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Pool Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Tom Hayes from Piper Jaffray. Your line is now open

Tom Hayes – Piper Jaffray

Great, thank you, good morning gentlemen.

Manny Perez De La Mesa

Good morning.

Tom Hayes – Piper Jaffray

A couple of questions, one, you called out in the release some improvements you have been making as far as the product mix, especially on the private-label product line. I am just wondering if you give some color as to the impact that you thought that had in the quarter and as well as going forward?

Manny Perez De La Mesa

In terms of the year, that impact was probably in the nature of 20 bps to 30 bps and that comes from two fronts, one front is migration to our own branded products, which have logically higher margins, and secondly to our focus to drive more sales to our preferred vendors and – or the sale of preferred vendor products. And therefore that's the other component.

Tom Hayes – Piper Jaffray

Okay. I think Mark mentioned in his prepared comments that the vendor price increases you saw were higher than expected or higher than normal. Could you give maybe some magnitude to that?

Manny Perez De La Mesa

Sure. Historically, in this industry, Tom the order of magnitude of inflation had been very, very modest, probably running to the tune of 1% to 2% over the long term.

Tom Hayes – Piper Jaffray

Okay.

Manny Perez De La Mesa

Given the – given two factors – given the raw materials cost increases that took place after manufacturers established their 2008 pricing in the beginning of the fall of 2007 through the better part of 2008, manufacturers had to absorb significant increases in raw material costs. Secondly, given the contraction of the industry, manufacturers now have much higher fixed costs in their structure, so when you take that to a product cost level given the lower volumes they have a higher overhead cost per unit. So, therefore, those two components really put significant pressure on manufacturers to raise their prices given their higher cost. And to that end the nature of the increases are in the overall in the mid-single digits to even in some cases higher than that. And the – so when those were announced, we had the opportunity to buy in before the price increases were effect given the normal 30-day or so notice period and so we did that.

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