

Latham Group, Inc.  
Second Quarter 2024 Earnings  
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**CORPORATE PARTICIPANTS**

**Casey Kotary** – *Investor Relations*

**Scott Rajeski** – *President & Chief Executive Officer*

**Oliver Gloe** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good afternoon, and welcome to the Latham Group Second Quarter 2024 Earnings Conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your questions, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Casey Kotary, Investor Relations Representative.

### **Casey Kotary**

Thank you. This afternoon, we issued our Second Quarter 2024 Earnings Press Release, which is available on the Investor Relations portion of our website, where you can also find the slide presentation that accompanies our prepared remarks.

On today's call are Latham's President and CEO, Scott Rajeski, and CFO, Oliver Gloe. Following their remarks, we will open the call to questions.

During this call, the Company may make certain statements that constitute forward-looking statements, which reflect the Company's views with respect to future events and financial performance as of today or the date specified. Actual events and results may differ materially from those contemplated by such forward-looking statements due to risks and other factors that are set forth in the Company's annual report on Form 10-K and subsequent reports filed or furnished with the SEC, as well as today's earnings release. The Company expressly disclaims any obligation to update any forward-looking statements, except as required by applicable law.

In addition, during today's call, the Company will discuss certain non-GAAP financial measures. Reconciliations of the directly comparable GAAP measures to these non-GAAP measures can be found in the slide presentation that accompanies our prepared remarks, which can be found on our Investor Relations website.

I'll now turn the call over to Scott Rajeski.

### **Scott Rajeski**

Thank you, Casey. Good afternoon, everyone, and thank you for participating in today's call to review our second quarter and first half 2024 results. We will also discuss our business outlook for the rest of the year.

We effectively managed through soft business conditions in the second quarter, drove substantial year-on-year gains in profitability, and strengthened our competitive position. As you've seen from our release, this performance, together with our announced acquisition of Coverstar Central, enabled us to increase our adjusted EBITDA guidance for full year 2024 by \$15 million.

In terms of this quarter's key takeaways. First, market conditions played out in line with our original expectations for an approximate 15% decline in new pool starts this year. This is what we planned for and what our guidance for full year sales was based on. Our pool start forecast reflects a strong process, including the unique visibility that Latham has given our strong relationships with dealers and contractors in the field.

Second, we substantially outperformed on profitability, achieving a 400-basis point year-over-year increase in adjusted EBITDA margin, despite lower sales volume, driven by our restructuring programs, production efficiencies from our lean and value engineering programs, ongoing cost containment and lower raw material costs. Lastly, we continue to build upon our leadership in fiberglass pools, which have shown relative strength in the first half of this year thanks to their significant advantages over concrete pools.

In addition to our second quarter activities, we recently effectively deployed capital by completing an accretive acquisition that is expected to expand our margins, accelerate the sales of our automatic safety cover product line, and provide opportunities for us to increase fiberglass pool market penetration. As you can see, we have a lot to talk about this quarter.

I will begin by reviewing our progress on the three key priorities we called out when we provided full year 2024 guidance in early March. The first priority we noted was to continue to drive awareness and adoption of fiberglass pools and automatic safety covers, which we view as key long-term growth drivers for Latham. I am pleased to report that year-to-date fiberglass pool sales, while down year-on-year, showed relative strength and continue to represent the majority of our in-ground pool sales.

Our market intelligence indicates that fiberglass pools have gained share year-to-date and are increasingly being recognized for their cost efficiency, fast and easy installation and eco-friendly advantages over concrete pools. These advantages, together with our industry-leading service levels and best-in-class lead times, are strengthening our ability to attract new dealers.

In the second quarter, we continued to invest in innovation with the addition of the Astoria 14 to our best-selling Astoria fiberglass pool collection. This new model is designed to fit in narrower outdoor spaces and offers a full relaxation experience, complete with a built-in spa and tanning ledge, features that are especially appealing in the Sand States.

The plunge pool category is seeing increased demand as these models provide the homeowner with space-saving, lower-cost options that are ideal for aquatic exercises and rehabilitation, as well as for social gatherings. We are capitalizing on the popularity of this product line with preparations for a vinyl plunge pool launch in the Spring of 2025. Our offering will include four models, providing consumers with a choice of features designed to meet their budgets, a quick installation timeline, and style preferences for a broad range of consumers across North America.

We also moved ahead with the rollout of Measure by Latham, the only tool in the marketplace that simplifies the pool measurement and quoting process for pool liner and cover installers, while ensuring their accuracy. This tool continues to meet with a very positive response from our dealers and contractors, and our objective is for all of our dealers to have it with all the functionality in place ahead of the 2025 pool building season.

Another key accomplishment for Latham was the accretive acquisition of Coverstar Central, which was completed on August 2<sup>nd</sup> and which we further detailed in a separate release today. Coverstar Central is Latham's exclusive automatic safety cover dealer in 29 states in the Northeast, Southeast and Midwest, including Texas. We have partnered together for almost 20 years and view this transaction as mutually beneficial in several ways.

First, we expect the vertical integration of this product to expand our adjusted EBITDA margin by approximately 140 basis points on an annualized basis. Second, with an integrated sales and marketing strategy and our combined resources, we expect to accelerate sales growth of this excellent product,

which can be fitted on all types of in-ground pools. Our automatic safety covers provide unparalleled safety and offer significant resource savings that can result in up to a 70% reduction in both pool heating costs and chemical usage.

Third, we see opportunities to leverage the long-standing relationship that Coverstar Central has developed with the 400+ pool builders they serve to drive further awareness and adoption of fiberglass pools. Lastly, with this transaction, we are bringing a dedicated and talented group of business professionals and industry experts to Latham who share our commitment to superior customer service. The Latham team is happy to welcome our new team members from Coverstar Central.

Oliver will provide additional financial details on the acquisition a little later in this call. I just would like to comment that we were very pleased to have the capital available to pay for the transaction with cash on hand, which reflects how effectively we are managing through this industry downturn.

The second priority we outlined was to continue to gain additional operating efficiencies through our value engineering and lean manufacturing initiatives. I am pleased to report that these initiatives are leading to significant structural cost benefits that will have a long-term positive impact on Latham's margin profile. Amongst the many first half achievements are a 27% year-on-year reduction in production time across our North American fiberglass plants and labor efficiencies of 8% in our safety cover and vinyl liner manufacturing facilities.

Our third key priority was to maintain a strong financial position. Oliver will provide details on the success of our financial strategy in a moment. I would like to congratulate the Latham team on the discipline they have shown and our tremendous accomplishments in improving our cost structure, driving productivity gains, and reducing working capital needs. Through these actions, Latham has the operating and financial flexibility to remain resilient in the current soft industry environment, while maintaining the resources to invest in organic growth initiatives and consider other accretive acquisitions that position Latham for accelerated profitable growth when pool starts rebound.

With that, I'll turn the call over to Oliver, our CFO, for a financial review.

### **Oliver Gloe**

Thank you, Scott, and good afternoon, everyone. I am pleased to report on our second quarter financial performance, which reflected the benefits of actions we have taken to effectively manage through a soft inventory environment. Also, I'm pleased to provide further insight into the financial impact of our Coverstar Central acquisition. Please note that all comparisons that I'll discuss today are on a year-over-year basis compared to second quarter and first half of 2023, unless otherwise noted.

Net sales for the second quarter were \$160.1 million compared to \$177.1 million, down \$17 million or 9.6%, reflecting the impact of continued challenging macroeconomic conditions on new pool starts and a return to a normalized quarterly sales cadence. As Scott mentioned, we continue to track to our forecast of a 15% decline in new pool starts for 2024. The sequential improvement in our absolute sales numbers from Q1 to Q2 reflects the expected seasonal improvement as we entered peak pool building season.

Across our product categories, in-ground pool sales declined 10.6% in the second quarter. Liners declined 7.2% in the quarter and covers were down 11.3%. Gross margin expanded by 470 basis points to 33.1% in the second quarter despite lower sales. This meaningful increase was primarily driven due to the impact of previously announced restructuring projects, continued progress on our lean manufacturing and value engineering initiatives, and our cost containment programs. We also saw a benefit from lower material costs due to supply optimization in addition to modest levels of deflation in line with prior expectations.

SG&A expenses decreased to \$26.6 million, down \$3.6 million, primarily due to a \$4.3 million decrease in non-cash stock-based compensation expense, as well as \$4.1 million from our cost containment initiatives and restructuring projects, which more than offset our increased spending on initiatives designed to position Latham for meaningful, profitable growth as pool starts recover, as well as increased performance-based compensation.

Net income was \$13.3 million or \$0.11 per diluted share, more than double the net income of \$5.7 million or \$0.05 per diluted share for the prior year second quarter. Adjusted EBITDA of \$34.5 million increased \$3.5 million or 11.2% from last year's \$31 million, exceeding our expectations, and our adjusted EBITDA margin expanded to 21.5%, a 400-basis point improvement over 17.5% in the prior year period. This outperformance was driven by improved gross margin as well as our focus on expense management. We have fully implemented our previously announced restructuring programs with a total annualized impact of \$24 million, which contributed \$2 million in savings in the second quarter.

Now turning to our first half year-over-year results comparison. Net sales were \$270.8 million compared to \$314.8 million, reflecting the impact of continued challenging macroeconomic conditions on new pool starts and a return to normalized quarterly sales cadence. Net income was \$5.4 million versus a loss of \$8.7 million. Even with lower first half sales, we were able to increase adjusted EBITDA by 11.4% to \$46.8 million from \$42 million.

Adjusted EBITDA margin increased 400 basis points to 17.3% from 13.3%. This outperformance was driven by improved gross margins from our restructuring programs, lean and value engineering initiatives, our focus on expense management, and lower raw material costs while continuing to invest in our future growth.

Turning to our balance sheet and cash flow statement. We continue to maintain a strong financial position with cash of \$90.8 million at the end of the quarter after the repayment of \$19.6 million of debt year-to-date. Net cash provided by operating activities was \$52.4 million in the second quarter and \$17.9 million for the first half. This includes an additional benefit of approximately \$15 million from inventory reduction beyond our usual seasonality to further improve inventory efficiency.

Total debt for the period was \$282.4 million, with a net debt leverage ratio of 2.1% and our capital expenditures were \$4.5 million for the second quarter of 2024. CapEx is in line with our guidance of approximately \$5 million per quarter and our CapEx expectations for the rest of the year remain unchanged.

Scott reviewed the Coverstar Central acquisition from a strategic business perspective. From a financial viewpoint, this acquisition represents an accretive transaction that is expected to add \$20 million of net sales and expand our total company adjusted EBITDA margin by approximately 140 basis points on an annual basis as we vertically integrate our automatic safety cover line in the acquired geographies.

As Scott mentioned, we were very pleased to be able to source the approximately \$65 million purchase price from internally-generated funds. This speaks to the success we have had in improving our cost structure, driving productivity gains and increasing working capital efficiency and our confidence to continue generating cash despite soft market conditions.

Moving on to our outlook. While we are maintaining our macro forecast for an approximate 15% decline in new pool starts for the year, we are pleased to increase our 2024 guidance. Our revenue guidance range for 2024 increases by \$5 million to \$495 million to \$525 million. This increase represents the expected five-month contribution of the Coverstar Central acquisition. In addition, we are increasing

adjusted EBITDA guidance by \$15 million to a range of \$75 million to \$85 million; \$12 million of this \$15 million increase is a function of our better margin performance, reflecting the success of our ongoing lean manufacturing, value engineering, and cost container programs, with the remaining \$3 million representing the expected 2024 contribution from the Coverstar Central acquisition.

As a reminder, our guidance for the remainder of 2024 also reflects the normal modest seasonal slowdown in the second half of the year, impacting both sales and margin levels versus the first half. We also note that year-over-year comparisons will become more difficult as the year progresses, given the relative better performance in the second half of 2023 as the cumulative impact from our cost savings initiatives, and other discrete items, positively impacted second half 2023 results.

With that, I will turn the call back to Scott for his closing remarks.

### **Scott Rajeski**

Thank you, Oliver. We are very pleased with how well our teams executed amid soft industry conditions, gaining traction for fiberglass pools, launching new products, driving cost savings and productivity gains throughout the organization, and of course, completing an important acquisition that will drive incremental growth for our company. Latham is also pleased to increase guidance this year and this is due to how well positioned we are in the marketplace and how committed our leadership and team members are to meeting and exceeding our objectives, while ensuring the very best in customer service.

In summary, this has been a period of considerable progress for Latham. Our priorities remain the same and we are confident in our ability to continue to effectively navigate the current environment and emerge as an even stronger company.

Operator, I would like to open the call to questions.

### **QUESTION AND ANSWER**

#### **Operator**

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Tim Wojs with Baird.

#### **Tim Wojs**

Maybe just to start off, Scott, just, I guess, on fiberglass, first, it sounds like the fiberglass business did better than the total company. So, I just kind of wanted to confirm that.

Then, I guess, second, just any quantitative details that maybe you could add or color around just, kind of, the dealer interest that you're seeing in fiberglass, kind of, incrementally as this downturn has, kind of, gone on now for 18 to 24 months. Just trying to understand if you're seeing more dealer sign-ups or if you're actually seeing any sort of mix shift within your current dealer base now that things have, kind of, slowed down relative to the last few years.

#### **Scott Rajeski**

Yes. So, Tim, as we've said on the last several calls, fiberglass overall continues to outperform the total market in terms of new pool starts. Fiberglass for us internally outperforms in the in-ground pool category. We continue to see the ongoing penetration and adoption of fiberglass. So we're really happy with what

the team's been able to do there and what our dealers have been able to do. And I think, right, it is a lower-cost product versus a concrete pool, so there's benefits to the consumer to making that switch.

On the dealer front, the team has done a really nice job continuing to add new dealers. This has been a focus for us for the last 12 to 18 months. I think in an environment where maybe there's not as much demand as they've seen going back to the '21/'22 timeframe. They do have a little bit more time to look at the product, trial the product, attend one of our boot camps, get educated on all the benefits of fiberglass, go through the training, see how our lead generation works.

We can show how we can generate leads for them and then the full support we deliver with our footprint of the fiberglass facility, the ability to ship pools quicker. Look, our lead times and our service are in phenomenal position where we can quickly turn pools to them. So, I think we've seen a nice trend with new dealer sign-up and those that have been with us for, let's say, more than one year progressing and growing their business with, kind of, the want and willingness to actually grow the business in the environment where pool starts are down overall.

### **Tim Wojs**

Then just on Coverstar, can you remind us just how big the auto-cover business is as a percentage of the cover business for you in total?

I guess how incrementally aggressive will you, kind of, be, or plan to be, on M&A? Just the weakness that you're kind of seeing in this downturn, I'm just kind of curious, if you're in a position to continue to do M&A if there's opportunities that, kind of, present themselves?

### **Scott Rajeski**

Yes. Tim, the auto-cover business is in that cover product category. We've not really split out the numbers between the two but I think it's safe to say auto-covers is the larger of that category in that product breakout we do for covers.

You've also got to remember, it's similar to fiberglass. Lack of awareness, lack of adoption of the product in the marketplace by both dealer and consumer, has great financial benefits and returns for the homeowner in terms of water conservation, energy savings, lower chemical usage, water conservation, and more importantly, the safety aspect of the cover. You can't beat that, right? The pool is inaccessible when that cover is on the pool.

I think in particular for this, what it does is, the auto-cover category for us and all of our dealers who support that network out there, they really act as an extension of the Latham team. They're part of our sales force. They provide distribution, technical support, installation for the builder and the dealer. They're out there representing our company day-in and day-out and many people have viewed them over the years as part of the Latham team and family, which they truly are.

I think particularly with Coverstar Central, 29 states, our largest auto-cover dealer out there in our network, great partnership and relationship with that team. I think it's going to really help us drive the adoption and awareness much faster in this category similar to fiberglass. But more importantly, it's going to give us access to a lot of dealers we do not do business with today. That team is putting auto-covers on concrete pools, competitors' vinyl pools, competitors' fiberglass pools.

We'll now have the ability to jointly share a lot of data we did not share before to accelerate dealer conversion, drive more covers on pools, and basically get a whole other population of people, 400+ dealers, who are not buying Latham products today other than maybe an auto-cover exposure to that product for us. So, we're really excited.

Then on your question on M&A, look, we'll continue to evaluate the market as opportunities exist out there for transactions that can be accretive in all our product categories. It's been a history of our company. It's a core part of our DNA. So, I think we'll continue to look at the opportunities that may exist and continue dialogues with anyone out there who would be looking to potentially come join the Latham family where and when it makes sense and has the right value.

**Operator**

The next question comes from Ryan Merkel with William Blair.

**Mike Francis**

This is Mike Francis on for Ryan. A great quarter here. First thing I want to ask, can you give us some details of the factors that you gave as to what is the better gross margin? Anything you could quantify between all those factors would be great.

**Oliver Gloe**

Sure. I'll gladly take that. So, we are very pleased with our outperformance in Q2 here, posting an EBITDA margin increase of 400 basis points on 10% lower volume. A couple of areas where that outperformance is coming from. One is cost management and cost controls continues to be a strong point here. We hinted that at the end of Q1 as well, and that's really driving the right balance between minimizing the operating costs on the core while investing in future growth. That's future growth investments such as lead generation, fiberglass conversion, marketing, digital transformation.

The second area of outperformance is lean and value engineering. The programs are doing extremely well. The benefits are coming and are very visible in our P&L. As a matter of fact, they're coming a little bit earlier than we expected.

Then I think the last point I would like to offer is material costs. And there's two components. Deflation, I would say, is roughly as expected and guided in prior calls, but then we are seeing benefits from what I called in my prepared remarks "supply optimization." So, over the last few quarters, and coming out of COVID and supply chain shortages, we onboarded new suppliers and we are actively allocating business, whether it be for better quality, for supply availability and stability, and also for economic reasons. We saw some tailwind from that in the second quarter. Again, very pleased with a 400-basis point outperformance year-over-year on 10% lower volume.

**Mike Francis**

Then second one from me. Can you give an update on some of the refreshed and the new pool models that you discussed in last quarter? Then also within that the fiberglass segment in particular, has there been a difference in demand trends between some of the more, like, higher-price pools and the lower-price?

**Scott Rajeski**

Yes. So, specific to the fiberglass models, again, we're constantly taking a pulse of the consumer interest in pools as they're on our website looking at the various models we have, dealer feedback of what consumers are looking for. I think the trends are more and more rectangular pools, extremely feature-rich.

If you look at the Astoria collection, it's got the built-in spa. It's got the bigger tanning ledge. It's got a lot of bench-seating, a very feature-rich pool that I think resonates very well at the consumer and dealer level. And again, launching some of these pools in 12-foot- and 14-foot-wide, people are moving more



towards smaller pools. Backyard spaces are getting smaller. The pool becomes part of an overall backyard entertainment experience and that continues to resonate at all levels.

I think that's why we've got the great Milan, which is the cocktail pool we launched several years ago. People continue to gravitate towards those pools. One of the other benefits is our auto-covers fit perfectly well on all of those pools with a rectangle. There's a much easier install. Again, gives that protection for the pool.

I think launching this new lineup of vinyl liner plunge pools, again, a basic pool and then moving on up to multiple features with a very feature-rich pool will allow the consumer an opportunity to have a lower-cost model, but still have a beautiful looking vinyl pool that would mirror what we're doing in the fiberglass world.

So, it's all about making sure we can touch every aspect of the market from that entry-level all the way up through, let's say, a big fiberglass pool. All of those models are definitely much lower-cost upfront than a comparable concrete pool and then the ease of maintenance that comes along with all of them just dwarfs the experiences of the concrete pool.

### **Operator**

The next question comes from Matthew Bouley with Barclays.

### **Anika Dholakia**

You have Anika Dholakia for Matt today. Thanks for taking my question. I wanted to first ask on recent demand trends. I'm curious what you guys are seeing in terms of recent demands thus far in July? I know seasonally it's better this quarter, but if you can give any specifics on how it trended month-to-month that'd be really helpful.

### **Scott Rajeski**

Yes, I think if we kind of just look back at 2Q when we were together the last time a quarter ago with 1Q earnings results, we talked about how we saw a significant uptick in demand in the market exiting March. That trend really continued and carried through all of 2Q. We never saw that big peak boom like you typically would see in May and June for the peak pool building season. I think that's a reflection of new pools starts being down 15% overall, but we just saw a nice sequential continued consistent order rate through the entire quarter. I would say that trend has continued through July, albeit, at a slightly lower rate, just because we are exiting the peak 2Q build. 3Q is still a big piece. We're just really entering the winter safety cover season here the next 30 to 45 days.

So, I think demand is tracking exactly to what we've said in the beginning of the year. New pool starts down 15%. Fiberglass outperforming. Nice growth with auto-covers and then the recurring revenue piece of the business with liners and covers performing kind of as expected.

If we look at consumer demand this is the big one we watch. The interest in pools is still out there and it's pretty big. We look at all the stats on time on website, interest in pools, accounts being signed up, leads being generated. All those metrics are really good indicators that the interest in pools is out there. The consumer is just on the sideline waiting to make that purchase. And look, our service level is operationally in a really good position to where when that demand comes and someone makes the decision, we can quickly satisfy the demand. In some cases, being able to turn the product in two or three days for a dealer if they can close a sale with a consumer who's ready to, kind of, make the purchase.

**Anika Dholakia**

Then on my second question, I'm curious if you guys can just talk a little bit about volume and pricing expectations for the year. Are you still expecting a flattish price? And if you could walk through 3Q/4Q cadence?

**Oliver Gloe**

Yes. I want to say nothing has changed versus our guidance the last two calls. We generally see prices sticking in the market. That doesn't mean that we don't run certain promotions or go for an increase in some of the categories, but overall net-net pricing is actually where we guided. I would still say that, overall, it's flattish throughout the year comparing '24 with '23.

**Operator**

The next question comes from Andrew Carter with Stifel.

**Andrew Carter**

A question about, kind of, the updated guidance. It looks like the increase in organic EBITDA \$12 million is due entirely to, kind of, I guess, potentially outperformance of gross margin in the quarter. I know you were guiding to flat previously. It was up, I guess, 500 basis points. So, that got all the EBITDA. So, could you give an updated expectation of what you're expecting for the gross margin for the year?

I know you mentioned that you are increasing investments for recovery and then there's also incentive comp. Have your assumptions around those two items changed at all?

**Oliver Gloe**

For the updated guidance being \$12 million, reflecting the ongoing performance, partially driven by Q2, but not fully driven by Q2, and then \$3 million is the additional incremental impact from the acquisition of Coverstar Central. As I already mentioned, the three drivers being cost management, lean and value engineering, and material cost. We saw a nice contribution in Q2 and we don't expect anything less from Q3 and Q4, plus the addition of the restructuring projects that are now fully in our run rate. All of that, when we talked about gross margin guidance— prior to our call today we guided flat gross margins. I would probably change that to being a couple of percentage points up. So, if last year was 27%— prior guidance was 27%, I'd put gross margin for the year now at 29% to 30%.

**Andrew Carter**

Then just to get a little bit more about Coverstar as you're, kind of, taking on this acquisition. I know this is a unique— it's a dealer with exclusives. I guess, number one could you quantify— because if I look at the map correctly, it's very heavily penetrated in the South. Could you, kind of, quantify, kind of, your penetration in those markets therefore kind of the incremental dealer opportunities?

Are there any risks here around channel conflicts? Because I know you use other distributors and I would assume you're not interested in distributing other products through these guys. Maybe they don't have the capabilities.

**Scott Rajeski**

Yes. So, Andrew, Coverstar Central you, kind of, think that they blanket, kind of, the central part of the US from the South right up through the Canadian border some into the Northeast a little bit on a few of the states, kind of Mississippi to the East Coast and through the Sand States.

First, there's not a lot of auto-covers in the Sand States on pools. People are not putting covers on the pools. So, similar like fiberglass, a massive, massive opportunity for growth to drive the adoption and awareness there as we launch auto-covers distinctly in those markets.

A good penetration through a lot of the Midwest with this product and I think Coverstar Central has done a phenomenal job of growing their business over the years and working not only with dealers but also working with several of our distribution partners that are out there in this space.

We don't see any conflict today. We don't see any conflict tomorrow based on how the model works. That applies not only for Coverstar Central, but all of our other auto-cover partners throughout North America. I think it is a very unique network in terms of how we go to business here. Like I said earlier, you've got to almost view these guys as if they're an extension of our sales force team. They're out there providing technical support for builders and dealers. They're actively promoting the product with very unique marketing opportunities and things these teams do. We've got a large auto-cover dealer that runs all of the Canadian market for us based in Vancouver and again coming all the way into the Greater Montreal, Greater Toronto area.

They're just great business partners. They're with us at all of our dealer conferences. They're with us at all of our pool shows. Like I said, they're an extension of the team. I think it just made sense at this point in time to take another step to just try to drive the awareness of this business and more importantly, provide more growth opportunities because they do access a lot of dealers we don't touch today. That's probably the exciting part, not just the auto-cover piece but what we can do with converting concrete dealers to fiberglass where they're putting covers on those pools for those dealers.

#### **Operator**

Again, if you have a question, please press star then one.

The next question comes from Susan Maklari with Goldman Sachs.

#### **Susan Maklari**

My first question is can you talk a bit about the raw materials? I think that you mentioned in your remarks that you have seen some relief on that side. Can you just give a bit more color on that?

#### **Oliver Gloe**

Sure. So we continue to see slight deflation. It's coming from selected resins and PVC film. Now sequentially probably deflation is less obvious versus year-over-year. As we did see in 2023, as I said in my prepared remarks, some relief mid-year in terms of the raw material costs and it's more the 2023 relief that we saw than anything sequential. We see overall the raw material basket for the last couple of quarters relatively stable. Again, our guidance remains unchanged for modest level of deflation, again primarily driven by more 2023 versus 2024.

#### **Susan Maklari**

You mentioned in your prepared remarks as well that you expect to see 140 basis points of margin benefit from the Coverstar deal as that is integrated and comes through. Any thoughts on the timing of when we could start to see that and how it will flow through over the upcoming quarters?

#### **Oliver Gloe**

Yeah. I think when you— so the 140 basis point comment is sort of a full year number as you combine the businesses. The seasonality and cadence both on sales as well as EBITDA is closely mirroring Latham as we are competing in the same markets here. So, on a pro forma basis again 140 basis points seasonality is roughly in line with our seasonality here at Latham.

## **CONCLUSION**

### **Operator**

This concludes our question and answer session. I would like to turn the conference back over to Scott Rajeski for any closing remarks.

### **Scott Rajeski**

Thank you for your time here this afternoon. We really appreciate everyone's continued support for Latham. Look forward to seeing you all at upcoming conferences and meetings and our next earnings call. I hope everyone has a great rest of the summer and has a safe summer as well.

Take care, everyone. Have a good evening.

### **Operator**

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