

Latham Group, Inc.

Fourth Quarter and Full Year 2025 Earnings Conference
Call

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CORPORATE PARTICIPANTS

Sean Gadd--*President and Chief Executive Officer*

Oliver Gloe--*Chief Financial Officer*

Casey Kotary--*Investor Relations*

PRESENTATION

Operator

Welcome to the Latham Group, Inc. Fourth Quarter and Full Year 2025 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 fourth quarter and full year 2025 earnings press release, which is available on the Investor Relations portion of our website, where you can also find a slide presentation that accompanies our prepared remarks. 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 accompanies our prepared remarks, which can be found 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 the call to discuss Latham's fourth quarter and full year 2025 results. In my first conference call as CEO of Latham, I have the good fortune to be reporting on the strong results that the company achieved in both the fourth quarter and the full year of 2025. This performance demonstrates excellent execution by the Latham team.

As you have seen from this afternoon's earnings release, fourth quarter revenues were up 15%, showing a solid growth across all of our product lines. We were especially pleased by the fourth quarter pickup in our in-ground pool sales which brought our full year in-ground pool sales to 1% above 2024 levels – impressive performance for the year, within an industry in which we estimate that U.S. in-ground pool starts declined low- to mid-single digits. With the benefit of good weather and extended selling season, dealers were able to work through their backlog. This strong result reflects an increased demand for Latham's fiberglass pools.

Fiberglass represented 76.5% of our in-ground pool sales in 2025 with year-on-year growth of Latham's fiberglass pool sales of approximately 2.5%. As a market leader, Latham has been the key driver behind the increased adoption of fiberglass pools, which we estimate gained another percentage point of market share in 2025 to account for approximately 24% of last year's U.S. pool starts. The steady growth in fiberglass market penetration in the U.S. reflects the success

of Latham's branding and marketing programs, emphasizing the benefits of a fiberglass pool against any alternative solution.

The competitive strengths of fiberglass pools, mainly their fast and easy installation, sleek designs matching current consumer preference, and lower maintenance requirements, all at an affordable price, makes Latham fiberglass pools the best alternative in the marketplace.

While the estimated 24% penetration of U.S. pool starts for 2025 represents significant growth from 16% in 2019, this is considerably below the 70% fiberglass penetration in my home country of Australia and meaningfully below the approximate 40% to 50% penetration in key European markets, which really excites me as I think about the future and the size of the opportunity.

When I consider the attributes of fiberglass from the vantage point of my many years of experience successfully selling against the standard in the building industry, I see substantial runway for accelerated conversion to fiberglass, particularly in the Sand States, which I'll talk about in a moment.

Another key accomplishment for 2025 has been the positive momentum in our covers and liners product lines, which delivered a meaningful contribution in both fourth quarter and full year sales results. The 22% growth in autocover sales in 2025 was a function of very positive consumer response to the unparalleled safety and peace of mind that autocovers offer. This is further highlighted by our partnership with Olympic Gold Medalist and Pool Safety Advocate, Bode Miller, and his wife Morgan, to promote full safety and the safety advantages of our autocovers.

As a reminder, Latham's autocovers are compatible with all in-ground pool types with the advantage of providing the homeowner with a significantly more attractive alternative to fencing, while also delivering cost savings from reduced water evaporation, reduced energy for pool heating, and reduced chemical consumption, essentially autocovers pay for themselves within 4 to 5 years.

Liner sales increased 4% in 2025, thanks to our industry-leading lead times and the successful rollout of our proprietary AI-powered measuring tool. Measure streamlines the liner and winter safety cover measurement and quoting process for installers, ensuring a high degree of accuracy that can be completed in as little as 30 minutes.

This tool is fully integrated with the Latham order entry and processing system, which allows installers to get real-time quotes, submit orders, and track their status by providing Latham with first-look at all quoting opportunities and helps optimize schedules and operations.

Approximately 20% of the installers who purchased this tool during the year were new to Latham, enabling share gain in our liner and winter safety cover products. In 2025, the Latham team executed effectively on a strategic priority, expanding into the Sand States; in particular, and company gained considerable ground in Florida, our initial target market, achieving double-digit sales growth for the year.

This good growth was achieved by expanding our dealer network, establishing a presence for Latham in several master-planned communities, and nurturing our strategic partnerships with select custom homebuilders, who will feature our fiberglass pools in their developments when they begin building. The percentage of Latham sales volumes derived from the Sand States remains steady at approximately 17%. This reflects our considerable growth in Florida and a

pickup in Arizona, offset by the tough Texas market, where pool permits declined at a double-digit rate.

I recently spent two weeks in Florida engaging with the commercial team and some of our dealers while visiting our priority master planned communities and touring our Zephyrhills manufacturing facility, which demonstrated to me that Latham has the best fiberglass pools in the industry. I came away even more enthusiastic about the opportunity and upside in Florida than I had originally thought while I was doing my research in joining Latham.

First, the opportunity for fiberglass pool penetration in Florida and other Sand States is large. Second, the advantages of fiberglass pools are resonating with qualified, established dealers, several of whom indicated their desire to partner with us in our master planned communities. They recognize the benefit of providing their customers with a high-quality product, which boasts lasting durability, elegant appearances, and a smooth, low-maintenance finish.

Not only do they get to sell a great product that meets the needs of the homeowners, they are able to capture the benefit of quicker, easier installation. Shorter cycle times mean that dealers can improve their cash flow through the install process and triple or quadruple the number of pools they sell and install annually, resulting in more profit for them in the end.

Thirdly, Latham clearly has increased its brand awareness among consumers and dealers in Florida through several high-profile marketing campaigns paired with local activations. We still need to do more of this, as the number one gap I see is ensuring the homeowners gain awareness of the true benefits of fiberglass and why it is the right solution for their backyard to enable their dreams of creating wonderful memories to come true.

Together with the speed at which our pools can be installed allows homeowners to enjoy their pools in days instead of the traditional months when compared to the standard, which is concrete. In 2026, we plan to increase our investment in branding and marketing in a very targeted way to capture greater consumer awareness with a network of trusted dealers who are able to fulfill the demand we generate. I'm excited to bring a market development framework and approach to Latham that I believe will make us even more effective than we've been to date.

As we continue to focus on accelerating organic growth, you can also expect Latham to continue to consider select acquisitions that provide us with revenue synergies and/or expanded geographic reach that will be accretive to our earnings. Just a few days ago, we completed an acquisition that meets all three criteria. Oliver will provide more details shortly.

From my perspective, Freedom Pools represents an excellent acquisition in that it: one, significantly expands our market position in Australia and New Zealand – two countries where fiberglass pools are highly preferred by consumers and builders; two, it gives us entry into new markets in Western Australia, which represent a large market with Perth being one of the fastest-growing cities in Australia; and thirdly, it is immediately accretive to our earnings. We welcome the Freedom Team to Latham.

To sum up, our fourth quarter and full year 2025 performance demonstrates Latham's fundamental strength and ability to drive considerable growth in sales and adjusted EBITDA in a down market. This proven capability differentiates us in the marketplace and provides the foundation for future growth and enhanced profitability. Now I will turn over the call to our CFO, Oliver Gloe, who will provide further detail on our Q4 and full year financial performance,

including the drivers of our continued margin expansion in 2025 and in support of our 2026 guidance. Oliver.

Oliver Gloe

Thank you, Sean. And good afternoon, everyone. I am pleased to review our fourth quarter and full year results and to report that our full year 2025 sales exceeded the midpoint of our guidance range, while our adjusted EBITDA performance was above our guidance range, demonstrating the benefits of volume leverage and production efficiencies. Please note that all comparisons we discuss today are on a year-over-year basis compared to the fourth quarter and full fiscal year 2024, unless otherwise noted.

Net sales for the fourth quarter of 2025 were \$100 million, up 15% compared to \$87 million in the fourth quarter of 2024, reflecting strength in fiberglass pool sales as well as increased demand for autocovers. Organic growth was 14% for the quarter. For the second consecutive quarter, all three of our product lines – in-ground pools, pool covers, and pool liners – experienced year-over-year growth. By product line, in-ground pool sales were \$50 million, up 15% from Q4 2024, showing strength in both fiberglass and packaged pools and representing a quarterly shift in the sales cadence given an elongated season due to favorable weather conditions in Q4.

Cover sales were \$37 million in the quarter, up 19%, benefiting from increased adoption of autocovers and the two small Coverstar acquisitions we made in February of 2025. Liner sales were \$13 million, up 2% compared to fourth quarter of 2024, remaining resilient relative to the overall pool market due to the replacement cycle of these products and our industry-leading lead times.

Gross margin expanded by 340 basis points to 28% in the fourth quarter, primarily resulting from volume leverage and the continued benefits from our lean manufacturing and value engineering initiatives. SG&A expenses increased to \$31 million, up \$4 million from \$27 million in Q4 of 2024, largely driven by investments made in sales and marketing initiatives and personnel to drive increased penetration of fiberglass pools and autocovers, as well as higher performance-based compensation. Net loss was \$7 million, or \$0.06 per diluted share, compared to \$29 million, or \$0.25 per diluted share, for the prior year's fourth quarter.

Fourth quarter adjusted EBITDA was \$10 million, up \$7 million, almost 3x the \$3.6 million in the prior year period. This strong performance primarily resulted from increased fiberglass pool sales, benefits from higher plant absorption, efficiencies from lean manufacturing and value engineering initiatives, and continued cost discipline. Adjusted EBITDA margin was 11%, a 630 basis point increase year-over-year.

Now turning to our full year results comparison. Net sales were \$546 million, up 7% compared to \$509 million in the prior year, reflecting higher sales volume from both organic and acquisition-related growth and tariff-related price increases. Notably, this performance was achieved while we estimate the U.S. in-ground pool market to be down low- to mid-single digits in 2025.

Organic growth of 5% benefited from execution on our key strategic priorities to drive awareness and adoption of fiberglass pools and autocovers. Acquisition-related growth reflected the Coverstar Central transaction that was completed in August of 2024 and the acquisitions of smaller Coverstar New York and Tennessee, which we completed in February of 2025.

All three product lines showed year-over-year growth. Latham's in-ground pool sales for the full year were \$262 million, up 1% year-over-year. Importantly, this growth was achieved against a backdrop of a decline in U.S. in-ground pool starts in 2025, primarily as a result of our success in increasing the awareness and adoption of fiberglass pools.

As Sean mentioned, we estimate that market penetration of fiberglass pools increased again by 1 percentage point in 2025, and we see a long runway for continued conversion from concrete pools, especially in the important Sand State markets.

Cover sales were \$161 million, up 22%, driven by organic and acquisition growth. Liner sales were \$123 million, up 4% compared to the prior year period, reflecting our industry-leading lead times and the increased adoption of our Measure Pro tool, which enables pool builders to accurately and efficiently measure both pool liners and covers.

With the introduction of our mobile app, Measure Go, in the third quarter of 2025, we broadened access to more builders as we seek to make the measurement and quotation process as seamless as possible.

Gross margin expanded by 320 basis points to 33% compared to 30% in the prior year, primarily resulting from our lean manufacturing and value engineering initiatives and a margin benefit from the three Coverstar acquisitions, as well as volume leverage.

SG&A expenses increased to \$123 million from \$108 million in 2024, reflecting our increased investment in sales and marketing initiatives to expand the awareness and adoption of fiberglass pools and grow our market share in the Sand States, as well as investments in digital transformation, along with the impact of the Coverstar acquisitions.

Net income for the full year was \$11 million, or \$0.09 per diluted share, compared to a net loss of \$18 million, or \$0.15 per diluted share, from the prior year. Adjusted EBITDA was \$100 million, up \$20 million compared to \$80 million in the prior year, as a result of higher volume and our structurally improved business model. Adjusted EBITDA margin of 18.3% was 250 basis points above the 15.8% in 2024, thanks to our strong gross margin performance, which more than offset higher SG&A expense.

Turning to our balance sheet and cash flow statement. We ended the year in a strong financial position, which gives us the financial flexibility to fund organic growth projects as well as acquisition opportunities. Our cash position at year end was \$71 million. Net cash provided by operating activities was \$11 million in the fourth quarter and \$51 million for full year 2025.

We ended the year with total debt of \$280 million and a net debt leverage ratio of 2.1, in line with our expectations. Capital expenditures were \$25 million for full year 2025 compared to \$20 million in the prior year, with most of the additional investment going into our facilities in Florida and Oklahoma, as well as molds for smaller rectangular pools with spas, which are popular in the Sand States.

As Sean noted, we are pleased to have recently completed the acquisition of Freedom Pools. We expect incremental net sales of approximately \$20 million and incremental adjusted EBITDA of \$4 million on an annualized basis, which we have reflected in our 2026 guidance.

In addition, we recently completed the purchase of four of our key fiberglass production sites. These sites, which previously were leased, are important to our network and future growth.

Including these acquisitions and the buildup of seasonal networking capital, we expect our net debt leverage ratio at the end of the first quarter to remain below three and to improve again thereafter.

Turning to our outlook for 2026, we believe that U.S. in-ground pool starts this year will be approximately in line with 2025. Despite these continuing trough conditions, we believe Latham is uniquely positioned to outperform the overall market once again.

This expectation is supported by our category leadership in fiberglass pools and autocovers and the continued execution of our strategic priorities; namely driving the awareness and adoption of fiberglass pools and autocovers, accelerating fiberglass conversion in the important Sand State markets, and opportunistically making accretive acquisitions.

With this as a backdrop, our 2026 guidance is between \$580 million and \$610 million in net sales and between \$105 million and \$120 million in adjusted EBITDA, representing year-on-year growth of 9% and 12.7% respectively at the midpoints. This includes our expectation for mid-single-digit organic growth together with the benefits from the Freedom Pools acquisition and considers increased marketing expenses.

Capital expenditures are projected to be in the range of \$42 million to \$48 million. In addition to the \$25 million that includes maintenance CapEx for 2026 and the carryover of certain projects from 2025, the additional expenditure relates to the purchase of four of our fiberglass manufacturing facilities in Florida, Texas, California, and West Virginia as well as investments to upgrade the newly acquired Freedom Pools manufacturing facilities.

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

Sean Gadd

Thank you, Oliver. As you just heard, we are expecting a year of very positive performance from Latham in 2026. Our 9% growth expectation for this year at midpoint guidance is underpinned by Latham-specific performance, as we believe trough market conditions are likely to continue for much of the year, with new U.S. in-ground pool starts approximately at 2025 levels. From my experience, soft markets are good opportunities for us to accelerate our Sand State strategy and execution, as dealers and homebuilders will be more willing to consider change in soft markets versus stronger markets.

In 2026, we'll continue to execute on our key strategic priorities, namely to build the Latham brand, and drive increased awareness and adoption of fiberglass pools and autocovers, which we expect will enable us to continue to significantly outperform the U.S. in-ground pool market while maintaining our focus on safety and excellent execution.

Since joining Latham, I have met many of our customers, industry leaders, and our commercial people and have toured three of our manufacturing facilities. It is clear to me that Latham is a highly respected brand and a company with the best and broadest product line-up in the industry with a highly engaged workforce. I see tremendous opportunity for Latham to grow in the years ahead, and I'm excited to drive our market penetration in the Sand States, rest of North America, Australia, and New Zealand.

With our extensive distribution network, high-quality fiberglass pools and autocovers, and best-in-class lead times, we are positioned for accelerated profitable growth, especially when the market rebounds over the coming years. I'll be leveraging my past experience to drive greater

consumer awareness and demand for fiberglass and autocovers and further enhance the value we deliver to our dealers. I would like to thank our dealers, industry partners, and our employees for their contributions to our success in 2025 and I look forward to working together in 2026.

Operator, please open the call for questions.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. [Operator Instructions]. The first question is from Greg Palm with Craig-Hallum Capital Group. Please go ahead.

Greg Palm

Yeah, thanks. Congrats on a good finish to the year. Sean, I wanted to start with you and recognize it's been a kind of short time since you've been CEO, but what did you learn, what excites you, and it's probably a little bit too early to ask this question, but in terms of any change in strategy or anything you want to lean into a little bit more going forward?

Sean Gadd

Thanks Greg, good question. It's been a fast eight weeks, I guess, and I've seen a lot of parts of the business. From my perspective, I'm very excited about what the opportunity looks like in the Sand States. I think that is somewhere we will continue to lean on. I think from my perspective, what I've learned in my past about market development, I think I can help the team to get a little bit more focused and drive true market development into the MPCs. And for me, that's really about lead generation, quality of leads, getting the brand where we want it. At the same time, getting qualified dealers into the MPCs that are going to fulfill that demand.

When I think about qualified dealers, I think there's a lot of work we can do around segmentation, targeting, positioning around which are the right dealers, being clear on what our positioning is to those dealers, which is to make more money. And then importantly, for me, is getting those dealers to a position in the home to be able to talk to our fiberglass value proposition as well as we would. And I think when we do all that right, I think we'll start to get some leverage in the Sand States. And then when I back out a bit in general, the business is running very well. I see opportunity even in our Northern markets, which will ultimately help us fund what we want to do and need to do in order to grow in our Sun States.

Greg Palm

And you seem pretty excited about the conversion opportunity and I'm just curious, is there any change in strategy in helping to accelerate that conversion opportunity or is it more just sort of leaning into some of the initiatives that have been done and really accelerated over the last year or so?

Sean Gadd

I think there's a lot of leaning in, but one of the things I'd add to it is managing the install cost of the job. So anytime when you're selling against the standard, the natural state is to put insurances into the job, so you don't lose any money, or the job doesn't go wrong. And so controlling that to some degree -- because again, we're a very small portion of the total cost of a job -- so us being able to manage it all the way through, I think will be an important addition to what we're trying to do.

Greg Palm

Yes, okay. And then just one for Oliver. Can you help just unpack the guide for '26 on a segment basis in terms of that mid-single-digit organic growth? Is that across the board in pools, covers, liners? Is it skewed towards one category versus the other? I know you're coming off of a pretty good year in covers, but what's your overall thought on a segment basis? Thanks.

Oliver Gloe

Yes Greg, so again, overall the guide is about 9%. The organic part of it is 6% across the different product categories. As you would expect, the majority of the growth and key growth drivers will continue to be fiberglass, the continued conversion especially indexing towards the Sand States as well as continued growth through awareness and adoption of autocovers. We do, as part of our guidance, project that all three of our product categories continue to grow like they've done in '25 but again indexing towards fiberglass pools as well as autocovers.

Greg Palm

Okay, appreciate the color. Thanks.

Oliver Gloe

Thanks, Greg.

Sean Gad

Thank you.

Operator

The next question is from Tim Wojs with Baird. Please go ahead.

Tim Wojs

Hey guys, good afternoon. Welcome, Sean. Maybe just first question that I had, just I guess how would you, if you kind of step back and look at the early demand indicators you have in maybe January and February and kind of coming into '26, I guess how would you kind of frame those relative to kind of a normal year for '26?

Sean Gad

A couple of things. First, obviously we just come out of the season where we get to meet all of our dealers and our industry partners. I think it's been a relatively strong -- obviously, the quarter was relatively strong in terms of Q4 and that's driven by a number of things.

One, I think really good performance from the team. Two, we got an elongated sales cycle in that quarter because the weather turned out to be pretty good, which as you think about going into Q1, a little bit different with a bit of bad weather coming through.

But in general, I think the industry is sort of believing that it's going to be a flat year, and I think there's so many things that are kind of going against the industry today that will need to be lifted, things like interest rates, things like consumer confidence that will help get the starts going. But in general, tough market conditions, but feel good about what we can deliver in that environment.

Tim Wojs

Okay, okay. And then Oliver, I think the midpoint of the guide is maybe 50, 60 basis points of EBITDA margin expansion. Could you just help us kind of break that down between what the gross margin contribution is and maybe what SG&A should be?

Oliver Gloe

Yes, as you would expect, right, so the majority of the margin contribution comes from higher gross margin, especially the continuation of our initiatives in lean manufacturing and value engineering. Those paid dividends in 2025, they will continue to pay dividends in '26 as well.

You will with the increased top line see a modest degree of volume leverage and then to bring that down on an EBITDA percentage, which is 60 basis points up, you have higher gross margin that outperforms the increased investment in SG&A as we are ramping up our sales and marketing efforts in fiberglass, especially geared towards the Sand States.

Tim Wojs

Okay. I mean, I guess if I look at gross margins, you're probably up close to 300 basis points a year for the last couple of years. I mean, is it that type of magnitude of gross profit improvement or is it a lot more measured this year?

Oliver Gloe

I want to say it's probably not going to be the 300-plus gross margin expansion, 300-basis-points-plus gross margin expansion that you've seen both in '25 as well as '24. It'll be a little bit more moderate, but our expectation is that we take a meaningful step towards that 35% gross margin.

Tim Wojs

Okay, okay, very good. And then just the last one, just on the Sand States. Did you -- I didn't quite catch it, did you say the Sand States as a percentage of sales were about flat year-over-year in terms of, I think 17% or, I guess, similar year-over-year? I guess, A, did you say that and I guess, two, how did Florida do within that?

Oliver Gloe

That's correct. So we stayed about flat. Within that, Florida was the shining star and certainly our focus in 2025 with a double-digit growth and a strong outperformance versus the market as measured against the permit data.

I think a close follower to that was Arizona, obviously on a much smaller scale for us, right? And then we had Texas, which obviously -- where permits were down and as a result, you know, that reflected on our business as well as we shifted focus towards Florida.

Tim Wojs

And is it fair to think that now that you've become a little more seasoned in Florida and you've got at least one pool season, if not a season and a half behind you, that the Florida trends could actually begin to accelerate from here as you kind of build on that momentum?

Sean Gad

I'll take that. I do think we should be able to accelerate Florida. What I'm trying to figure out as I get into the business is a formula that we can take into Texas. So, obviously we've got the Sand State strategy. I believe that we've got most of the pieces right for that; we've got to do some fine-tuning.

And then I think there's a piece as well to think about, which is builders, how we think about single-family new construction builders. I've got a background in the new construction world,

and I think I've got some segmentation models that I think can work. And like I said on my call is, you know, you've got an opportunity down-market to really change the way people do things.

And there's two different paths for a builder when they think about a down-market is to pretty much batten the hatches or to differentiate their way out of it because they're trying to sell more homes or sell more homes for more money.

And so we've got examples of both. I've got an example of Lennar telling us we're going to batten the hatches and you've got Taylor Morrison who's offering \$50,000 of upgrades or actually including a pool. So I think that's a piece I'd like to get to understand a bit more before we go and really look to accelerate across the South.

Tim Wojs

Great. Well thanks for all the color and good luck this year.

Sean Gad

Thank you.

Oliver Gloe

Thanks, Tim.

Operator

The next question is from Scott Stringer with Wolfe Research. Please go ahead.

Scott Stringer

Hey guys, thanks for the time. When I dig into your 10-K and 10-Qs, it seems like industry pricing has been fairly muted for the past couple of years. Maybe some of that's mixed. So just wondering what your outlook for pricing is in 2026 and if there's any pricing power in the industry this year?

Oliver Gloe

Yes, I think you're absolutely right. Price has been sort of flattish. I'll remind you though that during 2025 right around June, we did have a price increase of about \$10 million to cater to the tariff headwinds that we saw at the time and still see today.

So from a price perspective in 2026, you'll have two things, one is the run rate and full year impact of that June 2025 price increase -- again, for simplicity of math and modeling take half of that \$10 million -- plus the normal annual and seasonal price increase that we usually take for -- to cover inflation and so forth. So I want to say price, being the combination of both, will probably be adding 2% to our top line.

Scott Stringer

Yeah, that's interesting. And then for my follow-up question just on customer financing. Interest rates seem to be coming down a little bit here, but outlook for flattish pool installs. So is interest rate a tailwind in this sort of macro backdrop or is that not really embedded in the outlook?

Oliver Gloe

So, I want to say, so interest rates certainly help, if they certainly come down. We don't yet see a pickup from that. And what I attribute that to is, in an environment where the next quarter might have a lower interest rate, I think a lot of homeowners are on the sidelines, right? An

expectation of lower interest rates ahead just means that the pool buying decision tomorrow will be less expensive than the pool buying decision today, at least for the part of interest cost.

So I think it's a good trend. I think what I would like to see in 2026 is that we get to the new normal, a new interest rate that is stable going forward. I think that might incentivize the homeowner to make that decision to buy a pool in the season.

Scott Stringer

Got it, really appreciate the detail. Good luck guys.

Oliver Gloe

Thanks Scott.

Operator

The next question is from Matthew Bouley with Barclays. Please go ahead.

Anika Dolakia

Good evening, you have Anika Dolakia on for Matt today. Thank you for taking my questions. So first off, I just wanted to circle back on the MPC strategy. You guys spoke to leaning into the conversion efforts and you called out more growth this quarter in Florida, which is great to hear. Right now, it seems, that you guys are targeting smaller, mid-sized communities. So I'm just curious on the longer-term vision for this. Is the vision to partner with large-scale production builders or how are you thinking about further penetration in this channel? Thanks.

Sean Gadd

So thank you Anika. I'll answer that. I mean, we are -- the MPCs, I'll start with, are relatively large. When I drove through there, you're talking communities of 65,000 homes. So it's a pretty large community, obviously multiple builders in that community. Majority of pools, from what I understand, go in sort of one year after purchase or one year after you move in, one to three years.

So the starts where we are today is pretty much aftermarket, to go and attack that MPC. But I do envision us going after builders. But you mentioned the big national builders -- you've really got to earn your way into the space of the national builders. And from my perspective, market development starts at the highest price point that's available to you and you're looking for a visionary builder who wants to put pools in to differentiate themselves.

And then slowly you work your way down in price point until eventually you land when you're face-to-face competing with a national builder. At that point, the national builder starts to pay attention. So, I do think we'll end up playing in that space. I don't think we're ready to do that yet, but I do see that being a future play for us, as we slowly do our market development to get to that price point.

Anika Dolakia

Great, thank you for that, Sean. And then for my second question, Oliver, can you give us more detail on the appetite for capacity expansion beyond these four facilities you guys mentioned? Or do you feel well-equipped with the current capacity levels in 2026? And then just any details around the cadence of the spend flowing through the year. Thanks.

Oliver Gloe

Yeah, I think -- first of all, let me address the purchase of the four fiberglass facilities. They were facilities that were sort of in our grid already; we leased them. They're very strategic for us. We did want to buy them and did that earlier in the year, we did that early February. I think from a capacity standpoint, Anika, I think we have everything we need, right?

I always in the earnings call refer to when this business was -- or the market was at 117,000 pools in 2021. We actually had free capacity especially in fiberglass since then. Obviously, the market is almost at half, and we've done some reduction of redundant capacity in the aftermath of that market decline. But we've also built capacity.

We've built capacity through Kingston, and the expansion of Oklahoma. So net-net, and then I might add, we also built capacity through our lean and value engineering initiatives. So net-net, we probably today have more capacity than we had when the market was double the size.

So I think from a high-level perspective is we have what we need from a capacity standpoint for the foreseeable future. I think as we develop our Sand State strategy, there are some geographies with in Arizona that may need some adjustments going forward in terms of building capacity. But I think for now we have what we need.

Anika Dolakia

Thanks both, I'll pass it on.

Oliver Gloe

Thank you.

Operator

The next question is from Susan Maklari with Goldman Sachs. Please go ahead.

Susan Maklari

Thank you, good afternoon everyone. My first question is on the dealer backlogs coming into this year. Can you just talk a bit about where they are and what you're hearing from your dealers ahead of the spring?

Sean Gadd

Yeah, I think there's two parts to that question. The first one is our dealers were able to get a lot of work done with the extended season in Q4. That said, when I think about our backlog -- very pleasing result early in the year. Obviously, weather's playing a little part of that right now; I mean I'm sitting here in New York and it's snowing. But in general, I'd say that backlogs look pretty good. I think that the dealers are feeling relatively optimistic about where the year might be.

Susan Maklari

Okay, all right, that's encouraging. And then turning back to the margins. You've made a lot of really nice progress with the value engineering initiatives. Can you talk about where you see opportunities from here, and how we should think about the benefits of that starting to flow through?

Oliver Gloe

So I think, let me start with lean manufacturing. Lean manufacturing is more working on the process, whereas value engineering is more working on the product. I think lean manufacturing

is between the two, the more mature program. Think of a lot of Kaizen events, workshops that are then after completion, expanded to best practice learning and expanded to the other sites. I think lean manufacturing is in our DNA.

It's how we improve on a year-by-year basis. So, lots of little projects that add up to something meaningful at the year end and I expect that to continue over the next few years as well. Whereas value engineering, think of the work on the product to make the product more, give it a higher quality, a better appearance, but also take out some costs, right?
Re-engineer the material base.

So here I would say there are more low-hanging fruits and more bigger projects that we then can replicate across the grid. Again, lean manufacturing a little bit mature; value engineering is probably more new to us. We have a great organization with PhD-level material scientists that we have great expectations for in 2026 as well as the years beyond.

Susan Maklari

Okay, and maybe just building on that, Oliver, you've done a lot in terms of new product introductions more relatively recently. Can you talk about the momentum that you're seeing with those and anything that you have planned for 2026 in terms of product launches that we should be aware of or paying attention to?

Sean Gadd

I'll take that Susan. I think from my perspective we've done a fair bit of, to your point, a fair bit of innovation. We won't disclose kind of what we've seen so far in terms of growth, but what I will tell you based on my movements around the marketplace is we've reacted to some trends and have built the right product lines to basically cover where the market's going in general. And then we've got Sand States-specific investment around product which has been completed. So, we have the right product for Florida that will enable us to penetrate and we now started and have pretty much the right product for Texas as well.

So, as the Sand States grow, you'd expect those product lines to grow as well. And then obviously with Measure, we continue to drive that. We got good penetration in the first full year of launching and we see that as continuing to penetrate through the marketplace and getting more people using it, enabling us to get more liners and safety covers.

Susan Maklari

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

Sean Gadd

Thank you.

Oliver Gloe

Thank you.

Operator

The next question is from Shaun Calnan with Bank of America. Please go ahead.

Shaun Calnan

Hi guys, thank you for taking my questions. Just the first one so we've seen pretty strong improvement in search trends for new pools and then meaningful outperformance in the search trends for Latham. What do you think is holding potential buyers back at this point and how do

you unlock that and turn those into sales? Is it just a matter of rates, consumer confidence? What do you think the key drivers are?

Sean Gadd

Yeah, that's a good question. I think it's multifaceted. One, when I was in Florida and certainly at the International Builder Show, I was surprised how many people didn't understand fiberglass, didn't even know how fiberglass pools get installed in the backyard, and one person actually asked if it comes in two pieces.

So, we've got some education, basic education we need to do and awareness, which is -- and you'll see that there's ads on TV and that will continue and will always be on. The second part of it is, you know, we are, we don't, a homeowner doesn't engage with our brand at a high frequency, so we're not a consumer good. However, when they're in the cycle of buying something, they do engage.

Now the key for me is ensuring when they engage and get onto the path to purchase that we don't drop them and we don't lose them. And so, when I think about what causes a homeowner angst and why they might drop off the path to purchase, it's usually around decision-making. And the first decision-making is what contractor should I use? Do I know this contractor's going to be here next year when something goes wrong? So that's the first question we have to help them feel comfortable with.

And how do we do that? We make sure that the segmentation of the right dealers are available to them at the MPCs so that we can make sure that the story is being told at the kitchen table and the work and the quality is where we want it to be in the MPCs. The second challenge will be around colors and around shapes and sizes, right? So those are all decision points where a homeowner might get frustrated and might decide to defer.

And so, our job is to make all those things with tools as easy as possible, which we'll develop over time, but make sure that we meet our consumer when we need to and make sure we have the right tools to make their decision-making much easier. Then at least we're controlling what we can control. The macro environment is out of our control. When that comes back, we'll get the benefit of it. But we have plenty to do to make the path to purchase much easier than it is today.

Shaun Calnan

Okay, great, thanks. And then on the acquisition of the manufacturing facilities: so that's increasing CapEx next year. Is there any impact to the P&L in terms of lease expense or depreciation and amortization? And then what are you guys expecting for free cash flow next year or this year?

Oliver Gloe

So, in terms of the impact to the P&L and I'll limit my comments to EBITDA. So the purchase replaces a lease expense in the neighborhood of about \$1.5 million annually. In terms of free cash flow, we don't specifically give guidance on free cash flow, but we've disclosed our CapEx needs. The acquisition of Freedom was about \$17 million and net of those two impacts, meaning the acquisition of the four fiberglass facilities as well as the acquisition of Freedom Pools—the additional EBITDA will flow through to free cash flow.

Shaun Calnan

Great, thank you.

Sean Gadd

Thanks Shaun.

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

First of all, I want to just thank everybody for joining us today. Obviously, this was my first call with Latham and it's been a good time to join the business because we had a fantastic Q4 and certainly a good 2025. Very excited about what 2026 will bring and beyond. I think we've got lots of opportunity, a great product, a great brand, and I think we can build on that to make it even better. With that, obviously I've met with some of you in at the different shows. I look forward to catching up with you on calls post this call and out at some conferences in the near future. So, thank you very much.

Operator

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