

Latham Group, Inc.

First Quarter 2025 Earnings Conference Call

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**CORPORATE PARTICIPANTS**

**Scott Rajeski** - *President, Chief Executive Officer*

**Oliver Gloe** - *Chief Financial Officer*

**Casey Kotary** - *Investor Relations*

## **PRESENTATION**

### **Operator**

Good day, and welcome to the Latham Group, Inc., First Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "\*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "\*" then "1" on your touchtone phone, to withdraw your question, please press "\*" and then "2." Please note this event is being recorded.

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

### **Casey Kotary**

Thank you. This afternoon, we issued our first quarter 2025 earnings press release, which is available on the investor relations portion of our website. 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 is available on our investor relations website.

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

### **Scott Rajeski**

Thank you, Casey, and thank you all for participating in today's call to review our first quarter results and discuss our business outlook. Our first quarter performance was in line with our expectations. And although this quarter represents only a small percentage of our annual seasonal demand, we were pleased with the direction it represents. After a few slow weeks in early January, we saw a nice sequential pick-up of business activity in March that continued through April and into May.

Overall business trends have remained consistent with what we discussed two months ago on our fourth quarter 2024 earnings call, a slightly more favorable industry outlook heading into the season than we observed this time last year, but still expecting tough market conditions to persist for 2025 with new pool starts projected to be stable with 2024 levels.

As a result, the key takeaways from our first quarter performance are even more encouraging. First, we saw relative strength in our fiberglass and autocover product categories. Second, we made notable progress on our Sand States expansion strategy, which represents a significant

growth opportunity for Latham. And third, we delivered a 190 basis point expansion in gross margin that reflected the ongoing benefits from our lean manufacturing and value engineering initiatives.

Taking a closer look at business trends, we expect fiberglass pools to gain another 1% of market share in the in-ground pool sector in 2025 as consumers are attracted by the cost advantages, fast and easy installation and eco-friendly attributes of this product category as compared to concrete pools.

Additionally, we believe the scarcity of labor will be a tailwind for fiberglass given the much greater labor intensity associated with building a concrete pool compared to a fiberglass pool. According to recent research, 46% of pool builders cited limited access to qualified labor as having a substantial impact on their ability to build new pools.

As you may recall from last quarter, we announced two smaller acquisitions of Latham autocover dealers, Coverstar New York and Coverstar Tennessee, in addition to the Coverstar Central acquisition, which we completed last August. These tuck-in acquisitions are integrating well and further strengthening our position in this growing product category.

Our sales of autocovers outperformed in the first quarter, reflecting a combination of organic growth and the benefits of all three acquisitions. Autocovers offer significant savings and maintenance benefits for pool owners. These include reduced water evaporation, lower pool heating and electricity costs and decreased chemical usage, allowing the autocover to effectively pay for itself within four to five years through cost savings. And in some parts of the country, it eliminates the requirement for fencing around the pool. Most importantly, autocovers provide a critical layer of safety. May is National Water Safety Month. And last week, we announced a meaningful partnership with Olympic gold medalist, Bode Miller, to raise awareness about pool safety.

Pool safety is an issue that's deeply personal to both Bode and Latham. In 2018, Bode's 19-month-old daughter accidentally drowned in a neighbor's pool. While pools are a source of joy for families, it's essential that they are as safe as possible. Automatic safety covers are constructed with ultra-durable, virtually impenetrable materials, creating a secure barrier that protects kids, pets, wildlife and guests from accidentally entering the water. Our goal is to ensure that every family can enjoy their pool, while preventing avoidable tragedies.

Also, our recent rollout of "Measure by Latham" for liners, along with the earlier release for covers, is going very well. This AI-powered tool is the only solution in the marketplace that streamlines the measurement and quoting process for pool liner and cover installers, while ensuring precision and accuracy. It is user-friendly and fully integrated with our order entry system, allowing dealers to generate real-time quotes, submit orders and track their status seamlessly.

In the first quarter, almost half the dealers who purchased this tool were new to Latham, supporting our expectation that Measure by Latham will not only improve the efficiency of our dealer network, but also help expand our market share in liners and covers.

And we are pleased to note that our increased spending on marketing and sales campaigns is resonating with consumers. Latham continues to lead the industry in brand visibility and engagement.

Based on our internal analysis, we're the most searched for brand online among major fiberglass manufacturers with interest in Latham rising significantly in Q1, while others saw only flat or modest growth. Latham consistently achieves some of the highest social media engagement rates and audience reach compared to major fiberglass competitors, while seeing significant follower growth over the past 90 days.

This highlights the progress we are making in building consumer awareness around our key differentiators: the industry-leading quality and aesthetic appeal of our products, the assurance of our lifetime warranties, the size and scope of our operations and our strong commitment to customer service.

Virtually all of the increase in our SG&A spend this quarter was in support of our Sand State expansion strategy, which represents a major growth opportunity for Latham. Our objective is to significantly expand our presence in Florida, Texas, Arizona and California,—markets that collectively account for approximately two-thirds of annual new pool starts, yet where Latham is currently under-represented.

Four key priorities form the foundation of this strategy: expanding our pool dealer base; targeting master planned communities or “MPCs,” which are large-scale mixed-use residential developments, the largest of which were in Florida and Texas; aligning our product offerings with market demand in the Sand States; and targeting our marketing campaigns to builders and consumers in those markets.

Though this strategy was only launched in the second half of 2024, we have already made meaningful progress on all four objectives. We are actively partnering with some of our top-performing pool dealers to expand their operations in the Sand States. These dealers see strong business potential for fiberglass pools in these geographies. And together, we are actively engaging in key master planned communities. Additionally, we recently partnered with a large dealer of concrete pools in the Southwest who will now also be offering fiberglass pools.

Earlier this year, we launched two new fiberglass pool models that especially appeal to homeowners in the Sand States. The Astoria 14 is a sleek rectangle model with a built-in spa; and the Apollo 14, also a rectangle, includes integrated features such as a large tanning ledge and has ample room for swimming. Also, our plunge pools are popular in the Sand States as they are compact enough for almost any outdoor space and are a good option for the budget-conscious consumer.

We also have gained traction with our “GOOTSA,” or Get Out of the Stone Age, ad campaign, which is running in our priority Florida and Texas markets. This has led to a significant increase in internet search activity for Latham pools in those states. Our marketing activities in the targeted MPCs are attracting large crowds of current and prospective homeowners and driving increased awareness of fiberglass pools and autocovers.

Of course, gaining a meaningful share of the Sand States marketplace will take time, but we are encouraged by the initial dealer, builder and consumer response we've had in the short time since we began implementing the strategy. We are also very pleased with the continued expansion of our gross margin, which increased by 190 basis points in the first quarter on similar volumes. Oliver will provide you with further details on this in a moment.

Our lean manufacturing and value engineering initiatives have structurally changed our business model and are a key part of our investment thesis, an important factor in enabling us to achieve significant operating leverage as industry conditions improve.

We filed an 8-K today noting the resignation of Josh Cowley, our Chief Commercial Officer, to pursue another opportunity. We wish Josh the very best in his new endeavor. Fortunately, we have a very strong commercial team that will continue to execute our sales and marketing strategy.

I will now turn the call over to Oliver, our CFO, for a financial review of our first quarter results and our full year guidance. Oliver?

### **Oliver Gloe**

Thank you, Scott, and good afternoon, everyone. I am pleased to report on what was a solid start to 2025. Please note that all comparisons we discuss today are on a year-over-year basis compared to the first quarter of fiscal 2024, unless otherwise noted.

Net sales for the first quarter of 2025 were \$111.4 million, slightly above \$110.6 million in Q1 of 2024, reflecting the positive momentum in sales for fiberglass pools and autocovers that we experienced at the end of the quarter. Sales were closely in line with our expectations. And while the quarter began slowly in early January, we saw a meaningful pick-up in orders in March that continued in April.

By product line, in-ground pool sales were \$58 million, down 4% from Q1 2024, reflecting the impact of soft industry conditions and adverse weather conditions in a seasonally slow period, which generally accounts for approximately 20% of our full year sales.

Cover sales were \$32 million, up 18%, which includes both organic growth in autocovers and the benefits from our Coverstar Central acquisition. Liner sales were \$22 million, down 8% compared to the first quarter of 2024.

We achieved a first quarter gross margin of approximately 30%, reflecting a 190-basis-point increase above last year's 28%. This performance is primarily due to production efficiencies driven by our lean manufacturing and value engineering initiatives and the margin benefit from the three Coverstar acquisitions.

SG&A expenses increased to \$31 million, up by \$4.4 million from \$26 million in Q1 of 2024. This was largely related to strategic investments in sales and marketing to accelerate fiberglass adoption as well as the three Coverstar acquisitions.

Net loss narrowed to \$6 million or \$0.05 per diluted share from a net loss of \$8 million or \$0.07 per diluted share from the prior year's first quarter. First quarter adjusted EBITDA was \$11 million, \$1 million below \$12 million in the prior year period, primarily resulting from higher sales and marketing spend that was partially offset by efficiencies gained through our lean manufacturing and value engineering initiatives. Adjusted EBITDA margin was 10%, 110 basis points below last year's first quarter.

Turning to the balance sheet. We continue to maintain a strong financial position, ending the first quarter with a cash position of \$24 million. In line with our expectations, net cash used in operating activities was \$47 million in the first quarter, reflecting a seasonal increase in working capital needs ahead of peak pool selling season.

We ended the quarter with total debt of \$307 million and net debt of \$283 million, which included the use of \$25 million of our revolver to fund seasonal net working capital needs in addition to approximately \$10 million of accelerated inventory purchases in anticipation of tariffs.

As of today, we have reduced our revolver usage to \$22 million and expect to fully repay our revolver by the end of the second quarter. Our net debt leverage ratio of 3.6 or 3.3 on a pro forma basis reflects our seasonal net working capital needs, as well as the before mentioned pre-purchases of inventory ahead of tariffs.

Capital expenditures were \$4 million in Q1 2025 compared to \$5 million in the prior year period. As a reminder, we expect CAPEX to range between \$27 million and \$33 million in 2025, a \$10 million increase from 2024 resulting from our decision to develop additional production modes for new fiberglass pool models specifically designed to appeal to the Sand States markets and the addition of usable space in our Florida and Oklahoma manufacturing facilities for future expansion as we anticipate increased market penetration in the Sand States.

The Latham team demonstrated agility and strong execution by acting quickly to anticipate and address tariffs. Imports represent about 15% to 20% of the raw materials used in our manufacturing process, so our exposure is relatively limited. While tariff related uncertainty remains, we are confident in our ability to offset raw material cost increases through strategic pre purchasing and operational adjustments. Additionally, we recently implemented targeted price increases on certain products to help mitigate the impact of tariffs.

Based on current business trends, we are encouraged by constructive signals in the pool market and steady progress across our fiberglass awareness and adoption initiatives. These include cautiously optimistic feedback from our annual dealer conference, increasing consumer engagement driven by our branding and marketing campaigns and continued progress in executing our Sand State strategy.

Based on these insights and our current visibility, we are maintaining our expectations for 2025 revenue growth of 8% at the midpoint comprised of approximately 5% organic growth and 3% growth related to the Coverstar acquisitions. Our 2025 adjusted EBITDA guidance of 19% growth at the midpoint reflects the significant operating leverage inherent in our business model.

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

### **Scott Rajeski**

Thanks, Oliver. Our first quarter results represent a solid start to the year, supporting our 2025 full year guidance. The seasonal ramp up in orders that we've experienced over the past two months aligns with our expectations for progressively higher year-on-year comparisons in the typically stronger second and third quarters of the year.

Latham has entered 2025 with key competitive advantages that we believe will enable us to again outperform the industry this year and strengthen our market position in future periods. During the visit to our Zephyrhills fiberglass manufacturing facility in November of last year, we laid out a path for advancing our growth strategy and discussed the results we can achieve in future periods.

In summary, we noted that when US pool starts return to 78,000 per year, which is where they were in 2019, our new business model can enable us to achieve revenues of about \$750 million

and adjusted EBITDA of around \$160 million. This represents more than twice the revenues we had in 2019 and 2.5 times the adjusted EBITDA we produced that year at the same level of new pool starts. And there's even further potential beyond that point.

With that operator, I would like to open the call to questions.

## **QUESTION AND ANSWER**

### **Operator**

Thank you. We will now begin the question and answer session. To ask a question, you may press "\*" then "1" on your touchtone phone. 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 "\*" then "2." At this time, we will pause momentarily to assemble our roster.

The first question comes from Ryan Merkel with William Blair. Please go ahead.

### **Ryan Merkel**

Hi, good afternoon. Thanks for taking the question. The outlook for the margin expansion this year is really compelling. Can you just talk about SG&A leverage, I realize, 1Q you had some investment going on, but as we think about the rest of the year, should we be thinking about SG&A leverage? Or is this a year where it's more of an investment year and you expect more of the margin expansion on the gross margin line?

### **Oliver Glow**

The cadence of the year, you would see some of the cost increases anniversarying out and then the leverage increasing and setting in as year-over-year growth. Again, at midpoint, year-over-year, our sales will increase from \$508 million to \$550 million, about 8%. You will see that increase setting in. So, leverage should increase, and that's, again, a combination of...as we go throughout the year, starting third quarter, flat year-over-year SG&A and increasing sales.

### **Ryan Merkel**

Got it. Alright. And then for my second question, it's good to hear business is still trending up here. I'm curious, what's the reaction to the new molds? And then how are you doing in the Sand States, I know it's early in the season but, are you seeing the marketing efforts there help you with sales?

### **Scott Rajeski**

Yes, Ryan. As you think about where we are in 2Q, right, you've been around the business for a while. We're kind of coming up to that sequential ramp where each week sales increase as we kind of get to the, I'll say, the first peak build point of May 15<sup>th</sup> followed by June 15<sup>th</sup>. So, we're really happy with the trends we've been seeing across the board. And look Oliver and myself were in Florida back probably three, four weeks ago now. We spent almost a full week down there. And look, I came away even happier than I was going into that week. Really good progress on all fronts with the builders we're aligning with. Again some of the biggest builders that we have in the country, five folks we've attracted to expand in Florida, aligning them to these MPCs. Having had a chance to travel through these communities and see pools in the ground, see what kind of styles are resonating, . all of our new models fit these smaller backyards, the lanai, the extension off the kitchen—a great opportunity for us.

And I think, if you, we're kind of in 1Q, right, which isn't peak pool build. So, it's tough to sit there and say, how much progress have we made versus the 17% of our pool sales we talked about last time. But how I like to frame it up is, if you think about the 100 to 200 basis points, we improved '23 to '24 in Sand State revenue, I think it's safe to say we should see an acceleration of that as we come into 2025. So, if you're thinking 200 to 300 basis points of improvement in that metric we share, that's kind of what the prize we've got our eyes on for this year. But really happy with the progress the team's made and, we're doing everything we can to continue to accelerate it.

**Ryan Merkel**

Alright. That's great, Scott. I'll pass it on. Thanks.

**Scott Rajeski**

Alright. Thanks, Ryan.

**Operator**

Thank you. The next question comes from Andrew Carter with Stifel. Please go ahead.

**Andrew Carter**

Great. Thank you, very much. So, I guess, like, thinking about the fiberglass pool, it's a short cycle pool, meaning you can make a decision, be swimming, in a few weeks or maybe help us with what that is? How do you think about that as a risk or opportunity in this environment? You obviously, the April trends were encouraging? I don't think there would be any subject, any cancellations, but others have said, hey, if you've started a pool, you're not cancelling at this point, because you're more worried? Would you see that risk manifest later or conversely, if everything's, we just get this veil of uncertainty lifted, you would just see, you could really start to see that turn, just anything to help us out on that? Thank you.

**Scott Rajeski**

Yes. So, there's a couple, I think, key points embedded in that question of yours. One, you're right. You can have a fiberglass pool installed in a couple of days, say a week on average, maybe. I like to take it back to the pool buying decision of the consumer, right. They're not going into a builder and saying, hey, I want a pool next week, right? This is a 6, 12, 18 month buying decision, buying journey the homeowner goes through with their family, getting to the point of making that decision. And typically, once you've made the decision that you're going to buy your pool, depending on where you are in the season, you might be looking out six more months before you're actually going to get it installed.

So, people who are having pools installed in the ground now, let's say, Latham fiberglass pool, they probably made that decision back late last fall or early January/February of this year. There's folks that, let's say, as we came through February, March, and April are making the decision for, second-half-year installs. We've not seen any impact or slowdown in trends, rates, what we're hearing from dealers. Again, there's a pocket here or there. I know everyone says Texas has been a little bit slow, but we're not seeing any indicators from folks lagging on that buying decision.

And I think the key reason there, again, is we market and sell to a much more affluent consumer than maybe the lower end pools that are out there, let's say some of the vinyl liner products. And even in the vinyl liner space, I think we've seen a steady, consistent pace. Again, you guys have heard me say many times, mostly cash buyers left. The people who want a Latham pool can afford a Latham pool. And I think we should be able to kind of hang in there. And that's

why, our views and, reaffirming the guide, we're holding the line on that assumption of flat pool starts for the year. And look, if we can catch a break here or there, that'd be great. But I think that the share gains we're experiencing in the Sand States, some of the other stuff we're doing with the autocover conversion, that's really what's driving that key growth thesis for us here in a flat pool market.

**Andrew Carter**

Thanks. And then a second question, you quantified the percentage of raw materials. Could you quantify like what percentage of COGS, and then how much pricing are you taking kind of to offset that? Are you pricing to protect margin rate? Or are you pricing to protect dollars? Thanks.

**Oliver Gloe**

So, let me start off by giving you a rough kind of idea on quantifying the headwind that comes from tariff stream mitigation. And I would put that somewhere 350 to 400 basis points or an equivalent of about \$20 million, right. And that is.... that represents the tariffs as they stand today. You've heard me last time on the call saying that our supply chain team has done an extraordinary job over the last month to prepare us for an environment of tariffs. So I would say at this point in time, through a combination of pre-purchases, through working through our supplier network with changing sources and negotiating, a little bit more than half of that headwind is mitigated on basis of the supply chain, which means that a little bit less than half is really left over to be mitigated. And our price increase that we announced earlier in the quarter aims to mitigate that remaining impact on a dollar basis.

**Andrew Carter**

Thank you, very much. I'll pass it on.

**Oliver Gloe**

Thank you.

**Operator**

Thank you. The next question comes from Robert Schultz from Baird. Please go ahead.

**Robert Schultz**

Hey, guys, thanks for taking the questions. Going back to tariffs there, when did the pricing go into effect and will there be any lagged mitigation ability, just given when the pricing went into effect versus when the tariffs start to impact the P&L?

**Oliver Gloe**

So, we have had a sort of a normal seasonal price increase on a couple of our product categories earlier in the season, think of that as well in Q1. But then the price increase that you referred to in our prepared remarks we announced earlier in the quarter and are effective early in June. And from a sort of cadence perspective, we also tried to match the headwinds that we'll see from a tariff perspective with both the supply chain-based mitigation as well as the timing around the price increase.

**Robert Schultz**

Got it. Helpful. And then I think you guys have said that you're kind of targeting 20 big MPCs in the Sand States. Can you just give us an idea or ballpark how many you're in today and kind of what are your expectations for that number towards the end of the year?

**Scott Rajeski**

Yes, so Robert, there is I think what we've referred to in the past is there's 20 large MPCs and some of the largest MPCs in the country are in Florida and Texas. Our initial view was to kind of go in targeting three to five out of the gate here, let's say, specifically in Florida, on track for that. And again, I think as we learn and go, right, we'll decide to ramp that up faster, again, as we maybe align builders into those communities and gain access with our sales folks to stand them up. That's kind of the initial target here, but we will go as fast as we can. Like I said, I think we'll see a faster pace in 2025 here than we had seen last year.

**Robert Schultz**

Awesome. Thanks guys.

**Operator**

Thank you. The next question comes from Greg Palm with Craig-Hallum Capital Group. Please go ahead.

**Greg Palm**

Yes, thanks. I wanted to just spend maybe another minute on kind of the environment out there. I just want to make sure we're clear. It doesn't sound like you've seen much of a change in sentiment demand environment over the last, you know, call it five, six weeks. I mean do you think that's the case for the industry as well or do you think maybe you're taking even more share? Just kind of curious to get your thoughts there.

**Scott Rajeski**

Yes. So, look, Greg, what I would say is we've not seen any impact, slowdown, change in the trajectory versus what we were expecting in a flat pool start environment with our growth objectives of taking share for fiberglass and autocovers as laid out at our midpoint of the guide. And again, you know, we're kind of coming up that curve in, let's say, 2Q with the peak pool building season. Are we taking share versus competition? It's kind of too early or too hard to tell. I think if you look at most of the reports that have been out there in the industry, I think a lot of folks are in line with us.

Slow start to the quarter in January, quickly ramped sequentially as we saw the incremental build batch and seasonal curves on track for our midpoint of our full year guide. Just really not seeing any slowdown with some of the change in consumer confidence and stuff that's out there. And again, I attribute that as I think that the more affluent consumer has the house, reinvested in the backyard, has the equity, has the cash to buy the pool. And even let's say on the lower end of the market, lower price point pools, we've really not seen any change in the trajectory versus our assumptions there either.

And we use our replacement liner business as a really good proxy or as an indicator. And that business has been performing very well for us as we come up the curves here. And getting to what I would say the really important Memorial Day, you know, official pool opening season out there for many of the northern climates.

**Greg Palm**

Yes. Okay. That makes sense. And I guess just kind of digging into some of the marketing initiatives a little bit more. You mentioned social media engagement, you know, we've been talking about some of this marketing stuff for a few quarters now. But based on the stuff we track, it seems like more recently a really big jump in website traffic, and I think you alluded to this as well. So, are you able to track conversion rates at all? Like are you building a pipeline?

And I'm curious, is this kind of stuff, can any of it benefit this year or is this more of like a 2026 and beyond type of thing?

**Scott Rajeski**

Yes. Look, so we've got the ability to track kind of all the different campaigns we run whether it's the GOOTSA campaign we talked about in Texas or Florida and driving let's say consumers to the GOOTSA page and eventually coming over to the main page. With cookie tracking and all that, it gets a little bit tougher to track to that hit on a GOOTSA or main website to convert to a lead unless they actually put the information in, which again we can track that.

And look, leads take time to kind of mature. I think we've talked about we see at least 10% to 20% conversion rate overall. And again, it depends how hot the lead is, right? If they've got their pool, they're ready, they got their financing and they got their project costs, those converted at a much higher rate, Greg, as we've talked about in the past. If it's someone just starting to inquire now for a purchase a year out, that one's going to take a little bit more nurturing either by our team or by our dealers.

I think the other thing with some of the marketing spend out, let's say the SG&A investments, let's say specifically in the Sand States, those are a little bit more about consumer awareness, the brand, Latham, fiberglass, why fiberglass, the benefits of it. So those may translate to some immediate sales like we're seeing now. But to me, that's probably driving the success further down the road.

And look, I'll say as Oliver and myself travelled, right, we had our Latham gear on. Every community we went into knew who Latham was, knew what fiberglass was, knew the dealer there, knew what we were doing, knew what we were sponsoring. So, there's a buzz starting. We just need to drive that to conversion with more pools in the ground in those communities.

**Greg Palm**

Yes, that's great to hear. I will leave it there. Good luck guys.

**Scott Rajeski**

Thanks, Greg.

**Oliver Gloe**

Thanks, Greg.

**Operator**

Thank you. The next question comes from Matthew Bouley with Barclays. Please go ahead.

**Anika Dholakia**

Good evening. You have Anika Dholakia on for Matt today. Thanks for taking the questions. So first off, just kind of on the demand backdrop. So just not to harp on it, but understanding you guys are seeing demand hold up in the near term. I'm wondering with that if you have any early thoughts on the shape of demand into 2026. Could we see kind of continued flatter trends of 2025 or maybe a recovery type scenario? Thanks.

**Scott Rajeski**

Yes, Anika, I'd say it's too early to talk about 2026 at this point in time. I think we want to get through 2Q and 3Q, the peak pool build. And look, I would come back and say, think about our thesis with what we're trying to do with fiberglass conversion, the autocover penetration

awareness, replacement liners and covers with "Measure," a better tool for the dealer, entering into the Sand State markets where we're underrepresented, right. We're going to show really nice growth numbers at the midpoint and a flat pool start number this year. So, I think that's kind of the base expectation. You can think in a trough market. I don't have my crystal ball polished up enough to think about what a 2026 view would look like at this point in time other than we'll do what we always do right, outperform the market. I think we have to get through the next couple of quarters here first.

**Anika Dholakia**

Awesome. Well said. And then I guess second, just last quarter, you guys added those two new Coverstar dealers. Curious how you're thinking about further deals today in this environment as you guys expand and invest in this category? And then what your overall thoughts are on consumer appetite for automatic safety covers today versus your other products. Thanks.

**Scott Rajeski**

Yes. Well, just let's go back to Coverstar Central for a second, the one we did last fall. I think we could say that's pretty much fully integrated at this point, a few small things to do here and there, business performing extremely well. I think the two small ones we just announced here last quarter, again, integration going very well, folding them under the Coverstar Central business. So, I think everything is hitting on track, expectations, performing well. I think we're going to continue to drive a lot of the awareness with autocovers. We talked about the partnership with Bode, could not be more thrilled with what we're going to be doing with him and some things going on further, again, trying to drive the awareness of the product. Again, I'll just go back to Florida distinct.

And I think we saw very high numbers in terms of people having interest in the pool. I'm not saying what dealer, what community, but 50% of the pools being sold in one market have an autocover coming with them, which I think is much different than what you would typically see. But again, the families understand the benefit and then the lower cost of usage with that as well. And again, Oliver and myself were out in the West Coast a few months back and talked to our VAR partner out there and were talking to a few dealers. Some of the dealers out there are doing 80+% covers on pool. So very high penetration rate in certain communities, which again shows the success with great partners, great marketing, great awareness, we can drive a very high percentage from, let's say, the low-20s that it is today.

**Anika Dholakia**

Appreciate the details. Thanks, I'll pass it on.

**Operator**

Thank you. Again, if you have a question, please press "\*" then "1." The next question comes from Shaun Calnan with Bank of America. Please go ahead.

**Shaun Calnan**

Hi, guys. Thanks for taking my question. Just a follow-up on the last one. So, the strength in covers was pretty impressive this quarter. Can you guys break out what was M&A driven and what was organic? And then it sounds like safety cover growth is really strong and it outperformed the pool sales growth. So, are you just seeing higher attachment rates on the pools you're putting in the ground or selling or are these going on to existing pools? Just kind of what the main driver is there?

**Oliver Gloe**

Hey Shaun, let me take the first part of your question. So, as you said, the autocover business was very strong in Q1. The outperformance was primarily driven by the addition of Coverstar Central, so M&A driven. But also, there was an organic impact...so a positive organic impact. So, about \$3 million was the performance addition because of the acquisition, with the remainder being organic.

**Shaun Calnan**

Great. Thanks. And then just going back to the demand environment, some of your peers cut their outlook for discretionary spend on the new pool side. So, if that ends up playing out, what would be the impact to SG&A? Would you guys cut some of these marketing expenses or is this more like a long-term play at this point? Thank you.

**Oliver Gloe**

So, I think regarding cost and the operating environment here, I think we are planning our business on an expectation of flat pool starts, right? And again, we've seen a slightly slower January, probably to a certain extent, weather-related, but really good momentum in March and April. Feedback from our dealers, as Scott said, supports our assumption and the guidance, right.

But with regards to cost, we've been operating in an environment where pool starts over the last three years have gone from 117,000 to 62,000 pools, right? So, as you saw, we have a playbook that we have consistently applied that included restructuring at times to reduce duplicative and excess capacity. But you also saw us having discipline across our cost base when it comes to the plants and functions. I would expand that comment to include cash management. You've seen us taking \$80 million out of the balance sheet over the last two years, while at the same time adding lean value engineering capability, investing in growth, driving fiberglass conversion. We just talked about the growth in autocovers, that's organic, but also as you asked about the three businesses that we recently acquired. As a result, we've stabilized the EBITDA above 15% and that's in a trough market, right? And especially in '24, we grew EBITDA margin despite an approximate 50% market decline. So, we've also been consistently cash flow positive. And we've been consistently applying our capital allocation strategy and that included accelerating the repayment of our loan, financing the acquisitions out of cash. So, that's a long way of saying we have a strong playbook that we have consistently applied, and we will continue to apply if and when necessary.

**Operator**

Sorry to interrupt. Shaun, I hope that answers your question?

**Shaun Calnan**

Yes, thank you.

**Operator**

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

**CONCLUSION****Scott Rajeski**

Alright. Thanks, Jacob. Hey thanks, everyone, for your time this afternoon. We do really appreciate all your continued support of Latham. I hope everyone has a great start to the

summer season with the upcoming Memorial Day holiday here in the US. And we really look forward to connecting with many of you at some of the upcoming conferences and meetings that we will be attending. Again, thanks for the time and have a great evening. See you guys.

**Operator**

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