

Pool Corporation

Increasing 3Q estimates on weather, but 2024 macro headwinds weigh on outlook

Reiterate Rating: UNDERPERFORM | PO: 315.00 USD | Price: 348.86 USD

Increasing 3Q estimates on heat wave spending

We increase our 3Q23 EPS estimate 2% to \$3.69 (from \$3.60), above consensus of \$3.48. The primary driver of the higher estimate is better than originally anticipated revenue, based on stronger consumer spending on pool supplies due to warmer weather across the US. We also slightly increase our 2023 and 2024 estimates by 1%/<1%, mainly driven by increased share repurchases, but remain below the Street for 2024. We maintain our \$315 PO, still based on a 16.5x EV/2024E EBITDA. We reiterate our Underperform rating.

Pool consumer spending down ~5% YoY in 3Q23

According to BAC aggregated credit and debit card data, 3Q23 spending at pool supplies merchants (84% correlated with Pool Corp base sales) decreased (5.1%) YoY (-15% QoQ). Compared to 2019, spending on pool supplies increased 29% in 3Q23, similar to 2Q23 trends vs. 2019.

New construction showing some signs of stabilization

We expect POOL sales to underperform BAC aggregated card data for pool supplies spending in 3Q23, similar to 2Q23, following significant outperformance in 2021-2022. The card data is less likely to capture new construction activity (~17% of revenues) and new pool permits are down 20-30% in 3Q, similar to 2Q.

Still see downside to 2024 estimates

While we expect a 3Q23 beat vs. consensus, we remain bearish on the 2024 outlook, and we model 2024E EPS 4% below the Street. While new pool construction permits and 3Q23 pool supply spending showed some signs of stabilization, the macro backdrop continues to weaken heading into 2024. In our view, there is further downside to new pool construction as rates continue to rise and the consumer weakens. Additionally, we would expect discretionary maintenance/upgrades to remain depressed in the current backdrop and expect some trade down as prices continue to rise. Normalized inventory levels, easy 1H comps on weather, and price increases (if no trade down) will offset some of the macro headwinds. An improved macro backdrop would make us more bullish on POOL, as we would expect distribution to gain share with expectations for a weak early buy from dealer direct purchases.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	15.97	18.70	13.57	14.36	16.32
EPS Change (YoY)	77.9%	17.1%	-27.4%	5.8%	13.6%
Consensus EPS (Bloomberg)			13.42	14.91	16.89
DPS	2.95	3.78	4.29	4.55	4.75
Valuation (Dec)					
P/E	21.9x	18.7x	25.7x	24.3x	21.4x
GAAP P/E	21.9x	18.7x	25.7x	24.3x	21.4x
Dividend Yield	0.8%	1.1%	0%	0%	1.4%
EV / EBITDA*	17.0x	13.8x	18.2x	17.8x	16.3x
Free Cash Flow Yield*	2.0%	3.2%	6.0%	4.4%	4.0%

* For full definitions of *IQmethod*SM measures, see page 6.

18 October 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E EPS	13.46	13.57
2024E EPS	14.33	14.36
2025E EPS	16.07	16.32

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Stock Data

Price	348.86 USD
Price Objective	315.00 USD
Date Established	19-Apr-2023
Investment Opinion	B-3-7
52-Week Range	278.10 USD - 423.97 USD
Mkt Val (mn) / Shares Out (mn)	13,624 USD / 39.1
Average Daily Value (mn)	119.05 USD
BofA Ticker / Exchange	POOL / NAS
Bloomberg / Reuters	POOL US / POOL.OQ
ROE (2023E)	41.0%
Net Dbt to Eqty (Dec-2022A)	108.6%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 18 October 2023 06:00AM EDT

iQprofileSM Pool Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	35.4%	29.4%	20.7%	21.2%	23.1%
Return on Equity	75.6%	64.5%	41.0%	40.0%	43.7%
Operating Margin	15.6%	16.6%	13.7%	13.7%	14.5%
Free Cash Flow	276	441	819	597	551

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.5x	0.7x	1.7x	1.2x	1.0x
Asset Replacement Ratio	1.3x	1.4x	1.9x	2.0x	2.0x
Tax Rate	21.2%	24.0%	24.5%	25.2%	25.2%
Net Debt-to-Equity Ratio	108.2%	108.6%	72.3%	65.0%	70.8%
Interest Cover	NM	25.6x	12.9x	15.0x	16.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,296	6,180	5,582	5,725	5,954
% Change	34.5%	16.7%	-9.7%	2.6%	4.0%
Gross Profit	1,617	1,933	1,680	1,725	1,799
% Change	NA	NA	NA	NA	NA
EBITDA	875	1,079	820	839	915
% Change	70.6%	23.4%	-24.0%	2.3%	9.1%
Net Interest & Other Income	(9)	(41)	(61)	(54)	(54)
Net Income (Adjusted)	646	744	529	547	604
% Change	76.1%	15.9%	-29.1%	3.1%	10.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	645	748	530	547	604
Depreciation & Amortization	28	30	31	31	31
Change in Working Capital	(392)	(342)	287	56	(47)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	32	49	30	24	24
Capital Expenditure	(38)	(44)	(58)	(60)	(60)
Free Cash Flow	276	441	819	597	551
% Change	NA	NA	NA	NA	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	24	46	210	284	209
Trade Receivables	377	351	428	439	457
Other Current Assets	1,368	1,622	1,228	1,171	1,215
Property, Plant & Equipment	179	194	222	252	281
Other Non-Current Assets	1,282	1,353	1,370	1,361	1,353
Total Assets	3,230	3,565	3,458	3,507	3,515
Short-Term Debt	12	25	36	36	36
Other Current Liabilities	733	651	625	634	649
Long-Term Debt	1,172	1,362	1,148	1,148	1,148
Other Non-Current Liabilities	243	293	302	302	302
Total Liabilities	2,159	2,330	2,111	2,121	2,135
Total Equity	1,071	1,235	1,347	1,386	1,379
Total Equity & Liabilities	3,230	3,565	3,458	3,507	3,515

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Building Products

Company Description

Pool Corp is the world's largest wholesale distributor of pool supplies and equipment and a leading distributor of landscaping. POOL operates 420 sales centers through 5 distribution networks. Products include pool equipment and replacement parts, fiberglass pools, spas, and packaged pools, building materials, landscape and irrigation products and other outdoor products. We estimate that POOL has a 37% market share in the fragmented wholesale pool market. 5% of POOL's revenue comes from Europe.

Investment Rationale

We rate POOL shares at Underperform. POOL is well positioned to gain share in the growing pool market over the long-term, however, we see a challenging environment in 2023 driven by weaker end market demand, a slowdown in new pool construction, lower irrigation revenues, some dealer destocking and margin headwinds.

Stock Data

Average Daily Volume 341,265

Quarterly Earnings Estimates

	2022	2023
Q1	4.41A	2.58A
Q2	7.63A	5.91A
Q3	4.78A	3.69E
Q4	1.82A	1.38E

Exhibit 1: BofA estimates vs. consensus

Our estimate is below consensus for 2024E

Pool Corp	New 2023E	Old 2023E	Consensus 2023E	New vs. Old	New vs. Consensus	New 2024E	Old 2024E	Consensus 2024E	New vs. Old	New vs. Consensus
POOL	13.57	13.46	13.43	1%	1%	14.36	14.33	14.89	0%	-4%

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 2: POOL rating and price objective

We are maintaining our \$315 PO

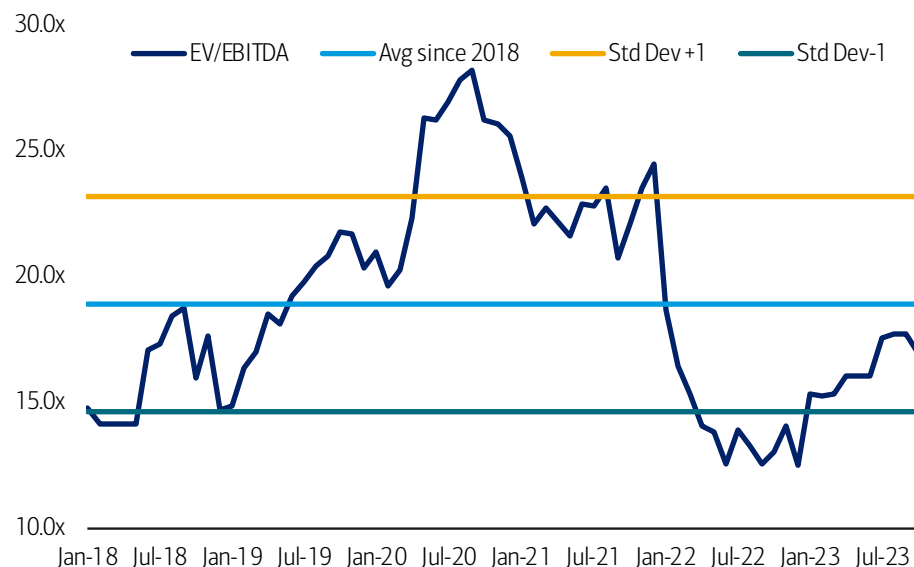
Pool Corp	New Rating	Old Rating	New PO	Old PO	New Multiple (2024 EV/EBITDA)	Old Multiple (2024 EV/EBITDA)
POOL	Underperform	Underperform	\$315	\$315	16.5	16.5

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 3: POOL EV/Fwd EBITDA

POOL is trading below its 5-year average, but we see risks to consensus estimates



Source: Bloomberg
Data through October 17, 2023

BofA GLOBAL RESEARCH

Consumer spending on pool supplies declined YoY in 3Q23

For the month of September, spending at pool supplies merchants (84% correlated with Pool Corp base sales) was (5.0%) lower YoY, declining for the 12th consecutive month of negative YoY spending, per BAC aggregated credit and debit card data (BAC card data). On a month-over-month basis, spending was down (6.3%) in September, in-line with normal seasonality. Compared to 2019, retail spending on pool supplies increased 32.5% in September 2023. In 3Q23, BAC card spending on pool supplies fell (5.1%) YoY (compared to down 7.4% YoY in 2Q23) and decreased (15%) QoQ. We estimate price inflation for the pool industry at 30-35% since 2019. See report: [Homebuilders and Building Products: September pool spending and composite decking search trend update 13 October 2023](#).



Exhibit 4: BAC aggregated credit and debit card data for pool supplies

September 2023 spending fell 5% YoY, a 12-month decline

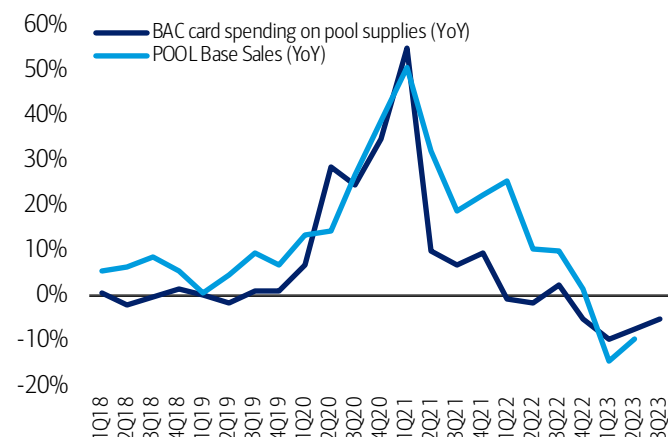


Source: BAC internal data

BofA GLOBAL RESEARCH

Exhibit 5: BAC aggregated credit and debit card data for pool supplies vs. POOL base sales

Retail spending outperformed POOL base revenue growth in 2Q23, snapping POOL's outperformance since 2Q21



Source: BAC internal data, company reports. POOL corp 3Q23 not yet reported

Note: 84.0% correlation

BofA GLOBAL RESEARCH

Please see the latest [BofA on USA](#) report for methodology, disclaimers and limitations for BAC card data, and additional commentary on broader US retail trends from the BofA US Economics team.

Disclaimer and Methodology regarding BAC internal data

Selected Bank of America ("BAC") transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of BAC data and may reflect a degree of selection bias and limitations on the data available.

Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Additional information about the methodology used to aggregate the data is available upon request.

Price objective basis & risk

Pool Corporation (POOL)

Our \$315 PO is based on a 16.5X EV/2024E EBITDA multiple, below the 5-yr avg. of 19x, but consistent with 2018 levels. We believe this is the most appropriate comparison, given normalizing demand levels, a weaker macro environment, and higher rates.

Upside risks to our PO: 1) a continuation of elevated demand, 2) market share gains, 3) favorable demographics, and 4) continued price increases.

Downside risks to our PO: 1) a weaker than expected macro backdrop, 2) higher interest rates, 3) weaker end market demand, 4) larger than expected impact from destocking, 4) deflation, 5) higher decremental margins, and 6) market share losses.

Analyst Certification

I, Shaun Calnan, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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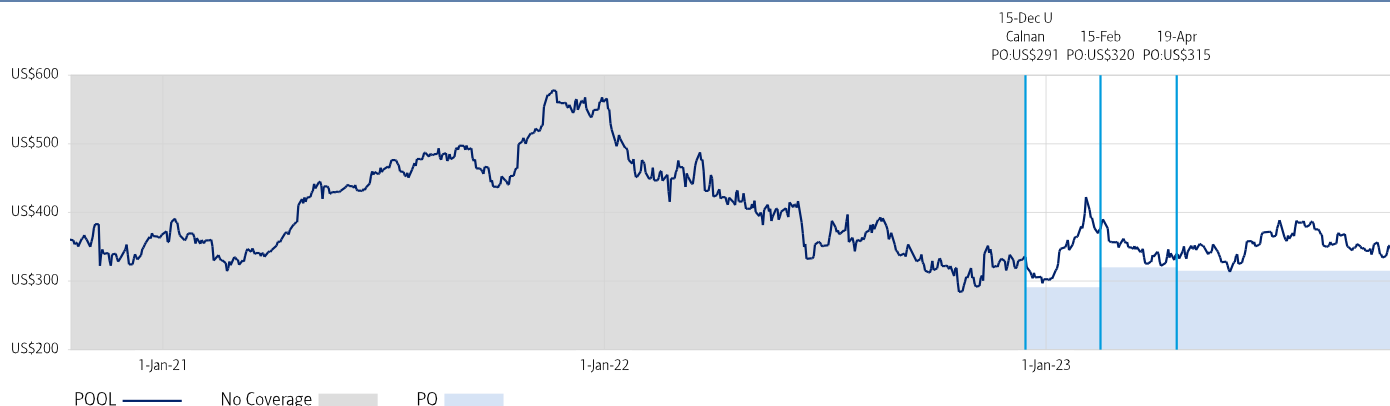
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Important Disclosures

Pool Corp. (POOL) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Building Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	41	47.67%	Buy	23	56.10%
Hold	14	16.28%	Hold	8	57.14%
Sell	31	36.05%	Sell	9	29.03%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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