

Latham Group, Inc.

First Quarter 2026 Earnings Conference Call

Tuesday, May 05, 2026, 04:30 PM ET

CORPORATE PARTICIPANTS

Sean Gadd--*President and Chief Executive Officer*

Oliver Gloe--*Chief Financial Officer*

Casey Kotary--*Investor Relations*

PRESENTATION

Operator

Good afternoon, and welcome to the Latham Group First Quarter 2026 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

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

Casey Kotary

Thank you. This afternoon, we issued our first quarter 2026 earnings press release, which is available on the Investor Relations portion of our website. On today's call are Latham's President and CEO, Sean Gadd; and CFO, Oliver Gloe. Following their remarks, we will open the call to questions.

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

The company expressly disclaims any obligation to update any forward-looking statements, except as required by applicable law. In addition, during today's call, the company will discuss certain non-GAAP financial measures. Reconciliations of the directly comparable GAAP measures to these non-GAAP measures can be found in the slide presentation that is available on our Investor Relations website.

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

Sean Gadd

Thank you, Casey, and thank you all for joining us today to review our first quarter results and discuss our business outlook. Our first quarter results represent a good start to 2026. We are especially pleased with our performance given the adverse weather conditions that plagued most of North America.

There are several key takeaways from the quarter that are worth noting. First, this was another quarter in which we saw year-on-year sales growth in each of our product lines. Latham's category leadership position across our product portfolio and our geographic diversification are key competitive advantages for us.

Secondly, we continue to effectively execute our Stand State Strategy, showing double-digit sales gains in fiberglass pools in our priority Florida market. We are taking further actions to accelerate our growth in this region. Third, we expanded our margins, benefiting from operating leverage inherent in our business model and from the lean manufacturing and value engineering initiatives that continue to yield very positive results. Oliver will provide additional detail on this later on in the call.

And lastly, we are pleased to confirm our 2026 guidance, which anticipates significant sales growth and even stronger growth in adjusted EBITDA within a challenging macro environment where pool starts will be about flat to last year.

Our guidance includes a moderate increase in transportation and commodity costs due to today's high oil prices, which we are mitigating with temporary fuel surcharges. We are closely monitoring the dynamic situation in the Middle East and the potential impacts on costs and consumer demand.

Taking a closer look at our first quarter results, in-ground pool sales increased 3.5% and virtually all of that growth can be attributed to the 1-month contribution from the Freedom Pools acquisition. Adverse weather was definitely a factor in our organic performance, keeping organic in-ground pool sales steady year-on-year.

However, April sales trends were in line with our expectations, and we are on track for fiberglass pools to approach 80% of our full year in-ground pool sales in 2026. The Freedom Pools acquisition we completed on February 26 is integrating as expected. As we've noted, the acquisition expands our presence in Australia and New Zealand – markets where fiberglass pool models have a strong foothold – and broadens our reach into new markets in Western Australia, including Perth, which is the fastest-growing city in the country.

We recently spent a week in Australia, bringing together the Narellan and Freedom teams. In addition to this transaction being immediately accretive to Latham and giving us a market-leading position in the country, we anticipate achieving considerable revenue synergies from this combination over time as well as gaining first-hand experience from the direct-to-consumer business model.

Cover sales advanced 6% in the first quarter, driven by growth in autocover demand as consumers increasingly recognize the safety and economic benefits of this excellent product. Our industry-leading autocovers are compatible with all in-ground pool types and in many parts of the U.S., they provide the homeowner with an alternative to fencing while delivering additional cost savings from reduced evaporation and chemical usage.

Educational marketing campaigns, including our partnership with Olympic Gold Medalist and pool safety advocate, Bode Miller and his wife Morgan to promote pool safety have served to build consumer awareness and increase attachment rates of autocovers to new pool installations.

First quarter liner sales were up 9% year-on-year, reflecting increased demand and buying in advance of the pool season. We continue to gain traction with our Sand State Strategy in the first quarter and are moving forward with plans to accelerate our growth in this important region.

Many of the investors and analysts who I've met since taking on the CEO role in January have asked me where I see the major growth opportunities ahead for Latham, what our playbook is for capturing that growth. Let me start by saying that the opportunity is substantial. We do not need to wait for the recovery in the U.S. pool market to drive growth.

There are enough pool starts for us to go and attack the sand states now, given our relatively low penetration in that region. The key here is that fiberglass is a growing category, and we are the number 1 player in the U.S., and so we are best positioned to gain share.

Fiberglass pools are an excellent fit for the sand states for many of the same reasons that the category is growing nationally: fast and easy installation, lasting durability, low maintenance, and we have an exceptional design range of sizes and options to choose from, many of which are smaller rectangular shaped pools with attached spas that are perfect for our target communities.

Latham has laid a good foundation for growth in the Sand States. There is definitely increased brand awareness among consumers and dealers in Florida, thanks to several high-profile marketing campaigns paired with local activations. In 2026, we plan to build on that foundation to set the stage for accelerated long-term growth.

As you know, I have many years of experience successfully selling against the standard in the building products industry. When I apply that experience to Latham's current position in the Sand States, I have identified several actions to capture consumer demand and provide additional value to our dealers.

First, we are building out our commercial organization with the key pillars being Sales Strategy, Sales Operations, and Sales Execution with responsibilities to design and drive sales plans, product leadership, and sales effectiveness. Our goal is to build a world-class commercial organization that supports our growth, not just in Florida but across all the Sand States and all of North America.

Second, we have introduced a new market development framework and approach at Latham that I believe will make us even more effective in capturing share. The key element of this framework is segmentation, meaning that we'll be very selective with our targeted Sand State markets in determining the specific sections and neighborhoods that offer the greatest opportunity for us.

In essence, it's all about neighborhoods. We're looking for neighborhoods with a large number of homes with home values, lot sizes, and household incomes that fall within our parameters. These can be in, adjacent to, or outside of master planned communities.

Third, we'll be adding sales resources in the field to make sure we stay close to the consumer throughout the pool buying process. In this way, we'll be able to assist our dealers in converting more leads into sales and getting a greater understanding of the consumer journey.

We know that consumers are looking for designs that fit their lifestyles, and we believe that Latham has the best range of products to meet those needs. In 2026, we are increasing our investment in branding and marketing in a very targeted way to capture greater consumer awareness, together with our network of trusted dealers who are able to fulfill the demand we generate.

In support of all this, we are revamping our marketing and advertising campaigns to give homeowners a full understanding of the true benefits of fiberglass and why it is the right solution for their backyard to enable their dreams of creating wonderful memories to come true.

With that, I will turn over the call to Oliver Gloe, our CFO, for a financial review. Oliver?

Oliver Gloe

Thank you, Sean, and good afternoon, everyone. I'm pleased to report on what was a solid start to 2026. Please note that all comparisons we discuss today are on a year-over-year basis compared to the first quarter of fiscal 2025, unless otherwise noted.

Net sales for the first quarter of 2026 were \$117 million, 5% above \$111 million in Q1 of 2025, of which 3% represented organic growth and 2% represented the 1-month benefit of the Freedom Pools acquisition we completed at the end of February.

Organic growth was led by the continued strength of autocovers and increased demand for our pool liners. By product line, in-ground pool sales were \$60 million, up 4% from Q1 2025, with virtually all the year-on-year growth coming from Freedom's fiberglass pool sales. Cover sales were \$33 million, up 6%, and liner sales were \$24 million, up 9% compared to the first quarter of 2025.

We achieved a first quarter gross margin of 32%, reflecting a 220-basis-point increase above last year's 30%. This performance is primarily due to volume leverage, along with production efficiencies driven by our lean manufacturing and value engineering initiatives. SG&A expenses increased to \$37 million, up 20% from \$31 million in Q1 of 2025.

This was largely tied to strategic investments in sales and marketing to accelerate fiberglass adoption, digital transformation initiatives, and acquisition and integration-related costs, which includes \$2.3 million of performance-based compensatory earn-out expenses related to our Coverstar Central acquisition in 2024. Target synergies have been realized for Coverstar Central, and we are pleased with the contribution from the acquisition, which has exceeded our initial expectations. This earn-out will total roughly \$9 million over the course of the year with similar impact in each remaining quarter in 2026.

Net loss was \$9 million or \$0.07 per diluted share compared to a net loss of \$6 million or \$0.05 per diluted share for the prior year's first quarter, primarily due to the aforementioned increase in SG&A expenses.

First quarter adjusted EBITDA was \$12 million, 9% above \$11 million in the prior year period, primarily resulting from volume leverage and efficiencies gained through our lean manufacturing and value engineering initiatives. Adjusted EBITDA margin was 10.4%, a 40-basis-point expansion compared to 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 \$27 million. In line with our expectations, net cash used in operating activities was \$48 million, reflecting a seasonal increase in working capital needs ahead of peak pool selling season.

We ended the quarter with total debt of \$311 million and a net debt leverage ratio of 2.8, also in line with our expectations. Capital expenditures were \$23 million in Q1 2026 compared to \$4 million in the prior year period. The increase is primarily due to the purchase of four key fiberglass manufacturing facilities in Florida, Texas, California, and West Virginia for \$18 million, including a \$12 million deposit made in 2025 that was settled in Q1 2026.

Additionally, we incurred \$5 million of CapEx relating to ongoing projects in line with our expectations. As a reminder, we expect CapEx to range between \$42 million and \$48 million in 2026. This includes \$25 million of maintenance CapEx, expenditures related to the purchase of the fiberglass manufacturing facilities that I just mentioned, and investments to upgrade our newly acquired Freedom Pools manufacturing facilities.

While the beginning of 2026 was affected by adverse weather conditions across North America, we are encouraged that April sales trends have been in line with the historical seasonal ramp. We continue to monitor geopolitical developments and their potential impact on our freight and raw material costs, but we believe we are well positioned to manage effectively through this pool building season.

We are pleased by the steady progress we are seeing from our fiberglass awareness and adoption initiatives, highlighted by strong consumer engagement with our branding and marketing campaigns and continued gains in Florida, our initial Sand State target market. Based on our performance to date and our current visibility into the remaining season, we are pleased to reaffirm our guidance for 2026 revenue growth of 9% and adjusted EBITDA growth of 13% at the midpoint amid expectations for new U.S. pool starts to be flat with last year.

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

Sean Gadd

Thanks, Oliver. In summary, we are pleased with our first quarter performance, encouraged by recent order trends and excited by the growth opportunities we see on the horizon. Latham is firmly on track to outperform the market for new U.S. pool starts again in 2026 and we intend to take advantage of soft markets to accelerate our Sand State Strategy and strengthen our execution.

I see tremendous opportunity for Latham to drive market penetration in the Sand States as well as the rest of North America, Australia, and New Zealand. And with that, Operator, please open the call to questions.

QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question comes from Ryan Merkel with William Blair. Please go ahead.

Ryan Merkel

Hi, everyone. I appreciate the question. I wanted to start off with sort of the fiberglass backlog and orders as you enter the season. How is that looking? And then have you seen trends pick up now that the weather has cleared?

Sean Gadd

Yes. Thank you for that question, Ryan. In terms of backlog, I think we're seeing what we would have expected to see coming out of the first quarter. The order file in April looks strong to us and looks like it is picking up for the season. And we feel good enough that we obviously have reaffirmed guidance. But generally, we are seeing a pickup in orders and feel pretty good about trends.

Ryan Merkel

Got it. Okay. Thanks for that. And then my second question is the fiberglass conversion is key to the story, Sean, you know that and you're adding a bunch of resources, it seems. I'm curious, what are the biggest tweaks that you're making to the strategy? And then any early results or maybe it's a little too early?

Sean Gadd

Yes. We are definitely making some tweaks. It is -- I will tell you, it's too early. The main thing -- and I talked about it earlier on -- is we are segmenting the market a little bit differently to how we have done it in the past. We've got our criteria now built up where we know, we feel like if a neighborhood fits that criteria, the likelihood of them going to Latham and then to fiberglass is higher. So we like that. We're starting to test that, and if we get those right with the right dealers,

we'll be able to start building out more and more neighborhoods. And so we're early, but I feel like that's definitely on a good path for us.

The second thing we're doing is adding heads. And really, I'm trying to organize the commercial organization into sort of three areas, Sales Strategy, which is really just understanding where is the opportunity, doing more of the segmentation, becoming a little bit smarter around sales. And then Sales Operations, which for me is really about converting what we think about the market into real game plans that the sales team can execute, then measuring that sales team as they go and execute. So just getting a little bit more organized so that we get the most out of our sales organization and that's really across the whole U.S., but including in the Sand States.

Ryan Merkel

That's great. That's interesting. Okay. Appreciate that. I'll pass it on.

Sean Gadd

Thank you.

Operator

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

Greg Palm

Yes, thanks. I wanted to piggyback on the first question a little bit since a lot has happened in the last couple of months since you -- since we were all on the phone together. It doesn't sound like the demand environment has changed like all that much, I guess, relative to maybe what you would have thought a couple of months ago.

So maybe you can just confirm that again. But from an input cost side of things, you mentioned freight. I wanted to get your sense on how you're dealing with that and also anything else that's on your radar, whether it be increasing resin prices? Are you seeing any availability shortages of key inputs like that, anything else that should be on our radar?

Sean Gadd

Thanks, Greg. I'll start by talking about the market a little bit. We still see the market overall for this year look likely to remain flat. So our assumption for that hasn't changed. But we are seeing some green shoots coming out, and we feel good about that.

So like I said, our order trend for April looks strong and then into the start of May. So we feel good about that. PK would have indicated that -- PK data would have indicated that some more growth started to occur with cheaper pools. Again, we like that. That's a good sign for us. Obviously, pools are getting smaller, so that is good.

Obviously, the volatility is not helping, but I think we have a sound game -- I know we have a sound approach. So I think we'll work through that. And then from a dealer perspective, when we caught up with the dealers, what they tell us is it's pretty competitive, 4 or 5 quotes per job, which is generally up.

But from what I -- my take is it's uncertain. But I believe less people will be traveling - the price of gas doesn't help. And so they're staying at home. And I think that's the opportunity. And I think that's what the green shoots are where we're seeing that people will rather now spend time at their home and hopefully build a pool.

Oliver Gloe

And Greg, let me address the second part of your question with regards to the conflict in the Middle East and some of the updates here on input costs. Let me start off by saying we don't see availability to be an issue as of today. And partially that's due to our supply diversification coming out of COVID, and a lot to being multi-sourced and being as diversified as possible.

But we are seeing obviously headwinds in cost, right? That comes in two forms. One is transportation, the price at the pump and especially in the world of fiberglass, we are obviously incurring transportation costs. It's expensive to ship those fiberglass pools across the nation.

In terms of mitigation, what we've done on that side is to introduce temporary fuel surcharges that we plan to fully mitigate us when it comes to transportation costs. I think it's too early to tell what the impact is going to be on the commodity side.

Obviously, suppliers are reaching out. We are exposed to the -- again, the conflict in the Middle East as we consume a lot of oil derivatives in the world of resins, vinyl, and so forth. Again, I think it's too early to tell.

Certainly currently in discussions with the suppliers, I think we're making the first purchase orders as we speak under slightly higher price levels. We'll have to see how the very dynamic situation evolves. But I'm confident in the playbook that we have. We have applied that playbook during COVID. We have applied that playbook certainly last year. And I think we have confidence that the playbook will also work this year as we work through commodities.

Greg Palm

Okay. Great. And then on some of these initiatives that you talked about re-segmentation, adding sales resources, I'm curious, how do you feel about your current dealer network right now? And how important of a lever can that be, not just adding new and more dealers, but also leaning into some of your more successful ones. Maybe you can talk a little bit about that as well.

Sean Gadd

Yes, sure. I'll start with dealers are very important. They are obviously an extension of us as they sit across the kitchen tables. And so we need them to, basically, to close the sales. Now what I will tell you is I believe we've got the opportunity to get more out of our current network, which is our goal number 1.

So I'm talking really about our core, what I would call our core markets, Midwest, Northeast Canada, and that's really about account management. And we're going to be defining what account management looks like for Latham and making sure our organization is trained around good account management.

So I expect to get more out of our current network. Then I think about adding where we've got white space, we're always going to be looking for dealers to take on white space if our current dealer network doesn't get us there. That is going to be part of the strategy.

And then when I think about the Sand States and material conversion, we have a good network of dealers there right now that we are going to be feeding as we go into these neighborhoods and they will be able to get the benefit of referrals and everything else that comes out of those neighborhoods. So we feel good about the network in the Sand States, particularly Florida, but our intention will be over time to grow.

Greg Palm

Yes, fair enough. Okay. I will leave it there. Thanks.

Sean Gadd

Thank you.

Operator

Our next question comes from Timothy Wojs with Baird. Please go ahead.

Timothy Wojs

Hi, guys. Good afternoon.

Sean Gadd

Good afternoon.

Timothy Wojs

Maybe just first question just on the -- just kind of the re-segmentation of some of the sales force and things like that. Is the plan that there's incremental investments in terms of dollars that's going into some of the initiatives? Or are you just kind of reallocating what you have?

Sean Gadd

Going to do a little bit of both. We are definitely going to get ahead a little bit because we need more people on the ground and actually thinking about our game plan. So that will be additive. But our intention will be -- if you think about sales -- sorry, SG&A as a percentage of sales, we should -- over the medium and long-term, that should stay the same. So we will continue to find that as we grow. And then we will look at opportunities to sort of trim back on the back side of the business to give us some space to spend on the front side of the business and invest.

Timothy Wojs

Okay. Okay. And then, Oliver, just on the price cost question. I guess it's not totally clear if higher resins are kind of in the guide? Or is it kind of a wait-and-see approach right now? And if you do see higher resins, you guys have the ability to take cost out or improve efficiencies or pass along on price. Is that kind of the main message?

Oliver Gloe

It's probably more than that. I think transportation cost is relatively foreseeable - what that means to us, and that's in the guide, right? With commodities, I think it's too early to tell.

Timothy Wojs

Okay. Okay. Sounds good. Thank you, guys.

Oliver Gloe

Thank you.

Operator

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

Andrew Carter

Hi. Thank you. Good afternoon. I wanted to ask and just double-click to make sure we understand exactly what the pricing is for the year. You are putting in temporary fuel surcharges. Can you give a magnitude of how much that's kind of incremental to the old guidance?

You are not taking any price increases on products for resins. Just want to make sure and triple check that. And I think you said we're well prepared for materials during the season. So I'm guessing, with that comment that everything is good for now and you take a price increase later?

And then kind of finally, if you have to take a price increase, can you take one mid-season? Or does that mess things up? Or just how those dynamics work around when you have to make a decision on pricing?

Oliver Gloe

Perfect. So Andrew, I would say the transportation cost and the temporary surcharge, I'd say, for the year is probably worth 60 basis points. But again, it's very dynamic and volatile, right? And obviously, as the headwinds change, that temporary surcharge can change over time as well, right?

But that's just order of magnitude, right? I think, again, for commodities, too early to tell. Quite frankly, we haven't even ordered or are just about to start ordering materials that would be subject to a change in pricing. So it's really too early to tell.

And then obviously, the materials get shipped to our sites, work their way through inventory, ultimately as they get consumed in the P&L. But we'll -- again, we will have our -- we have our playbook and we'll react in time as necessary. And I remind you last year, we actually did do a mid-season price increase catering to the environment last year that came in, in June. So it's not preferred, but it's also not unheard of.

Andrew Carter

Thanks. I will pass it on.

Oliver Gloe

Thanks, Andrew.

Sean Gadd

Thank you.

Operator

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

Scott Stringer

Hey guys. Thanks for the question. I'm just wondering if the adverse weather mentioned in 1Q pushes some sales into the second quarter, and the guidance obviously implies some acceleration through the rest of the year, right. So, I guess, it would just be helpful to know the tailwind from sales being pulled into 2Q, if that is the case?

Oliver Gloe

So, I would say the adverse weather really means, we had a lot of snow, ice on the ground in January and February. If you think of our annual organic growth of 6%, we certainly didn't quite achieve that in Q1, it was probably half of that and I would attribute that to weather.

So, if you translate that to shipping days, that equates to about a shipping day in today's seasonality. So, I'm not reading too much into that. The season is young. Q1 is a comparatively

small quarter, again, translating our under-proportional organic growth in Q1 vis-à-vis the annual guide into shipping days, it's one day.

I think that's another way of saying, we put in the prepared remarks that really the trends in April have been as expected. We are seeing the seasonal ramp. Whether we'll catch up on that one day in Q2 or in Q3, we will see. It's early in the quarter. But certainly, nothing we have seen in Q1 and in our ramp in April would make us change our view on 2026 and the guide.

Scott Stringer

Okay. Got it. And then I think you guys talked about this a little bit earlier, but just curious on the visibility into 2Q and 3Q for in-ground pool installs. Is that pretty much set, or just curious how much variability is there over the next few quarters in that segment? Thanks.

Sean Gadd

I'll start and then I'll hand it over to Oliver. I think from a Q2 perspective, we're all set, I mean, based on our lead times currently. But it looks like, as I said, we started the quarter really well. Q3 is still obviously -- while we've got orders that do fall into Q3, but it's probably too early to tell. But, again, from what we're hearing inside of the market and from what we're seeing, we still feel very confident with what the order book looks like, and we'll continue to hold guide.

Oliver Gloe

And if I compare today's order book versus prior years, it's really nothing that would cause us to think differently about the seasonal pattern vis-à-vis the last year, again, all confirming our guide.

Scott Stringer

That's helpful. Thanks for the time, guys.

Sean Gadd

Thank you.

Oliver Gloe

Thanks a lot.

Operator

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

Elaine Ku

Good afternoon, guys. You have Elaine Ku on for Matt Bouley today.

Sean Gadd

Good afternoon.

Elaine Ku

Good afternoon. For my first question, I'm just curious, like, what are the top concerns you're seeing from buyers today between rates, economic uncertainty, just the need to step-up more consumer awareness of fiberglass pools, what's the biggest challenge today?

Sean Gadd

From what I've heard, the number one thing would be -- which is tied to interest rates -- is basic financing is difficult to get. So, anybody who hasn't got the cash, or is unable to get -- got a good

FICO score is unable to get financing. We're hearing that a fair bit, which isn't all that different to what we would have heard last year.

And then I think the other part would be the dealers are saying that they're having to fight for the sale a little harder than they were previously. So, when I mentioned four to five quotes, it's typically two to three quotes. So, everyone is fighting for the business pretty hard.

Now we're out and we hear, we feel in an environment where things are tough. I actually feel good about fiberglass pools, because obviously pools are getting smaller that fits our trend, fiberglass pools have low maintenance, so the actual cost on an ongoing basis is lower than the alternatives out there, so – the expenditure on chemicals. And like I said, evaporation is lower, especially if you have an autocover.

And the durability of the pool means that there's no ongoing expenses to be done with the pool. So, while we see the market is a little tough, we still see it not adversely affecting us relative to last year.

Elaine Ku

Got it. And in terms of your increased branding and marketing spend, can you walk us through the cadence of what that might look like through the year and its impact on SG&A? And also what does this look like? Is it a targeted brand program for dealers? Is it more salespeople on the ground, or is it more on like the ad and marketing spend? Thank you.

Sean Gadd

Yeah. It's a bit of both. We've got -- right now, we're running a national campaign. The national campaign is good, because it lifts all markets up, which is great. The other good part of our national campaign is when you think about the Sand States, there's a trend of people moving from the Midwest, Northeast into the Sand States. We like that because fiberglass is the standard in those markets, so they know us.

So, we like the marketing campaign being a national format. The increase -- and I'll just talk about the timing, the start of the timing is really set for the pool season. So, we started in, sort of, February, mid to late February, and we're moving all the way through to July, August. That's the time frame for the national campaign.

And then when I think about my neighborhoods, that's going to be way more tactical in nature. So, I'm talking about things like digital marketing, I'm talking about door hangers, and marketing around the homes. I'm talking about doing events at the home to inspire the neighborhood. So those are pretty tactical small expenses that we will run in every neighborhood.

Elaine Ku

Thank you.

Oliver Gloe

So, when it comes to the increase and the cadence of the increase, as we said earlier on, I think over the foreseeable future, SG&A as a percent of sales will roughly be flat. It was 22.5% last year. We expect it to be a similar amount this year and the majority of that is spent in the sales organization and marketing.

There's a little bit of digital transformation in there, and also inflation on the core, meaning G&A. But again, the majority is going into the sales organization and marketing. There's also a little bit

of increase in the absolute dollar number as we bought Freedom and that comes with about \$3 million of SG&A.

So that gives you the \$22.5 million. But I would like to remind you that in addition, we have the earn-out expenses for Coverstar Central that is about \$9 million that's tied to 2026, so it won't recur in '27, neither did it occur in '25. So that is an earn-out expense that is tied to 2026.

Now with regards to cadence, it's roughly the same as usual. You will see that Q1 and Q2 are a little bit heavier and that is because we are running our marketing campaign, our national TV campaign earlier and longer in '26 versus '25.

Elaine Ku

Thanks. I'll pass it on.

Oliver Gloe

Thank you.

Operator

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

Charles Perron

Hi, everyone. This is Charles Perron in for Susan. Thanks for taking my question. First, I'd like to shift gears a little bit and talk about the autocover and the opportunities that you see in this market. Considering the changing macro dynamics, is there any impact you're seeing in terms of the adoption? And any efforts you can do here to further expand the penetration over the coming years?

Sean Gadd

Yeah, I'll start that. So the answer is no, we're not seeing a decrease in adoption. We had a pretty good quarter in autocovers in general. We think we should -- I mean, we had very large growth last year. We expect it to grow this year, and we expect it to grow in the coming years as well. It's really about awareness for us.

The reality is most people still don't know that auto-covers are available. Auto-covers can fit on every pool, so it doesn't really matter if it's the fiberglass pool or not. So, the market is actually very large for us. And we've got our value-added resellers set-up to take advantage of that. And then we also are now getting our sales organization, Latham sales organization around that product, and it's still early for that to happen.

So, we see that as more upside as we go. But the product is a good product. It does what it needs to do. Consumers who have it, love it. And I think we just got to make sure we continue to drive the awareness. And I don't see that trend changing.

Charles Perron

Got it. Okay. That's helpful, Sean. And then switching gears, I appreciate all the color so far on the call on input costs and inflation. But should we see, more unfavorable dynamics coming through from a cost perspective? Can you talk about the opportunities to further lean -- on your lean manufacturing and value engineering initiatives to further protect your margins?

Oliver Gloe

So, I think lean and value engineering continues to be a key contributor to our P&L. You've heard me on prior calls, the contribution is about \$2 million, \$2.5 million per quarter. In Q1, it was \$2 million, and that's just because Q1 is a light quarter and lean and value engineering programs go up and down with volume.

I think as some of those programs mature, and you'll see the tailwind that's really now getting into our DNA. This is how we lead our plants and factories, and it's part of the everyday cadence. So, you'll see a lot more programs, maybe not of the same magnitude because the low-hanging fruits are being cleared here.

And that's more common for lean manufacturing, whereas, value engineering, we're really in the beginning of the journey. I think there are still some low-hanging fruits out there that our team of PhD level scientists are pursuing. So, again, both initiatives under full steam and certainly in Q1, delivering what we expected them to deliver, and there's no change in our thoughts for the rest of the year.

Charles Perron

Got it. Thank you for the color guys, and good luck with the quarter.

Oliver Gloe

Thank you.

Sean Gadd

Thanks, Charles.

Operator

Our next question comes from Sean Callan with Bank of America. Please go ahead.

Sean Callan

Hi guys, thank you for taking my question. Just, first, the double-digit growth in Florida was quite impressive. What do you think has led to the success in Florida versus the other Sand States? And can you talk about what lessons you can take from Florida to apply to the other Sand States?

Sean Gadd

Yeah. I'll start with -- it is, obviously, our largest focus of all the Sand States. We are set-up quite well from a sales number perspective. We're working on dealers now over the last 18 months. So, we've got a set of dealers that are really the right dealers for us to help fulfil the demand that we're creating. We've been running our marketing in general campaign for now 18 months, and we're seeing the flow of that. And then we have got a really good strong value proposition relative to concrete. And we're getting deeper and deeper into the market and being able to communicate it.

So, we are seeing good growth, and we feel good, and I feel good that if a homeowner understands the benefit of fiberglass over concrete, there's a really high chance that they would go with fiberglass. We're just very early still in the adoption curve. So, our mission is to make sure our awareness does continue to get driven up and that we have the connection between that awareness and our dealers positioning at the kitchen table.

And then I'll just remind you, at the end of the day, while we are very pleased with the numbers, we really look to accelerate that. And in reality, we're still working on pretty small numbers when we think about Florida.

Sean Callan

Okay. Great. And then just one cleanup question on the surcharges. Are you aiming to offset the higher transportation costs on a dollar basis or a margin basis?

Oliver Gloe

On a dollar basis. So, the headwind that we incurred is being passed on with the temporary surcharges.

Sean Callan

Okay, great. Thank you.

Oliver Gloe

Thanks, Sean.

Operator

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

Andrew Carter

Hey, thanks. Just I wanted to double click and make sure on that incentive cost. You're not backing that out, so if you were to put that back-in, the incremental here is still \$28 million to \$38 million in investment year. I just want to understand that double click? Thanks. Sorry, the earn-out around Coverstar, my fault.

Oliver Gloe

Right. So the earn-out is included in SG&A and will be sitting on top of the 22.5% of revenue, but as it is an expense tied to an acquisition for EBITDA purposes, it is backed out.

Andrew Carter

Okay. So it is just not excluded. It is within guidance that expense, just double checking?

Oliver Gloe

Sorry, It's an add back to EBITDA and it is in SG&A.

Andrew Carter

Okay. My fault, sorry about that. Thank you.

Oliver Gloe

Thanks, Andrew.

Sean Gadd

Thank you, Andrew.

Conclusion

Operator

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

Sean Gadd

Thank you very much. I just want to thank everybody for getting on the call. We felt like we had a strong quarter, obviously, March a little bit with weather, but the momentum is there. April looks strong, and we feel confident about our guide.

With that, I want to conclude the call. I look forward to seeing all the folks on the call over the coming weeks and months at different types of events. And, again, thank you everyone for attending. Thank you.

Operator

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