

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-26640



POOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-3943363

(I.R.S. Employer
Identification No.)

**109 Northpark Boulevard,
Covington, Louisiana**

(Address of principal executive offices)

70433-5001

(Zip Code)

(985) 892-5521

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.001 per share

Trading Symbol(s)

POOL

Name of each exchange on which registered

Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer



Accelerated filer



Non-accelerated filer



Smaller reporting company



Emerging growth company



If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 25, 2021, there were 40,087,971 shares of common stock outstanding.

POOL CORPORATION
Form 10-Q
For the Quarter Ended September 30, 2021

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

POOL CORPORATION
Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Net sales	\$ 1,411,448	\$ 1,139,229	\$ 4,260,027	\$ 3,097,362
Cost of sales	969,549	810,531	2,965,311	2,205,555
Gross profit	441,899	328,698	1,294,716	891,807
Selling and administrative expenses	206,023	180,465	591,223	495,186
(Recovery) impairment of goodwill and other assets	(1,400)	—	(1,400)	6,944
Operating income	237,276	148,233	704,893	389,677
Interest and other non-operating expenses, net	2,317	1,861	6,862	9,292
Income before income taxes and equity earnings	234,959	146,372	698,031	380,385
Provision for income taxes	50,386	27,360	155,240	73,068
Equity earnings in unconsolidated investments, net	92	86	224	248
Net income	\$ 184,665	\$ 119,098	\$ 543,015	\$ 307,565
Earnings per share:				
Basic	\$ 4.60	\$ 2.97	\$ 13.53	\$ 7.68
Diluted	\$ 4.54	\$ 2.92	\$ 13.32	\$ 7.53
Weighted average shares outstanding:				
Basic	40,101	40,123	40,146	40,073
Diluted	40,691	40,839	40,766	40,849
Cash dividends declared per common share	\$ 0.80	\$ 0.58	\$ 2.18	\$ 1.71

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 184,665	\$ 119,098	\$ 543,015	\$ 307,565
Other comprehensive (loss) income:				
Foreign currency translation (losses) gains	(3,555)	2,976	(3,522)	(320)
Change in unrealized gains (losses) on interest rate swaps, net of change in taxes of \$(491), \$(51), \$(2,818), and \$3,641	1,473	154	8,453	(10,923)
Total other comprehensive (loss) income	(2,082)	3,130	4,931	(11,243)
Comprehensive income	\$ 182,583	\$ 122,228	\$ 547,946	\$ 296,322

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2021	September 30, 2020	December 31, 2020 ⁽¹⁾
	(Unaudited)	(Unaudited)	
Assets			
Current assets:			
Cash and cash equivalents	\$ 83,475	\$ 74,749	\$ 34,128
Receivables, net	174,987	135,555	122,252
Receivables pledged under receivables facility	301,163	230,857	166,948
Product inventories, net	1,043,407	612,824	780,989
Prepaid expenses and other current assets	23,368	12,696	17,610
Total current assets	1,626,400	1,066,681	1,121,927
Property and equipment, net	111,339	109,086	108,241
Goodwill	281,300	199,360	268,167
Other intangible assets, net	12,067	10,522	12,181
Equity interest investments	1,242	1,314	1,292
Operating lease assets	221,007	180,230	205,875
Other assets	28,878	20,396	21,987
Total assets	\$ 2,282,233	\$ 1,587,589	\$ 1,739,670
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 414,156	\$ 268,412	\$ 266,753
Accrued expenses and other current liabilities	231,794	145,420	143,694
Short-term borrowings and current portion of long-term debt	10,744	11,709	11,869
Current operating lease liabilities	65,442	56,977	60,933
Total current liabilities	722,136	482,518	483,249
Deferred income taxes	30,275	29,476	27,653
Long-term debt, net	352,075	328,225	404,149
Other long-term liabilities	34,176	32,846	38,261
Non-current operating lease liabilities	158,359	125,023	146,888
Total liabilities	1,297,021	998,088	1,100,200
Stockholders' equity:			
Common stock, \$0.001 par value; 100,000,000 shares authorized; 40,079,584, 40,153,287 and 40,232,210 shares issued and outstanding at September 30, 2021, September 30, 2020 and December 31, 2020, respectively	40	40	40
Additional paid-in capital	542,858	513,030	519,579
Retained earnings	451,401	98,033	133,870
Accumulated other comprehensive loss	(9,087)	(21,602)	(14,019)
Total stockholders' equity	985,212	589,501	639,470
Total liabilities and stockholders' equity	\$ 2,282,233	\$ 1,587,589	\$ 1,739,670

⁽¹⁾ Derived from audited financial statements.

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2021	2020
Operating activities		
Net income	\$ 543,015	\$ 307,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21,027	20,979
Amortization	1,064	975
Share-based compensation	11,755	11,095
Equity earnings in unconsolidated investments, net	(224)	(248)
Impairment of goodwill and other assets	—	6,944
Other	5,256	1,092
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(186,772)	(135,129)
Product inventories	(267,341)	99,767
Prepaid expenses and other assets	(22,674)	311
Accounts payable	146,616	3,385
Accrued expenses and other current liabilities	107,343	72,178
Net cash provided by operating activities	<u>359,065</u>	<u>388,914</u>
Investing activities		
Acquisition of businesses, net of cash acquired	(17,887)	(24,655)
Purchases of property and equipment, net of sale proceeds	(24,223)	(16,897)
Net cash used in investing activities	<u>(42,110)</u>	<u>(41,552)</u>
Financing activities		
Proceeds from revolving line of credit	791,508	749,840
Payments on revolving line of credit	(730,277)	(909,637)
Proceeds from asset-backed financing	310,000	261,700
Payments on asset-backed financing	(415,000)	(266,700)
Payments on term facility	(6,938)	(6,938)
Proceeds from short-term borrowings and current portion of long-term debt	7,880	13,255
Payments on short-term borrowings and current portion of long-term debt	(9,006)	(13,291)
Payments of deferred financing costs	(1,610)	(12)
Payments of deferred and contingent acquisition consideration	(362)	(281)
Proceeds from stock issued under share-based compensation plans	11,524	16,696
Payments of cash dividends	(87,509)	(68,599)
Purchases of treasury stock	(137,975)	(76,194)
Net cash used in financing activities	<u>(267,765)</u>	<u>(300,161)</u>
Effect of exchange rate changes on cash and cash equivalents	157	(1,035)
Change in cash and cash equivalents	49,347	46,166
Cash and cash equivalents at beginning of period	34,128	28,583
Cash and cash equivalents at end of period	<u>\$ 83,475</u>	<u>\$ 74,749</u>

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2020	40,232	\$ 40	\$ 519,579	\$ 133,870	\$ (14,019)	\$ 639,470
Net income	—	—	—	98,655	—	98,655
Foreign currency translation	—	—	—	—	(1,268)	(1,268)
Interest rate swaps, net of the change in taxes of \$(3,046)	—	—	—	—	9,137	9,137
Repurchases of common stock, net of retirements	(215)	—	—	(71,516)	—	(71,516)
Share-based compensation	—	—	3,837	—	—	3,837
Issuance of stock under share-based compensation plans	69	—	2,912	—	—	2,912
Declaration of cash dividends	—	—	—	(23,299)	—	(23,299)
Balance at March 31, 2021	40,086	40	526,328	137,710	(6,150)	657,928
Net income	—	—	—	259,695	—	259,695
Foreign currency translation	—	—	—	—	1,302	1,302
Interest rate swaps, net of the change in taxes of \$719	—	—	—	—	(2,157)	(2,157)
Repurchases of common stock, net of retirements	(45)	—	—	(18,619)	—	(18,619)
Share-based compensation	—	—	3,712	—	—	3,712
Issuance of stock under share-based compensation plans	90	—	5,006	—	—	5,006
Declaration of cash dividends	—	—	—	(32,119)	—	(32,119)
Balance at June 30, 2021	40,131	40	535,046	346,667	(7,005)	874,748
Net income	—	—	—	184,665	—	184,665
Foreign currency translation	—	—	—	—	(3,555)	(3,555)
Interest rate swaps, net of the change in taxes of \$(491)	—	—	—	—	1,473	1,473
Repurchases of common stock, net of retirements	(100)	—	—	(47,840)	—	(47,840)
Share-based compensation	—	—	4,206	—	—	4,206
Issuance of stock under share-based compensation plans	49	—	3,606	—	—	3,606
Declaration of cash dividends	—	—	—	(32,091)	—	(32,091)
Balance at September 30, 2021	40,080	\$ 40	\$ 542,858	\$ 451,401	\$ (9,087)	\$ 985,212

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2019	40,074	\$ 40	\$ 485,239	\$ (64,740)	\$ (10,359)	\$ 410,180
Net income	—	—	—	30,912	—	30,912
Foreign currency translation	—	—	—	—	(5,430)	(5,430)
Interest rate swaps, net of the change in taxes of \$2,837	—	—	—	—	(8,510)	(8,510)
Repurchases of common stock, net of retirements	(362)	—	—	(66,619)	—	(66,619)
Share-based compensation	—	—	3,654	—	—	3,654
Issuance of stock under share-based compensation plans	219	—	6,358	—	—	6,358
Declaration of cash dividends	—	—	—	(22,147)	—	(22,147)
Balance at March 31, 2020	39,931	40	495,251	(122,594)	(24,299)	348,398
Net income	—	—	—	157,555	—	157,555
Foreign currency translation	—	—	—	—	2,134	2,134
Interest rate swaps, net of the change in taxes of \$855	—	—	—	—	(2,567)	(2,567)
Repurchases of common stock, net of retirements	(19)	—	—	(3,584)	—	(3,584)
Share-based compensation	—	—	3,567	—	—	3,567
Issuance of stock under share-based compensation plans	130	—	4,453	—	—	4,453
Declaration of cash dividends	—	—	—	(23,165)	—	(23,165)
Balance at June 30, 2020	40,042	40	503,271	8,212	(24,732)	486,791
Net income	—	—	—	119,098	—	119,098
Foreign currency translation	—	—	—	—	2,976	2,976
Interest rate swaps, net of the change in taxes of \$(51)	—	—	—	—	154	154
Repurchases of common stock, net of retirements	(20)	—	—	(5,990)	—	(5,990)
Share-based compensation	—	—	3,874	—	—	3,874
Issuance of stock under share-based compensation plans	131	—	5,885	—	—	5,885
Declaration of cash dividends	—	—	—	(23,287)	—	(23,287)
Balance at September 30, 2020	40,153	\$ 40	\$ 513,030	\$ 98,033	\$ (21,602)	\$ 589,501

The accompanying Notes are an integral part of the Consolidated Financial Statements.

POOL CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Summary of Significant Accounting Policies

Pool Corporation (the *Company*, which may be referred to as *we*, *us* or *our*) prepared the unaudited interim Consolidated Financial Statements following U.S. generally accepted accounting principles (GAAP) and the requirements of the Securities and Exchange Commission (SEC) for interim financial information. As permitted under those rules, we have condensed or omitted certain footnotes and other financial information required for complete financial statements.

The interim Consolidated Financial Statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results. All significant intercompany accounts and intercompany transactions have been eliminated.

A description of our significant accounting policies is included in our 2020 Annual Report on Form 10-K. You should read the interim Consolidated Financial Statements in conjunction with the Consolidated Financial Statements and accompanying notes in our 2020 Annual Report on Form 10-K. The results for our three and nine month periods ended September 30, 2021 are not necessarily indicative of the expected results for our fiscal year ending December 31, 2021.

Newly Adopted Accounting Pronouncements

On January 1, 2021, we adopted Accounting Standards Update (ASU) 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*. This new standard simplified the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. Most amendments were required to be applied on a prospective basis, while certain amendments were required to be applied on a retrospective or modified retrospective basis. The adoption of this standard did not have a material impact on our consolidated financial statements or related disclosures, and we do not expect a material impact in future periods.

Income Taxes

We reduce federal and state income taxes payable by the tax benefits associated with the exercise of nonqualified stock options and the lapse of restrictions on restricted stock awards. To the extent realized tax deductions exceed the amount of previously recognized deferred tax benefits related to share-based compensation, we record an excess tax benefit. We record all excess tax benefits as a component of income tax benefit or expense on the Consolidated Statements of Income in the period in which stock options are exercised or restrictions on restricted stock awards lapse. We recorded excess tax benefits of \$4.2 million in the third quarter of 2021 compared to \$8.5 million in the third quarter of 2020 and \$15.9 million in the nine months ended September 30, 2021 compared to \$22.6 million in the nine months ended September 30, 2020.

Retained Earnings

We account for the retirement of treasury shares as a reduction of Retained earnings. As of September 30, 2021, the Retained earnings on our Consolidated Balance Sheets reflects cumulative net income, the cumulative impact of adjustments for changes in accounting pronouncements, treasury share retirements since the inception of our share repurchase programs of \$1.7 billion and cumulative dividends of \$758.3 million.

Accumulated Other Comprehensive Loss

The table below presents the components of our Accumulated other comprehensive loss balance (in thousands):

	September 30,		December 31,
	2021	2020	2020
Foreign currency translation adjustments	\$ (8,437)	\$ (10,447)	\$ (4,917)
Unrealized losses on interest rate swaps, net of tax	(650)	(11,155)	(9,102)
Accumulated other comprehensive loss	<u>\$ (9,087)</u>	<u>\$ (21,602)</u>	<u>\$ (14,019)</u>

Recent Accounting Pronouncements Pending Adoption

The following table summarizes the recent accounting pronouncements that we plan to adopt in future periods:

Standard	Description	Effective Date	Effect on Financial Statements and Other Significant Matters
ASU 2020-04, <i>Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting</i> and ASU 2021-01, <i>Reference Rate Reform (Topic 848): Scope</i>	Provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include: contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity. Entities may apply the provisions of the new standard as of the beginning of the reporting period when the election is made. In January 2021, the FASB issued ASU 2021-01, <i>Reference Rate Reform (Topic 848): Scope</i> . The amendments in this ASU refine the scope of ASC 848 and clarify some of its guidance as it relates to recent rate reform activities.	The provisions of these updates are only available until December 31, 2022, when the reference rate replacement activity is expected to be completed.	We are currently evaluating the effect these standards will have on our financial position, results of operations and related disclosures.

Note 2 – Earnings Per Share

We calculate basic earnings per share (EPS) by dividing Net income by the weighted average number of common shares outstanding. Diluted EPS reflects the dilutive effects of potentially dilutive securities, which include in-the-money outstanding stock options and shares to be purchased under our employee stock purchase plan. Using the treasury stock method, the effect of dilutive securities includes these additional shares of common stock that would have been outstanding based on the assumption that these potentially dilutive securities had been issued.

Stock options with exercise prices that are higher than the average market prices of our common stock for the periods presented are excluded from the diluted EPS calculation because the effect is anti-dilutive.

The table below presents the computation of EPS, including the reconciliation of basic and diluted weighted average shares outstanding (in thousands, except EPS):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 184,665	\$ 119,098	\$ 543,015	\$ 307,565
Weighted average shares outstanding:				
Basic	40,101	40,123	40,146	40,073
Effect of dilutive securities:				
Stock options and employee stock purchase plan	590	716	620	776
Diluted	40,691	40,839	40,766	40,849
Earnings per share:				
Basic	\$ 4.60	\$ 2.97	\$ 13.53	\$ 7.68
Diluted	\$ 4.54	\$ 2.92	\$ 13.32	\$ 7.53
Anti-dilutive stock options excluded from diluted earnings per share computations	—	—	—	—

Note 3 – Acquisitions

In June 2021, we acquired the distribution assets of Vak Pak Builders Supply, Inc., a wholesale distributor of swimming pool equipment, chemicals and supplies, adding one location in Florida.

In April 2021, we acquired Pool Source, LLC, a wholesale distributor of swimming pool equipment, chemicals and supplies, adding one location in Tennessee.

In December 2020, we acquired the distribution assets of TWC Distributors, Inc., a wholesale distributor of irrigation and landscape maintenance products, adding nine locations in Florida and one in Georgia.

In October 2020, we acquired Jet Line Products, Inc., a wholesale distributor of swimming pool equipment, chemicals and supplies, adding three locations in New Jersey, three locations in New York, two locations in Texas and one location in Florida.

In September 2020, we acquired the distribution assets of Northeastern Swimming Pool Distributors, Inc., a wholesale distributor of swimming pool equipment, chemicals and supplies, adding two locations in Ontario, Canada.

In February 2020, we acquired the distribution assets of Master Tile Network LLC, a wholesale distributor of swimming pool tile and hardscape products, adding two locations in Texas, one location in Nevada and one location in Oklahoma.

We have completed our acquisition accounting for these acquisitions, subject to adjustments for standard holdback provisions per the terms of the purchase agreements, which are not material.

These acquisitions did not have a material impact on our financial position or results of operations, either individually or in the aggregate.

Note 4 – Fair Value Measurements and Interest Rate Swaps

Our assets and liabilities that are measured at fair value on a recurring basis include the unrealized gains or losses on our interest rate swap contracts and contingent consideration related to recent acquisitions. The three levels of the fair value hierarchy under the accounting guidance are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; or
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Recurring Fair Value Measurements

The table below presents the estimated fair values of our interest rate swap contracts, our forward-starting interest rate swap contracts and our contingent consideration liabilities (in thousands):

	Fair Value at September 30,	
	2021	2020
Level 2		
Unrealized gains on interest rate swaps	\$ 5,488	\$ —
Unrealized losses on interest rate swaps	6,308	14,828
Level 3		
Contingent consideration liabilities	\$ 983	\$ 869

Interest Rate Swaps

We utilize interest rate swap contracts and forward-starting interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on our variable rate borrowings.

For determining the fair value of our interest rate swap contracts and forward-starting interest rate swap contracts, we use significant other observable market data or assumptions (Level 2 inputs) that we believe market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. Our fair value estimates reflect an income approach based on the terms of the interest rate swap contracts and inputs corroborated by observable market data including interest rate curves. We include unrealized gains in Prepaid expenses and other current assets and unrealized losses in Accrued expenses and other current liabilities on the Consolidated Balance Sheets.

We recognize any differences between the variable interest rate in effect and the fixed interest rates per our swap contracts as an adjustment to interest expense over the life of the swaps. To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, we record the changes in the estimated fair value of our interest rate swap contracts to Accumulated other comprehensive loss on the Consolidated Balance Sheets.

We currently have three interest rate swap contracts in place, two of which became effective on November 20, 2020, and terminate on September 29, 2022, and a third that became effective on February 26, 2021, and terminates on February 28, 2025. These swap contracts were previously forward-starting and convert the variable interest rate to a fixed interest rate on our variable rate borrowings. Interest expense related to the notional amounts under these swap contracts is based on the fixed rates plus the applicable margin on our variable rate borrowings. Changes in the estimated fair value of these interest rate swap contracts are recorded to Accumulated other comprehensive loss on the Consolidated Balance Sheets.

The following table provides additional details related to these swap contracts:

Derivative	Inception Date	Effective Date	Termination Date	Notional Amount (in millions)	Fixed Interest Rate
Interest rate swap 1	May 7, 2019	November 20, 2020	September 29, 2022	\$75.0	2.0925%
Interest rate swap 2	July 25, 2019	November 20, 2020	September 29, 2022	\$75.0	1.5500%
Interest rate swap 3	February 5, 2020	February 26, 2021	February 28, 2025	\$150.0	1.3800%

For the interest rate swap contracts in effect at September 30, 2021, a portion of the change in the estimated fair value between periods relates to future interest expense. Recognition of the change in fair value between periods attributable to accrued interest is reclassified from Accumulated other comprehensive loss on the Consolidated Balance Sheets to Interest and other non-operating expenses, net on the Consolidated Statements of Income. This amount was not material in the nine-month period ended September 30, 2021.

We have entered into forward-starting interest rate swap contracts to extend the hedged period for future interest payments on our variable rate borrowings. These swap contracts will convert the variable interest rate to a fixed interest rate on our variable rate borrowings. Changes in the estimated fair value of these forward-starting interest rate swap contracts are recorded to Accumulated other comprehensive loss on the Consolidated Balance Sheets.

The following table provides details related to each of our forward-starting interest rate swap contracts:

Derivative	Inception Date	Effective Date	Termination Date	Notional Amount (in millions)	Fixed Interest Rate
Forward-starting interest rate swap 1	March 9, 2020	September 29, 2022	February 26, 2027	\$150.0	0.7400%
Forward-starting interest rate swap 2	March 9, 2020	February 28, 2025	February 26, 2027	\$150.0	0.8130%

Failure of our swap counterparties would result in the loss of any potential benefit to us under our swap agreements. In this case, we would still be obligated to pay the variable interest payments underlying our debt agreements. Additionally, failure of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap agreements if we continue to be in a net pay position.

Our interest rate swap contracts and forward-starting interest rate swap contracts are subject to master netting arrangements. According to our accounting policy, we do not offset the fair values of assets with the fair values of liabilities related to these contracts.

Nonrecurring Fair Value Measurements

In addition to our assets and liabilities that we measure at fair value on a recurring basis, our assets and liabilities are also subject to nonrecurring fair value measurements. Generally, our assets, including long-lived assets, goodwill and intangible assets, are recorded at fair value on a nonrecurring basis as a result of impairment charges or business combinations. In the nine months ended September 30, 2021, we did not record any significant nonrecurring fair value measurements for assets or liabilities in periods subsequent to their initial recognition.

Other

The carrying values of cash, receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of those instruments. The carrying value of long-term debt approximates fair value (Level 3 inputs). Our determination of the estimated fair value reflects a discounted cash flow model using our estimates, including assumptions related to borrowing rates (Level 3 inputs).

Note 5 – Debt

The table below presents the components of our debt (in thousands):

	September 30,	
	2021	2020
Variable rate debt		
Short-term borrowings	\$ —	\$ —
Current portion of long-term debt:		
Australian credit facility	10,744	11,709
Short-term borrowings and current portion of long-term debt	10,744	11,709
Long-term portion:		
Revolving credit facility	170,255	40,876
Term facility	168,812	178,062
Receivables securitization facility	15,000	110,000
Less: financing costs, net	1,992	713
Long-term debt, net	352,075	328,225
Total debt	\$ 362,819	\$ 339,934

Revolving Credit Facility

On September 27, 2021, we entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") among us, as U.S. Borrower, SCP Distributors Canada Inc., as Canadian Borrower, SCP International, Inc., as Euro Borrower, Wells Fargo Bank, National Association, as Administrative Agent (the "Agent"), and certain other lenders party thereto. The Credit Agreement amended and restated the predecessor senior credit facility (as amended, the "Credit Facility") principally by increasing the total borrowing capacity from \$750.0 million to \$1.0 billion through the addition of a delayed-draw term loan facility of \$250.0 million. Under this term loan facility, we may draw term loans at any time prior to March 25, 2022. Any such term loans would require quarterly amortization payments aggregating to 20% of the original principal amount of the loan during the third, fourth and fifth years of the loan, with all remaining principal due on September 25, 2026. All other terms of any such term loans would be substantially similar to those governing revolving credit loans under the Credit Agreement.

In addition, the Credit Agreement further amended and restated the Credit Facility in the following ways:

- extending the maturity of the Credit Facility from September 29, 2022 to September 25, 2026;
- making available lower interest rates;
- increasing the amount of incremental facility commitments that we can request from \$75.0 million to \$250.0 million; and
- providing additional capacity under certain negative covenants related to indebtedness, liens, investments, acquisitions, share repurchases and dividends.

All obligations under the Credit Agreement continue to be guaranteed on an unsecured basis by substantially all of our existing and future domestic subsidiaries. The Credit Agreement also continues to contain various customary affirmative and negative covenants and events of default. The occurrence of any of these events of default would permit the lenders to, among other things, require immediate payment of all amounts outstanding under the Credit Agreement.

Revolving borrowings under the Credit Facility bear interest, at our option, at either of the following and, in each case, plus an applicable margin:

- a base rate, which is the highest of (i) the Agent's prime rate, (ii) the Federal Funds Rate plus 0.500% and (iii) (a) prior to the USD LIBOR Transition Date, the Adjusted Eurocurrency Rate for Dollars for a one-month term in effect on such day plus 1.00% and (b) on and after the USD LIBOR Transition Date, Daily Simple RFR for Dollars in effect on such day plus 1.00%; or
- (i) prior to the USD LIBOR Transition Date, the Eurocurrency Rate and (ii) on or after the USD LIBOR Transition Date or a Benchmark Transition Event, the applicable Benchmark Replacement.

Borrowings by the Canadian Borrower bear interest, at the Canadian Borrower's option, at either of the following and, in each case, plus an applicable margin:

- a. a base rate, which is the greatest of (i) the Canadian Reference Bank prime rate and (ii) the Canadian Dealer Offered Rate ("CDOR") plus 1.00%; or
- b. CDOR.

Borrowings by the Euro Borrower bear interest at the Eurocurrency rate plus an applicable margin.

Borrowings under any swingline loans under the Credit Facility bear interest, at our option, at either of the following and, in each case, plus an applicable margin:

- a. the LIBOR Market Index Rate; or
- b. a base rate, which is the highest of (i) the Agent's prime rate, (ii) the Federal Funds Rate plus 0.500% and (iii) (a) prior to the USD LIBOR Transition Date, the Adjusted Eurocurrency Rate for Dollars for a one-month term in effect on such day plus 1.00% and (b) on and after the USD LIBOR Transition Date, Daily Simple RFR for Dollars in effect on such day plus 1.00%.

The interest rate margins on borrowings and letters of credit issued under the Credit Agreement are based on our leverage ratio and will range from 0.000% to 0.425% on Base Rate and Canadian Base Rate loans and from 0.910% to 1.425% on CDOR, LIBOR and swingline loans (with all such rates being calculated in accordance with the terms and by reference to the definitions specified in the Credit Agreement). We are also required to pay an annual facility fee with respect to the lenders' aggregate revolving credit commitment, the amount of which is based on our leverage ratio.

Term Facility

On October 12, 2021, we entered into the First Amendment to the Credit Agreement (as amended, the "Term Facility Agreement") among us, as Borrower and Bank of America, N.A., as the Lender. Among other items, the amendment provides additional capacity under certain negative covenants related to indebtedness, liens, investments, acquisitions, share repurchases and dividends.

All obligations under the Term Facility Agreement, which matures on December 30, 2026, continue to be guaranteed on an unsecured basis by substantially all of our existing and future domestic subsidiaries. The Term Facility Agreement also continues to contain various customary affirmative and negative covenants and events of default. The occurrence of any of these events of default would permit the lenders to, among other things, require immediate payment of all amounts outstanding under the Term Facility Agreement.

Borrowings under the term loan facility (the "Term Facility") available under the Term Facility Agreement bear interest, at our option, at either of the following and, in each case, plus an applicable margin:

- a. a base rate, which is the greatest of (i) the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the business day next succeeding such day plus 0.50%, (ii) Bank of America's prime rate, or (iii) the Eurodollar Rate (defined below) plus 1.00%; or
- b. the Eurodollar Rate, which is the greater of (i) the rate per annum equal to the USD LIBOR as administered by the ICE Benchmark Administration, or a comparable or successor administrator approved by the Lender or (ii) a floor rate specified in the Term Facility Agreement.

The interest rate margins on the borrowings under the Term Facility Agreement are based on our leverage ratio and will range from 0.000% to 0.625% on Base Rate borrowings and 1.000% to 1.625% on Eurodollar Rate borrowings (with all such rates being calculated in accordance with the terms and by reference to the definitions specified in the Term Facility Agreement).

Receivables Securitization Facility

Our accounts receivable securitization facility (the "Receivables Facility") provides for the sale of certain of our receivables to a wholly owned subsidiary (the "Securitization Subsidiary"). The Securitization Subsidiary transfers variable undivided percentage interests in the receivables and related rights to certain third-party financial institutions in exchange for cash proceeds, limited to the applicable funding capacities.

We account for the sale of the receivable interests as a secured borrowing on our Consolidated Balance Sheets. The receivables subject to the agreement collateralize the cash proceeds received from the third-party financial institutions. We classify the entire outstanding balance as Long-term debt, net on our Consolidated Balance Sheets as we intend and have the ability to refinance the obligations on a long-term basis. We present the receivables that collateralize the cash proceeds separately as Receivables pledged under receivables facility on our Consolidated Balance Sheets.

Financial Covenants

Following their recent amendments, the Credit Facility and Term Facility continue to require us to maintain a maximum average total leverage ratio and a minimum fixed charge coverage ratio consistent with the terms in effect prior to the amendment.

As amended, the Credit Facility and Term Facility limit the declaration and payment of dividends on our common stock to a manner consistent with past practice, provided no default or event of default has occurred and is continuing, or would result from the payment of dividends. We may declare and pay quarterly dividends so long as (i) the amount per share of such dividends is not greater than the most recently publicly announced amount dividends per share and (ii) our Average Total Leverage Ratio is less than 3.25 to 1.00 both immediately before and after giving pro forma effect to such dividends. Under the Credit Facility and Term Facility, we may repurchase shares of our common stock provided no default or event of default has occurred and is continuing, or would result from the repurchase of shares, and our maximum average total leverage ratio (determined on a pro forma basis) is less than 3.25 to 1.00.

Other covenants include restrictions on our ability to grant liens, incur indebtedness, make investments, merge or consolidate, and sell or transfer assets. Failure to comply with any of our financial covenants or any other terms of any of our debt facilities could result in higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt.

As of September 30, 2021, we were in compliance with all material covenants and financial ratio requirements under our Credit Facility, our Term Facility and our Receivables Facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the accompanying interim Consolidated Financial Statements and notes, the Consolidated Financial Statements and accompanying notes in our 2020 Annual Report on Form 10-K and with Management's Discussion and Analysis in our 2020 Annual Report on Form 10-K.

For a discussion of our base business calculations, see the Results of Operations section below.

Forward-Looking Statements

This report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of earnings and other financial performance measures, statements of management's expectations regarding our plans and objectives and industry, general economic and other forecasts of trends, future dividend payments and share repurchases, and other matters. Forward-looking statements speak only as of the date of this filing, and we undertake no obligation to publicly update or revise such statements to reflect new circumstances or unanticipated events as they occur. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate," "estimate," "expect," "intend," "believe," "will likely result," "outlook," "project," "may," "can," "plan," "target," "potential," "should" and other words and expressions of similar meaning.

No assurance can be given that the expected results in any forward-looking statement will be achieved, and actual results may differ materially due to one or more factors, including impacts on our business from the COVID-19 pandemic and the extent to which strong demand driven by home-centric trends will continue, accelerate or reverse; the sensitivity of our business to weather conditions; changes in the economy and the housing market; our ability to maintain favorable relationships with suppliers and manufacturers; competition from other leisure product alternatives and mass merchants; excess tax benefits or deficiencies recognized under ASU 2016-09 and other risks detailed in our 2020 Annual Report on Form 10-K. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

OVERVIEW

Impact of the COVID-19 Pandemic

We continue to monitor the effects of the COVID-19 pandemic, which began impacting our business and the global economy in the first quarter of 2020.

We are designated as an essential business in almost all of our markets. Our products are used to maintain and protect outdoor commercial, residential and municipal environments through chemically-balanced, virus and bacteria-free swimming pool water. We also supply products used in the prevention of runoff, flood, fire and other natural disasters. These products are essential to the health and safety of the general public. In limited instances, we have had to close facilities as a result of government regulations, as well as COVID-19 cases. The direct impact of any closures to date have not had a material impact on our operations.

Beginning in the middle of March 2020, when stay-at-home orders related to the COVID-19 pandemic were initially issued, we experienced sales declines across most markets. As stay-at-home restrictions eased in late April through early May, our business not only rebounded, but accelerated. Throughout the remainder of 2020, we experienced unprecedented demand as families spent more time at home and sought out opportunities to create or expand existing home-based outdoor living and entertainment spaces, and these trends have continued in 2021 to date. While this trend has had a positive impact on our financial performance over the past year and a half, it is unclear what the long-term impact will be. In addition, governmental restrictions in 2020 had a material impact on some of our customers, limiting their ability to operate in certain geographies for a short period of time.

Our balance sheet is strong with low leverage and sufficient access to additional capital. Supply disruptions have largely been limited to categories with the greatest demand (including heat-related equipment, chemicals, in-ground swimming pools and above-ground swimming pools) and have not had a material impact on our net sales. Beginning in the second quarter of 2021 and continuing through the third quarter, we have made significant investments in inventory to support increased demand and help manage potential supply chain disruptions that could negatively impact customer service. Continued impacts from the COVID-19 pandemic, coupled with heightened demand, could adversely impact our supply chain, making it difficult to source and receive products needed to keep our customers adequately supplied.

Given the uncertainties caused by the COVID-19 pandemic in 2020, we reduced capital expenditures and operating costs for labor, fuel, utilities, advertising, meetings, travel and entertainment. Capital expenditures in 2020 were \$21.7 million or approximately 65% of 2019 capital expenditures. Although we have increased our capital spending in 2021, we expect our capital expenditures for the year to be lower than our historical average of 1.0% of net sales due to our significant sales growth. Our expense growth through the third quarter of 2021 was partially offset by lower discretionary spending for advertising, meetings, travel and entertainment, which we expect to continue through the end of the year as business travel activity lagged in the third quarter of 2021 with the onset of the Delta variant.

The health, safety and security of our employees has been, and remains, our highest priority. We have adapted our operations and implemented a number of measures to facilitate a safer sales center environment for both our customers and employees, which includes following best practices and guidelines from the Centers for Disease Control and Prevention (CDC). We implemented enhanced hygiene and sanitation practices at our sales centers and at our corporate offices in 2020, and we continue to evaluate and maintain them.

We expect the impact of the pandemic on our business and financial results in 2021 will continue to vary by location and depend on numerous evolving factors that we are not able to accurately predict. These factors include the duration and scope of the pandemic, global economic conditions during and after the pandemic, the re-institution of governmental actions that could restrict the activities of our customers, vendors or employees, the possibility of additional subsequent outbreaks, the sustainability of current home-centric trends and other changes in customer and supplier behavior in response to the pandemic.

Financial Results

In the third quarter of 2021, net sales increased 24% to \$1.4 billion compared to \$1.1 billion in the third quarter of 2020, while base business sales grew 19%. This growth is on top of 27% growth in the third quarter of last year, bringing our year-to-date net sales growth to \$1.2 billion. Our sales continued to benefit from elevated demand for outdoor living products along with favorable weather conditions. Our rigorous commitment to operating efficiency and capacity creation, along with our strategic focus on inventory purchases to serve demand has allowed us to fulfill our customers' high volumes.

Gross profit increased 34% to \$441.9 million in the third quarter of 2021 from \$328.7 million in the same period of 2020. Base business gross profit improved 29% over the third quarter of 2020. Gross margin increased 240 basis points to 31.3% in the third quarter of 2021 compared to 28.9% in the third quarter of 2020, while base business gross margin increased 250 basis points, primarily reflecting benefits from our supply chain management initiatives.

Selling and administrative expenses (operating expenses), including the recovery of goodwill and other assets, increased 13% to \$204.6 million in the third quarter of 2021 compared to \$180.5 million in the third quarter of 2020, while base business operating expenses grew 7%, primarily due to growth-driven labor, facility and freight costs, along with increased investments in technology. In the third quarter of 2021, we recovered \$1.4 million of a \$2.5 million note impairment recorded in the first quarter of 2020. As a percentage of net sales, operating expenses decreased to 14.5% in the third quarter of 2021 compared to 15.8% in the same period of 2020, reflecting continued strong expense control.

Operating income in the third quarter of 2021 increased 60% to \$237.3 million compared to \$148.2 million in the same period in 2020. Operating margin was 16.8% in the third quarter of 2021 compared to 13.0% in the third quarter of 2020 while base business operating margin was 17.1%, up 410 basis points from the prior year period.

We recorded a \$4.2 million, or \$0.10 per diluted share, tax benefit from Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting*, in the quarter ended September 30, 2021, compared to a tax benefit of \$8.5 million, or \$0.21 per diluted share, realized in the same period of 2020.

Net income increased 55% to \$184.7 million in the third quarter of 2021 compared to \$119.1 million in the third quarter of 2020. Earnings per diluted share increased 55% to \$4.54 in the third quarter of 2021 compared to \$2.92 in the same period of 2020. Without the impact from ASU 2016-09 in both periods, earnings per diluted share increased 64% to \$4.44 in the third quarter of 2021 compared to \$2.71 in the third quarter of 2020.

References to product line and product category data throughout this report generally reflect data related to the North American swimming pool market, as it is more readily available for analysis and represents the largest component of our operations.

Financial Position and Liquidity

As of September 30, 2021, total net receivables, including pledged receivables, increased 30% compared to September 30, 2020, primarily driven by our sales growth and recent acquisitions. Our days sales outstanding (DSO), as calculated on a trailing four quarters basis, was 25.7 days at September 30, 2021 and 27.6 days at September 30, 2020. Our allowance for doubtful accounts balance was \$5.4 million at September 30, 2021 and \$5.3 million at September 30, 2020.

Net inventory levels increased 70% compared to levels at September 30, 2020. Our inventory balance has increased as we have made significant investments in inventory throughout the year to support elevated demand and help manage potential supply chain disruptions that could negatively impact customer service. Our inventory reserve was \$15.7 million at September 30, 2021 and \$11.4 million at September 30, 2020. Our inventory turns, as calculated on a trailing four quarters basis, were 3.8 times at September 30, 2021 and 3.7 times at September 30, 2020.

Accrued expenses and other current liabilities increased 59% compared to September 30, 2020, primarily due to higher income tax payables. As allowed for companies impacted by Hurricane Ida, we deferred our 2021 third quarter estimated federal tax payment of \$56.0 million, which will be paid in January 2022.

Total debt outstanding at September 30, 2021 was \$362.8 million, up 7% compared to total debt at September 30, 2020. We have used debt proceeds over the past 12 months primarily to fund business-driven working capital growth, acquisitions, payments of cash dividends and share repurchases.

Current Trends and Outlook

For a detailed discussion of trends through 2020, see the Current Trends and Outlook section of Management's Discussion and Analysis included in Part II, Item 7 of our 2020 Annual Report on Form 10-K.

Upon reporting our results through the third quarter of 2021, we increased our 2021 diluted EPS guidance range to \$14.85 to \$15.35, including the impact of year-to-date tax benefits of \$0.39. Our previous 2021 earnings guidance range disclosed in our Second Quarter 2021 Quarterly Report on Form 10-Q was \$13.75 to \$14.25, including tax benefits of \$0.29 for the first six months of 2021. We increased our range based on exceeding our third quarter expectations, along with expected continued gross margin improvement through the end of 2021. Our 2021 earnings guidance range assumes average weather conditions and no adverse impacts from a resurgence of COVID-19 and related government responses.

We project net sales growth for 2021 to exceed 30% based on expectations of continued elevated demand trends, a solid backlog of customer projects and inflationary benefits. We estimate that sales will be favorably impacted by inflationary product cost increases of 6% to 7% (above our historical average of 1% to 2%), which we began to realize in the second quarter of 2021. Inflationary product costs had a greater impact in the third quarter of 2021, and we expect this to continue through the end of the year. Impacts from the COVID-19 pandemic, coupled with heightened demand, could adversely impact our supply chain, making it difficult to source and receive products needed to keep our customers adequately supplied. To address known and anticipated supply chain constraints, beginning in the second quarter of 2021 and into the third quarter, we have made significant investments in inventory in product areas where we forecasted continued high demand. Our strong inventory position has allowed us to gain share and to continue to provide exceptional service in a high demand and tight supply chain environment.

Based on our supply chain management efforts implemented during the second quarter of 2021, coupled with the current inflationary environment, we believe gross margin for the full year of 2021 has the potential to increase more than 170 basis points compared to the full year of 2020.

We expect operating expenses to reflect inflationary increases and incremental costs to support our sales growth expectations. Combined with purposeful expense management, we believe this will drive operating margin improvement of 350 basis points for the full year of 2021 compared to 2020. We expect performance-based compensation for the full year of 2021 to increase approximately \$15 million from 2020 due to our projected 2021 net sales growth with most of this increase recognized through the third quarter of 2021 based on year-to-date results.

We project that our annual effective tax rate (without the benefit from ASU 2016-09) for 2021 will approximate 25.0%, which is consistent with 2020. Due to ASU 2016-09, we expect our effective tax rate will fluctuate from quarter to quarter, particularly in periods when employees elect to exercise their vested stock options or when restrictions on share-based awards lapse. We recorded a \$15.9 million, or \$0.39 per diluted share, tax benefit from ASU 2016-09 for the nine months ended September 30, 2021. We may recognize additional tax benefits related to stock option exercises in 2021 from grants that expire in future years. We have not included any expected tax benefits in our guidance beyond what we have recognized as of September 30, 2021.

We have made significant investments in inventory throughout the year to support increased demand and help manage potential supply chain disruptions that could negatively impact customer service. While these investments will negatively impact our cash provided by operations in 2021, we believe that our investments in inventory will provide benefits to our customers and favorably impact our gross margin through the end of this year and into at least the first quarter of next year. We expect to continue to use cash to fund opportunistic share repurchases through the remainder of 2021. We also expect to use cash for the payment of cash dividends as and when declared by our Board of Directors (the Board).

The forward-looking statements in the foregoing section are based on current market conditions, speak only as of the filing date of this report, as based on several assumptions, and are subject to significant risks and uncertainties. See "Cautionary Statement for Forward-Looking Statements."

RESULTS OF OPERATIONS

As of September 30, 2021, we conducted operations through 409 sales centers in North America, Europe and Australia. For the nine months ended September 30, 2021, approximately 94% of our net sales were from our operations in North America.

The following table presents information derived from the Consolidated Statements of Income expressed as a percentage of net sales:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	68.7	71.1	69.6	71.2
Gross profit	31.3	28.9	30.4	28.8
Selling and administrative expenses	14.6	15.8	13.9	16.0
(Recovery) impairment of goodwill and other assets	(0.1)	—	—	0.2
Operating income	16.8	13.0	16.5	12.6
Interest and other non-operating expenses, net	0.2	0.2	0.2	0.3
Income before income taxes and equity earnings	16.6 %	12.8 %	16.4 %	12.3 %

Note: Due to rounding, percentages presented in the table above may not add to Operating income or Income before income taxes and equity earnings.

We have included the results of operations from acquisitions in 2021 and 2020 in our consolidated results since the acquisition dates.

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The following table breaks out our consolidated results into the base business component and the excluded component (sales centers excluded from base business):

(Unaudited) (in thousands)	Base Business		Excluded		Total	
	Three Months Ended		Three Months Ended		Three Months Ended	
	September 30,		September 30,		September 30,	
	2021	2020	2021	2020	2021	2020
Net sales	\$ 1,348,758	\$ 1,136,946	\$ 62,690	\$ 2,283	\$ 1,411,448	\$ 1,139,229
Gross profit	423,238	328,140	18,661	558	441,899	328,698
Gross margin	31.4 %	28.9 %	29.8 %	24.4 %	31.3 %	28.9 %
Operating expenses ⁽¹⁾	192,061	179,990	12,562	475	204,623	180,465
Expenses as a % of net sales	14.2 %	15.8 %	20.0 %	20.8 %	14.5 %	15.8 %
Operating income ⁽¹⁾	231,177	148,150	6,099	83	237,276	148,233
Operating margin	17.1 %	13.0 %	9.7 %	3.6 %	16.8 %	13.0 %

⁽¹⁾ Base business and total reflect a \$1.4 million recovery of goodwill and other assets in 2021.

In our calculation of our base business results, we have excluded the following acquisitions for the periods identified:

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Vak Pak Builders Supply, Inc.	June 2021	1	July - September 2021
Pool Source, LLC	April 2021	1	July - September 2021
TWC Distributors, Inc.	December 2020	10	July - September 2021
Jet Line Products, Inc.	October 2020	9	July - September 2021
Northeastern Swimming Pool Distributors, Inc.	September 2020	2	July - September 2021 and September 2020

When calculating our base business results, we exclude sales centers that are acquired, closed, or opened in new markets for a period of 15 months. We also exclude consolidated sales centers when we do not expect to maintain the majority of the existing business and existing sales centers that are consolidated with acquired sales centers.

We generally allocate corporate overhead expenses to excluded sales centers on the basis of their net sales as a percentage of total net sales. After 15 months of operations, we include acquired, consolidated and new market sales centers in the base business calculation including the comparative prior year period.

The table below summarizes the changes in our sales center count during the first nine months of 2021:

December 31, 2020	398
Acquired locations	2
New locations	10
Consolidated location	(1)
September 30, 2021	409

Net Sales

(in millions)	Three Months Ended September 30,		Change	
	2021	2020		
Net sales	\$ 1,411.4	\$ 1,139.2	\$ 272.2	24%

Net sales increased 24% in the third quarter of 2021 compared to the third quarter of 2020, while base business net sales grew 19% over the same period. Our sales in the third quarter of 2021 continued to benefit from elevated demand for our outdoor living products along with favorable weather conditions.

The following factors benefited our sales (listed in order of estimated magnitude):

- strong demand for discretionary products, as evidenced by improvements in sales growth rates for product offerings such as equipment and building materials (see discussion below);
- increased demand for residential swimming pool maintenance supplies due to increased usage, as evidenced by improvements in sales growth rates to retail customers (see discussion below);
- market share gains, including those in building materials (see discussion below);
- inflationary product cost increases of approximately 7% (compared to our historical average of 1% to 2%); and
- 5% sales growth from recent acquisitions.

Higher sales growth rates for certain product offerings, such as equipment and building materials, reflect increased spending in traditionally discretionary areas, such as pool construction, pool remodeling and equipment upgrades. In the third quarter of 2021, sales for equipment, which includes swimming pool heaters, pumps, lights, filters and automation, increased 23% compared to the same period last year, and collectively represented approximately 28% of net sales for the period. Sales of building materials grew 24% compared to the third quarter of 2020 and represented approximately 12% of net sales in the third quarter of 2021.

Sales to customers who service large commercial installations and specialty retailers that sell swimming pool supplies are included in the appropriate existing product categories, and growth in these areas is reflected in the numbers in the paragraph above. Sales to retail customers increased 16% in the third quarter of 2021 compared to the third quarter of 2020 and represented approximately 11% of our net sales for the third quarter of 2021. Sales to commercial customers increased 25% in the third quarter of 2021 compared to the third quarter of 2020, as business and leisure travel improved in 2021 as public facilities reopened following COVID-19 related closures in 2020. Sales to commercial customers represented approximately 3% of our net sales for the third quarter of 2021.

Gross Profit

(in millions)	Three Months Ended September 30,		Change	
	2021	2020		
Gross profit	\$ 441.9	\$ 328.7	\$ 113.2	34%
Gross margin	31.3 %	28.9 %		

Gross margin increased 240 basis points to 31.3% in the third quarter of 2021 compared to 28.9% in the third quarter of 2020. Gross margin was favorably impacted by benefits from focused supply chain management initiatives during this inflationary environment and improvements in rates earned under our vendor programs due to increased inventory purchases.

Operating Expenses

(in millions)	Three Months Ended September 30,		Change	
	2021	2020		
Selling and administrative expenses	\$ 206.0	\$ 180.5	\$ 25.5	14%
Recovery of goodwill and other assets	(1.4)	—	(1.4)	(100)%
Operating expenses as a % of net sales	14.5 %	15.8 %		

Operating expenses, including the recovery of goodwill and other assets, increased 13% in the third quarter of 2021 compared to the third quarter of 2020, while base business operating expenses grew 7%, primarily due to growth-driven labor, facility and freight costs along with increased investments in technology. In the third quarter of 2021, we recovered \$1.4 million of a \$2.5 million note impairment recorded in the first quarter of 2020. As a percentage of net sales, operating expenses decreased to 14.5% in the third quarter of 2021 compared to 15.8% in the same period of 2020, reflecting continued strong expense control.

Interest and Other Non-Operating Expenses, Net

Interest and other non-operating expenses, net for the third quarter of 2021 increased \$0.5 million compared to the third quarter of 2020. Our weighted average effective interest rate increased to 2.8% for the third quarter of 2021 from 1.9% for the third quarter of 2020 on average outstanding debt of \$354.3 million versus \$331.5 million for the respective periods.

Income Taxes

Our effective income tax rate was 21.4% for the three months ended September 30, 2021 compared to 18.7% for the three months ended September 30, 2020. We recorded a \$4.2 million tax benefit from ASU 2016-09 in the quarter ended September 30, 2021 compared to a tax benefit of \$8.5 million realized in the same period last year. Without the benefits from ASU 2016-09, our effective tax rate was 23.2% for the third quarter of 2021 and 24.5% for the third quarter of 2020. Our third quarter effective income tax rate is typically lower compared to other quarters due to the timing of our accounting for uncertain tax positions, including the expiration of statutes of limitations.

Net Income and Earnings Per Share

Net income increased 55% to \$184.7 million in the third quarter of 2021 compared to \$119.1 million in the third quarter of 2020. Earnings per diluted share increased 55% to \$4.54 in the third quarter of 2021 compared to \$2.92 in the same period of 2020. Without the impact from ASU 2016-09 in both periods, earnings per diluted share increased 64% to \$4.44 in the third quarter of 2021 compared to \$2.71 in the third quarter of 2020.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

The following table breaks out our consolidated results into the base business component and the excluded component (sales centers excluded from base business):
(Unaudited)
(in thousands)

	Base Business		Excluded		Total	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020	2021	2020
Net sales	\$ 4,052,044	\$ 3,091,270	\$ 207,983	\$ 6,092	\$ 4,260,027	\$ 3,097,362
Gross profit	1,237,728	889,494	56,988	2,313	1,294,716	891,807
Gross margin	30.5 %	28.8 %	27.4 %	38.0 %	30.4 %	28.8 %
Operating expenses ⁽¹⁾	549,913	500,196	39,910	1,934	589,823	502,130
Expenses as a % of net sales	13.6 %	16.2 %	19.2 %	31.7 %	13.8 %	16.2 %
Operating income ⁽¹⁾	687,815	389,298	17,078	379	704,893	389,677
Operating margin	17.0 %	12.6 %	8.2 %	6.2 %	16.5 %	12.6 %

⁽¹⁾ Base business and total reflect a \$1.4 million recovery of goodwill and other assets in 2021 and \$6.9 million of impairment from goodwill and other assets recorded in the first quarter of 2020.

In our calculation of base business results, we have excluded the following acquisitions for the periods identified:

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Vak Pak Builders Supply, Inc.	June 2021	1	June - September 2021
Pool Source, LLC	April 2021	1	April - September 2021
TWC Distributors, Inc.	December 2020	10	January - September 2021
Jet Line Products, Inc.	October 2020	9	January - September 2021
Northeastern Swimming Pool Distributors, Inc.	September 2020	2	January - September 2021 and September 2020
Master Tile Network LLC	February 2020	4	January - May 2021 and February - May 2020

For a more detailed explanation of how we calculated base business results and a summary of the changes in our sales centers since December 31, 2020, please refer to the discussion under the heading *Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020*.

Net Sales

(in millions)	Nine Months Ended September 30,		Change	
	2021	2020		
Net sales	\$ 4,260.0	\$ 3,097.4	\$ 1,162.6	38%

Net sales for the first nine months of 2021 increased 38% compared to the same period last year, while base business net sales increased 31%. During the first nine months of 2021, maintenance, refurbishment and construction activity remained strong as families continued to create and expand home-based outdoor living spaces. Through the third quarter of 2021, households continued to invest in outdoor living spaces, contributing to the robust demand for our products and yielding sales gains across nearly all categories.

The following factors benefited our sales (listed in order of estimated magnitude):

- strong demand for discretionary products, as evidenced by improvements in sales growth rates for product offerings such as equipment and building materials (see discussion below);
- increased demand for residential swimming pool maintenance supplies due to earlier pool openings and increased usage, as evidenced by improvements in sales growth rates to retail customers (see discussion below);
- market share gains, including those in building materials (see discussion below);
- 7% sales growth from recent acquisitions; and
- inflationary product cost increases of approximately 6% to 7% (compared to our historical average of 1% to 2%).

We believe that sales growth rates for certain product offerings, such as equipment, building materials and above-ground pools and spas, evidence increased spending in traditionally discretionary areas, such as pool construction, pool remodeling and equipment upgrades. In the first nine months of 2021, sales for equipment, which includes swimming pool heaters, pumps, lights, filters and automation, increased approximately 39% compared to the same period last year. Equipment collectively represented 28% of net sales in the first nine months of 2021. Sales of building materials grew 30% compared to the first nine months of 2020 and represented approximately 11% of net sales in the first nine months of 2021.

Sales to customers who service large commercial installations and specialty retailers that sell swimming pool supplies are included in the appropriate existing product categories, and growth in these areas is reflected in the numbers in the paragraph above. In the first nine months of 2021, sales to retail customers increased 21% and represented approximately 13% of our consolidated net sales. Sales to commercial customers increased 24% in the first nine months of 2021, as business and leisure travel improved in 2021 as public facilities reopened following COVID-19 related closures in 2020. Sales to commercial customers represented approximately 3% of our consolidated net sales in the first nine months of 2021.

Gross Profit

(in millions)	Nine Months Ended September 30,		Change	
	2021	2020		
Gross profit	\$ 1,294.7	\$ 891.8	\$ 402.9	45%
Gross margin	30.4 %	28.8 %		

Gross margin improved 160 basis points to 30.4% in the nine months ended September 30, 2021 compared to 28.8% in the first nine months of 2020. This improvement primarily reflects focused supply chain management initiatives to address inflation, with most of the year-to-date benefits realized in the second and third quarters of 2021. Also, with our increased purchase volumes, improvements in rates earned under our vendor programs benefited our gross margin compared to the same period in 2020.

Operating Expenses

(in millions)	Nine Months Ended September 30,		Change	
	2021	2020		
Selling and administrative expenses	\$ 591.2	\$ 495.2	\$ 96.0	19%
(Recovery) impairment of goodwill and other assets	(1.4)	6.9	(8.3)	(120)%
Operating expenses as a % of net sales	13.8 %	16.2 %		

Operating expenses, including the recovery of goodwill and other assets in 2021 and impairment in 2020, for the nine months ended September 30, 2021 increased 17% compared to the first nine months of 2020. In the first quarter of 2020, we recorded impairment charges of \$6.9 million, which included \$2.5 million from a note and non-cash goodwill and intangibles impairment charges of \$4.4 million. In the third quarter of 2021, we recovered \$1.4 million of the previously impaired note. Without the impact of the recovery in 2021 and the prior year impairment charges, operating expenses were up 19%, primarily due to growth-driven labor, performance-based compensation, facility and freight costs along with increased investments in technology.

Interest and Other Non-Operating Expenses, Net

Interest and other non-operating expenses, net for the first nine months of 2021 decreased \$2.4 million compared to the same period last year. Our weighted average effective interest rate increased to 2.6% for the first nine months of 2021 from 2.2% for the same period of 2020 on average outstanding debt of \$376.2 million versus \$439.4 million for the respective periods.

Income Taxes

Our effective income tax rate was 22.2% for the nine months ended September 30, 2021 compared to 19.2% for the nine months ended September 30, 2020. We recorded a \$15.9 million, or \$0.39 per diluted share, tax benefit from ASU 2016-09 in the nine months ended September 30, 2021 compared to a \$22.6 million, or \$0.55 per diluted share, tax benefit in the same period of 2020. Without the benefits from ASU 2016-09, our effective tax rate was 24.5% for the nine months ended September 30, 2021 and 25.2% for the nine months ended September 30, 2020.

Net Income and Earnings Per Share

Net income increased 77% to \$543.0 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. Adjusted net income for the first nine months of 2021, without the note recovery in 2021 and the prior year impact of non-cash impairments, both net of tax, increased 73%. Earnings per diluted share increased to \$13.32 for the nine months ended September 30, 2021 versus \$7.53 per diluted share for the nine months ended September 30, 2020. Adjusted diluted EPS (as calculated in the reconciliation below) increased 81% to \$12.90 for the nine months ended September 30, 2021 compared to \$7.13 for the nine months ended September 30, 2020. See the reconciliation of GAAP to non-GAAP measures below.

Reconciliation of Non-GAAP Financial Measures

Adjusted Income Statement Information

We have included adjusted net income and adjusted diluted EPS, which are non-GAAP financial measures, as supplemental disclosures, because we believe these measures are useful to investors and others in assessing our period-to-period operating performance.

Adjusted net income and adjusted diluted EPS are key measures used by management to demonstrate the impact of our non-cash and non-recurring charges and to provide investors and others with additional information about our potential future operating performance to supplement GAAP measures.

We believe these measures should be considered in addition to, not as a substitute for, net income and diluted EPS presented in accordance with GAAP, respectively, and in the context of our other disclosures within this Form 10-Q. Other companies may calculate these non-GAAP financial measures differently than we do, which may limit their usefulness as comparative measures.

The table below presents a reconciliation of net income to adjusted net income.

(Unaudited) (in thousands)	Nine Months Ended September 30,	
	2021	2020
Net income	\$ 543,015	\$ 307,565
(Recovery) impairment of goodwill and other assets	(1,400)	6,944
Tax impact on (recovery) impairment of note ⁽¹⁾	351	(654)
Adjusted net income	<u>\$ 541,966</u>	<u>\$ 313,855</u>

⁽¹⁾ As described in our First Quarter 2020 Quarterly Report on Form 10-Q, our effective tax rate at March 31, 2020 was a 0.1% benefit. Excluding impairment from goodwill and intangibles and tax benefits from ASU 2016-09 recorded in the first quarter of 2020, our effective tax rate for the first quarter of 2020 was 25.4%, which we used to calculate the tax impact related to the \$2.5 million note impairment.

The table below presents a reconciliation of diluted EPS to adjusted diluted EPS.

(Unaudited)	Nine Months Ended September 30,	
	2021	2020
Diluted EPS	\$ 13.32	\$ 7.53
After-tax non-cash (recovery) impairment charges	(0.03)	0.15
Adjusted diluted EPS excluding after-tax (recovery) impairment charges	13.29	7.68
ASU 2016-09 tax benefit	(0.39)	(0.55)
Adjusted diluted EPS excluding after-tax (recovery) impairment charges and tax benefit	<u>\$ 12.90</u>	<u>\$ 7.13</u>

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. In general, sales and operating income are highest during the second and third quarters, which represent the peak months of both swimming pool use and installation and irrigation and landscape installations and maintenance. Sales are substantially lower during the first and fourth quarters, when we may incur net losses. In 2020, we generated approximately 61% of our net sales and 76% of our operating income in the second and third quarters of the year.

We typically experience a build-up of product inventories and accounts payable during the winter months in anticipation of the peak selling season. Excluding borrowings to finance acquisitions and share repurchases, our peak borrowing usually occurs during the second quarter, primarily because extended payment terms offered by our suppliers typically are payable in April, May and June, while our peak accounts receivable collections typically occur in June, July and August.

The following table presents certain unaudited quarterly data for the first, second and third quarters of 2021, the four quarters of 2020 and the fourth quarter of 2019. We have included income statement and balance sheet data for the most recent eight quarters to allow for a meaningful comparison of the seasonal fluctuations in these amounts. In our opinion, this information reflects all normal and recurring adjustments considered necessary for a fair presentation of this data. Due to the seasonal nature of our industry (and recent pandemic-driven increased demand for our products), the results of any one or more quarters are not necessarily a good indication of results for an entire fiscal year or of continuing future trends.

(Unaudited) (in thousands)	QUARTER							
	2021				2020			2019
	Third	Second	First	Fourth	Third	Second	First	Fourth
Statement of Income Data								
Net sales	\$ 1,411,448	\$ 1,787,833	\$ 1,060,745	\$ 839,261	\$ 1,139,229	\$ 1,280,846	\$ 677,288	\$ 582,234
Gross profit	441,899	551,685	301,131	239,095	328,698	373,481	189,629	162,050
Operating income	237,276	338,586	129,031	74,351	148,233	205,857	35,588	25,798
Net income	184,665	259,695	98,655	59,174	119,098	157,555	30,912	18,024
Balance Sheet Data								
Total receivables, net	\$ 476,150	\$ 585,566	\$ 487,602	\$ 289,200	\$ 366,412	\$ 453,405	\$ 345,915	\$ 226,539
Product inventories, net	1,043,407	894,654	977,228	780,989	612,824	628,418	858,190	702,274
Accounts payable	414,156	439,453	634,998	266,753	268,412	346,272	517,620	261,963
Total debt	362,819	423,116	433,171	416,018	339,934	438,804	586,050	511,407

We expect that our quarterly results of operations will continue to fluctuate depending on the timing and amount of revenue contributed by new and acquired sales centers. Based on our peak summer selling season, we generally open new sales centers and close or consolidate sales centers, when warranted, either in the first quarter before the peak selling season begins or in the fourth quarter after the peak selling season ends.

Weather is one of the principal external factors affecting our business. The table below presents some of the possible effects resulting from various weather conditions.

<u>Weather</u>	<u>Possible Effects</u>
Hot and dry	- Increased purchases of chemicals and supplies for existing swimming pools - Increased purchases of above-ground pools and irrigation and lawn care products
Unseasonably cool weather or extraordinary amounts of rain	- Fewer pool and irrigation and landscape installations - Decreased purchases of chemicals and supplies - Decreased purchases of impulse items such as above-ground pools and accessories
Unseasonably early warming trends in spring/late cooling trends in fall (primarily in the northern half of the U.S. and Canada)	A longer pool and landscape season, thus positively impacting our sales
Unseasonably late warming trends in spring/early cooling trends in fall (primarily in the northern half of the U.S. and Canada)	A shorter pool and landscape season, thus negatively impacting our sales

Weather Impacts on 2021 and 2020 Results

Generally favorable weather conditions benefited sales in the third quarter of 2021. Temperatures ranged from above-average to substantially above-average throughout most of the contiguous United States with September being the fifth warmest on record. Precipitation was below-average in most of the western half of the United States and normal to above-average in the eastern half. Likewise, results in the third quarter of 2020 were favorably impacted by above-average temperatures and below-average precipitation.

Overall, varied weather conditions in the second quarter of 2021 favorably impacted our sales growth. While the southern states saw mild temperatures and above-average precipitation, the western states, particularly California, experienced severely high temperatures and drought. The average U.S. temperature in June was the hottest on record in 127 years. Comparatively, in the second quarter of 2020, we observed generally mild weather conditions with warmer weather throughout the western United States.

Sales in the first quarter of 2021 benefited from generally mild weather conditions throughout the contiguous United States. In February 2021, Texas experienced the most costly winter storm event on record for the United States, which damaged many swimming pools and added to the existing, strong replacement opportunity in that market. In contrast, sales in the first quarter of 2020 benefited from much above-average temperatures throughout the United States, particularly in the southern United States.

CRITICAL ACCOUNTING ESTIMATES

We prepare our Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and related disclosures. Management identifies critical accounting estimates as:

- those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made; and
- those for which changes in the estimates or assumptions, or the use of different estimates and assumptions, could have a material impact on our consolidated results of operations or financial condition.

Management has discussed the development, selection and disclosure of our critical accounting estimates with the Audit Committee of our Board. For a description of our critical accounting estimates that require us to make the most difficult, subjective or complex judgments, please see our 2020 Annual Report on Form 10-K. We have not changed any of these policies from those previously disclosed in that report.

Recent Accounting Pronouncements

See Note 1 of "Notes to Consolidated Financial Statements," included in Part I, Item 1 of this Form 10-Q for discussion of recent accounting pronouncements.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is defined as the ability to generate adequate amounts of cash to meet short-term and long-term cash needs. We assess our liquidity in terms of our ability to generate cash to fund our operating activities, taking into consideration the seasonal nature of our business. Significant factors which could affect our liquidity include the following:

- cash flows generated from operating activities;
- the adequacy of available bank lines of credit;
- the quality of our receivables;
- acquisitions;
- dividend payments;
- capital expenditures;
- changes in income tax laws and regulations;
- the timing and extent of share repurchases; and
- the ability to attract long-term capital with satisfactory terms.

Our primary capital needs are seasonal working capital obligations, debt repayment obligations and other general corporate initiatives, including acquisitions, opening new sales centers, dividend payments and share repurchases. Our primary working capital obligations are for the purchase of inventory, payroll, rent, other facility costs and selling and administrative expenses. Our working capital obligations fluctuate during the year, driven primarily by seasonality and the timing of inventory purchases. Our primary sources of working capital are cash from operations supplemented by bank borrowings, which have historically been sufficient to support our growth and finance acquisitions. We have funded our capital expenditures and share repurchases in substantially the same manner.

We prioritize our use of cash based on investing in our business, maintaining a prudent capital structure, including a modest amount of debt, and returning cash to our shareholders through dividends and share repurchases. Our specific priorities for the use of cash are as follows:

- capital expenditures primarily for maintenance and growth of our sales center network, technology-related investments and fleet vehicles;
- inventory and other operating expenses;
- strategic acquisitions executed opportunistically;
- payment of cash dividends as and when declared by our Board of Directors (Board);
- repayment of debt to maintain an average total target leverage ratio (as defined below) between 1.5 and 2.0; and
- repurchases of our common stock under our Board-authorized share repurchase program.

Capital expenditures were 0.6% of net sales in 2020, 1.0% of net sales in 2019 and 1.1% of net sales in 2018. Over the last five years, capital expenditures have averaged roughly 1.0% of net sales. Capital expenditures in 2020 were lower than our historical average due to cost-saving measures implemented at the beginning of the COVID-19 pandemic. Although we have increased our capital spending in 2021, we expect our capital expenditures for the year to be lower than our historical average of 1.0% of net sales due to our significant sales growth.

Sources and Uses of Cash

The following table summarizes our cash flows (in thousands):

	Nine Months Ended September 30,	
	2021	2020
Operating activities	\$ 359,065	\$ 388,914
Investing activities	(42,110)	(41,552)
Financing activities	(267,765)	(300,161)

Net cash provided by operations of \$359.1 million for the first nine months of 2021 decreased \$29.8 million compared to the first nine months of 2020, primarily reflecting our supply chain investments in inventory to enable us to continue to meet strong customer demand.

Net cash used in investing activities for the first nine months of 2021 increased slightly compared to the first nine months of 2020. Capital expenditures increased \$7.3 million year-over-year following the delay in capital spending last year due to the onset of the COVID-19 pandemic, while cash used for the acquisition of businesses decreased \$6.8 million in the first nine months of 2021 compared to the first nine months of 2020.

Net cash used in financing activities was \$267.8 million for the first nine months of 2021 compared to \$300.2 million for the first nine months of 2020, which reflects a \$119.9 million decrease in net debt payments, additional share repurchases of \$61.8 million and an increase in dividends paid of \$18.9 million during the first nine months of 2021.

Future Sources and Uses of Cash

Revolving Credit Facility

On September 27, 2021, we amended and restated our 2017 credit agreement (as amended, the "Credit Agreement") to extend its maturity date from September 29, 2022 to September 25, 2026, and to increase our borrowing capacity from \$750.0 million to \$1.0 billion through the addition of a delayed-draw term loan facility of \$250.0 million. Under this term loan facility, we may draw term loans at any time prior to March 25, 2022. Any such term loans would require quarterly amortization payments aggregating to 20% of the original principal amount of the loan during the third, fourth and fifth years of the loan, with all remaining principal due on September 25, 2026. All other terms of any such term loans would be substantially similar to those governing revolving credit loans under the Credit Agreement. Under the Credit Agreement, we continue to have access to a \$750 million unsecured revolving credit facility (the "Credit Facility") on substantially the same terms and subject to the same sublimits for swingline loans and standby letters of credit as in the past, other than the amendments described below.

The Credit Agreement further amended and restated the Credit Facility in the following ways:

- making available lower interest rates;
- increasing the amount of incremental facility commitments that we can request from \$75.0 million to \$250.0 million; and
- providing additional capacity under certain negative covenants related to indebtedness, liens, investments, acquisitions, share repurchases and dividends.

We intend to continue to use the Credit Facility for general corporate purposes, for future share repurchases and to fund future growth initiatives.

At September 30, 2021, there was \$170.3 million outstanding, a \$4.8 million standby letter of credit outstanding and \$574.9 million available for borrowing under the Credit Facility. Currently, we pay interest on revolving borrowings under the Credit Facility at a variable rate based on the one month London Interbank Offered Rate (LIBOR), plus an applicable margin. The weighted average effective interest rate for the Credit Facility as of September 30, 2021 was approximately 2.0%, excluding commitment fees.

Term Facility

On October 12, 2021, we amended our 2019 credit agreement (as amended, the "Term Facility Agreement") among us, as Borrower, and Bank of America, N.A., as the Lender. Among other items, the amendment provides additional capacity under certain negative covenants related to indebtedness, liens, investments, acquisitions, share repurchases and dividends to match the recent changes to the covenants in the Credit Agreement. The term facility available under this Agreement (the "Term Facility") provides for \$185.0 million in borrowing capacity and matures on December 30, 2026. Proceeds from the Term Facility were used to pay down the Credit Facility in December 2019, adding capacity for future share repurchases, acquisitions and growth-oriented working capital expansion. The Term Facility is repaid in quarterly amortization installments of 1.250% of the facility's debt balance. The total of quarterly amortization payments over the life of the facility will be equal to 33.75% of the Term Facility with the final principal payment, equal to 66.25% of the Term Facility, due on the maturity date. We may prepay amounts outstanding under the Term Facility without penalty other than interest breakage costs.

At September 30, 2021, there was \$168.8 million outstanding under the Term Facility with a weighted average effective interest rate of 2.9%. We pay interest on borrowings under the Term Facility at a variable rate based on the one month LIBOR, plus an applicable margin.

Receivables Securitization Facility

Our two-year accounts receivable securitization facility (the Receivables Facility) offers us a lower cost form of financing, with a peak funding capacity of up to \$295.0 million between May 1 and May 31, which includes an additional seasonal funding capacity that is available between March 1 and July 31. Other funding capacities range from \$120.0 million to \$275.0 million throughout the remaining months of the year. The Receivables Facility matures on November 1, 2021. We intend to amend the Receivables Facility on or ahead of its maturity date. We classify the entire outstanding balance as Long-term debt on our Consolidated Balance Sheets as we intend and have the ability to refinance the obligations on a long-term basis.

The Receivables Facility provides for the sale of certain of our receivables to a wholly owned subsidiary (the Securitization Subsidiary). The Securitization Subsidiary transfers variable undivided percentage interests in the receivables and related rights to certain third-party financial institutions in exchange for cash proceeds, limited to the applicable funding capacities. Upon payment of the receivables by customers, rather than remitting to the financial institutions the amounts collected, we retain such collections as proceeds for the sale of new receivables until payments become due.

The Receivables Facility contains terms and conditions (including representations, covenants and conditions precedent) customary for transactions of this type. Additionally, an amortization event will occur if we fail to maintain a maximum average total leverage ratio (average total funded debt/EBITDA) of 3.25 to 1.00 and a minimum fixed charge coverage ratio (EBITDAR/cash interest expense plus rental expense) of 2.25 to 1.00.

At September 30, 2021, there was \$15.0 million outstanding under the Receivables Facility at a weighted average effective interest rate of 0.8%, excluding commitment fees.

Financial Covenants

Financial covenants of the Credit Facility and the Term Facility (each as recently revised) and the Receivables Facility include maintenance of a maximum average total leverage ratio and a minimum fixed charge coverage ratio, which are our most restrictive financial covenants. As of September 30, 2021, the calculations of these two covenants are detailed below:

- **Maximum Average Total Leverage Ratio.** On the last day of each fiscal quarter, our average total leverage ratio must be less than 3.25 to 1.00. Average Total Leverage Ratio is the ratio of the trailing twelve months (TTM) Average Total Funded Indebtedness plus the TTM Average Accounts Securitization Proceeds divided by the TTM EBITDA (as those terms are defined in the Credit Facility). As of September 30, 2021, our average total leverage ratio equaled 0.48 (compared to 0.53 as of June 30, 2021) and the TTM average total debt amount used in this calculation was \$397.6 million.
- **Minimum Fixed Charge Coverage Ratio.** On the last day of each fiscal quarter, our fixed charge ratio must be greater than or equal to 2.25 to 1.00. Fixed Charge Ratio is the ratio of the TTM EBITDAR divided by TTM Interest Expense paid or payable in cash plus TTM Rental Expense (as those terms are defined in the Credit Facility). As of September 30, 2021, our fixed charge ratio equaled 11.31 (compared to 10.48 as of June 30, 2021) and TTM Rental Expense was \$70.1 million.

The Credit Facility and Term Facility limit the declaration and payment of dividends on our common stock to a manner consistent with past practice, provided no default or event of default has occurred and is continuing, or would result from the payment of dividends. We may declare and pay quarterly dividends so long as (i) the amount per share of such dividends is not greater than the most recently publicly announced amount dividends per share and (ii) our Average Total Leverage Ratio is less than 3.25 to 1.00 both immediately before and after giving pro forma effect to such dividends. Under the Credit Facility and Term Facility, we may repurchase shares of our common stock provided no default or event of default has occurred and is continuing, or would result from the repurchase of shares, and our maximum average total leverage ratio (determined on a pro forma basis) is less than 3.25 to 1.00.

Other covenants include restrictions on our ability to grant liens, incur indebtedness, make investments, merge or consolidate, and sell or transfer assets. Failure to comply with any of our financial covenants or any other terms of the Credit Facility and the Term Facility could result in higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt.

Interest Rate Swaps

We utilize interest rate swap contracts and forward-starting interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on our variable rate borrowings. Interest expense related to the notional amounts under all swap contracts is based on the fixed rates plus the applicable margin on the respective borrowings.

As of September 30, 2021, we had three interest rate swap contracts in place, two of which became effective on November 20, 2020, and terminate on September 29, 2022. These swap contracts were previously forward-starting and convert the variable interest rates on our variable rate borrowings to fixed interest rates of 2.0925% and 1.5500% on notional amounts of \$75.0 million each. The third interest rate swap contract currently in place became effective on February 26, 2021, and terminates on February 28, 2025. This swap contract was previously forward-starting and converts the variable interest rate on our variable rate borrowings to a fixed rate of 1.3800% on a notional amount of \$150.0 million. Interest expense related to the notional amounts under these swap contracts is based on the fixed rate plus the applicable margin on our variable rate borrowings.

We have entered into forward-starting interest rate swap contracts to extend the hedged period for future interest payments on our variable rate borrowings. These swap contracts will convert the variable interest rate to a fixed interest rate on our variable rate borrowings.

The following table provides details related to each of our forward-starting interest rate swap contracts:

Derivative	Inception Date	Effective Date	Termination Date	Notional Amount (in millions)	Fixed Interest Rate
Forward-starting interest rate swap 1	March 9, 2020	September 29, 2022	February 26, 2027	\$150.0	0.7400%
Forward-starting interest rate swap 2	March 9, 2020	February 28, 2025	February 26, 2027	\$150.0	0.8130%

Compliance and Future Availability

As of September 30, 2021, we were in compliance with all material covenants and financial ratio requirements under our Credit Facility, our Term Facility and our Receivables Facility. We believe we will remain in compliance with all material covenants and financial ratio requirements throughout the next twelve months. For additional information regarding our debt arrangements, see Note 5 of "Notes to Consolidated Financial Statements," included in Part II, Item 8 of our 2020 Annual Report on Form 10-K, as updated by Note 5 of "Notes to Consolidated Financial Statements," included in Part I, Item 1 of this Form 10-Q.

We believe we have adequate availability of capital to fund present operations and the current capacity to finance any working capital needs that may arise. We continually evaluate potential acquisitions and hold discussions with acquisition candidates. If suitable acquisition opportunities arise that would require financing, we believe that we would have the ability to finance any such transactions.

As of October 25, 2021, \$494.7 million of the current Board-authorized amount under our share repurchase program remained available. We expect to repurchase shares on the open market from time to time depending on market conditions. We plan to fund these repurchases with cash provided by operations and borrowings under the Credit and Receivables Facilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

There have been no material changes during the nine months ended September 30, 2021 from what we reported in our 2020 Annual Report on Form 10-K. For additional information on our interest rate risk, refer to "Quantitative and Qualitative Disclosures about Market Risk" included in Part II, Item 7A in our 2020 Annual Report on Form 10-K.

Currency Risk

There have been no material changes during the nine months ended September 30, 2021 from what we reported in our 2020 Annual Report on Form 10-K. For additional information on our currency risk, refer to "Quantitative and Qualitative Disclosures about Market Risk" included in Part II, Item 7A in our 2020 Annual Report on Form 10-K.

Item 4. Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Act). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2021, management, including our CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, management, including our CEO and CFO, concluded that as of September 30, 2021, our disclosure controls and procedures were effective.

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Based on the most recent evaluation, we have concluded that no change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The effectiveness of our system of disclosure controls and procedures or internal control over financial reporting is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating such systems, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. As a result, there can be no assurance that our control systems will detect all errors or fraud. By their nature, our system can provide only reasonable assurance regarding management's control objectives.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to various claims and litigation arising in the ordinary course of business, including product liability, personal injury, commercial, contract and employment matters. While the outcome of any litigation is inherently unpredictable, based on currently available facts and our current insurance coverages, we do not believe that the ultimate resolution of any of these matters will have a material adverse impact on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our 2020 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes the repurchases of our common stock in the third quarter of 2021:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan ⁽²⁾
July 1-31, 2021	36,987	\$ 466.20	36,597	\$ 525,320,228
August 1-31, 2021	49,178	\$ 482.19	49,178	\$ 501,607,126
September 1-30, 2021	13,976	\$ 492.51	13,976	\$ 494,723,778
Total	100,141	\$ 477.73	99,751	

⁽¹⁾ These shares may include shares of our common stock surrendered to us by employees in order to satisfy minimum tax withholding obligations in connection with certain exercises of employee stock options or lapses upon vesting of restrictions on previously restricted share awards, and/or to cover the exercise price of such options granted under our share-based compensation plans. 390 shares were surrendered for this purpose in the third quarter of 2021.

⁽²⁾ As of October 25, 2021, \$494.7 million of the authorized amount remained available under our current share repurchase program.

Our Board may declare future dividends at their discretion, after considering various factors, including our earnings, capital requirements, financial position, contractual restrictions and other relevant business considerations. For a description of restrictions on dividends in our Credit Facility, Term Facility and Receivables Facility, see the "Liquidity and Capital Resources" section of Management's Discussion and Analysis in Part I, Item 2 of this Form 10-Q. We cannot assure shareholders or potential investors that dividends will be declared or paid any time in the future if our Board determines that there is a better use of our funds.

Item 6. Exhibits

Exhibits filed as part of this report are listed below.

No.	Description	Filed/ Furnished with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Restated Certificate of Incorporation of the Company.		10-Q	000-26640	8/9/2006
3.2	Amended and Restated Bylaws of the Company.		8-K	000-26640	2/8/2019
4.1	Form of certificate representing shares of common stock of the Company.		8-K	000-26640	5/19/2006
10.1	First Amendment to Credit Agreement, dated October 12, 2021 by and among Pool Corporation as Borrower, the Guarantors and BANK OF AMERICA, N.A as Lender.	X			
10.2	Second Amended and Restated Credit Agreement dated as of September 27, 2021, by and among Pool Corporation, as U.S. Borrower, SCP Distributors Canada Inc., as Canadian Borrower, SCP International, Inc., as Euro Borrower, Wells Fargo Bank, National Association, as Administrative Agent, and certain other lenders party thereto.		8-K	000-26640	9/29/2021
31.1	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1	Certification by Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	+ Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X			
101.SCH	+ Inline XBRL Taxonomy Extension Schema Document	X			
101.CAL	+ Inline XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	+ Inline XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	+ Inline XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE	+ Inline XBRL Taxonomy Extension Presentation Linkbase Document	X			
104	+ Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	X			

+ Attached as Exhibit 101 to this report are the following items formatted in iXBRL (Inline Extensible Business Reporting Language):

1. Consolidated Statements of Income for the three and nine months ended September 30, 2021 and September 30, 2020;
2. Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2021 and September 30, 2020;
3. Consolidated Balance Sheets at September 30, 2021, December 31, 2020 and September 30, 2020;
4. Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and September 30, 2020;

5. Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2021 and September 30, 2020; and
6. Notes to Consolidated Financial Statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 28, 2021.

POOL CORPORATION

By: /s/ Melanie Housey Hart
Melanie Housey Hart
Vice President and Chief Financial Officer, and duly authorized signatory on behalf of the registrant

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT**, dated as of October 12, 2021 (this "**First Amendment**"), is by and among POOL CORPORATION, a Delaware corporation (the "**Borrower**"), the Guarantors (as defined in the Credit Agreement referenced below), and BANK OF AMERICA, N.A., as the Lender.

BACKGROUND

A. The Borrower, the Guarantors and the Lender are parties to that certain Credit Agreement, dated as of December 30, 2019 (the "**Credit Agreement**"). Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Credit Agreement as set forth on Annex I.

B. The Borrower has requested that the Lender amend the Credit Agreement to make certain revisions to the terms and conditions of the Credit Agreement as specifically set forth in this First Amendment.

NOW THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Borrower and the Lender hereby agree as follows:

§1. Amendment to Credit Agreement. The Credit Agreement (excluding the Schedules and Exhibits thereto) is hereby amended in its entirety and replaced with the document attached hereto as Annex I. Any change in the underlying reference rate used in the calculation of interest under the Credit Agreement (including any change to the definition of "Eurodollar Rate" or the addition of the "Adjusted Eurodollar Rate") if any, will become effective as of the First Amendment Effective Date.

§2. Amendments to Exhibits and Schedules.

(a) Exhibits A, C and D and Schedule 1.01(a) Exhibits A, C and D and Schedule 1.01(a) to the Credit Agreement are hereby amended in their entirety and replaced with the documents attached hereto as Exhibits A, C and D and Schedule 1.01(a) to Annex II.

(b) Schedules 5.12 and 5.20. Schedules 5.12 and 5.20 to the Credit Agreement are hereby deleted in their entirety.

§3. Conditions to Effectiveness. This First Amendment shall become effective as of the date set forth above (the "**First Amendment Effective Date**") upon the satisfaction of the following conditions:

(a) the Lender shall have received a counterpart signature page to this First Amendment, duly executed and delivered by the Borrower and each Guarantor;

(b) the Borrower shall have paid in immediately available funds all reasonable invoiced fees and expenses of the Lender's counsel, Greenberg Traurig, LLP; and

(c) the representations and warranties set forth in Section 4 of this First Amendment shall be true and correct.

§4. Representations and Warranties. By its execution and delivery hereof, the Borrower represents and warrants to the Lender that, as of the date hereof, and immediately after giving effect to this First Amendment:

(a) the representations and warranties of the Borrower and each other Loan Party contained in Article II and Article V of the Credit Agreement and in each other Loan Document, or which are contained in any document that has been furnished under or in connection herewith or therewith, are (i) with respect to representations and warranties that contain a materiality qualification, true and correct and (ii) with respect to representations and warranties that do not contain a materiality qualification, are true and correct in all material respects, and except that for purposes hereof, (x) the representations and warranties contained in Sections 5.15 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Sections 6.01(a) and (b) of the Credit Agreement, respectively and (y) any representation and warranty that by its terms is made only as of an earlier date, is true and correct in all material respects (or in the case of such representations and warranties that are subject to a materiality qualification, in all respects) as of such earlier date;

(b) no event has occurred and is continuing which constitutes a Default or an Event of Default;

(c) (i) the Borrower and each Guarantor has full power and authority to execute and deliver this First Amendment, (ii) this First Amendment has been duly executed and delivered by the Borrower, (iii) this First Amendment has been duly executed and delivered by each Guarantor, (iv) this First Amendment and the Credit Agreement, as amended hereby, constitute the legal, valid and binding obligations of the Borrower and each Guarantor enforceable in accordance with their respective terms, except in each case, as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar state of federal Debtor Relief Laws from time to time in effect which affect the enforcement of creditors' rights in general and availability of equitable remedies;

(d) neither the execution, delivery and performance of this First Amendment or the Credit Agreement, as amended hereby, nor the consummation of any transactions contemplated herein or therein, will (i) require any Governmental Approval or violate any Applicable Law relating to the Borrower or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute a default under the Organization Documents of the Borrower or any of its Subsidiaries or any indenture, agreement or other instrument to which such Person is a party or by which any of its properties may be bound or any Governmental Approval relating to such Person or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by such Person other than Liens arising under the Loan Documents; and

(e) no authorization, approval, consent, or other action by, notice to, or filing with, any Governmental Authority or other Person not previously obtained is required to be obtained or made by (i) the Borrower as a condition to the execution, delivery or performance by the

Borrower of this First Amendment or (ii) any Guarantor as a condition to the acknowledgment by any Guarantor of this First Amendment.

§5. No Other Amendments, etc. Except as expressly provided in this First Amendment, (a) all of the terms and conditions of the Credit Agreement and the other Loan Documents (as amended and restated in connection herewith, if applicable) remain unchanged, and (b) all of the terms and conditions of the Credit Agreement, as amended hereby, and of the other Loan Documents (as amended and restated in connection herewith, if applicable) are hereby ratified and confirmed and remain in full force and effect. Nothing herein shall be construed to be an amendment, consent or a waiver of any requirements of the Borrower, the Guarantors or of any other Person under the Credit Agreement or any of the other Loan Documents except as expressly set forth herein or pursuant to a written agreement executed in connection herewith.

§6. Guarantor's Acknowledgment. By signing below, each Guarantor (i) acknowledges, consents and agrees to the execution, delivery and performance by the Borrower of this First Amendment, (ii) acknowledges and agrees that its obligations in respect of its Guaranty are not released, diminished, waived or modified, impaired or affected in any manner by this First Amendment or any of the provisions contemplated herein, (iii) ratifies and confirms its obligations under its Guaranty and (iv) acknowledges and agrees that it has no claims or offsets against, or defenses or counterclaims to, its Guaranty.

§7. Reference to the Credit Agreement Upon the effectiveness of this First Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", or words of like import shall mean and be a reference to the Credit Agreement, as modified hereby. This First Amendment shall be a Loan Document.

§8. Costs, Expenses and Taxes. The Borrower agrees to pay on demand all costs and expenses of the Lender in connection with the preparation, reproduction, execution and delivery of this First Amendment and the other instruments and documents to be delivered hereunder (including the reasonable fees and out-of-pocket expenses of counsel for the Lender with respect thereto).

§9. Execution in Counterparts. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which when taken together shall constitute but one and the same instrument. For purposes of this First Amendment, a counterpart hereof (or signature page thereto) signed and transmitted by any Person party hereto to the Lender (or its counsel) by facsimile or other electronic imaging means (e.g., "pdf" or "tif") is to be treated as an original. The signature of such Person thereon, for purposes hereof, is to be considered as an original signature, and the counterpart (or signature page thereto) so transmitted is to be considered to have the same binding effect as an original signature on an original document.

§10. Governing Law; Binding Effect THIS FIRST AMENDMENT AND THE OTHER LOAN DOCUMENTS (EXCEPT, AS TO OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND ANY CLAIMS, CONTROVERSY, DISPUTE

OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. This First Amendment shall be binding upon the parties hereto and their respective successors and assigns.

§11. Headings. Section headings in this First Amendment are included herein for convenience of reference only and shall not constitute a part of this First Amendment for any other purpose.

§12. ENTIRE AGREEMENT. THE CREDIT AGREEMENT, AS AMENDED BY THIS FIRST AMENDMENT, AND THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY ANY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have duly executed this First Amendment as of the date first set forth above.

BORROWER:

POOL CORPORATION

By:	<u>/s/ Melanie Housey Hart</u>
Name:	Melanie Housey Hart
Title:	Vice President, Chief Financial Officer & Assistant Secretary

Signature Page to First Amendment to Credit Agreement

GUARANTORS:

SCP DISTRIBUTORS LLC

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Vice President, Chief Financial Officer & Assistant Secretary

SPLASH HOLDINGS, INC.

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Chief Financial Officer and Assistant Secretary

ALLIANCE TRADING, INC.

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: President and Secretary

CYPRESS, INC.

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: President and Secretary

SUPERIOR POOL PRODUCTS LLC

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Vice President, Chief Financial Officer & Assistant Secretary

SCP INTERNATIONAL, INC.

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Chief Financial Officer and Assistant Secretary

POOL DEVELOPMENT LLC

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Chief Financial Officer and Assistant Secretary

HORIZON DISTRIBUTORS, INC.

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Vice President, Chief Financial Officer & Assistant Secretary

POOLFX SUPPLY LLC

By: /s/ Melanie Housey Hart
Name: Melanie Housey Hart
Title: Vice President, Chief Financial Officer & Assistant Secretary

Signature Page to First Amendment to Credit Agreement

BANK OF AMERICA, N.A.,
as Lender

By: /s/ Adam Rose
Name: Adam Rose
Title: Senior Vice President

Signature Page to First Amendment to Credit Agreement

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Melanie Housey Hart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pool Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2021

/s/ Melanie Housey Hart

Melanie Housey Hart

Vice President and Chief Financial Officer

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peter D. Arvan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pool Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2021

/s/ Peter D. Arvan

Peter D. Arvan

President and Chief Executive Officer

**Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the Quarterly Report on Form 10-Q of Pool Corporation (the "Company") for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Peter D. Arvan, as Chief Executive Officer of the Company, and Melanie Housey Hart, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 28, 2021

/s/ Peter D. Arvan

Peter D. Arvan
President and Chief Executive Officer

/s/ Melanie Housey Hart

Melanie Housey Hart
Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.