footprint. I think that we have an opportunity to continue to improve from an execution perspective with Horizon. We have a focus list for Horizon, just like we do the rest of the business. So do I think that we're going to see outsized growth for Horizon? I do not. But my expectations for their execution and return on capital for them. They don't get any break as compared to from an expectation perspective and are under the same scrutiny as the rest of the business as it relates to performance. I mean, the irrigation market is, I would tell you it is, it's not booming. The maintenance business is good, similar to what you see, what we see in the poolside, and I think the business has been over the last couple of years trying to focus more attention and gain a better foothold in the maintenance and less focus on just the new construction piece.

Q - Garik Shmois {BIO 16348192 <GO>}

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Yes. Understood. Thanks. I'll pass it on.

Operator

This concludes our question-and-answer session. I would like to turn the call back over to Pete Arvan, President and CEO, for any closing remarks.

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

I just like to thank you all for your interest in Pool Corp, and we look forward to updating you on April 23 when we'll announce our first quarter 2026 results. Have a fantastic day.

Operator

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

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