



## FEATURED OPTIONS RADAR REPORT



### Bear Spread Sees Multiple Compression for Quality Business Facing Tough Comps

Ticker/Price: POOL (\$370.7)

#### Analysis:

**Pool Corp (POOL)** large trade on 7/29 with 2000 November \$320 puts bought for \$3.4M against the sale of 2500 of the \$270 puts for \$2.35M, ratio spreads often protective but shares with a weaker rebound move into a falling 55-day moving average and trend resistance this week while earnings were a bit disappointing. POOL has rebounded off its 200-week EMA, yet shares are still -34.5% YTD and broke a long-term uptrend while forming a potential weekly bear flag, a move under that \$320 level targets a fall back to \$230. POOL is the world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products and is one of the leading distributors of irrigation and landscape products in the United States. POOL continues to benefit from a surge in pool demand in 2020/2021 that grew its installed base with a high amount of recurring revenues, ~60% driven by day-to-day maintenance items and another 20% from big ticket R&R. The US pool industry had a total addressable retail market of \$20B in 2020 and saw secular shifts including increased consumer spend on outdoor living, home price appreciation, and migration towards warmer Southern and Western states. New swimming pool construction comprises 15% to 20% of consumer spending in the pool industry. POOL now has a market cap just under \$15B and trades 14.8X EBITDA, 20.3X Earnings and with a 1.1% dividend yield. Forecasts expect revenues to rise 18% with EBITDA growing 25% but 2023 consensus forecasts see flat Y/Y growth. POOL has EBITDA margins around 16.5% and Debt/EBITDA is 0.88X. POOL has seen a continuation of the demand for connected and smart technology products like automation, salt chlorination, variable speed pumps, robotic cleaners and customizations, which positively impact revenue on repair and replacement as well as new construction and remodel. POOL noted that the inflation it is seeing is driven by structural cost increases by our suppliers, making these new price levels permanent in nature. Analysts have an average target of \$415 and short interest rose 100% Q/Q to 7.5% of the float. Baird cut shares to Neutral with a \$398 target on recession risks. Jefferies cut its target to \$400 after a survey of pool builders indicated that they expect demand to be flat or down once current backlogs were depleted.

#### Hawk Vision:



**Hawk's Perspective:** POOL is a strong business but that flat 2023 outlook has to weigh and could see a 25% compression in the multiple, watching a move under \$350 to trigger.

**Confidence Ranking:** \$\$