Latham Group, Inc.

Second Quarter 2026 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Oliver Gloe--*Chief Financial Officer*

Casey Kotary--*ADVISIRY Partners*

PRESENTATION

Operator
Welcome to the Latham Group Second Quarter 2026 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

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

Casey Kotary
Thank you. This afternoon, we issued our second quarter 2026 earnings press release, which is available on the Investor Relations portion of our website. On today's call are Latham's President and CEO, Sean Gadd; 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 is available on our Investor Relations website.

I'll now turn the call over to Sean Gadd.

Sean Gadd
Thank you, Casey, and thank you all for joining today's call to review our second quarter and discuss our business outlook for the remainder of the year. This was a strong quarter for Latham, demonstrating our ability to execute on our strategic priorities and deliver growth despite a flat market for new U.S. pool starts, which was in line with our expectations. There is still substantial runway to outpace the market as our strategic initiatives gain traction.

Now, more than two full quarters into my tenure as CEO, I've had the opportunity to develop a deep understanding of the business. I'm encouraged by the positive momentum we are seeing. Several initiatives we have put in place are already producing encouraging early results, and I am confident they position us to drive sustained growth in the quarters and years ahead. With that, I would like to highlight a few key takeaways from the quarter.

First, our sales grew 14% year-over-year, 10% of which was organic growth. Second, we continued to make solid progress in the Sand States, where sales increased at a double-digit rate. Building on this foundation, we are moving ahead with new strategies and resources designed to further accelerate growth. Third, we delivered solid growth in gross profit, driven by higher volumes and continued benefits from our lean manufacturing and value engineering initiatives.

The sharper-than-expected surge in demand early in Q2 resulted in quarter-specific ramp-up costs that capped gross margin in the quarter at 35.5%. We expect to recapture the majority of these costs over the next two quarters and remain confident in our ability to deliver year-over-year growth and EBITDA margin expansion, and Oliver will provide more detail later in the call.

And finally, our year-to-date results, together with the current order trends, have led us to increase our full year sales and adjusted EBITDA guidance for 2026, raising the midpoint of our sales growth guidance to 11.7% from 9% and the midpoint of our adjusted EBITDA growth guidance to 15.2% from 12.7%. This reflects our expectation for higher volumes due to continued share gains and the recapture of operating leverage.

Let's take a closer look at the main contributors to our second quarter sales growth. In-ground pool sales were up substantially on both a total and organic basis, led by strong growth in fiberglass pools. Fiberglass pools are on track to account for approximately 80% of our full year 2026 in-ground pool sales, and we expect fiberglass to gain another percentage point of market share this year, representing approximately 25% of new U.S. pool starts.

Cover sales were up year-over-year, primarily driven by the continued growth in autocovers due to what we believe is a steady increase in autocover attachment rates for new pool installations. Liner sales also increased in the second quarter, driven by our proprietary Measure by Latham technology and benefiting from our industry-leading lead times.

Looking ahead, Latham has substantial growth opportunities that are not reliant on the rebound in new U.S. pool starts. To fully capture these opportunities, we are concentrating our efforts on four strategic priorities to drive growth.

One, we want to continue to grow our core business in established markets including the Northeast, Midwest, Canada, Australia, and New Zealand.

Two, we want to drive material conversion to fiberglass from concrete in the Sand States.

Three, we want to increase the attachment rate of our autocovers, aiming for an autocover on every new pool installation.

And four, continue to complete accretive acquisitions that expand our market leadership and/or our geographic reach and that are culturally aligned with Latham.

To support these growth drivers, we need to achieve sales excellence across all of our markets, follow a disciplined market development approach, market directly to the consumer and own their path to purchase, continue to gain efficiencies through lean manufacturing and value engineering programs, and strengthen our focus on improving safety in all of Latham's facilities. I'm pleased to report that all these initiatives are underway.

Our Sand States strategy continues to gain traction in the second quarter, benefiting from the close collaboration between our sales team and the dealer network. This contributed to another quarter of double-digit growth in Florida, our initial target market, and a double-digit growth for the Sand States overall. We believe success in the Sand States has the potential to drive a step change in company-wide growth, and we are expanding our efforts to further accelerate growth in 2027 and beyond.

We introduced several initiatives designed to capture consumer demand in the Sand States, including strengthening our commercial organization, implementing a new market development framework, and adding sales resources in the field. Through our new market development framework, we are taking a highly targeted approach by identifying areas that offer the greatest growth opportunity.

Beginning in Florida, we have identified multiple high potential micro-markets, communities with favorable home values, lot sizes and household income profiles, and we have deployed additional sales resources in the field to work alongside our dealers and partners to increase market penetration. At the same time, our national advertising and marketing campaigns continue to reinforce Latham's reputation for industry-leading product range, quality, and lead time. Those campaigns are resonating with consumers, generating increased demand and supporting our growth initiatives across our target market.

In the second quarter, consumer leads were up 60% versus prior year. Latham website traffic was up 30%. Google search demand for Latham was up over 100%. And Latham remained the number one searched-for brand among fiberglass competitors. Additionally, as part of our Sand States strategy, I recently spent time in Texas and I believe it represents the next significant growth opportunity for Latham.

We plan to expand our market development framework from Florida into Texas and thereafter, expand it into the other Sand States, Arizona and California. Importantly, we're funding some of this expansion through programs to optimize certain operational and administrative functions, allowing us to redeploy resources for the highest return growth initiatives. Oliver will provide additional insight on these programs, as well as the contributions from our lean manufacturing and value engineering initiatives in the second quarter.

And finally, we recently launched our Zero Is Possible safety initiative, which is being rolled out across all of Latham's manufacturing facilities worldwide. More than a safety program, Zero Is Possible represents a foundational shift on how we operate, fostering greater workforce engagement and reinforcing the belief that every incident is preventable. I believe that this mindset is foundational to a world-class manufacturing organization. While safety is the immediate focus, the benefits will extend well beyond safety over time through stronger operational discipline, reliability, employee engagement, and overall performance.

In summary, we are pleased with our second quarter performance and the momentum we are seeing across the business. This momentum has given us increased confidence in our outlook and supported our decision to raise our full year 2026 sales and adjusted EBITDA guidance, and sales trends in July are tracking towards those expectations.

Now I will turn it over to our CFO, Oliver Gloe, for the financial review. Oliver?

Oliver Gloe
Thank you, Sean, and good afternoon, everyone. I am pleased to report on our second quarter financial performance, which clearly demonstrates Latham's continued outperformance of the market. Please note that all comparisons that I will discuss today are on a year-over-year basis compared to the second quarter and the first half of fiscal 2025 unless otherwise noted.

Net sales for the second quarter were $197 million, 14% above $173 million in Q2 of 2025, of which 10% represented organic growth and 4% represented growth from the Freedom Pools acquisition, which we completed at the end of February 2026. Organic growth was led by robust demand for Latham's products, reflecting the strength of our sales and marketing efforts and progress of our growth strategy.

Across our product categories, in-ground pool sales were $96 million, up 23% in the second quarter, or 14% organically, driven by a rapid and better-than-anticipated influx of orders that temporarily outpaced production early in the quarter. With our manufacturing lines ramping to current demand levels, we are well positioned for the remainder of the season. Cover sales were $41 million, an increase of 10%, and liner sales were $60 million, up 6%. Gross profit increased 9.6% to $70 million.

Gross margin was 35.5% in the second quarter, a 160-basis-point decline compared to last year. We continue to see benefits from our lean manufacturing and value engineering programs, which had a positive impact on gross profit of approximately $2.7 million in the second quarter. However, the sudden surge in demand for fiberglass pools caused our ramp-up to be more pronounced compared to prior years, resulting in approximately $2.8 million of incremental costs in the quarter, which represented a gross margin headwind of approximately 140 basis points. The majority of these costs are expected to be recovered in the second half of this year.

SG&A expenses increased to $38 million, up $6 million, primarily due to investments in our growth strategies, the timing of sales and marketing initiatives related to our fiberglass conversion strategy, acquisition and integration-related costs, which includes $2.2 million of performance-based compensatory earn-out expenses related to our Coverstar Central acquisition in 2024, and costs related to our digital transformation program.

We completed a restructuring and voluntary early retirement program, resulting in $2.5 million of annualized savings. These savings will be redeployed to align talent, structure, and resources with the company's strategic priorities, including strengthening the commercial organization against our highest impact growth opportunities. We will incur an associated one-time charge of $1.5 million in the second half of the year.

Net income was $13 million or $0.11 per diluted share, a decrease from $16 million or $0.13 per diluted share for the prior year's second quarter. Net income margin was 6.5% compared to 9.3% and included an unfavorable change in net foreign currency transaction gains and losses associated with our international subsidiaries of $5 million.

Adjusted EBITDA of $45 million increased $5 million or 12% from last year's $40 million, and adjusted EBITDA margin contracted to 22.6%, a 50 basis point decline from 23.1% in the prior year period. This decrease was primarily due to lower gross margin and the timing of sales and marketing initiatives to accelerate share gains in the Sand States.

Now turning to our first half year-over-year result comparison. Net sales were $315 million, up 11% from $284 million, primarily due to organic growth of 7.5% with the acquisition of Freedom Pools contributing the remainder. Gross profit increased by 11% to $107 million from $97 million and gross margin remained flat at 34.1%. Net income was $4 million compared to $10 million in the prior year period.

Net income margin was 1.3% compared to 3.5% and included an unfavorable change in net foreign currency transaction gains and losses associated with our international subsidiaries of 6.4 million. Adjusted EBITDA increased by 11% to $57 million from $51 million and adjusted EBITDA margin remained flat at 18%.

Turning to our balance sheet and cash flow statement. We continue to maintain a strong financial position with cash of $43 million at the end of the quarter. Net cash provided for operating activities was $54 million in the second quarter and in the first half, net cash provided for operating activities was 6 million. Total debt for the period was $280 million with a net debt leverage ratio of 2.2. Based on expected cash flow generation for the remainder of the season, we are tracking towards a net debt leverage ratio of below 2 by year-end.

Our capital expenditures were $6 million for the second quarter of 2026. First half capital expenditures were $28.1 million, including the purchase of the four key fiberglass production sites, which we have previously discussed. As we have also previously discussed, the company completed the acquisition of Freedom Pools for a purchase price of $17 million in February 2026.

I would like to emphasize our capital allocation priorities, which are reinvesting in the business to capture organic growth opportunities, selectively pursuing strategic acquisitions and evaluating opportunities to return capital to shareholders over time while maintaining a strong balance sheet.

Moving on to our outlook. Our first half performance reinforces our confidence that Latham has significant opportunities that extend beyond any recovery in new U.S. pool starts, and we are raising our full year outlook for both net sales and adjusted EBITDA. At the midpoint of our revised guidance, we now expect net sales growth of 11.7%, including 8.4% organic growth and adjusted EBITDA growth of 15.2%.

The increase in guidance reflects stronger first half demand for our products, continued execution of our growth initiatives and our current visibility into the remainder of the pool season. We will continue investing to strengthen our leadership position in our core markets while accelerating fiberglass conversion across the Sand States.

Our revised guidance takes into account our assessment of the impact of the ongoing conflict in the Middle East on our costs. To mitigate the increase in our transportation costs, we instituted a surcharge and we have additional mitigation strategies in place to fully or mostly offset commodity headwinds related to higher oil prices.

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

Sean Gadd
Thanks, Oliver. As you have heard, we are excited about the growth opportunities on the horizon. I see tremendous potential to expand our share in each of the markets we serve and throughout our product portfolio. We intend to take advantage of soft markets to accelerate our Sand States strategy and strengthen our execution. This is an exciting time to be at Latham. We appreciate the commitment to excellence that our people show each day and the loyalty and trust of our dealers and customers, supporting our confidence in our future performance.

Operator, please open the call for questions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Timothy Wojs with Baird. Please go ahead.

Timothy Wojs
Hi, everybody. Good afternoon. Thanks for the questions and the detail. Maybe just to start off, if you could maybe kind of talk about the demand environment. Obviously, you're talking about a

surge in demand, so I'm just kind of curious how the quarter kind of played out and what specifically was better than your expectations?

Sean Gadd

Yes. Thanks, Tim. I'll start with understanding that Q1 was pretty soft with all the bad weather we had in the country. So I think there was a bit of pent-up demand through Q1, which then built on to Q2. And then that said, the demand in Q2 was higher than we had expected. Obviously, we're planning on a -- and still are planning on a flat to slightly up, probably flat pool starts. And so it looks like there was a true spike in demand, which is a result in our mind from us taking share over the last sort of 12 months and started culminating into the new season. So we didn't get any indicators in Q1. But certainly, in Q2 it accelerated faster than we expected compared to previous years.

Timothy Wojs

Okay. Okay. And then, I mean, based on the KPIs you see internally, I mean, is this just kind of core share gain, or is this a much better or faster return on some of the sales strategies that you've changed or the Sand States investments?

Sean Gadd

I think it's a little bit of everything. I think it's a result of our marketing campaign now further into it's run. It's certainly resonating. We hear a lot from dealers that homeowners are saying they saw us, they heard about us. So that's starting to kick in. I think our core markets are growing, which is really share gain and moving essentially into more markets in the Northeast and Midwest and Canada. And then we are getting good gains in the South as well. So everything is sort of clicking, although there's plenty of upside still to go in terms of execution.

Timothy Wojs

Okay, okay, that's great. And then just maybe on the cost side, Oliver, it sounds like price-cost is kind of going to be, you know, kind of net neutral this year, just verifying that. And then the second piece, why do you get the inefficiencies back in the back half of the year? What I guess happened in Q2? And why do you actually get it back?

Oliver Gloe

Yes, Tim, let me start out by saying this was actually the second highest gross profit in our history as a public company. So we were within a percent of our record, which was at the peak of COVID in Q1 2022. But gross profit and with that gross margin could have been even higher. And what held us back, as Sean said, Q1 was light, right? We had snow on the ground up until late March. So we actually ran the facilities comparatively light going into Q2. And we were met with almost an instant demand and an instant start of the season in early Q2.

So we didn't see the usual ramp. And what that caused was, (a) an under-absorption in our plants. And (b) we actually sold products in order to fulfill the demand out of inventory. So that is about two-thirds of the headwind that I outlined in my prepared remarks. That is the portion that we plan to recover in the balance of year as ultimately, we will restock inventory. We will get that absorption back as we need to prepare for the 2027 season.

Then about one-third of that headwind that I outlined is actually associated with the accelerated ramp, right? We obviously, as I said, accelerated the ramp from the standpoint of overtime, hiring, training and so forth. That's obviously not the most efficient way to ramp up. So I would say that headwind is part of Q2 and is in the rearview mirror. But ultimately, I'm very thankful to the outstanding performance of our operations team. Ultimately, we ramped up to demand. But as we pointed out, at comparatively higher cost.

And I think to your question about the price-cost equation, I think the simplest way to think through Q2 gross margin is that the combination of price and the contribution of lean and value engineering comfortably offset commodity inflation, tariffs and cost inflation in our plants. So all of that probably think of that as a 50-basis-point tailwind, which is our normal progression. We've seen that in prior quarters as well.

Then we add in Freedom. So Freedom is not doing anything to the group from an EBITDA percentage, but it's a slightly lower margin, lower cost business. So adding in Freedom is actually -- is a headwind of about 40 basis points to group gross margin. And then the overriding contributor to the gap in EBITDA margin is the volume leverage that I discussed, the incremental absorption costs, the incremental costs associated with the accelerated ramp that I just walked through.

Then I want to say we had two other impacts that are about $1 million, $1.5 million. They offset each other, but they are important to mention and understand. We did receive IEEPA tariff refunds. So we collected those. So that was a tailwind in the quarter. But then we obviously had transportation headwinds from the Middle East conflict.

We instituted a surcharge, not day one, right? It took us a couple of weeks to announce and then we always preannounce and implemented at a later date. So the transportation surcharge from a timing perspective lagged the impact itself. And then we were very thoughtful of setting the surcharge. But they were not set at a level supporting an oil price and subsequent diesel price beyond $100. So temporarily, we were a little bit uncovered from a transportation surcharge perspective.

So again, summarizing, gross margin could have been even higher if the ramp would have been more gradual, right? But on the other hand, as I said, I'm glad that the operations team lived up to the challenge and enabled that 14% top line growth and a 10% growth in gross profit. Maybe one last sentence from a gross margin cadence perspective in the quarter. The headwind was really limited to April, a little bit spilled into May. June and let me add in July as well, shows the usual gross margin and EBITDA expansion versus prior year that you're used to seeing from us.

Timothy Wojs
Okay. That's a lot of great color. I appreciate it. Nice job and go look on the rest of you guys. Thank you.

Oliver Gloe
Thank you.

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

Ryan Merkel
Hi everyone, thanks for the questions. Yeah, I want to follow up on Tim's question on the sudden surge of demand. I found that interesting as well. Is that comment broad-based across all the geographies or did you see that surge sort of in the Midwest and the Northeast as sort of the weather thawed? And then I'd like your thoughts on, what I hear from contractors is everyone

wants a less expensive pool because the in-ground pool has got so expensive. I wonder if you're starting to hear that from the contractors, if that's starting to help?

Sean Gadd
Yes, I think it's across the board. So when you looked at how the quarter performed, there's no one geography outperforming another. Generally, you've got the lift everywhere. Which I think has a lot to do with the fact that we are doing national advertising. So I think that's a good outcome. We have got our team in place. Our sales team has been in place consistently now for quite some time in our core markets. So I think we're getting the benefit of that. And then our southern markets, again, are doing a lot of the right activity and then starting to see some results with the dealers that they're working with. So that would have been across the board, not just a specific geography.

In terms of less expensive pools, I've traveled now through the states, and I've seen a number of dealers in the last month where people are trying or dealers are trying to get to a different price point to see if it opens up more of the market. I've got an example in Florida, I've got an example in Texas where they're offering a pool at $50,000, a basic pool, but offering at $50,000 and it's there to see if the market opens up. So we're not hearing as much noise as you described about looking for cheaper pools. However, our dealers are trying to see if opening at a price point of $50,000 opens up more market. And it's too early to tell.

Ryan Merkel
Got it. Okay. That's helpful. And then just a question on seasonality. I mean, typically, revenues are down kind of 6% from 2Q to 3Q. It sounds like you might actually beat that seasonality. It sounds like orders and everything is going pretty well. So just any comments on 3Q sales and the seasonality there?

Sean Gadd
Yes, the order file is looking really robust, so we like that. I think we feel good about Q3 and where it's going to go. I think our only challenge I see is if for whatever reason we end up with snow coming in early. But outside of that, we think it should follow a sort of standard quarterly flow and cadence. So that shouldn't make any difference.

Ryan Merkel
All right, got it. Thanks. Good quarter. I'll pass it on.

Sean Gadd
Thank you.

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

Andrew Carter
Hey, thank you. Good evening. I wanted to better understand kind of the issue you had during the quarter with the ramp-up. Was it all about planning? Because ideally, you're going to go to a world that, pools start growing low-single digits or if some people are right, mid-single digits. Does this say anything about kind of your future ability to capitalize on a tidal wave of demand or anything else, or was this just truly a planning for this year, therefore isolated, this doesn't say anything about the network demands?

Sean Gadd

Thank you, Andrew. Good question. I'll start with the ramp-up was certainly more extreme than what we've seen in the past. So it really is a planning issue. I will tell you, as I thought -- we've just come off our strategic planning and as we think into the future, we are going to make two adjustments. One is I'm highly confident we're going to continue to grow in the coming years.

So we are going to carry a little bit of insurance, and that will be either through people or inventory or both. So that will be the adjustment we'll make moving forward. And to be quite honest, we weren't quite in the ready position when the market hit partly because we didn't know that it was going to go that fast. So we thought to go to the traditional ramp-up as it had been in the past. And quite honestly, it came much quicker than we thought. So it's a planning issue.

Andrew Carter
Fair enough. Second question is, I think in the deck, you have the kind of old $750 million sales, $160 million EBITDA up from today. I got at the midpoint, that's a 32% EBITDA margin. So just to confirm today, with kind of the commercial initiatives that you have in place, essentially, you have all the resources in hand right now. There's no step change in SG&A or other investments such that it, kind of, you should still be planning on that 32% incremental from here? Thanks.

Oliver Gloe
Yes, I think the strategic model that we outlined, what is it, almost two years ago, I think it's still very much intact, right? I think we are very well on track to delivering the strategic part of the equation. Obviously, the market since then hasn't been as stable. As a matter of fact slightly going backwards, but none of the assumptions have changed significantly other than the contribution towards that model is more skewed towards the execution of the strategy rather than a snapback in the market.

Andrew Carter
Got it. Thanks. I'll pass it on.

Oliver Gloe
Thanks, Andrew.

Operator
Our next question comes from Jackson Schroeder with Craig-Hallum. Please go ahead.

Jackson Schroeder
Hi, sorry, this is Jackson Schroeder on for Greg Palm. I wanted to talk a little bit more about the Sand States and the growth out there. If you could kind of give a little bit more on the timeline to that Arizona-California expansion, kind of where you're at with Texas, and what some of the lessons you've had from growth in Florida is going to kind of inform that.

Sean Gadd
Good question. I'll start with Texas. I think my visit in Texas would suggest that the majority of the market is going to behave similar to what you would expect in Florida. And that I do believe our segmentation targeting and positioning around the neighborhoods and our overall approach around neighborhoods is going to work in Texas. I would tell you that part of the reason I'm expanding into Texas faster is, one, we like the early signs in Florida with the work we're doing. Two, quite honestly, we're undermanned in Texas. Texas is a very big market. I see it as a really big opportunity for us. And we've got Dallas covered and that's about it.

So we want to get into San Antonio, we want to get to Austin, we want to get into Houston. So we are going to man out there. And obviously, that will be self-funded through the programs that we spoke about earlier on the call. And then once -- the next step for me then is to look out at the West Coast. We have an opening -- a role open for a Vice President of Sand States West, that will be the first person we want to hire. And once we get that hire, then we'll start to look at Arizona and Southern California. I'm actually in Arizona in two weeks' time to have a look at the market.

Jackson Schroeder
Perfect. And then, I mean, just kind of a follow-up, but as we assume the kind of margin profile geographically, is it all kind of the same or are those slightly different just with how the market's a little different there?

Oliver Gloe
Again, I apologize, the line was not very clear.

Jackson Schroeder
Sorry. Is it kind of similar margin profiles across geographies? Or are they kind of different with the higher volumes that are produced out there?

Oliver Gloe
I would say it's a similar margin profile across the region.

Jackson Schroeder
Perfect. I'll leave it there. Thanks.

Oliver Gloe
Thanks for the question.

Operator
Our next question comes from Matthew Bouley with Barclays. Please go ahead.

Elaine Ku
Good afternoon. You have Elaine Ku on for Matthew Bouley today. Thanks for taking my question. So first, I guess within, high-single digit organic growth guidance, can you just call out, like, which category between, like, pools, liners, covers are you kind of seeing build towards that level and on the ground like between customer channels, backlog, what's kind of driving that confidence in the sustainability of this high-single digit organic growth trend?

Sean Gadd
Thank you for the question. I think from a growth perspective, all our lines are actually growing. So we feel good across the board. So that's autocovers, that's liners, that's in-ground pools. So we feel good about our portfolio. The second question around, is this sustainable and is there a load-in. Our products, I'll start with fiberglass, our fiberglass product line goes pretty much directly to dealers. So there's no real inventory or pileup of inventory. Our liners actually go through distribution primarily.

And yes, they're flowing right through. We're not seeing anything out of the ordinary from a sort of inventory growth perspective. And then I'll just say that after speaking to a number of our dealers in the last three or four weeks, their backlogs look sustainable and look kind of normal in terms of the number of weeks in which jobs are out.

Elaine Ku
Awesome. Thanks. And secondly, could you elaborate a little bit more on just how some of your variable cost base is trending? Color on maybe your raw materials, freight costs, labor exposure. What does that look like now?

Oliver Gloe
I want to say, coming out of COVID, we did a thorough job in variabilizing our cost base. I would say total cost base is about 70% variable, 30% fixed cost. We usually don't typically break down raw materials versus cost of the plant as that is different by product category. But I want to say coming out of COVID and after some of the restructuring and right-sizing we've done back then, I think that split 70-30 that I just mentioned before, I think has been fairly constant.

Elaine Ku
Thank you.

Oliver Gloe
Thank you.

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

Charles Perron
Hi Sean, Oliver. This is Charles Perron on for Susan. Thanks for taking my question.

Oliver Gloe
Hi Charles.

Charles Perron
Hi. First, I just want to talk about the momentum you are seeing from the Sand States strategy, Florida. As you expand in Texas, Arizona, and California, can you talk about the investments needed to support that growth? And how does this inform your ability to get SG&A leverage in the back half and in the coming years to support that growth?

Sean Gadd
Yes, I think it is going to require a small investment. And I say small because the marketing campaign is already a national campaign, so we are pretty much in every market. The local marketing that we do that we are carrying out in Texas actually is reasonably inexpensive, so it is effective but inexpensive. But as we expand those geographies we do not see a lot of marketing spend necessarily going up.

And when you think about salespeople, which is essentially the majority of the investments with boots on the ground, we are funding that through some optimization programs that Oliver spoke about on the call, which is, we have taken certain functions inside the business and we have eliminated some duplication, and we have been able to free up some dollars that will enable us to fund what we need to do in the southern markets. So I would not expect SG&A as a percentage to go up necessarily because it should all be self-funded either through volume and/or our program that we just talked about.

Oliver Gloe
And then Charles, let me add the other side of the equation, the CapEx investments. You have heard us talk about an additional $10 million between this year and last year to build those molds that resonate well in the Sand States. These are smaller rectangular feature-rich models, as well as we have taken some dollars to de-bottleneck and optimize the flow through our Sand State production sites, especially in Florida and Oklahoma.

Charles Perron
Got it. No, that is helpful color. And then my second one is, you know, you mentioned that you are going to end the year with net leverage below 2x. How do you think about the ability and willingness to do more M&A in this environment, considering the weaker macro backdrop that we're seeing these days? And when you think about, your expansion, especially in those states, Texas, Arizona, California, do you see maybe M&A as one way to help support your growth and your capacity across your network? Or more broadly, how do you think about the ability to or willingness to do more deals in this market?

Sean Gadd
Yes. In terms of M&A, I mean, the reality is we are continuously and always looking for opportunities. And you know, we have got sort of a background of one a year. And so we are looking at a number of deals, none of which are at a point where we are ready to pull the trigger on, but we certainly are doing the work to see what is out there. In terms of the Sand States and whether we think vertically integrating or doing something along those lines is necessary, it is too early to tell because quite honestly we are growing. The first few things that we are trying to do seem to be showing some signs of life and so we want to play that out for a little bit of time before we consider doing anything else.

Oliver Gloe
And maybe let me add one more sentence from a net debt leverage ratio perspective. I mean, with a year-end target of below 2, which is very realistic, that gives us a lot of dry powder to execute on our capital allocation policy, which one arm is M&A, but it is not the only arm.

Charles Perron
Got it. Thanks for the color, guys. Good luck for next quarter.

Oliver Gloe
Thank you.

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

Shaun Calnan
Hi guys. Thank you for taking my questions. The organic growth in in-ground pool sales, obviously is very impressive in the quarter. Are you able to break out the price versus volume there? And are you starting to see an acceleration in the fiberglass share gains just versus the overall in-ground pool market?

Oliver Gloe
Yes, let me – so if you take apart the 14% reported growth, it is 10% organic, of which 3% was price, right? So the majority sits in volume and with that share. And across the product lines, it is driven by in-ground pools. Within that, it is fiberglass pools. So that is where the growth is coming from and this is where we execute our strategy.

Shaun Calnan
Okay, and then if I back out the $2.8 million one-time expense, it looks like gross margin was slightly down year-over-year. Do you think you need to increase prices further this year in order to offset the input cost inflation you are seeing?

Oliver Gloe
So, you know, I think what you will see adding back the, what we call out as an incremental ramp-up expense, and you adjust for the adverse impact of the Freedom addition, you should see a gross margin which is slightly up. To answer your question going forward, yes, I think, you know, some of the impacts from the Middle East, especially on the commodity side, they are now going to start coming into the P&L towards mid or late Q3.

This is where, in my prepared remarks, I mentioned we have mitigation strategies in place. Earlier this week, we have announced the price for our vinyl liners. Price is one of the mitigation strategies, it is not the only one, volume and cost contribute as well. But yeah, absolutely, I think that there will be an additional price that is coming into Q3 based on the announcements earlier this week.

Shaun Calnan
Okay, great. Thank you.

Conclusion

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

Sean Gadd
Thank you. I just wanted to say once again, thank you for joining us. I feel very good about where the business is at. I am very excited about the year. We are happy to see the progress that is getting made, both from the operational side, as Oliver discussed, in terms of the ramp-up, because it did come quicker than we thought, but also obviously from the demand side. I think the sales organization and commercial organization is starting to come together. I think the business is running rather well. So with that, I just want to conclude. I want to thank everybody, and we will speak to you guys all soon. Thank you.

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