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Pool Corporation Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from July Johnson with Piper Jaffray.

July Johnson - Piper Jaffray

My first question would be relating to the competitive pricing environment, what do you see? What are your expectations heading into the 08 pool sales season?

Manuel J. de la Perez

That's a great question and my own perceptions, that's the biggest variable that we have for 2008. When you look at the impact that the margin hit had on 2007 results that in and of itself was the most significant impact. During the course of 2007 particularly in the latter part of the year we have taken a number of initiatives to enhance our selling margins as well as our costs on the purchase cost side and we believe that that'll help us certainly in 2008. On the other hand we have already begun to see cases where competitors in their desperation to pay bills essentially and survive from one week or one month to the next significantly discounting certain products and while certainly we're trying to maintain a certain modicum of discipline in our pricing we are also cognizant of this variable and that's the wild card that really is the primary element that causes me to pause in terms of providing guidance for 2008. Again in a normalized environment you would see some level of recovery of the more adverse margins that we realized on gross margin side in 2007 but I'm cautious given what, again, others are doing to survive month-to-month, week-to-week.

July Johnson - Piper Jaffray

Okay, that's helpful. The other thing that we'd hurt a little bit about is that there have been some manufacturer price increases. Is this something that you've seen and is this something that you expect to be passed through? It sounds like there's probably some pressure there.

Manuel J. de la Perez

There have been product categories, manufacturer price increases. As a normal course those are passed on through the channel, they are not significant in the overall context of the cost of a pool or the cost of maintaining a pool since the lion's share of those costs are really labor driven so that is not a major issue. And that is from a practical standpoint, really a non-event. The main issue is, again, when a competitor needs to make payroll to survive they'll dump inventory and, again, that's the wild card.

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