



Company Overview:

Pool Corp. serves a very specific niche –the swimming pool maintenance and building market –that is large, growing and served exclusively by a highly fragmented “mom and pop” distributor network. Over the past 25 years POOL has consolidated the business through acquisition and organic growth, giving it industry-leading pricing power and allowing it to offer better service to its hugely fragmented customer base.

<u>Name</u>	<u>Ticker</u>	<u>Growth</u>	<u>Dividend</u>	<u>D + G</u>
Pool Corporation	POOL	12.25%	0.61%	12.86%

Highlights: POOL continues to post strong results - another example of the strong demand trends that the company benefits from because of their competitive advantage and consumer trends related to COVID- 19. We believe that these trends will continue.

Bull Case:

- **Discretionary v. Non-Discretionary Items** - The future growth of POOL does not depend solely on the growth rate of new pool installation in the U.S. and abroad. In fact, the non-discretionary items that the company sells are essential to the business. For every pool that exists, the water must be moved, filtered, and treated. Therefore, even during a downturn in construction or refurbishment of pools, POOL is protected by its sale of non-discretionary items. During the pandemic, while new pool construction might be down, POOL is finding that customers are spending more on discretionary items for their pools because these customers are more likely to spend their leisure time at home.
- **Protection from Online Sales** - It’s also interesting to consider POOL’s protection from online sales outlets like Amazon. Currently, 70% of transactions for POOL still take place at the counter, rather than through online distribution channels. This phenomenon can be attributed to the company’s maintenance and repair product mix. These products are needed as soon as pool owners want to use their pools, and the businesses that serve pool owners must serve their clients ASAP, not in a few days or a week. This instant demand unique to the pool industry plays well into POOL’s sales center model, where the majority of retail still takes place in person. Additionally, many pool owners have no idea how to use or install common pool products for maintenance, repair, and refurbishment. For example, it would be hard for a pool owner to buy a new pump on Amazon and properly install it in their own pool. So, these pool owners would rather rely on professionals, who buy from POOL as needed when demand for a product has presented itself.
- **Growth in the Commercial Pool Market** - The company estimates they have about 10% market share in the commercial pool industry, which they will look to improve to 20% in the next ten years. POOL likely won’t capture more than 20% of commercial market share, since it does not offer bulk chemicals, which are a large part of the commercial industry.

Bear Case:

- **Unfavorable Economic Conditions** - Although most of the company’s business is non-discretionary, the pool and outdoor living space is still very much tied to economic prosperity. During an economic downturn, POOL may be adversely affected in several areas, mainly in their discretionary product sales. Interest rates can also be a risk to POOL as they are instrumental in driving the demand for single family homes.
- **Labor Constraints** - The remodel, repair, and new pool construction markets rely heavily on the availability of professionals to complete these jobs. Without enough labor in these industries, the number of remodels, repair and construction jobs will falter, which will in turn adversely affect the company.
- **Bad Weather** - The nature of POOL’s business extremely seasonal. In 2019, the company generated 63% of net sales and 81% of operating income in the second and third quarters. In the past, the company has fallen short of earnings expectations because of the effects of mild climate trends in a certain year. Other times, the company has far surpassed earnings during abnormally hot time periods.

Overview: We believe Pool Corp. (POOL) is a great business with impressive financials, good leadership, and a long history of consistent, organic growth. From our perspective, POOL has an impressive sales mix which protects the company from economic downturns, as 60% of the products they sell are non-discretionary pool items involving maintenance and repair. We think their non-discretionary sales will help sustain growth in the industry.

At its core, we believe Pool Corp. is a stable business poised for further growth. The company has what we view as a solid balance sheet with a history of strong cash generation. They have a multi-faceted and what we believe is a sustainable competitive advantage in their industry. Finally, they have new, stay-at-home trends that should promote further growth of the business. Pool Corp. has performed consistently as an investment since its IPO in the 90’s, and it seems they will continue to perform as an investment in the 2020’s.



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