

Latham Group, Inc.

Second Quarter 2025 Conference Call

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CORPORATE PARTICIPANTS

Scott Rajeski--*President and Chief Executive Officer*

Oliver Gloe--*Chief Financial Officer*

Casey Kotary--*Investor Relations*

PRESENTATION

Operator

Good afternoon, and welcome to Latham Group's Second 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 STAR then 0. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press STAR then 1 on a touch-tone phone. To withdraw your question please press STAR 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 second 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 second quarter results and discuss our business outlook. The Latham team executed very well in the second quarter, driving year-on-year revenue growth of 7.8% and adjusted EBITDA growth of twice that at 15.7%.

Our ability to achieve this level of organic and acquisition-related sales growth, along with increased operating profitability, despite ongoing tough industry conditions is supported by several key factors. First, we have a diversified product portfolio and have the number one share in every subcategory in which we compete. Second, we have been successful in driving the awareness and adoption of fiberglass pools and autocovers, two product categories with substantial growth runways.

Third, we recently completed accretive acquisitions of three of our Autocover dealers, contributing to sales growth and strengthening our margin profile. And lastly, our lean manufacturing and value engineering initiatives continue to drive production efficiencies that scaled further with higher second quarter volumes. These factors were the major contributors to our strong second quarter

and year-to-date performance, and they continue to underpin our confidence in Latham's ability to drive accelerated revenue and adjusted EBITDA growth as industry conditions improve.

Taking a closer look at second quarter business trends, adverse weather conditions in many parts of the country delayed pool building activity resulting in a slight decline in our in-ground pool sales. This had a greater impact on our packaged pool sales than on fiberglass pools and fiberglass pools are tracking to account for approximately 75% of our in-ground pool sales for the full year.

And based on our current projections, we continue to expect fiberglass pools to gain another 1% of market penetration in the in-ground pool category in 2025. Our investments in targeted marketing programs to drive the adoption and awareness of fiberglass pools are yielding positive results. Year-to-date, we have delivered an 18% increase in leads to our dealers, while consumer sessions on our website have increased 34%.

We are also seeing strong signals of pool purchase interest and intent with consumers spending more time on our website, viewing more pages and increasingly engaging with our digital tools. All these metrics were up year-over-year in the second quarter and year-to-date compared to the same periods in 2024.

In particular, the cost benefits and fast and easy installation of fiberglass pools are resonating with consumers. Given widespread labor shortages across many U.S. markets, we continue to believe the significantly lower labor requirements for installing a fiberglass pool will be a tailwind for fiberglass over concrete pools. 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.

Autocovers were a standout performer in the second quarter. Through a combination of organic- and acquisition-related growth, this product category was a key contributor to our second quarter sales growth and is gaining momentum with consumers. Our marketing programs have been effective in driving home the benefits of autocovers, highlighting their unparalleled safety and significant cost savings from reduced water, energy and chemical use.

These savings enable autocovers to effectively pay for themselves within four to five years of installation. Additionally, 16 states, in addition to a number of municipalities across the country, have now expanded their pool safety regulations to allow for autocovers to be used in place of traditional fencing around the pool, which results in additional savings for the homeowner. Also, their compatibility with all types of in-ground pools significantly expands our addressable market.

Our replacement liner business also showed solid growth in the second quarter, which we attribute to our industry-leading lead times and the continued adoption of Measure by Latham, our proprietary pool liner and cover measuring AI tool. This is the only solution in the marketplace that streamlines the measurement and quoting process for installers, ensuring a high degree of accuracy and enabling a smooth and efficient installation. This tool is fully integrated with our order entry system, allowing dealers to generate real-time quotes, seamlessly submit orders and track their status.

In the first half of this year, 25% of 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 will also help expand our market share in liners and covers. And we are already seeing early signs of those gains.

Our consumer-facing marketing programs are centered around building awareness for Latham's fiberglass pools, autocovers and plunge pools with emphasis on the Sand State markets, which represent a substantial growth opportunity for us. Our initial targets in the Sand States are Florida and Texas, which together with Arizona and California account for approximately two-thirds of annual new pool starts in the United States.

Latham, as the largest in-ground pool manufacturer, is currently underrepresented in the Sand States, which provides us with a substantial growth opportunity. We launched our Sand State strategy in the late 2024, and we've made considerable progress in the first half of 2025 on the pillars that form the foundation of this strategy. Specifically, we have increased our pool dealer base in both Florida and Texas, adding additional dealers in the second quarter.

We expanded our plunge pool collection and launched new fiberglass pool models to align our product offerings with market preferences in the Sand States, and we ramped up our marketing efforts, drawing strong interest from both current and prospective homeowners, including in key target markets such as Florida and Texas.

Our national marketing efforts have resulted in over a 20% increase in dealer leads year-to-date and Latham continues to be the most searched for fiberglass pool brand among major competitors. And we continue to actively partner with some of our top-performing pool dealers across the country to expand their operations into the Sand States by establishing a presence in key master planned communities, or MPCs, that we have identified in Florida and Texas.

At the same time, we're evaluating additional complementary strategies to further accelerate our growth in these MPCs, where we are already driving awareness of the Latham brand and our product line-up, more on that in the next quarter or two.

In summary, our second quarter results were in-line with our expectations and demonstrated the continued execution of our strategy to drive the awareness and adoption of fiberglass pools and autocovers, expand our presence in the Sand State markets and improve margin through accretive acquisitions, lean manufacturing and value engineering initiatives.

Our lean manufacturing and value engineering initiatives have structurally changed our business model and are an important factor enabling us to achieve significant leverage as industry conditions improve.

We issued a release today and filed an 8-K, noting that Jeff Jackson, who currently serves as Chief Executive Officer at Cabinetworks Group, has joined our Board of Directors. Many of you may know Jeff as the former President and CEO of PGT Innovations before it was acquired in 2024. We are pleased to have Jeff on our Board and look forward to benefiting from his valuable operational and strategic experience.

I will now turn the call over to our CFO, Oliver Gloe, for a financial review of our second quarter and first half results. Oliver?

Oliver Gloe

Thank you, Scott, and good afternoon, everyone. I'm pleased to report on our second quarter financial performance, which represented Latham's continued market outperformance. Please note that all comparisons that I will discuss today are on a year-over-year basis compared to the second quarter and first half of fiscal 2024, unless otherwise noted.

Net sales for the second quarter were \$173 million compared to \$160 million, up \$13 million or 7.8%, reflecting both organic and acquisition-related growth, primarily driven by an increase in volumes for autocovers, as well as an increase in volume for pool liners. Our strong sales performance underscores our successful execution and continued commitment to delivering on our growth strategies, both organic and through opportunistic acquisitions.

Across our product categories, in-ground pool sales were \$79 million, down 2.9% in the second quarter, reflecting a flat market, as well as adverse weather conditions and delayed pool building activity across several important regions, primarily in the Northeast. Cover sales were \$37 million, an increase of 46%, reflecting both contributions from our recent acquisitions of Coverstar Central, New York and Tennessee, and importantly, organic growth driven by the increasing awareness and adoption of autocovers. We are very pleased to see the benefits of our Autocover growth strategy materialize in such an impactful way.

Liner sales of \$57 million grew 5.8%, driven by the continued adoption of Measure by Latham, our proprietary AI-powered measuring tool. We have a meaningful number of Measure devices in the market, contributing to increased sales of liners and covers across North America.

We delivered gross margin of 37.1% in the second quarter, 400 basis points above last year. This material improvement was primarily driven by volume leverage in our covers and liners product lines, the continued benefits of our lean manufacturing and value engineering initiatives and the margin benefit from our recent Coverstar acquisitions.

SG&A expenses increased to \$31.9 million, up \$5.3 million, primarily due to increased investments in marketing and new personnel to support our Sand State growth strategy, including expanding the awareness and adoption of fiberglass pools and autocovers. Investments in our new ERP infrastructure and the inclusion of Coverstar Central-related overhead also contributed to the increase. Net income was \$16 million or \$0.13 per diluted share, an increase from \$13.3 million or \$0.11 per diluted share for the prior year's second quarter.

Adjusted EBITDA of \$39.9 million increased \$5.4 million or 15.7% from last year's \$34.5 million, and adjusted EBITDA margin expanded to 23.1%, a 160-basis-point improvement over 21.5% in the prior year period. This increase was primarily due to higher sales and gross profit that more than offset increased SG&A spending.

Now turning to our first half year-over-year result comparisons. Net sales were \$284 million compared to \$271 million, reflecting the benefit of both organic and acquisition growth. Net income was \$10 million compared to \$5.4 million in the prior year period.

Adjusted EBITDA increased by 9.1% to \$51 million from \$46.8 million, and adjusted EBITDA margin increased by 70 basis points to 18% from 17.3%. This performance reflects higher revenue and improved gross margins, which more than offset our ongoing investments to increase the awareness and adoption of fiberglass pools and autocovers.

Turning to our balance sheet and cash flow statement. We continue to maintain a strong financial position with cash of \$27 million at the end of the quarter. Net cash provided by operating activities was \$36 million in the second quarter. And in the first half, net cash used in operating activities was \$10.9 million.

Total debt for the period was \$281 million with a net debt leverage ratio of 3.0, and our capital expenditures were \$7 million for the second quarter of 2025. As we have previously noted, we

expect 2025 CapEx to range between \$27 million to \$33 million with the increase from last year due to the development of new fiberglass pool models tailored to the Sand State markets as well as the addition of usable space at our fiberglass pool manufacturing facilities in Florida and Oklahoma.

Our substantial financial flexibility allows Latham to pursue strategic growth opportunities, both organic and through acquisitions. As we enter the second half of 2025, we are pleased with our financial progress to-date. Despite the pool market being in a trough period, we remain focused on executing on our strategic growth initiatives. Our Coverstar acquisitions have been fully integrated into the business, and we are seeing the anticipated benefits materialize in both incremental sales and margins.

As Scott mentioned, we remain focused on increasing awareness and adoption of fiberglass pools, particularly in the Sand State markets. We have seen encouraging progress to-date, which will position the business for accelerated profitable growth as the pool market rebounds.

Moving on to our outlooks, we are reconfirming our 2025 guidance of 8% net sales growth and 19% adjusted EBITDA growth at the midpoints. While market conditions remain challenging, we are cautiously optimistic heading into the second half of the year, and our guidance is based on our current market visibility and supported by our recent strategic acquisitions, ongoing efforts to grow our share in the Sand States and continued benefits from our lean manufacturing and value engineering initiatives.

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

Scott Rajeski

Thanks, Oliver. A word on market conditions. We expect approximately 60,000 U.S. pool starts in 2025, consistent with our original estimates and slightly down from the 62,000 that PK data reported for 2024. This softness aligns with our analysis that today's pool buyer is primarily a cash purchaser, representing only a portion of the long-term average of approximately 100,000 pool starts annually.

Within this challenging industry environment, we are pleased to be able to reconfirm our full year 2025 guidance, which anticipates another year of significant market outperformance for Latham. Additionally, we have outlined a clear path for advancing our growth strategy, including the specific financial results we expect to achieve in the future.

When new U.S. pool starts return to 78,000 per year, meaning when they return to their 2019 level, our new structurally changed business model should enable us to achieve about \$750 million in net sales and \$160 million in adjusted EBITDA. This would represent more than double our 2019 revenue and 2.5x our adjusted EBITDA at the same volume of new U.S. pool starts. And when the U.S. pool starts return to the long-term average of 100,000 pools per year, we project meaningful increases beyond the aforementioned financial results.

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

QUESTION AND ANSWER

Operator

Thank you. We'll now begin the question-and-answer session. We will now begin the question-and-answer session. To ask a question you may press STAR then 1 on your touch-tone phone.

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 STAR then 2. At this time, we will pause momentarily to assemble our roster. The first question comes from the line of Greg Palm with Craig-Hallum Capital Group. Please go ahead.

Greg Palm

Yes. Thanks. Congrats on the execution and sort of the continued outperformance in what we all know is a pretty difficult operating environment out there.

Oliver Gloe

Thank you, Greg.

Scott Rajeski

Thanks, Greg.

Greg Palm

Maybe starting with kind of the investments around the marketing campaigns that you're making, I mean, how are you measuring success right now, the return on investment? It's obviously not a robust environment, but you seem to be building interest. You're signing up dealers.

Is the initial thought, hey, let's get the awareness up? Let's sign up a bunch of dealers, maybe this materializes into orders activity next year. Maybe you're already seeing a little bit of that this year. I'd just love to get your sort of thoughts on kind of the return on that investment so far and what your expectations are sort of for the balance of the year?

Scott Rajeski

Yes. So, Greg, I think it's a little bit of everything you mentioned. It's clearly focused on driving the awareness of the brand and the awareness of fiberglass pools out there, making sure we've got the dealers and the dealer capacity in the areas where we're generating the demand and the leads. And then we talked a lot about our GOOTSA campaign. Hopefully, many of you have seen the direct TV campaign we've been running over the last couple of months.

The interest generated from that was substantial in terms of -- we were able to measure it distinctly with the codes, the phone numbers, massive uptick in activity on the website, time on the website, leads generated from that. A lot of great activity in both Florida and Texas, the Sand States, as part of that strategy, significant numbers increasing there.

It's not going to translate to an immediate pool sale. We all know that that buying decision is delayed with kind of, let's say, the -- where the consumer confidence sits today. But we view it as building the pipeline of future demand for us. Some of those pools of interest may translate to a sale this fall. More likely it will translate to hopefully nice tailwinds for us as we move into 2026.

Greg Palm

Yes. Okay. That makes sense. And just on the Sand State strategy, just would love to get kind of an update on, a) how Florida is going. And then b) in terms of what you're targeting in terms of communities that you want to be in either by year-end or over the next six or 12 months. Just curious what the ramp-up of that looks like as well?

Scott Rajeski

Yes. So again, I think we'll continue to accelerate the ramp-up there. I'd say right now, we're tracking ahead in terms of the number of new dealers we've recruited and also the number of

MPCs or other communities that we've entered into to get the pool installs going. I'd say good progress. We'd all like it to be a lot faster from a pace acceleration. I think what's maybe caused a little bit of a slowdown has really been just the general markets in Florida and Texas.

A lot of folks have seen that permit activities have been down. Again, we've seen some nice upticks. Recently, we've seen a really good increase in lead generation. The numbers have turned positive for us significantly in Florida with lead generation there, and interest. Texas has finally turned over the last two to three weeks as well in terms of incremental lead generation in a market that's been really tough from a weather standpoint. So we like where we're headed. We like where we're going.

We had a really good meeting here in the Albany area back about a month or so ago with a lot of our top dealers, many from the Sand States. I think the marketing that we're doing, the models that we're creating that resonate in the Sand States with all the different features, all going very, very well. And we'll be talking as we move forward more about the metrics of what we're tracking. And I think for now, what we've been saying is percentage of pool revenue in the Sand States, kind of around that 17% number. Hopefully, we'll see that uptick here as we work through the rest of the year towards a 19%, 20% number.

Greg Palm

Okay. Appreciate the color. Thanks.

Scott Rajeski

Thanks, Greg.

Operator

Thank you. Next question comes from the line of Andrew Carter with Stifel. Please go ahead.

Andrew Carter

Hi, thank you. Good evening. I don't think I've ever heard you guys call out weather before in terms of like -- but you did say it did hit the package pools. If you look at the in-ground pools business in general, were fiberglass pool sales, have those returned to growth and it's just the weather impact on the package pools that's declining? Thanks.

Oliver Gloe

No, I think the in-ground pool category in the second quarter was around about 3% down. Both were affected by that, probably packaged pools, the impact was larger than fiberglass. We usually don't talk about weather, but I think we had an unusually wet spring. It rained in New England all the way up until June and once the season turned on us and then we had good weather we actually saw a nice trajectory in June and July returning for fiberglass back to year-over-year growth. But it was a measurable impact, I would say, somewhere between \$3 million and \$5 million that we would attribute to weather here.

Andrew Carter

That's helpful. And I guess second question is, really strong gross margin performance in the quarter that brings your trailing-12 to 32%, which most of the acquisitions are in, kind of -- is that the right structural level? Or were there any one-time items this quarter? What should we think about structurally as the level? Of course, you want to -- you'll be building upon that? Thanks.

Oliver Gloe

I think we are very pleased with where we are from a gross margin perspective. 400 basis points is the increase year-over-year. And the main buckets of that list comes again from the acquisitions. Lean value engineering is a really good contributor and a stable contributor from a sequential perspective. And then nice to see volume kicking in, and that helps utilization and cost leverage, right?

Not really a one-timer that I'd call out, but probably a slight favorability is absorption. We had a couple of days of plant shutdowns in the first quarter. They were also weather-related that we caught up on early in the second quarter. But I want to say outside of this, a fairly normal quarter. And again, very pleased with our year-over-year improvement here.

Andrew Carter

Thanks, I'll pass it on.

Operator

Thank you. Next question comes from the line of Ryan Merkel with William Blair. Please go ahead.

Ryan Merkel

Hi, everyone. Thanks for taking the question. My first question is just on the current orders. I think you mentioned it's tracking well. I'm curious, did you see a lift in June and July after the rainy May? Or would you say it's just been kind of steady as the year has progressed here?

Scott Rajeski

Yes. Look, I think we did see some uptick in several of the categories as we kind of got post Memorial Day and really saw the weather turn kind of, let's say, now here in the heat of the summer, early August. Again, good strength in autocovers. Really good performance in liner categories. We've seen fiberglass turn nicely around. I'd say package pools kind of continues to stay flat. It's a little bit maybe more of that lower end of the market, entry level. I really haven't seen much movement there, but that's -- I don't attribute that to weather. I think that's just the consumer confidence, lack of financing out there for the lower end of the market. I think looking good as we go forward.

I think the key thing we've got to start watching out for now as we kind of start to exit the pool building season is, right, we'll be entering into the fall pool closing season and the safety cover season for us. That's the next thing we want to continue to watch. And I think the early trends there have shown some positive movement over the last several weeks as well as many folks start thinking about back-to-school and closing pools in the next 30 to 45 days.

Ryan Merkel

Got it. Okay. That's helpful. And then on fiberglass, you mentioned in the release substantial year-over-year growth in leads. And I'm just sort of curious, how is your backlog looking right now? Would you say it's normal for this time of year? Or is it a little depressed? And the second part of that question, do you expect fiberglass to return to growth in the second half of the year, just given some of the sales and marketing seems to be working?

Scott Rajeski

Yes. I'd say backlog in general, Ryan, has held up pretty well for us. I think it's hard to judge backlog levels with our lead times and service levels right now. I think we're out there three to five days, in the majority of the business; fiberglass pools sit dependent on region, two to four weeks on average. So we're turning orders pretty quickly for dealers out there. But I'd say backlogs have held up well. We like where we sit as we're coming into 3Q. I think fiberglass will definitely start

to turn as we think about the back half of the year here. We've seen that last thing as Oliver said, four, five, six weeks.

So like I said, I think we like where we're sitting its still a tough market out there, right? I mean tough for the consumer, consumer confidence, what's happening. But again, the higher end consumer is doing well. And I think that's why we're really focused on trying to generate a lot of leads for dealers, keeping that funnel full, keeping the interest there and hoping some of those leads will convert to a sale here for a fall install for us.

Ryan Merkel

Okay. That's encouraging. Nice job. I'll pass it on.

Scott Rajeski

Thank you.

Operator

Thank you. Next question comes from the line of Timothy Wojs with Baird. Please go ahead.

Timothy Wojs

Hi, guys. Good afternoon. Nice job. I guess on the revenue guidance, just any -- I know you're reiterating it, but are there any kind of changes to the underlying components at all, whether it's just kind of fiberglass growth or liners or covers or pricing? Just is everything kind of similar to what you expected on the top line? Or is there anything kind of change under the surface?

Oliver Gloe

No, I don't think that there's any change to the usual seasonal profile, right? As Scott just mentioned, this -- the safety cover season is now starting and I think with the Measure by Latham, we are set up well for that. We are very pleased with the organic growth in autocovers, obviously in addition to the impact of the acquisitions. We expect that to continue to benefit. And then as we said, fiberglass returning to a year-over-year growth. I don't want to say that the second half of the year is anything unusual to what you've seen from a sales profile.

I think one thing is from a year-over-year perspective, the acquisition of Coverstar Central that happened last August. So you'll see some dynamics of the changing comps here. But from a sequential perspective, as we navigate the season, I don't think there's anything overly extraordinary in our season versus prior year.

Timothy Wojs

Okay. Okay. That sounds good. And then just, I guess, a couple of kind of clean-up modeling things. Just is there any way to kind of talk about how much price contributed in the second quarter and how much the acquisition sales were?

Oliver Gloe

Yes, sure. So as you think of price, so we did price for some tariff impacts in June. Just as a reminder, and nothing really has changed to what we said about tariffs last quarter. About \$20 million is the headwind. More than half is remediated and mitigated on the supply chain side with a little bit less than half on the pricing side. So that went into effect in June. So I think about 1 month of that. So give it probably around \$1 million. And then you asked about the contribution of the Coverstar business in the quarter. It was probably about \$7 million -- all three acquisitions combined.

Timothy Wojs

Okay. And then can you just remind us on the tariff side, does that have some -- just the way you've approached it, does it have some margin implications or just because you're taking the cost out and a little bit of price that the margin implication from offsetting tariffs is generally neutral?

Oliver Gloe

Yes. I would put it broadly. It's neutral. I want to complement our supply chain team for having worked through a very dynamic tariff environment that keeps on changing. Since we met last time, China came down, some other countries went up. But I would say, at this point in time we are fairly balanced when it comes to the impact and the mitigation. And that comment is a run rate comment as well as a 2025 comment.

Timothy Wojs

Great. Sounds good. Good luck on the back half of the year.

Operator

Thank you. Next question comes from the line of Matthew Bouley with Barclays. Please go ahead.

Matthew Bouley

Good afternoon, everyone. Thanks for taking the questions. I guess, first one, I just wanted to ask around labor availability between both, I guess, installation of fiberglass, but then also, I don't know, I guess a competitive product. And the reason I ask is because, obviously, you guys highlight the sort of forever advantage that it's always going to be quicker and more cost effective to install fiberglass. But just in a market where pool starts are down so much, I mean presumably there's more labor availability. So I just wanted to kind of get a sense of what you're hearing out there. And just how does that impact, I guess, the value prop of fiberglass versus installing the sort of traditional materials? Thank you.

Scott Rajeski

Yes. So Matt, I mean, I'll start maybe first for us internally, right? No issues, no challenges getting labor. I think we've been pretty stable throughout the entire season, year, seeing extremely low turnover numbers, great retention across the board. So we feel really good with the talent we have on the team to support and run the business in all of our factories as we balance the different seasonality aspects. When we talk to our dealers, I think our dealers don't appear to be having any issues with labor.

Again, I think they've got really great crews. They've had longevity with some of their core teams. But again, it takes a lot less people to install a fiberglass pool. We're talking three guys in the backyard for a couple of days to get that pool in the ground and set. We have heard and seen some stats on the concrete side that trying to get subs and have the subs out there for three, four, five months at a time. There have been labor challenges. And that's why I think going back to one of the questions earlier in the call about dealer acquisition and dealer ramp-up.

I think we have seen a lot of good success now of concrete builders making that change to Latham and Latham fiberglass because of the labor availability challenge. And I think that's going to be a big help for us and a nice tailwind as we go forward. One of the things we've talked about is how do we target some good concrete builders for a conversion. I think we've kind of teased this one over the last quarter or two, but Shasta Pools, right, based out of Phoenix, Arizona, probably one of the largest concrete builders out there in the country, now installing Latham fiberglass pools.

They just opened a really nice, beautiful new design center featuring fiberglass pools. They just did their big kick-off event, I think, about a week or so ago.

So getting them to come on board and support and install fiberglass, I think, is a testament to, one, what we've been able to do with demand lead generation, but I think also a great pool installer, pool builder out there realizing that that's going to help fight through labor challenges and issues. So I think that's going to be another one that we're going to see a lot of great success as we move forward.

Matthew Bouley

Got it. Okay. No, that's super helpful color. Secondly, kind of drilling down into the gross margin, obviously up something like over 400 basis points year-over-year. I think you called out some good volume leverage and -- where you had the growth in covers and liners and then obviously the continued success with lean manufacturing and I think some accretion from Coverstar as well specifically.

I don't know, I mean, is it possible to kind of bucket that out between what drove that increase amongst those or if there was any other drivers? And then kind of any other help, I guess, when we think about those pieces, kind of how those may play into the margin in the second half? Thank you.

Oliver Gloe

Yes. I want to say -- so let me start off by Coverstar, which accounts for probably half of the contribution in line with expectations, in line with how we described the Coverstar business at the time of the acquisition. That margin profile continues in Q3 and Q4. And I remind you again that some of the benefits, they anniversary out as we did the Coverstar Central acquisition last year in August.

And then the remaining difference to -- the remaining balance to -- our 400 basis points gross margin improvement is pretty evenly split between the contribution of lean, value engineering as well as the cost leverage through volume, maybe the slight edge and the majority on the lean and value engineering side.

Matthew Bouley

All right, got it. Well, thanks guys. Good luck.

Oliver Gloe

Thank you.

Operator

Thank you. The next question comes from the line of Susan Maklari with Goldman Sachs. Please go ahead.

Charles Perron

Good afternoon, everyone. This is Charles Perron in for Susan. Thanks for taking my question. First, I just want to go back to your prepared comments about the liners. I think what the Measure by Latham is driving share gains relative to the underlying market. Can you maybe help us quantify the share gains and how you're outperforming the market? And also when you think about the change in the regulation to accept full safety covers instead of fences in some states, how is this part of your growth algorithm going forward and the opportunities that it can provide for the business?

Oliver Gloe

Yes. I would say we are very pleased with the performance of the liners business. It was 6% up year-over-year. I think a key contributor is our proprietary liners measurement tool. We don't specifically break out the contribution of that. But again, very, very pleased with the number of devices in the market, the feedback from our dealers and as a result, the year-over-year stats when it comes to volume and sales.

Charles Perron

And any commentary on the pool safety cover and changes in regulation for fences?

Scott Rajeski

Yes. So that's kind of more on the Autocover side of the equation versus the winter safety cover. And look, I think when you just look at the underlying performance we've been seeing as Oliver has talked about our growth in autocovers organically from the acquisitions, our focus is there. It's clearly part of the algorithm of us being outperforming the market, right?

That Autocover goes on all pool types. It goes on competitor pools. It has a really nice ROI and payback for the homeowner with the lower chemical usage, less water evaporation, keeping your pool cleaner than just the ultimate safety aspect of it. Again, we've talked a lot about it, right? We've done a lot of marketing with Bode Miller and his foundation, knowing the SWIM, promoting it. And I think in the territories where an Autocover can be used in lieu of a fence, we see a very high take rate and uptick in terms of the number of pools getting autocovers.

And I think that's going to be part of that future growth algorithm of Latham to be able to outperform the market overall even in a flat or slower growth pool start environment. So we're pleased with the progress we're making there. Again, we believe penetration of autocovers on new pools is in the low 20s. So definitely, a huge opportunity to really move the needle very similar to what we've talked about in the fiberglass arena.

Charles Perron

Got it. That's good color. And then second, talking about capital allocation. Obviously, your balance sheet remains strong. But when you think about the capital allocation priorities going forward between deleveraging, opportunities to buy maybe more dealers and just the general M&A pipeline out there, how do you see the most important priorities going forward?

Oliver Gloe

I want to say our capital allocation priorities remain unchanged. I'll give -- let me run down those priorities in order of priority here with -- starting with the most important one first. It's investing in the business, right? That is over the last three, three and a half years more than 40% of our capital has gone into. We've built a plant. You see us ramping up our investment in the Sand States to prepare for that growth.

I think the second priority is M&A. About 30% of our funds have been allocated to M&A. We've been buying about a company a year over the last one -- one and a half decades with the three Coverstar businesses being the last examples here. And then debt repayment is a key pillar as well with about 15% of allocated capital. We've repaid \$30 million, \$35 million over the last two, two and a half years. And we'll certainly continue to pursue that as one of our uses for capital.

Charles Perron

Thank you, Oliver. That's good color. Thank you.

Operator

Thank you. Next question comes from the line of Shaun Calnan with Bank of America.

Shaun Calnan

Hi, guys. Thank you for taking my question. First one, just a follow-up on the earlier revenue guidance question. So at the midpoint, it would imply second half revenue growth of double digits versus mid-single digits in the first half. And it seems like you're getting less of a contribution from M&A in the second half. So can you talk about what's driving that growth and your confidence that you can hit those numbers?

Oliver Gloe

Yes. I think a couple of points, right? So we did see a little bit of weather delays, which should, at a minimum, not impact the second half of the year. And maybe there will be a little bit of uptick, and that's something we certainly saw in June and July, the fiberglass business returning to a year-over-year growth. Please don't forget also the -- at one point in time, the acquisitions run rate, they were bought kind of mid to end of 3Q last year. So there will be still a contribution from Coverstar Central in the very important kind of third quarter season.

And then lastly, as we've talked about safety cover, we expect a strong season and the season supported again by -- Measure by Latham. These are the three main building blocks obviously next to a little bit of pricing that we announced and implemented in June.

Shaun Calnan

Okay. Got it. And then on the delayed pool builds, is that something that you guys have already realized the benefits of in the last month or so? Or do people typically delay them until after the summer if they can't get it built in time?

Scott Rajeski

Yes. Look, I think it's going to be a continued push right up until, let's say, winter sets in. Folks that made that decision for the pool, call it, in the May -- April, May, June -- time frame that couldn't get it, they're still going to get their pool this summer, right? So builders will continue to build here in the slower months of August and September. We'll see the fall installs continue into early October, end of October.

So those pools will hopefully still get in the ground. I think that's where the advantage of fiberglass and, let's say, even our in-ground vinyl liner package pool for us is a much faster build, right? So the ability for our dealers to catch up and get those pools in the ground is much better than, let's say, someone who is hoping to get a concrete pool in, let's say, a wet market like Texas or something. So I know our guys are busy. They're working really hard. And I think that's what also will help some of the second half revenue guide versus the first half of the year as we see stronger numbers.

Shaun Calnan

Great. Thank you.

Scott Rajeski

Thanks, Shaun.

Conclusion**Operator**

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

Scott Rajeski

Yes. Thank you all for your time this afternoon. Look, we really appreciate all of your continued support of Latham. I hope all you guys have a great end to the summer season as we head into the upcoming Labor Day holiday here in the U.S. and I'm looking forward to connecting with many of you at upcoming conferences and meetings. I hope you all have a great evening. Thank you.

Operator

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