Latham Group, Inc.

Fourth Quarter and Full Year Fiscal 2023 Earnings

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good afternoon, and welcome to the Latham Group Fourth Quarter and Full Year 2023 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "*" then "2." 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 2023 earnings press release, which is available on the Investor Relations portion of our website, where you can also find the slide presentation that accompanies our prepared remarks. On today's call are Latham's President and CEO, Scott Rajeski; and CFO, Oliver Gloe. Following their remarks, we will open the call to questions.

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

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

Scott Rajeski
Thank you, Casey. Good afternoon and thank you all for joining us to review our fourth quarter and full year 2023 results and discuss our outlook for 2024. We were pleased that our fourth quarter results came in slightly ahead of our guidance range, capping a year in which we focused on several structural cost-saving initiatives to mitigate the impact of another year of lower pool starts.

It also was another year that showed the resilience of our business and Latham's ability to both outperform the overall market decline and to generate substantial cash flow from operations. There are several key takeaways worth noting that helped us navigate the challenging business environment in 2023 and that have set us up to emerge an even stronger company and competitor as business conditions improve.

First, we continue to drive the conversion to fiberglass pools over concrete pools. As a result of Latham's leadership in this category, we were able to report sales for the year that outperformed the decline in new pool starts in the U.S. by approximately 10 percentage points.

Second, we ended 2023 in a strong competitive position with leading market shares in all product categories in which we compete, an energized dealer network, and greater consumer engagement, all supporting Latham's ability to capture additional market share as industry conditions improve.

Third, we took decisive actions early in the year that have fundamentally improved our cost structure. By closing facilities, streamlining operations, and accelerating our value engineering and lean manufacturing initiatives, we have structurally reduced our costs and increased our capacity, giving us the ability to considerably increase our profit margins once volumes recover.

Lastly, we strengthened our financial position in 2023, ending the year with a record cash position of just over $100 million, providing substantial financial flexibility and demonstrating our ability to efficiently manage through difficult market conditions.

In summary, Latham exited a year which saw a significant decline in new in-ground pool starts and has entered 2024 with strengthened market positioning and the resources to quickly take advantage of the eventual rebound. Specifically, we continue to see progress in fiberglass penetration of the new in-ground pool market and expected fiberglass now accounts for approximately 22% of pool starts in the U.S. This compares with 21% and 18% in 2022 and 2021, respectively, a clear indication of our leadership position in fiberglass driving this ongoing conversion progress.

Latham's fiberglass product sales accounted for approximately 73% of Latham's full year 2023 in-ground pool sales. Since 2019, we have grown our fiberglass product sales at a compounded annual rate of about 15%. And we have several strategic initiatives in process to leverage the share gains we've achieved to date in states like Texas and the Carolinas to further penetrate the “Sand States”, notably, California, Florida, Arizona, and Nevada, where concrete pools continue to dominate.

The value proposition is compelling. Fiberglass pools have an average 25% to 30% lower upfront cost versus concrete and a total overall lower cost of ownership of 35% to 40% over time. They can be installed as fast as one day by some of the best dealers and approximately three days on average for the majority of our dealers compared to three to six months for most concrete pools. Also, fiberglass pools are more eco-friendly than concrete pools using 30% less chlorine, eliminating the pollution created by the production of concrete, and not requiring the ongoing maintenance, repair, and refinishing generally needed for concrete pools.

In 2023, we had approximately 300 fiberglass grand dealers who sold at least 5 pools, which is about 100 more than we had in 2019 and speaks to the positive momentum for both fiberglass pools and for Latham's expansive dealer network. While dealer recruitment is important to our growth strategy, increasing dealer productivity is an even greater priority, and we moved ahead with several initiatives in 2023 that have done just that.

These include the Latham Design Center, which enables our dealers to easily create branded content and customized collateral materials, our fiberglass boot camp training sessions, and of course, our lead generation programs, which result from the direct consumer engagement that we continued to build in 2023.

Our marketing spend continues to yield very positive results. Recent data show that Latham ranks #1 in fiberglass pools and, in 2023, our website traffic increased substantially over 2022 levels, pointing to pent-up consumer demand for pools, which we believe is substantial.

Our integrated marketing programs that inform and educate the consumer and feature regional builders have been successful in driving traffic, along with our robust tools that give homeowners the ability to design, plan, and actually visualize how a new pool will look in their outdoor space. Through this direct engagement with consumers, we are able to provide our dealers with an increasing number of highly qualified leads in their respective markets.

While fiberglass conversion represents Latham's largest growth potential, approximately 47% of our total 2023 sales came from our covers and liners product lines. The majority of which represent replacement products that are not as tied to new pool starts and are, therefore, more resilient during cyclical downturns.

We also continue to prioritize new product introductions within these categories to drive sales. In particular, our automatic safety covers which can be used on any type of in-ground pool, experienced increased consumer adoption and demand in 2023. In addition to their safety features, these covers provide the homeowner with significant energy, water, and maintenance savings. And, Measure By Latham, our proprietary AI-powered measurement tool for pool covers and liners, has been met with very positive dealer response and should continue to help drive demand for these product lines as we continue to roll it out through 2024.

To sum up, there were many bright spots for Latham in what was a very difficult industry environment in 2023. We have entered the new year cautiously, mindful that lower interest rates and improved consumer confidence levels are not likely to occur in time to benefit the 2024 pool buying season. We do expect that there will be a tailwind as we exit 2024 and head into the 2025 season.

Our conversations with channel partners and colleagues in the field at recent trade shows, as well as our own data, indicate a high level of consumer interest in pool ownership, but buying decisions are being delayed, particularly by those who plan to finance their purchases. We do not expect the projected declines in interest rates to occur quickly enough to impact our peak pool-building season in 2024. And therefore, we are managing to an approximate 15% decline in new pool starts in 2024.

Within that context, you can expect Latham to continue to reduce structural costs while maintaining investments in future growth and capability so that we are positioned to rapidly capture share as pool starts increase, which we anticipate will occur in 2025. Let me now turn over the call to our CFO, Oliver Gloe, who will provide a review of Latham's fourth quarter and full year financial results. Oliver?

Oliver Gloe
Thank you, Scott, and good afternoon, everyone. Please note that all comparisons we discuss today are on a year-over-year basis compared to the fourth quarter of fiscal 2022 and full fiscal year 2022, unless otherwise noted.

Net sales for the fourth quarter of fiscal 2023 were $91 million compared to $108 million in Q4 of 2022, reflecting lower volumes. Softness in demand was the key factor in the 23% decline in in-ground pool sales.

Our other product lines were more resilient and helped to mitigate the quarter’s sales decline. Cover sales only declined 10% during the quarter to $32 million as we saw continued success in our winter covers and continued adoption of automatic safety covers. Liner sales of $13 million were essentially flat from the previous year, driven by strong replacement activity.

Despite the decline in sales, our fourth quarter gross margin reached 23.3%, increasing 540-basis points compared to the 17.9% reported in the fourth quarter of 2022. This strong showing resulted from the benefits of our cost reduction programs, lean manufacturing initiatives, and site consolidation that more than offset low absorption due to reduced production volumes at our plants.

SG&A expenses decreased to $24 million or 26% of sales from $33 million or 31% of sales during Q4 of 2022, reflecting ongoing cost containment programs and a significant decrease in non-cash stock-based compensation expense. Fourth quarter adjusted EBITDA was $10 million, more than double the $4.4 million reported in last year's fourth quarter, driving a 680-basis point expansion in adjusted EBITDA margin to 10.9%.

Turning to our full year results. Net sales were $566 million compared to $696 million in the prior year period. By product line, Latham's in-ground swimming pool sales for the full year were $298 million, down 23% year-over-year. As Scott mentioned, in-ground pool sales performance outpaced the U.S. new in-ground pool installation market for 2023, which we estimate to have declined by 30% in 2023 compared to 2022. This is a strong indication of the positive momentum we have demonstrated in driving conversion to fiberglass pools, where our year-over-year sales declined 20% or about 10 percentage points less than the overall market.

Liner sales of $128 million were down 16%, while cover sales of $141 million declined 11%, reflecting softer homeowner demand in the current economic environment, partially offset by a pickup in demand for automatic safety covers. Gross margin was 27% compared to 31.1% in the prior year.

Fixed cost leverage improved throughout the year and actually was a slight tailwind in Q4 but was lower for the full year. Margin headwinds continued to be partially offset by benefits from cost reduction programs as well as our lean-driven site consolidation initiatives where we have reduced the number of production sites while maintaining capacity.

SG&A expenses decreased to $110 million from $147 million in fiscal 2022, reflecting a $28 million reduction in non-cash stock-based compensation expense as well as the benefits from our various cost reduction actions. Excluding non-cash stock-based compensation, SG&A was $92 million, a decrease of $8 million or 8%. Adjusted EBITDA was $88 million compared to $143 million in the prior year, resulting in an adjusted EBITDA margin of 15.5% compared to 20.6% in 2022.

Turning to the balance sheet, we ended the year with a very strong financial position. Net cash provided by operating activities more than tripled to $116 million for full year 2023, which reflected the cash generation capability of Latham's business augmented by the benefit from inventory reduction.

This strong cash flow performance yielded a net cash position of $102.8 million at year-end, giving Latham substantial financial flexibility to navigate a range of economic scenarios. We also repaid $13 million of our term debt in 2023, ending the year with a total debt of $301 million and a net debt leverage ratio at 2.25, well below our debt covenant of 5.5.

Capital expenditures were $33 million for full year 2023 compared to $40 million in the prior year. Now that we have completed investments in our new Kingston facility and integrated our acquired fiberglass manufacturing assets in Seminole, Oklahoma, we expect to return to a more normalized CapEx run rate for the business.

Turning to our outlook for fiscal 2024, as Scott noted, while we anticipate increased consumer interest in pool buying from easing interest rates in 2024, meaningfully lower rates are not expected to occur in time to benefit our 2024 pool building season, which peaks in Q2 and early Q3. Although we are managing to a down year in 2024, we are optimistic that we are reaching the bottom of the cycle and are planning for a recovery in U.S. pool starts to be realized in 2025. Against this backdrop, we are providing 2024 guidance of net sales of $490 million to $520 million that reflects our expectation that our sales will outpace new U.S. pool starts due to continuous fiberglass conversion.

Adjusted EBITDA is anticipated between $60 million and $70 million and assumes stable pricing, continued investment in sales and marketing, and engineering and R&D to accelerate the conversion to fiberglass, ongoing digital transformation programs, and normalized performance-based compensation.

Capital expenditures are projected to range from $18 million to $22 million and include continued investments in new cost reduction and lean initiatives, new fiberglass models, manufacturing facility improvements, digital transformation, and ongoing safety initiatives. As we enter 2024, we are seeing a return to a normalized seasonal sales gain, reflecting historical backlog levels and distributors taking a cautious position early in the season. We expect total Q1 sales of between $98 million and $104 million and adjusted EBITDA of between $6 million and $8 million.

As Scott noted earlier in today's call, we have responded to difficult market dynamics with cost reduction actions that have reduced our manufacturing overhead, headcount, and spend, resulting in $20 million of reduced spending in 2023 with an additional $4 million of carry-over benefit to being realized in 2024. We continue to focus on enhancing our productivity and executing on value engineering and lean initiatives.

Our balance sheet remains in excellent condition. In addition to repaying $13 million of debt in 2023, we paid down another $18 million in debt earlier this month, and we anticipate generating positive operating cash flow in 2024. Given the economic outlook, we continue to be thoughtful and disciplined in our capital allocation strategy. With that, I will turn back the call to Scott for his closing remarks.

Scott Rajeski
Thank you, Oliver. As you have heard, Latham has entered 2024 in a very strong financial position. Our priorities are clear; continue to drive the adoption and awareness of both fiberglass and automatic safety covers which will lead to increased conversion of fiberglass pools and growth in auto covers as more consumers purchase them for peace of mind; continue to gain additional operating efficiencies through our ongoing value engineering and lean manufacturing initiatives; and maintain a strong balance sheet.

The long-term fundamentals of our industry are very compelling. Outdoor Living remains one of the fastest-growing categories in the Repair and Remodel sector. Pool ownership is a natural addition for consumers who are spending more time in their homes and want to fully enjoy their outdoor space while building the value of their homes.

Additionally, the value proposition of fiberglass products provides an excellent opportunity for consumers to become pool owners and gives Latham an excellent platform to drive accelerated growth. The actions we took in 2023 and our priorities for this year should enable us to outperform the market again in 2024 and to achieve meaningful share gains and expanded margins and profitability as pool industry conditions improve.

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

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press “*” then “1” on your telephone keypad. If you are 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 Tim Wojs with Baird. Please go ahead.

Robert Schultz
Hey, guys. This is Robert Schultz on for Tim this afternoon. First, I just want to say thanks for providing the incremental data on the fiberglass sales for '23. That's really helpful color to have. So, I appreciate that. And then, moving on to the balance sheet. It's nice to see leverage moved a little bit lower sequentially. Can you provide some additional color maybe on how you're trying to manage the balance sheet for '24? And then related to that, kind of what are the puts and takes to cash flow for 2024?

Oliver Gloe
So let me start--good afternoon. Let me start with your second question first, on our cash flow in '24. We traditionally haven't given guidance for cash flow, specifically. But I can help your modeling there if you start with our EBITDA midpoint guidance at $65 million. We deduct about $27 million in interest and $21 million, which is the midpoint of our CapEx range. That is a good proxy for cash flow. And as you heard me saying in my prepared remarks, we do expect that 2024 is another year when we stay--where we are cash flow positive.

In terms of your question on how do we manage the balance sheet, we are quite pleased with where we are year end. That is due to a 2023 with solid cash flow generation augmented by a significant reduction in net working capital, especially inventory. And all that gave us the luxury to have a cash position of $102.8 million at the end of the year. As a result of that, net debt stood at $200 million. And as a result of this, our net debt leverage ratio was at 2.25. So, all in all, quite comfortable on where the balance sheet stands right now.

Robert Schultz
Great thanks. And then, as I think about the 2024 EBITDA guidance, what would you say are the key bridge items to consider to get to the $65 million at the midpoint?

Oliver Gloe
Well, let me take that one as well. As you think of our 2024 EBITDA guidance, there are really four or five positions to consider here. The most impactful one that is driving the entire EBITDA margin gap here is the impact from lower volume and lower fixed cost leverage, right? That is offset by a modest small level of deflation, nothing in comparison to the inflation we've seen over the last few years.

There is another tailwind coming from our cost containment initiatives. That is the carryover of about $4 million from the previously announced and all implemented cost-saving programs that we have discussed in prior calls as well as our increasing focus on lean and value engineering going forward. So, the combination of those tools, we do expect not only in 2024, but also in the year thereafter, to more than offset cost inflation. So again, tailwind from that.

What you've also seen us talking about is that we are protecting some investments. These investments help us to fare better than the overall market. As we look backward a couple of years, as the market declined, we declined less than the market, which helps us, once demand returns, to outperform the market. And these are the investments in dealer network, lead generation, fiberglass conversion, and so forth.

I think the last point I would add here, Robert, is the accrual of performance-based compensation. We are at the beginning of the year accruing towards full achievement of our goals, which are the basis for our guidance today and that didn't pay out in prior year that is a year-over-year headwind.

Robert Schultz
Got it. Thanks for the color. I'll leave it there.

Oliver Gloe
Thank you.

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

Shaun Calnan
Hi, guys. Thank you for taking my questions. Just first, your assumption on new pool construction is a bit lower than most of your peers. What do you think is driving the difference there? Is it conservatism, is it regional exposure, or is it just kind of better insight from what you're hearing from the dealers?

Scott Rajeski
Yeah, hey. Good afternoon, Shaun. Good to catch up with you here again. And I think when you step back, if we look at ourselves really as the leader in the in-ground pool industry when you think about new pools going in the ground, we've probably got some of the best insights into what's happening in the market out there versus maybe some of the other equipment guys. And look, we're managing the business to what we believe to be a decline of about 15% on average in the U.S.

And I think really what we've done, kind of back to Oliver's point of investments we've made in the business, we really position ourselves back. We could quickly ramp up production if that number turns out to be a little too conservative. And I think incrementally, we're continuing to drive increased website activity, trying to drive the lead generation and the goal will really be for us to try to outperform the overall market as we look at '24, and I think similar to what we've done over the last couple of years here.

Shaun Calnan
Okay, thanks. And then the midpoint of the guidance is down 11% year-over-year. So, does that assume you're taking share on the new pool side? And then, can you give us any insight into your expectations for the other buckets, meaning covers and liners?

Scott Rajeski
Yeah, so Shaun, I'll take that. The midpoint down at 11%, again, think back to the fiberglass world and driving fiberglass penetration, taking a higher percentage of share from concrete and in some cases, vinyl, we'll continue to drive that, which will help some. And then, if you look at the recurring revenue portion of our business with the liners and covers, that replacement, the repair, remodel piece of the business performs a lot better for us from a stability standpoint. I think when you think of that maybe being down in the low- to mid-single-digits, I think that's what's helping to blend to the 11% number at the midpoint.

Shaun Calnan
Okay. Thank you.

Scott Rajeski
You're welcome.

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

Scott Stringer
Hi, guys. Thanks for taking my question. I was wondering if you could provide some outlook for gross margins for the year in terms of cadence, how are commodity costs trending? And is sell-through of higher cost inventories an impact?

Oliver Gloe
Yeah, let me take that again. We haven't traditionally provided a guidance specifically around gross margin, but I'll give you the key building blocks here, right? So obviously, like with my prior answer to EBITDA margins, also gross margins will be primarily impacted by the fact that we are planning for a year with lower volume.

That will be slightly--this will be offset by cost deflation, commodity cost deflation. And again, it's small versus the inflation we've seen in the past year that some commodities in our bucket moved down, some up. But on balance, the bucket is still at, close to, the highs we've seen over the past few years. There is a slight tailwind from our continuing cost containment actions. So overall, I would say, gross margin is roughly in line with where we were in 2023.

Scott Stringer
Okay, got it. And then on the CapEx for 2024, is there any way you can parse out maintenance CapEx versus investment CapEx? How are you feeling about investing in capacity today for the current environment?

Oliver Gloe
So, I think with regards to CapEx, we certainly come from a couple of years investing in capacity with Kingston, which is now fully completed. As we've indicated in the earnings call, so that $5 million quarterly or $20 million annual run rate, it's all of what we think of being normal here. Specifically with regards to 2024, there's a lot of maintenance investment in there, but also complemented by investments in our lean and value engineering projects or investment into efficiency of our assets. And then there's a little bit of digital transformation in there as well.

Scott Rajeski
And the one thing I would throw in there incrementally, Scott, is we are continuing to invest in new fiberglass models as we roll out and refresh the line-up there. So, there's a little bit of growth CapEx on the fiberglass but more model-related and incremental molds in certain facilities to build out the network.

Scott Stringer
Great. That’s helpful. That’s all I had. Thanks.

Scott Rajeski
Thanks, Scott.

Operator
The next question comes from Jonathan Bettenhausen with Truist Securities. Please go ahead.

Jonathan Bettenhausen
Hey, I'm on for Keith Hughes this evening. Thanks for taking my question. I was wondering if you could give us some more color on your current capital utilization rates and kind of how you're planning on taking your production levels going into the spring.

Scott Rajeski
Yeah. So, Jonathan, good to chat with you this afternoon. We've not distinctly disclosed capacity utilization in some time. But if you kind of go back to the '21, '22 timeframe when we talked about ramping Kingston and getting that fully ramped, we're in a really good position capacity-wise throughout the entire network. Just kind of go back and look at the numbers we were running in the '21 timeframe, we've got a lot of strength from a positioning standpoint in all the facilities.

Oliver mentioned a couple of times some of the lean activities we've done in the rest of the business to give us some better capacity. We sit in a really good lead time delivery position throughout the entire network in terms of, I'd say, back to probably some of the best lead time delivery service levels since I've been in the business going back 12 years now.

So good position. We don't need to put more plants in the ground or anything like that, but we will evaluate opportunistic things that could be out there from an M&A standpoint. And just kind of cycle back to 2023, a lot of the activities we did, did enable us to do some rooftop consolidation, close some facilities, which drove some of that cost savings in '23 and to carry-over into '24.

Jonathan Bettenhausen
That’s helpful. Thanks. And was there any price impact on the fourth quarter sales?

Oliver Gloe
Price was roughly flattish with most of our price anniversarying out. So, think of Q4 price again, roughly flattish.

Jonathan Bettenhausen
Okay. Appreciate it.

Operator
Again, if you have a question, please press “*” then “1.” The next question comes from Matthew Bouley with Barclays. Please go ahead.

Matthew Bouley
Hey. Good afternoon, everyone. Thanks for taking the questions. Commentary around the planning for the eventual recovery and, I guess, 2025. From your perspective, Scott, what do you think it would take, I guess, for new pool builds to recover? Is it simply an interest rate issue, kind of looking at more home turnover, kind of general consumer sentiment? From your perspective and history in the industry, what do you think it would take to kind of reinvigorate the market? Thank you.

Scott Rajeski
Yeah. Matt, good afternoon. I think you kind of hit several of the key points there with if you look back and say ballpark 50% of all pools are financed and you can kind of say most of the financing has dried up. It's not to say that it's gone to zero, but I think a movement in interest rate seems to be the common denominator that we're hearing from consumers and our dealers that's keeping people on the sideline.

If you look at the activity on our website, on the lead generation folks establishing their My Latham account, the interest in pools is definitely there and we continue to hear more and more the homeowner is just awaiting a move in interest rates to get them back into the game. And I think the million-dollar question is how much of a move will start to get them off the sidelines.

And I think in some of our prepared remarks and the data we've published, it's probably not going to be enough to greatly impact the second half of this year, but I think it definitely will start to create the tailwind as we move into and through 2025. So, the good news is interest is there, want is there, the number of homes that don't have a swimming pool that we've talked about is there. It's really just getting rates down 100, 200 basis points to get people back into the buying decision for pools.

Matthew Bouley
Got it. Okay, that’s helpful. And I guess, secondly, just on your kind of dealer conversion efforts. And you have this kind of slower pool market, how are dealers, I guess, approaching willingness to migrate to fiberglass given that market? So, is this the type of thing where people don't really want to rock the boat when the market is slow like this? Or on the other hand, is it a situation where when you have this kind of slower trends in the market, maybe it's actually easier to kind of convert your business from a dealer's perspective? So, kind of how is that playing out in this market?

Scott Rajeski
Yeah. Look, there's a lot of pieces in there, Matt, in that question. I think if you go back to some of the data, if you think about where we stood in '23 with over 300 grand dealers who did at least 5 pools, right, 100 more than 2019, and you think about the fact that we've had 2 consecutive down years, but we've been able to drive more productivity at the dealer level, right? We've talked many times, this isn't about how many more dealers we need to add, it's about how do we make our existing dealers more efficient with the build and get them going.

I think dealers are seeing the acceptance and adoption of fiberglass grow more and more. Again, 600 basis point improvement in the fiberglass penetration number since '19, right? Our fiberglass sales have grown at about 15% CAGR since '19 while the markets declined about 3% on average per year. If you look '19 to 2023, we've not had issues recruiting dealers and bringing them on board for fiberglass.

I think it's been easier with the slowdown. It's allowed our team, our marketing team, to develop more tools, getting to build a portal out there, providing really great visibility to the dealers now with the lead generation where we can now monitor and watch how the lead is moving through the system with them and follow ups and getting leads closed.

So again, it's about continuing to give them the tools to make their life easier. And look, I think we've even bridged a little bit further in helping them in how to actually estimate a pool project in the backyard for a consumer, understanding their profit profile at an install level of profitability and how they should properly price a pool.

And I think bigger picture, Matt, when you think about the cost advantage of fiberglass versus concrete as consumers are looking at how much the cost of the pool has gone up, I think some dealers are trying to say: Look, I struggle selling a concrete pool at $105,000, $125,000, $150,000 depending on where you are. The fiberglass value proposition at the consumer level is very appealing for them to go and market and sell that to others.

Matthew Bouley
Yeah. Got it. Well, thanks, Scott. Good luck, guys.

Scott Rajeski
Thanks, Matt.

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

Andrew Carter
Hey, thank you. Good evening. I'm just kind of going through your guidance here and just wanted to understand--well, actually, first clarifying question. The $4 million cost savings, is that all in the first quarter? The incremental--

Oliver Gloe
-- It's front-end loaded. It's a combination of first and second quarter.

Andrew Carter
Okay. Let's see. Okay. I'll just assume the two. So, I guess my question is then I'm looking at your decremental in 1Q, and I'm getting like something in the mid-teens. And then for the final nine months of the year, I'm getting a decremental of somewhere at the midpoint of 80%. And I'm getting that off of a $37 million to $13 million revenue decline with EBITDA down 23% to 15%. What's going on there? Is there a stepped-up investment in SG&A? Do you expect a lot of gross margin pressure? I know you expect to finish even. You just had some gross margin momentum. Anything you can help us out with there?

Oliver Gloe
Yeah. I think when it comes to our first quarter, this is where you typically see a lot of marketing investment. This is where our dealer conference is. And so, in terms of SG&A, it's not a perfect seasonality between the quarters. But I think what you'll also see again is the ability of the team to contain costs, and you'll see that in our decrement, especially in Q1.

Andrew Carter
Well, I mean, I'm asking about the final nine months of the year. The decrementals, I'm getting a 90% decremental.

Oliver Gloe
All right--

Andrew Carter
--We can take it offline. Let's take it offline. I guess the second question is, you pretty much banked in, I don't know, almost like the season is gone. How quickly can things turn? And I guess, importantly, how quickly could you flex to hit a quick turn in demand, maybe given a surprise on interest rates, something of that sort? Is there any fear in that of not being invested for a quick turn versus your turn in '25 that you're expecting?

Scott Rajeski
Yeah. So, Andrew, I'll take that one. Couple of pieces in there. One, I think as I mentioned earlier, we've actually probably not cut as much cost as we could have. We continue to stay invested in the business, maybe held on to a little bit more labor with the expectation that this thing is going to turn at some point, and we want to be prepared.

We have plenty of the capacity we need to quickly ramp up. And if you just go back to '21 and look at how quickly the business ramps in that '21, '22 timeframe, we have more capacity and capability and efficiency than we had then. So, the ability to ramp faster is a lot better. We've not talked supply chain issues in a long time, and that's a good thing because all of that's behind us. We've got a much stronger vendor base and supply chain stood up, both where and how we store materials and diversity of the base, which will enable us to turn quickly if things pivot.

And look, it's back to the expected 15% decline in the market, and I think it's fair to say that we're probably taking a little bit more conservative approach. It's early in the year, right? We're not mailing it in and saying the year is over. We're starting to see the season ramp here nicely. We've got to work with our wholesale distribution partners. They're continuing to run lean with their inventory levels until they see how the season is going to play out. And if it does move and pop, we will be able to take advantage of it pretty easily.

Andrew Carter
Thanks. I’ll pass it on.

Scott Rajeski
Thanks, Andrew.

Operator
The next question comes from Michael Francis with William Blair. Please go ahead.

Michael Francis
Hey, guys. I'm on for Ryan Merkel today. I had one clarifying question and then a follow-up to that. Did you say that liners and covers are going to be down low-single-digits to mid-single-digits?

Scott Rajeski
On a volume basis. So, think from a unit standpoint, probably in that down 3% to 5% range.

Michael Francis
Any price in that?

Scott Rajeski
I think probably think price flattish.

Michael Francis
And then my follow-up is, and this might be something in line--

Scott Rajeski
--And Michael, just if I step back and clarify. When we talk the covers, we need to remember there is that recurring revenue portion of the winter safety cover in there. And then there is the automatic cover portion of the business in there. But I think in total, Oliver, probably the total cover product category--

Oliver Gloe
--It's a blended rate between what we've assumed for the replacement piece, which is significantly--it's a significant portion for both the safety covers and vinyl liners kind of down mid-single-digits. But then there's also the share, which always brings in accordance with new pool starts, and our assumption is minus 15%.

Michael Francis
Okay. So, I'm just making sure I get this straight, because I take both liners and covers down about 4%, that has in-ground pool in my model down about 15%. Am I thinking about that wrong or right? Because if it's down 15%, there's no share gain there.

Oliver Gloe
You probably end up in the in-ground pool category at 15%, maybe slightly better, driven by fiberglass conversion. Yes.

Michael Francis
Okay. Got it. Thank you. That’s all I had.

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

Susan Maklari
Thank you. Good afternoon, everyone.

Scott Rajeski
Hey, Susan. How are you doing?

Susan Maklari
I’m good, Scott. How are you?

Scott Rajeski
Doing good, thanks.

Susan Maklari
My first question, Scott, is around thinking about the pricing on the pools. If we start to see costs deflate, and especially if we start to get bigger moves down on the cost side of things, do you think that there's an opportunity to adjust your net pricing to help alleviate some of that affordability constraint that you talked about that's happening on the ground? I guess generally, how do you think about that balance between price versus volume given the conditions today?

Scott Rajeski
Yeah. Susan, I think, no, it's a good question. I think as we've thought about it, this is part of what we like about our business and where we sit in the categories. We're a small percentage of that total backyard project, right? So our view is to change our pricing a few $100 on a liner or cover or $1,000 or $2,000 on a fiberglass pool is probably not going to get pushed all the way out to the end consumer and be enough to stimulate demand at the consumer level to make that buying decision on a project that could be $4,000 or $5,000 for a replacement liner or cover or call it $75,000, $80,000 for a fiberglass pool install.

As we work with our dealers, there are different regional competitive dynamics at play that we need to think about. There's more than just what the list price is or how we would change our pricing at the list. There's rebates. There's other marketing programs we run with them. But we think we can hold our price fairly well and we've not really seen a significant movement yet on the direct material cost side.

Labor continues to trend up, freight is continuing to go up. And rates, I should say material costs, are still in many cases fairly elevated from where we were back in the 2019, 2020 timeframe when we took on $100-plus million of inflation in the business and really never were able to pass full pricing on to maintain margin levels, which has driven some of the compression we've seen.

But look, it's different in every product category. I think that's where we need to maintain flexibility as we go forward. And look, if we get a massive tailwind from deflation, it could be a different story as we look out in time. But right now, it's kind of flat pricing for the year is the assumption and the approach we're taking.

Susan Maklari
Okay. That’s very helpful color. And then, thinking about the productivity and the efficiencies that you can realize, I know you talked about that $4 million of carryover benefit that you'll get in the first half of the year, but are there further improvements that you can make on the cost side as we go through this year and other opportunities that perhaps can come through over time?

Scott Rajeski
Yeah. So, Susan, we've continued to ramp-up our value engineering efforts and initiatives on all fronts. We've talked a lot about the lean. A lot of that was, not to say we haven't been doing it, but I think we've continued to accelerate that. We've continued to add more engineering resources to the team. And part of the incremental-decremental margin we're seeing as we move through the year is as we ramp and bring more engineers on to start to build that pipeline of productivity and efficiency projects on the materials side in fiberglass and the other product areas, increase the number of lean events we're doing in the factories.

It's going to take a little while for that ROI to kick in, but what we've seen from the initial waves, there clearly is more to come from all of those initiatives. We've got some really, really neat things in the hopper. I think as we move through time that pipeline will build and we're trying to get on to an ongoing 3% to 5% productivity gain every year on the material front from those efforts and initiatives.

Susan Maklari
Okay. That's great. Thank you, and good luck with everything.

Scott Rajeski
All right. Thanks, Susan.

Oliver Gloe
Thank you.

CONCLUSION

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

Scott Rajeski
Yeah. Thanks. Thank you for your time, everyone on the call here this afternoon and your ongoing interest in Latham. As we think about Latham, right, we're extremely well positioned to continue to outperform the overall market and drive that continued acceleration in fiberglass penetration as a total of the new in-ground pool starts like we discussed earlier today.

We also remain very confident in the long-term growth opportunities we see not only in our business, but in the industry overall. And we look forward to catching up with all of you at the upcoming investor events. Thanks for your time and have a good evening.

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