

Latham Group, Inc.

Fourth Quarter and Full Year 2024 Earnings
Conference Call

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CORPORATE PARTICIPANTS

Scott Rajeski - *President and Chief Executive Officer*

Oliver Gloe - *Chief Financial Officer*

Casey Kotary - *Investor Relations Representative*

PRESENTATION

Operator

Good afternoon, and welcome to the Latham Group Fourth Quarter and Full Year 2024 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your 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 2024 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

Thanks, Casey, and thank you all for participating in today's call to discuss our fourth quarter and full year 2024 results and review our outlook for 2025. We are pleased with how well the team navigated challenging industry conditions in 2024. In the face of an estimated decline of approximately 15% in U.S. pool starts, Latham continued to outperform the market and we are positioned to achieve considerable sales growth and accelerated profitability in 2025 and beyond.

Key takeaways of our full year performance include: First, our success in driving increased market penetration of fiberglass pools. By our analysis, fiberglass pools represented 23% of U.S. pool starts in 2024, up from 22% in 2023 and a gain of 6 percentage points since 2021.

In addition to the cost advantages, our sales and marketing campaigns have been focusing on the key competitive benefits of fiberglass over concrete pools, namely the fast and easy installation, low maintenance requirements and eco-friendly attributes, which are resonating with

consumers. In 2024, fiberglass pools represented 75% of our in-ground pool sales compared to 73% in 2023.

Second, our adjusted EBITDA results were a highlight of the year, reaching just over \$80 million and representing an adjusted EBITDA margin of 15.8%, 30 basis points ahead of the prior year on considerably lower sales. This strong performance was led by robust gross margin expansion that reflects our structurally reduced cost structure and disciplined SG&A spending, while we continued to increase investments in growth initiatives.

Third, the benefits of our acquisition of Coverstar Central, which has enabled us to vertically integrate our automatic safety cover line in the 29 states where Coverstar Central was our exclusive dealer and has set the stage for revenue synergy opportunities and additional acquisitions in this arena. Coverstar is a good example of the type of accretive acquisition opportunities in the market.

And lastly, we ended 2024 in a very strong financial position providing the flexibility to invest in organic growth projects and consider potential acquisitions. Oliver will cover the specifics of our fourth quarter and full year results later in this call.

We were pleased that our performance was in line with our expectations and enabled us to exceed the midpoint of our full year sales guidance and demonstrated our ability to continuously drive operational efficiencies and savings even in a declining demand environment.

Importantly, while we effectively managed through the substantial decline in U.S. pool starts in 2024, we also moved ahead with strategic investments in initiatives that are designed to drive substantial growth over time and are focused primarily on our two major growth product categories, namely fiberglass pools and automatic pool safety covers.

The most prominent of these growth initiatives is the planned expansion of Latham's market share in the Sand States, which we define as Florida, Texas, Arizona, and California. To put this opportunity in context, the Sand States collectively accounted for approximately two-thirds of U.S. pool starts in the U.S. in 2024, and we expect that number will be similar in 2025. Approximately 17% of Latham's total fiberglass pool sales in 2024 were in the Sand States and as we are the largest pool manufacturer in North America with nine plants producing fiberglass pools, the market share expansion opportunity for us is clear.

In executing on our Sand State strategy, we are focused on four key priorities:

- Expanding our pool dealer base, which involves working to increase the productivity of our existing dealers, as well as "standing-up" new builders, and converting concrete builders to fiberglass
- Targeting master planned communities, which are large-scale mixed-use residential developments with robust curated amenities, the largest of which are found in Florida and Texas;
- Aligning our product offerings with market demand in the Sand States, where builders and consumers tend to favor rectangular pool shapes, pool/spa combos, and smaller-sized plunge pools. This year, we plan to launch several new fiberglass pool models with these characteristics to continue to increase our market share in the Sand States; and.

- Addressing our marketing campaign specifically to consumers and builders in those markets.

In other words, we're highlighting the faster installation and lower cost of ownership than concrete to consumers, and stressing the benefits to builders such as being more profitable and faster to scale than concrete. And, we believe the scarcity of labor will be a tailwind for fiberglass given the much greater labor intensity associated with building a concrete pool versus a fiberglass pool.

Of course, gaining a meaningful share of the Sand States marketplace will take time, but we are encouraged by the initial dealer, builder, and consumer response in the short time since we began implementing this strategy. For example, our GOOTSA ad campaign, which stands for "Get Out of the Stone Age", was launched in Texas during the fourth quarter of 2024 and resulted in over 40% more leads for our dealers than in the prior year. And in Florida, Latham sponsored events at Babcock Ranch, a master planned community on over 170,000 acres, have attracted large crowds and solid lead generation. We have a full range of targeted marketing activities planned in Florida and Texas in the coming months and are expecting to see incremental sales from these initiatives beginning this year.

And while our primary focus in the Sand States is on conversion to fiberglass pools from concrete, we also see the Sand States as an excellent market for increased adoption of automatic safety covers. Latham's automatic pool covers offer unparalleled safety, forming an isolation barrier when they are closed that seals off all sides of the pool.

In addition to its safety benefits, this product line offers several important savings and maintenance benefits for pool owners, including significant reductions in water evaporation, lower pool heating and electricity costs, and reduced chemical usage. In essence, they often pay for themselves after four to five years of ownership and come with a multi-year warranty.

In August 2024, we acquired our largest automatic safety cover dealer, Coverstar Central. The vertical integration of this product line in the acquired geographies has expanded our adjusted EBITDA margin, and we are working together with the leadership team at Coverstar Central to accelerate the adoption of this excellent product line. Today, we are also very excited to announce two smaller, but strategic, acquisitions, bringing our Coverstar New York and Coverstar Tennessee VARs into Latham, which further strengthens our position in this growing product category.

Looking ahead to 2025, industry conditions are slightly more favorable than they were one year ago, but we believe tough market conditions are likely to continue through much of the year. Therefore, we are managing to new U.S. pool starts in 2025 that will approximate 2024 levels, but we have the ability to quickly and efficiently ramp up to capture any increase in market demand.

As you have seen from our earnings release, we expect to considerably outperform the market in 2025, supported primarily by market share gains in the Sand States, increased adoption of autocovers, and the impact of last year's acquisition of Coverstar Central along with the contribution from the two small acquisitions we just completed.

I will now turn the call over to Oliver Gloe, our CFO, to review our fourth quarter and full year financial performance and discuss our guidance for 2025. 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 2023 and full fiscal year 2023, unless otherwise noted.

Net sales for the fourth quarter of 2024 were \$87 million, down 4% compared to \$91 million in Q4 2023, reflecting lower volumes from industry softness, partially offset by continued fiberglass conversion and the acquisition of Coverstar Central. Based on the normal seasonal cadence, Q4 is our slowest period and our sales performance was slightly ahead of our expectations.

By product line, in-ground pool sales were \$44 million, down 5% from Q4 2023, reflecting soft industry conditions while still outperforming the overall pool market. Cover sales were \$31 million in the quarter, down 2% with declines from industry softness partially offset by the benefits from our Coverstar Central acquisition in August. Liner sales were \$12 million, down 5% compared to the fourth quarter of 2023, remaining resilient relative to the overall pool market due to the replacement cycle of these products.

Despite the decline in sales, we achieved a fourth quarter gross margin of 25%, which was 130 basis points above last year's 23%. This is the result of production efficiencies gained from our lean manufacturing and value engineering initiatives, and a benefit from the acquisition of Coverstar Central.

SG&A expenses increased to \$27 million, up by \$3.6 million from \$24 million in Q4 of 2023, largely driven by investments made in sales and marketing initiatives to drive fiberglass penetration, increased performance-based compensation, as well as by the acquisition of Coverstar Central.

Net loss was \$29 million, or \$0.25 per diluted share, compared to \$0.1 million of net income, or \$0.00 per diluted share, for the prior year's fourth quarter. Our net loss for Q4 2024 includes \$9 million of non-recurring, non-cash income tax expense due to a valuation allowance established on foreign deferred tax assets, and a \$5 million loss on foreign currency transactions associated with our international subsidiaries.

Fourth quarter adjusted EBITDA was \$4 million, down \$6 million or 63% from \$10 million in the prior-year period, primarily resulting from increased sales and marketing spend and higher performance-based compensation. Adjusted EBITDA margin was 4%, a 670-basis-point decline year-over-year.

Turning to our full year results, net sales were \$509 million, down 10% compared to \$566 million in the prior year, reflecting lower sales volumes due to industry softness. By product line Latham's in-ground pool sales for the full year were \$259 million, down 13% year-over-year, but importantly above the estimated 15% decline in in-ground pool starts in the U.S. in 2024.

Throughout the year, we've outperformed the overall in-ground pool market, primarily as a result of our success in increasing the awareness and adoption of fiberglass pools. As Scott mentioned, market penetration of fiberglass pools increased by one percentage point in 2024 and we are working to drive continued growth of fiberglass across the U.S. with particular emphasis on the Sand States where there is significant opportunity for us.

Our liner sales of \$118 million declined 8%, while cover sales of \$131 million were down 7%, reflecting softer demand due to the ongoing challenging industry environment, partially offset by our acquisition of Coverstar Central.

Gross profit was \$154 million, slightly up compared to 2023, a strong indication of the substantial operating improvements we have made. Gross margin exceeded 30%, an expansion of 320 basis points compared to 27% in the prior year, primarily resulting from production efficiencies related to lean manufacturing and value engineering initiatives, improved procurement, and modest deflation.

SG&A expenses decreased to \$108 million from \$110 million in 2023, reflecting an \$11 million reduction in non-cash stock-based compensation expense as well as the benefits from our various cost reduction actions and restructuring programs. These savings more than offset the \$8 million in higher performance-based compensation, and our increased investment in sales and marketing initiatives to expand the awareness and adoption of fiberglass pools and grow our market share in the Sand States.

Net loss for the full year was \$18 million, or \$0.15 per diluted share, compared to \$2 million or \$0.02 per diluted share, for the prior year. The net loss for the full year 2024 included \$9 million of non-recurring, non-cash income tax expense due to a valuation allowance established on foreign deferred tax assets and a \$6 million loss on foreign currency transactions associated with our international subsidiaries.

Adjusted EBITDA was \$80 million compared to \$88 million in the prior year, as a result of the higher performance-based compensation and sales and marketing spend I just mentioned, while the impact of lower net sales was offset by our structurally improved cost basis. Adjusted EBITDA margin of 15.8% was 30 basis points above the 15.5% in 2023, thanks to our strong gross margin performance.

Turning to the balance sheet, we ended the year in a strong financial position, which gives us the financial flexibility to pursue organic and inorganic growth opportunities. We ended the year with a cash position of \$56 million even after the purchase of Coverstar Central for approximately \$65 million in August and the repayment of approximately \$21 million of debt during the year. Net cash provided by operating activities was \$6 million in the fourth quarter, and \$61 million for the full year 2024.

We ended the year with total debt of \$282 million, net debt of \$225 million and a net debt leverage ratio at 2.8. On a pro forma basis, our net debt leverage ratio was 2.6 at the end of the quarter.

Capital expenditures were \$20 million for full-year 2024, compared to \$33 million in the prior year. This is in line with our estimate of approximately \$5 million of CAPEX spend per quarter.

As Scott noted, we are pleased to have recently completed the acquisition of two additional Coverstar dealers. We expect the combined impact to provide incremental net sales of approximately \$5 million and incremental adjusted EBITDA of about \$1 million, which we have included in our 2025 guidance.

We have successfully navigated a year of challenging market conditions. Contributing to that success was our ability to drive meaningful cost structure improvements, including \$4 million of

savings from restructuring programs and \$9 million of savings from lean manufacturing and value engineering initiatives.

We see further opportunities to gain operating efficiencies through continued lean manufacturing and value engineering initiatives in 2025 and beyond. We believe these cost improvements have structurally changed our financial model, positioning Latham for increased earnings potential amid an eventual industry rebound.

Turning to our outlook for 2025, as Scott noted, we believe that new U.S. pool starts this year will be similar to 2024, with some room on the upside if consumer confidence improves. With this as a backdrop, we expect to achieve meaningful growth in net sales and adjusted EBITDA underpinned by key growth drivers, which primarily include accelerating share gains in the Sand States, and the benefits of the Coverstar of New York, and Tennessee acquisitions, and the continued awareness and adoption of automatic safety covers. These factors have informed our 2025 guidance for net sales of between \$535 million and \$565 million and adjusted EBITDA of between \$90 million and \$100 million, representing year-on-year growth of 8% and 19%, respectively, at the midpoints.

With respect to the cadence of the year, we expect a measured ramp up in orders and first quarter 2025 net sales to be similar to last year's first quarter performance and first quarter adjusted EBITDA to reflect increased investments in the build-out of our presence in the Sand States. This should be followed by progressively higher year-on-year comparisons in the seasonally stronger second and third quarters of the year.

Capital expenditures are projected to be in the range of \$27 million to \$33 million higher than 2024 by approximately \$10 million resulting from our decision to develop production molds for new fiberglass pool models specifically designed to appeal to the Sand States market, and the addition of usable space in our Florida and Oklahoma manufacturing facilities for future expansion in anticipation of increased market penetration in the Sand States.

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

Scott Rajeski

Thanks, Oliver. To sum up, 2024 was a very productive year for us; one that demonstrated the increased market penetration of fiberglass pools and automatic safety covers and the benefits of the structural cost reductions we have implemented over the last two years. As Oliver noted, we expect these factors to drive Latham's above-market growth in 2025 and beyond.

During our site visit to Latham's Zephyrhills fiberglass manufacturing facility in November 2024, we shared a longer-term vision. I invite you to review the Zephyrhills Site Tour presentation posted to the News and Events section of our IR website. In this presentation, we describe a path for advancing our growth strategy and the results we can achieve.

When new U.S. pool starts return to 78,000 per year, we can achieve revenue of about \$750 million and adjusted EBITDA of around \$160 million. The last time the market was at that level was 2019, and our revenues were \$318 million and our adjusted EBITDA was \$61 million – meaning Latham is positioned for outsized growth and we believe our growth has continued potential even beyond this point. We are looking forward to a growth year for Latham in 2025 and tracking toward even more expansive growth in the years to come.

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

QUESTION AND ANSWER

Operator

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

And your first question today will come from Ryan Merkel with William Blair. Please go ahead.

Ryan Merkel

Hi, everyone, thanks for taking the questions. First off, on the guide for 8% sales growth, could you break that down between volume, price, and M&A?

Oliver Gloe

Ryan, this is Oliver. Thanks for the question. So, the 8% sales growth in our guide from \$509 to \$550 breaks down at about 3...to about 3% coming from the full year run rate effect from Coverstar Central as well as the two new acquisitions, which we've closed last week, leaving about 5% for organic growth, right. And that's the combination of fiber...continued fiberglass penetration that we have driven successfully over the past few years, as well as the dividends from our growth strategy, especially the Sand States as well as the continued awareness and adoption of autocovers. Pricing similar to last year in our guidance is flattish and therefore not a major impact.

Ryan Merkel

Okay, that's helpful. Thank you. And then my second question. Can you just talk about feedback from dealers heading into the season here? What do leads look like? And I'm specifically interested in what you're hearing in the Sand States. Are you starting to see evidence that that strategy and your investment there is starting to pay off?

Scott Rajeski

Yes, Ryan, good afternoon. I'll take this one. So, feedback from dealers, I'll say, has been a lot more positive this year than last year at the same point in time. Again, as you guys are all aware, right, we're coming off of our dealer conference our heavy show season, and a lot of time in the field with all of our builders. And I think just everyone in the industry in general, I think the word we've been using with everyone is, I think everyone's cautiously optimistic about the year and clearly a lot of this was before the tariff scenario we're all fighting with right now real time. But the way I like to judge this against where we were coming into last year at the same point in time. If we look at the majority of our larger dealers, about a third of them said that their backlogs are flat, if not up this year versus the same point in time last year. If I rewind a year ago when we were asked that same question, no one was seeing flat or up. So that's a good indication that they're feeling good. And specifically in the Sand States, I'd say we're seeing really good progress there, new dealers coming into the area, increase in leads, I think one of the things I like to point to is we fired up our GOOTSA campaign in Texas in the fourth quarter and the number of leads that we were generating from that campaign at the end of the year was up 40% versus the prior year. And we're just getting ready to launch the GOOTSA campaign in Florida as well.

So I'd say early progress, you know, as we start to ramp all of that up, bring new dealers in the new master planned communities, and specifically, because we've been at the Babcock Ranch a little bit longer with our dealer there, I'd say we've seen a lot of really good traction. All the events we've been hosting over the last four to five months there. And we would expect that will start to translate into a nice uptick as we go forward. And I think one of the things I think we can quantify for you guys, we did see about a 2% increase in our revenue with fiberglass specifically in the Sand States year-over-year going from about 15% to 17% of pools sold. So, we were really happy with that starting to move in the right direction as we're kind of here in the early innings of the game.

Ryan Merkel

Great. That's encouraging. I'll pass it on. Best of luck.

Scott Rajeski

Alright. Thanks, Ryan.

Ryan Merkel

Thank you.

Operator

And your next question today will come from Andrew Carter with Stifel. Please go ahead.

Andrew Carter

Hey, thank you very much. Good afternoon. So, I guess you mentioned tariffs. So could you walk us through kind of your exposure, you obviously have a business in Canada, so you got some stuff moving north potentially. Some of that, I guess, is self-contained. And then I guess specifically just too kind of anchor us around what Kingston is doing now, what the kind of expectations were for it? Was it not only for Canada, but was it for the Northeast? And does that change at all after kind of retaliatory tariffs, tariffs coming in? I'll stop there and let you guys talk.

Scott Rajeski

Yes. So, look, it's a very dynamic situation. And I think good news/bad news is we have had some time to get out in front of this and prepare for the impact for 2025. I guess the better news is it's not a significant impact for us overall if you look at what we're importing from the currently announced tariff impacted countries. Think around a \$15 million material buy for us overall from what we see today. What we've really been able to do over the years is we've completely diversified our supplier base, right? We've been dual and tri-source, right? The first lever is shift the buying back to domestic providers, which has been a big help to us. We have had the ability to say pre-buy material and more importantly, I'll say pre-stage raw material as well as finished goods into the countries ahead of any of the enactment of any of this. And we also have the ability to shift manufacturing production between the facilities.

Kingston-specific, Andrew, as you asked, right, the original intent was to be able to put production up there that we could shift back into the Northeast. Again, I'd say we've brought a lot of pools down into our storage yard, you know, specifically here in Queensberry. We will probably pivot and use Kingston for local production in the Canadian market. And again, shift production from some of the other facilities here in the U.S. to fill back into the U.S. And I think that's the benefit of our really great manufacturing footprint we have. Having the nine facilities, having multiple line of facilities in the U.S. and Canada. We can quickly maneuver things back and forth.

And look, and at the end of the day, to kind of mitigates the full impact of anything we would see you know, price would be the final lever that we would be able to pull in terms of passing it on to the dealers and ultimately the consumers. But again, it wouldn't need to be a big number to kind of mitigate the impact for this year.

Andrew Carter

Got you. And then a second question, just going back to the site tour in November, I guess, I walked away thinking like a, you know, a CAPEX around the Sand States would be taken with a lot of traction. You're taking some today. Is that based on what you've seen? And is it...how should we think about the Sand States strategy being effective? Is it going to be this kind of stepped up, add \$5 million to \$10 million of CAPEX per year from here for the next couple of years? Or will you do another Kingston plant if it's really successful, pick, you know, pick a good location? Just how does that kind of capital plan change?

Scott Rajeski

Yes, I think what we wanted to do, Andrew, you were with us at the site in Zephyrhills, it's really about flow and continuing our journey of...have better production, better flow to get more pools out of the existing location there. So, one, right, its new models and molds that we want to introduce that will resonate in the Sand States, smaller pools, more feature-rich with spas and ledges built into it, and more of the plunge pool lineup. So, I'd say building out that product portfolio to meet the demand profile there is one, right?

Two, working on some expansion opportunities at the Zephyrhills facility to encourage better flow, increased kind of capacity, so we can kind of get more pools in and out the door there on a daily basis. And then a similar concept with Oklahoma, right? When we bought Oklahoma, we had a multi-staged concept there of building that site out over a three to five year period. As we saw demand coming, we had really good success in the Southwest last year. So, I think we're just starting to set the stage for smaller CAPEX investments in those plants. I don't see a need for a Kingston-like investment in the near-term horizon. We've got plenty of capacity to grow into, let's say, that 78,000 number that we talked about before we would have to go drop another big CAPEX investment like at Kingston into the network for us.

Andrew Carter

Thanks. I'll pass it on.

Scott Rajeski

Alright. Thanks, Andrew.

Operator

And your next question today will come from Tim Wos with Baird. Please go ahead.

Tim Wojs

Hey, guys. Good afternoon. Thanks for all the information. Maybe just on...the first question on fiberglass penetration. I don't expect exact numbers, but as you kind of look at 24% penetration in total for fiberglass. Do you think the Sand States, just kind of based on your work, is at that same level? Or do you think it's actually below kind of the overall penetration of fiberglass in the U.S.?

Scott Rajeski

Yes. Tim, really good question. I think that's been one of the things we've been talking about as we've kind of laid out our strategy and the roadmap. Clearly, fiberglass is significantly under-penetrated in the Sand State market in total. And I'd say significantly below, let's say, the 24% number we talked about for total U.S. So that's why we really like it, right? It's a huge opportunity: 65% roughly of all pool starts are in the four Sand States as we've defined it, under-penetration. So that's really why we're excited about what can happen in maybe a slower, new pool start growth market here as we continue to take share against fiberglass there. Rapidly be able to scale the business and grow it. We're not at a point where we want to disclose those numbers yet. I think we're still trying to do our homework on laying that all out. But I could tell you it's well below the 24% number.

Tim Wojs

Yes. Okay. No, that's helpful, because it does imply that the non-Sand State penetration would be significantly higher, I guess, than, that we're seeing in the Sand State. So, it seems like a pretty big opportunity?

So, I guess second question just on the EBITDA bridge, kind of similar to Ryan's question, just with revenue, Oliver, just could you kind of walk through the midpoint-to-midpoint, call it \$15 million kind of EBITDA bridge and kind of what are the key kind of buckets we should think about in that?

Oliver Gloe

Yes, Tim, glad to do so. So, in our walk from '24 EBITDA of \$80M to our midpoint '25 guide of \$95M, think of really three key tailwinds here. First one being the volume leverage, obviously the 8% additional volume or the organic 5% that drives an EBITDA impact. We talked about some of the incrementals that that would drive probably in the high 30s. So that's the first impact.

Second impact is lean value engineering. In 2024, we realized \$9 million from that program, relatively consistently \$2M, \$2.5M a quarter. We expect that at least to continue, if not with increased volume, accelerate.

And then lastly, it's the addition of the three Coverstar acquisitions, right? And then the most impactful one is run rate in Coverstar Central. That is being passed by, you know, increased SG&A spend, right? You've heard us talk about it with regards to our Sand States strategy, funding that with additional sales, boots on the ground, salespeople, as well as, marketing, especially around our GOOTSA campaign, as well as the acceleration of our efforts to digitize the Company, right. So that would be the key headwind here to drive us from \$80 million to \$95 million. There's a lot of other things happening under the hood, but these are the key impacts.

Tim Wojs

Okay. And would you say that you're at a point now where like the increases or the year-over-year kind of incremental increases in SG&A spend are, you're effectively kind of self-funding that, through the enterprise now? Or do you feel like there's still a lot more SG&A investment that needs to be kind of put into the business itself?

Oliver Gloe

Well, I think we'll adjust as we go, right? And, with an increasing success, I would love to add over time additional salespeople as we go into new neighborhoods and new geographies, right? I think in terms of marketing, that's more an upfront investment to drive the initial awareness and

then potentially maintaining that awareness will...that will probably be at a lower run rate. But, for now, I would say we have what we need for 2025. We have what we need to fund that assumption of 5% organic growth.

Tim Wojs

Okay. Great. Good luck on the year.

Oliver Gloe

Thank you.

Operator

Your next question today will come from Greg Palm with Craig-Hallam Capital Group. Please go ahead.

Greg Palm

Yes. Thanks, and congrats on all the progress last year, all things considered.

Oliver Gloe

Thanks, Greg.

Greg Palm

I'd like to come back first to the full-year revenue guide. So, you have the company-specific driver, going after the Sand States and then maybe some structural drivers out there that's, potentially making concrete pools less attractive. So, I'm curious, does the guide assume an acceleration of fiberglass penetration in 2025 or could that be a source of upside maybe?

Oliver Gloe

Well, guides include first dividends from our Sand State strategy from driving awareness and adoption of autocovers beyond what we have been used to on an annual basis, the normal kind of demand-driven fiberglass penetration outside of the Sand States.

Greg Palm

Okay. So, to be clear, it does imply some sort of acceleration.

Oliver Gloe

That is correct.

Greg Palm

Yes. Okay. And, as it relates to the Sand State strategy specifically, I'm curious how are you measuring success? I don't know if there's KPIs you're looking at, but trying to figure out, you know, what determines, a), how much investment you want to make from a marketing side and, b), how many other dealer locations you might want to stand up down there in those states over the coming years?

Scott Rajeski

Yes. So, Greg, it's a hot question that we've been discussing here, quite a bit the last several months as we put this strat together and came into the guide here. And I think the first one is kind of what I mentioned earlier on the call: percentage of fiberglass pools of our revenue or units being sold in the Sand States going from 15% to 17%, right? So, I think that'll be the first one we'll start reporting on an annual basis. And I think as we start to understand what is the right penetration number down there versus, let's say, the national average penetration number.

We'll probably start to do something on that point maybe later this year or as we get through 2025. And I think when it comes to dealers, right, the game for us in the Sand States is we've already got quite a few dealers there in the Sand States. Let's say, specifically in Florida. I think the two issues we have is one, the average number of pools they do versus a fiberglass dealer in the non-Sand States. And then two, where are they physically located? A lot of these folks are not in the circles of these master planned communities.

So, what we're trying to do is actually get some of them to shift or create a second location in these "MPCs" as we like to call them. I think the other thing is, as some of our other bigger dealers nationally, let's say our Grand dealers or some of our President's Club award winners, they see the investments we're making, the marketing we're doing, the GOOTSA campaign we're launching, some in their territories, let's say maybe in Texas, and they're now asking us, hey, I'd be willing to come and work with you guys and tackle some of these MPCs if you don't have dealers present there. So, I think we've made really good progress since the Zephyrhills visit.

We're probably a little bit accelerated on the pace of dealers and MPCs we're going into. And like I said, we're really just going to start spending some money on the GOOTSA campaigns here in the Florida market specifically. And look, we would love to see similar gains like we saw in Texas of 40%, 50% year-over-year incremental leads. It does take time to convert a lead to an order. And look, as we move forward, we'll give more and more color so you guys can clearly see the success we're having there and how it's moving the overall needle.

Greg Palm

That's helpful. I mean, do you have a target in mind in terms of the number of MPC locations you want to be in, you know, pick some amount of time, whether that's 24 months from now, three years from now, et cetera?

Scott Rajeski

Yes. We kind of gave a tease of that when we were in Zephyrhills of what we want to do here in '25, trying to get into the first tranche. I can't remember the exact number, Greg, I have to go back, three or four communities, let's say. But look, there's 20 big MPCs in Florida and Texas that we've targeted. We do want to go slow a little bit, because I think we will learn a lot as we get into them. Just like we've learned a ton with Concord and Babcock Ranch, you know, let's say over the last year or so, it'll be an evolving strategy. And I think as we start to get success and we see more dealers coming to us wanting to move to Florida and work with us, like I said, I mentioned we just had several existing approaches that we're working with now to get into some of those markets and communities. So, we'll continue to drive that. And I think when we get to a point where it makes sense, we can start reporting on progress. And to me, it's probably not important how many MPCs are we in, but how many pools do we sell and what percentage of our total pools sold is increasing and how are we driving that overall penetration number, specifically in the Sand States. Trying to get it up to, let's say, the national average, that 24% number, where we believe the market landed last year.

Greg Palm

Yes, makes sense. Alright. I will leave it there. Best of luck.

Scott Rajeski

Thank you.

Oliver Gloe

Thank, Greg.

Operator

Your next question today will come from Greg Badishkanian with Wolfe Research. Please go ahead.

Scott Stringer

Hey guys, this is Scott Stringer on for Greg. If I heard correctly, 1Q sales in 2025 expected to be sort of flattish, but that includes some M&A. So, if the industry is still, you know, somewhat soft today, what gives you confidence in that 8% growth for the full year?

Oliver Gloe

So, let me start with the, kind of confirming your understanding that we think that Q1 will be flat. That is essentially as I said the first dividends from our Sand State strategy and then autocovers, right? But then the acquisition of Coverstar Central has the impact to push out some of the sales versus last year, right? What used to be a sale from Latham to Coverstar Central in Q1 last year, end of the season, is now a sale from the combined entity into the market in Q2. So, those roughly offset each other. Hence, in Q1, we are thinking flat here. Now, as you go into future quarters, they, the Coverstar dynamics kind of reverse out. And then as we go into the full swing of the season, you would think that fiberglass penetration, and then your increase in fiberglass penetration, as well as what I always call the dividends of our strategies, that you will see those kicking in, right. So overall, again, we've estimated everything on a flat market. And these are the...the sort of the main cornerstones of our cadence that we look into 2025.

Scott Stringer

That's helpful. I'll just leave it there. Thanks, guys.

Oliver Gloe

Thanks a lot.

Operator

Your next question today will come from Matthew Bouley with Barclays. Please go ahead.

Matthew Bouley

Hey, good evening, everyone. Thank you for taking the questions. I just wanted to ask, maybe just a little more clarity on the margin guide. So, you know, sort of fairly healthy 150 basis point increase to adjusted EBITDA margins in 2025. I just wanted to be clear if, I guess, number one, if kind of the tariff exposure, I know you got a lot of mitigation efforts, maybe some of the costs of those mitigation measures. Just kind of...if that's included in the guide, or this obviously very recent tariff issue is still not in the guide. So that's kind of part one.

And then I guess just secondly, what was the implication that, you know, most of that increase in adjusted EBITDA margin would be on the gross margin side, or was there an anticipation of a little bit of SG&A leverage as well? Thank you.

Oliver Gloe

Thanks for the question. So let me address tariffs first. What technically is in the guidance is China. As you have heard Scott saying, you know, our portfolio of imports is really limited to about 15% of the total raw material basket, right? The team has done, not over the last few

weeks, but months, a great job of reassuring, we have been pre-buying or admittedly that doesn't eliminate the exposure, delays the exposure. But then really leveraging our network to work on mitigating the exposure for 2025 and beyond, right.

In our guidance, as I said, it's China. We believe that the combination of the supply chain driven mitigation levers, as well as what has proven effective to us is, the pricing lever to close the remaining gap, that our guidance given the announcements today, it was not a meaningful change, including Mexico and Canada, right? Now, there's always a bit of impact of tariffs also on the domestic market as supply and demand balances shift and change, right. We've seen based on the recent announcements of steel and aluminum that the domestic markets have also seen a spike here, right. So, for what I would call the more indirect impact of a tariff, we will have to wait and see what needs to be mitigated and how we'll mitigate that.

In terms of our gross margin, we don't specifically guide towards gross margin, but...as you recall from a previous answer, we have three tailwinds to our EBITDA margin, and they are all highly relevant for gross margin, right. And then our one headwind being in SG&A, where we increase our SG&A spend to fund our Sand States journey and our other growth levels that is entirely in the SG&A line, right. So that being said, right, you can imagine that the gross margin outperformance over '24, and then I mean, I remind you that gross margin stands at 30.2%, so, you know, above 30%, nicely it's 320 basis points up on 2023, we'll take another step towards our stated goal of 35% in 2025. So, most of the EBITDA outperformance, actually more than 150 basis points in EBITDA outperformance, sits in gross margin.

Matthew Bouley

Perfect. Okay, got it. Yes, and thank you for clarifying every piece of that. So, I guess, secondly, just shifting to M&A, right, kind of 2.6 pro forma net leverage. I mean, I guess, are there more opportunities to kind of go downstream on the cover side...Coverstar regions or perhaps other targets separate to that in the Sand States that kind of help move the needle there? Or is this going to be kind of a year where you guys want to digest the leverage a little bit? Thank you.

Scott Rajeski

Yes, no, Matt, good question. Look, there's always a good healthy list of M&A targets out there, right, like I said before, right, it always comes down to timing of when is someone, you know, ready to make that transaction/transition based on their career or other, let's say, business-focused priorities they may want to shift to. I think these last two that we did here at Coverstar of New York, Coverstar of Tennessee, again smaller territories, much different than, let's say, the Coverstar Central acquisition. And again, I'd say two very, very unique opportunities based on dialogues and conversations we had with both of the owners there that allowed us to strike quickly. And, you know, there are other Coverstar dealers or VARs out there in our network. I'd say, we'll continue to have dialogue with those guys. But, we've got quite a bit, we've got to digest right here. I'd say the integration with Coverstar Central is going extremely, extremely well. Bolting these two back onto that one will really open a lot of new autocover growth opportunities for us, better alignment, how we go to market. I think we'll continue to do extremely well with our other partners out there. And I think let's say, the non-autocover space, we'll continue to have dialogues with others. But, I can say right now, there's nothing active, pending, that we're working on other than these two that we just closed and getting them folded in along with Coverstar Central.

Matthew Bouley

Got it. Thanks, Scott and Oliver. Good luck, guys.

Scott Rajeski

Thanks, Matt.

Oliver Gloe

Thank you, Matt.

Operator

Your next question today will come from Susan Maklari with Goldman Sachs. Please go ahead.

Susan Maklari

Thank you. Good afternoon, everyone. My first question is going back to the margin. You've done a really good job over the last year of realizing those cost savings and the lean manufacturing efforts. And I know that I think you said that you did about \$2 million to \$2.5 million a quarter last year. And you think you can at least do that, if not more this year. Can you talk a bit more about what those opportunities are and how we should think about them coming through the business over the next several quarters?

Scott Rajeski

Yes. So, Susan, I'll hit a high level on the opportunities. I'd say, it's a lot more of what we've been doing, right. So, I'll hit lean first because that's the easiest one right. Let's just continue to do events in our plants. I'm looking at process flow. How do you drive more capacity, less tact time with the product flow through the factories, taking hours out of the process, getting that labor productivity. I think that journey is accelerating as we go forward here. And again, as we get more people trained on that, I'd say they're doing their own events within the plants. Now it's just part of what the teams do when they show up to work every single day. And the entire manufacturing operation has done a tremendous job with the individual that's leading that for us.

We continue to add new engineering talent into the organization. The value engineering products where you're looking at how parts are made, how they're constructed, what the materials are made out of, how do you redesign those products and components, right. Those take a little bit longer. But again, we're starting to build a good mass of engineering talent that's been in the business now for a few years. Good ROIs and paybacks. And I would say I'll let Oliver answer, but I think it's fairly consistent as we go through the quarter in terms of the value engineering lean, because a lot of these projects are being built out 6, 9, 12 months in advance. So, you have good visibility looking forward in terms of when the realization of those will hit.

And again, I'd say a lot of singles, doubles, you might even get a triple. And I think the guys are starting to look at, you know, some of the bigger, more structural things we could be doing in the future, as we gain more expertise on the engineering front there.

Oliver Gloe

And Susan, in terms of phasing a lot of the projects lift with the savings per piece. So, the more pieces you sell and produce, the more savings you realize. So, given our seasonality, expect the quarters that are more towards the \$2.5 million to be in Q2 and Q3 with the lighter quarters being in Q1 and Q4.

Susan Maklari

Okay. That's helpful. And then, thinking about the new products that you are developing for the Sand States. How should we think about the rollout of those, the timing of that? And then as

they do start to gain momentum, are there any implications in terms again of the margins and the returns that we should think about there?

Oliver Gloe

Yes. So, look, I think we just came off of pretty much the kickoff of the season here in the last three or four months. So, I think we've introduced all of the new products that we put out to the market. We've gotten some really, really great press on those models, on the plunge pools. I actually think some of the plunge pools actually won a few awards at a couple of the shows for us. And I think Susan that will be an ongoing initiative, right? So, we've got a pipeline of product development that our product directors and marketing team are working on as we build through the capacity of how we can build these molds and launch them. But again, there is a seasonality aspect. You want to be launching these things, you know, in the late 4Q, early 1Q timeframe. So, as the selling season starts for our dealers to the consumers, they have all the literature and brochures they need to get to that pool building season. So, you'll see the next wave of that come late summer, early fall for new model launches that we would be planning and wanting for 2026 as we accelerate on the capability there.

I think the other part of your question was kind of you know, margin impact. And I think, you know, fiberglass will be a little bit more competitive in the Sand States versus let's say the concrete pools down there. But again, I think you've seen that we've made a lot of investment in capacity, in SG&A, in marketing. So, as we start to sell more and more pools where we're under penetrated there, I think we'll have really nice leverage in our factories, which will allow us to continue to grow, not only GM, but I'd say EBITDA margins, as we march back to try and get back to a 22%, 23% EBITDA margin consistently from where we were back in peak pool building times of '21, '22.

Susan Maklari

Okay. That's great, color. Thank you both and good luck with everything.

Oliver Gloe

Thanks, Susan.

Operator

And your next question today will come from Sean Callan with Bank of America. Please go ahead.

Sean Callan

You had mentioned shifting some production from Kingston to the U.S. Can you talk about the difference in margins on the U.S. production versus Kingston, and if that's factored into your guidance?

Scott Rajeski

Yes. So, there's not really a difference in kind of the producer's margin, right? You're trading, the variable cost up in Kingston, but the variable cost in West Virginia, for example, is one of the receiving parts, right? I think that the thought process is really about balancing your tariffs with logistics costs, right. So, by making that shift, you mitigate on the tariff side, but there will be a little bit more logistics costs, right. In our guidance, we have not factored in the impact from the 25% Canadian and Mexican tariffs that start earlier today. But then again we have mitigated a fair amount of the impact, a fair share of the impact. And then as we said, pricing has been an effective lever to the remainder in the past.

Sean Callan

Okay, great. And then I just wanted to clarify an earlier comment. When you were talking about the value engineering, there was a \$9 million benefit last year. Can you talk about what the carryover from that is into 2025? And then I think you said you expect something similar next year. Does that mean another \$9 million of incremental savings from value engineering?

Oliver Gloe

Yes, so there's always going to be a carryover. So, I would say, hey, as we look for 2024 projects to pay its full dividend in 2025, there will also be 2025 projects that we'll implement throughout the year that have their full potential then in 2026, right. So, at this point in time, I look at what we throw into the funnel, exactly the same way what comes out of the funnel in terms of the P&L, right. And so right now, on both sides of the equation, new project generated and what materializes in the P&L, you have that nice \$9 million run rate, about \$2 million to \$2.5 million every quarter?

Sean Callan

Great. Thank you.

Oliver Gloe

Thank you, Sean.

Operator

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

CONCLUSION**Scott Rajeski**

Alright. Hey, look, thanks everyone for your time here this afternoon, early this evening. We really, really appreciate all of your continued support for Latham. And I know Oliver and myself are really looking forward to seeing all of you at upcoming conferences and meetings as we roll through the first quarter here. And we're definitely looking forward to our 1Q earnings call once we get out into our early-to-mid 2Q. So again, thanks everyone. Have a good evening. Bye.

Operator

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