

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 1, 2022

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 001-39667

LESLIE'S, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
2005 East Indian School Road
Phoenix, AZ
(Address of principal executive offices)

20-8397425
(I.R.S. Employer
Identification No.)

85016
(Zip Code)

Registrant's telephone number, including area code: (602) 366-3999

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	LESL	The 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 Regulation 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 January 31, 2022, the Registrant had 182,539,417 shares of common stock, \$0.001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would” or the negative of these words or other similar terms or expressions. Our actual results could differ materially from those indicated in these forward-looking statements for a variety of reasons, including, among others:

- our ability to execute on our growth strategies;
- our ability to maintain favorable relationships with suppliers and manufacturers;
- competition from mass merchants and specialty retailers;
- impacts on our business from the sensitivity of our business to weather conditions, changes in the economy, and the housing market;
- our ability to implement technology initiatives that deliver the anticipated benefits, without disrupting our operations;
- our ability to attract and retain senior management and other qualified personnel;
- regulatory changes and development affecting our current and future products;
- our ability to obtain additional capital to finance operations;
- commodity price inflation and deflation;
- impacts on our business from the COVID-19 pandemic;
- impacts on our business from cyber incidents and other security threats or disruptions; and
- other risks and uncertainties, including those listed in the section titled “Risk Factors” in our filings with the United States Securities and Exchange Commission.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended October 2, 2021 and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q are based on events or circumstances as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Amounts)

	January 1, 2022 (Unaudited)	October 2, 2021 (Audited)	January 2, 2021 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 53,341	\$ 343,498	\$ 102,809
Accounts and other receivables, net	39,353	38,860	37,116
Inventories	244,632	198,789	174,535
Prepaid expenses and other current assets	38,173	20,564	25,604
Total current assets	375,499	601,711	340,064
Property and equipment, net	65,883	70,335	62,628
Operating lease right-of-use assets	207,291	212,284	191,125
Goodwill and other intangibles, net	132,428	129,020	120,636
Deferred tax assets	2,327	3,734	14,729
Other assets	27,837	25,148	16,658
Total assets	<u>\$ 811,265</u>	<u>\$ 1,042,232</u>	<u>\$ 745,840</u>
Liabilities and stockholders' deficit			
Current liabilities			
Accounts payable and accrued expenses	\$ 188,824	\$ 233,597	\$ 126,864
Operating lease liabilities	56,873	61,071	56,398
Income taxes payable	411	6,945	—
Current portion of long-term debt	8,100	8,100	8,341
Total current liabilities	254,208	309,713	191,603
Operating lease liabilities, noncurrent	153,834	160,037	139,796
Long-term debt, net	784,527	786,125	795,394
Other long-term liabilities	—	3,915	5,457
Total liabilities	1,192,569	1,259,790	1,132,250
Commitments and contingencies			
Stockholders' deficit			
Common stock, \$0.001 par value, 1,000,000,000 shares authorized and 182,496,645, 189,821,011 and 186,618,446 issued and outstanding as of January 1, 2022, October 2, 2021 and January 2, 2021, respectively.	182	190	187
Additional paid in capital	80,062	204,711	192,753
Retained deficit	(461,548)	(422,459)	(579,350)
Total stockholders' deficit	(381,304)	(217,558)	(386,410)
Total liabilities and stockholders' deficit	<u>\$ 811,265</u>	<u>\$ 1,042,232</u>	<u>\$ 745,840</u>

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Thousands, Except Per Share Amounts)
(Unaudited)

	January 1, 2022	Three Months Ended		January 2, 2021
Sales	\$	184,824	\$	145,006
Cost of merchandise and services sold		117,508		93,291
Gross profit		67,316		51,715
Selling, general and administrative expenses		79,785		77,489
Operating loss		(12,469)		(25,774)
Other expense:				
Interest expense		6,863		11,516
Loss on debt extinguishment		—		7,281
Other expenses, net		389		—
Total other expense		7,252		18,797
Loss before taxes		(19,721)		(44,571)
Income tax benefit		(5,270)		(14,314)
Net loss	\$	(14,451)	\$	(30,257)
Earnings per share:				
Basic	\$	(0.08)	\$	(0.17)
Diluted	\$	(0.08)	\$	(0.17)
Weighted average shares outstanding:				
Basic		188,507		176,990
Diluted		188,507		176,990

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Amounts in Thousands)
(Unaudited)

	Common Stock		Additional Paid in Capital (Deficit)	Retained Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balance, October 3, 2020	156,500	\$ 157	\$ (278,063)	\$ (549,093)	\$ (826,999)
Issuance of common stock upon initial public offering, net of offering costs	30,000	30	458,656	—	458,686
Issuance of shares under stock incentive plans	118	—	—	—	—
Equity-based compensation	—	—	12,160	—	12,160
Net loss	—	—	—	(30,257)	(30,257)
Balance, January 2, 2021	<u>186,618</u>	<u>\$ 187</u>	<u>\$ 192,753</u>	<u>\$ (579,350)</u>	<u>\$ (386,410)</u>
Balance, October 2, 2021	189,821	\$ 190	\$ 204,711	\$ (422,459)	\$ (217,558)
Vesting of restricted stock units	170	—	—	—	—
Stock options exercised	6	—	100	—	100
Equity-based compensation	—	—	2,751	—	2,751
Repurchase and retirement of common stock	(7,500)	(8)	(127,500)	(24,638)	(152,146)
Net loss	—	—	—	(14,451)	(14,451)
Balance, January 1, 2022	<u>182,497</u>	<u>\$ 182</u>	<u>\$ 80,062</u>	<u>\$ (461,548)</u>	<u>\$ (381,304)</u>

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	January 1, 2022	Three Months Ended	January 2, 2021
Operating Activities			
Net loss	\$	(14,451)	\$ (30,257)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization		9,241	6,595
Equity-based compensation		2,751	12,160
Amortization of deferred financing costs and debt discounts		496	648
Provision for doubtful accounts		249	59
Deferred income taxes		1,407	(8,146)
Loss (gain) on disposition of assets		17	(1,758)
Loss on debt extinguishment		—	7,281
Changes in operating assets and liabilities:			
Accounts and other receivables		(742)	(5,694)
Inventories		(43,723)	(25,569)
Prepaid expenses and other current assets		(17,593)	(2,943)
Other assets		(2,741)	(2,215)
Accounts payable and accrued expenses		(48,528)	(65,626)
Income taxes payable		(6,534)	(1,857)
Operating lease assets and liabilities, net		(5,408)	(1,969)
Net cash used in operating activities		(125,559)	(119,291)
Investing Activities			
Purchases of property and equipment		(5,402)	(2,706)
Business acquisitions, net of cash acquired		(5,146)	—
Proceeds from disposition of fixed assets		21	2,404
Net cash used in investing activities		(10,527)	(302)
Financing Activities			
Repayment of long term debt		(2,025)	(392,085)
Proceeds from options exercised		100	—
Repurchase and retirement of common stock		(152,146)	—
Proceeds from issuance of common stock upon initial public offering, net		—	458,686
Net cash (used in) provided by financing activities		(154,071)	66,601
Net decrease in cash and cash equivalents		(290,157)	(52,992)
Cash and cash equivalents, beginning of period		343,498	155,801
Cash and cash equivalents, end of period	\$	<u>53,341</u>	<u>\$ 102,809</u>
Supplemental Information:			
Interest	\$	6,725	\$ 19,635
Income taxes, net of refunds received		(50)	920

See accompanying notes which are an integral part of these condensed consolidated financial statements.

LESLIE'S, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Business and Operations

Leslie's, Inc. ("Leslie's," "we," "our," "us," "its," or the "Company") is the leading direct-to-consumer pool and spa care brand. We market and sell pool and spa supplies and related products and services, which primarily consist of maintenance items such as chemicals, equipment and parts, cleaning accessories, as well as safety, recreational, and fitness-related products. We currently market our products through 959 company-operated locations in 38 states and e-commerce websites.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

We prepared the accompanying interim condensed consolidated financial statements following United States generally accepted accounting principles ("GAAP"). The financial statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results. The interim condensed consolidated financial statements include the accounts of Leslie's, Inc. and our subsidiaries. All significant intercompany accounts and transactions have been eliminated. These interim condensed consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements and notes for the years ended October 2, 2021, October 3, 2020 and September 28, 2019.

Fiscal Periods

We operate on a fiscal calendar that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to September 30th. In a 52-week fiscal year, each quarter contains 13 weeks of operations; in a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations. References to the three months ended January 1, 2022, and the three months ended January 2, 2021 refer to the 13 weeks ended January 1, 2022 and January 2, 2021, respectively.

Use of Estimates

To prepare financial statements that conform to GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Our most significant estimates relate to sales returns, inventory obsolescence reserves, lease assumptions, vendor rebate programs, income taxes, self-insurance, valuation of intangible assets and goodwill and intangible asset impairment evaluations. We continually review our estimates and make adjustments as necessary, but actual results could be significantly different from what we expected when we made these estimates.

Prior Period Reclassifications

Reclassifications of certain immaterial prior period amounts have been made to conform to current period presentation.

Fair Value Measurements

We use fair value measurements to record fair value of certain assets and to estimate fair value of financial instruments not recorded at fair value but required to be disclosed at fair value.

As of January 1, 2022 and October 2, 2021, we held no assets that are required to be measured at fair value on a recurring basis.

The fair value of our amended and restated term loan credit agreement ("Term Loan") due in 2028 (see Note 9) was determined to be \$800.4 million and \$802.9 million as of January 1, 2022 and October 2, 2021, respectively. These fair value estimates, determined to be Level 2, are subjective in nature and involve uncertainties and matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to the short-term maturity of these instruments.

There were no transfers between levels in the fair value hierarchy during the three months ended January 1, 2022 and January 2, 2021.

Seasonality

Our business is highly seasonal. In general, sales and earnings are highest during our third and fourth fiscal quarters, being April through September and represent the peak months of swimming pool use. Sales are substantially lower during our first and second fiscal quarters.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (“Topic 740”): Simplifying the Accounting for Income Taxes. ASU 2019-12 removes certain exceptions related to intraperiod tax allocations, foreign subsidiaries and interim reporting that are present within existing GAAP rules. The ASU also provides updated guidance regarding the tax treatment of certain franchise taxes, goodwill and nontaxable entities, among other items. In addition, ASU 2019-12 clarifies that the effect of a change in tax laws or rates should be reflected in the annual effective tax rate computation during the interim period that includes the enactment date. The ASU is effective for annual periods beginning after December 15, 2021 and interim periods beginning after December 15, 2022. We expect to early adopt ASU 2019-12 as of October 3, 2022. In anticipation of the adoption and based on management’s initial evaluation of the projected impact to our consolidated financial statements, we do not estimate there to be a material impact.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (“Topic 805”): Accounting for contract assets and contract liabilities from contracts with customers, which includes certain amendments to improve, simplify, and provide consistency for recognition and measurement of acquired contract assets and contract liabilities from revenue contracts in a business combination. The amendments require that an acquirer recognize and measure such contract assets and contract liabilities under Topic 606, Revenue from Contracts with Customers, as if it had originated the contracts. The amendments also allow for election of certain practical expedients, which are applied on an acquisition-by-acquisition basis. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted, including for any interim period, and if elected, the amendments are applied retrospectively for any acquisitions that occurred in the fiscal year of interim adoption. We expect to early adopt ASU 2021-08 as of October 3, 2022.

Note 3—Business Combinations

Fiscal 2022 Acquisition

In October 2021, we acquired the assets of a retailer of pool supplies and services. The acquisition included seven locations in the greater Phoenix, Arizona area. Our estimates and assumptions are subject to change as we gather additional information throughout the measurement period, which is up to 12 months after the acquisition date. If we make changes to the amounts recorded, such adjustments will be recorded in the period in which they are identified.

Fiscal 2021 Acquisitions

In fiscal 2021, we completed three acquisitions of retailers of supplies and services for hot tubs, swim spas and fireplaces with eight locations in Denver, Colorado, Medford, Oregon, and the Washington, DC area.

These acquisitions did not have a material impact on our financial position or results of operations. Our condensed consolidated financial statements include the results of operations of these acquisitions from the date of acquisition. The total purchase consideration was allocated to the assets acquired and the liabilities assumed at their estimated fair values as of the date of acquisition, as determined by management. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. The goodwill resulting from these acquisitions is expected to be deductible for income tax purposes. Our estimates and assumptions are subject to change as we gather additional information throughout the measurement period, which is up to 12 months after the acquisition date, and if we make changes to the amounts recorded, such amounts are recorded in the period in which they are identified. During the three months ended January 1, 2022, we recorded adjustments resulting in an increase in goodwill of \$1.5 million related to these acquisitions.

Note 4 — Goodwill and Other Intangibles, Net
Goodwill

The carrying amounts of goodwill are as follows (in thousands):

	January 1, 2022	October 2, 2021	January 2, 2021
Balance at beginning of the period	\$ 101,114	\$ 93,295	\$ 93,295
Acquisitions	3,200	7,819	—
Measurement period adjustments	1,475	—	—
Balance at the end of the period	<u>\$ 105,789</u>	<u>\$ 101,114</u>	<u>\$ 93,295</u>

Other Intangible Assets

Other intangible assets consisted of the following as of January 1, 2022 (in thousands, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks (finite life)	6.5	\$ 5,940	\$ (5,311)	\$ 629
Trade name and trademarks (indefinite life)	Indefinite	17,750	—	17,750
Non-compete agreements	7.2	8,633	(7,174)	1,459
Consumer relationships	6.3	19,000	(12,545)	6,455
Other intangibles	6.9	6,620	(6,274)	346
Total		<u>\$ 57,943</u>	<u>\$ (31,304)</u>	<u>\$ 26,639</u>

Other intangible assets consisted of the following as of October 2, 2021 (in thousands, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks (finite life)	6.6	\$ 5,940	\$ (5,274)	\$ 666
Trade name and trademarks (indefinite life)	Indefinite	17,750	—	17,750
Non-compete agreements	7.5	8,633	(7,123)	1,510
Consumer relationships	6.4	19,000	(11,688)	7,312
Other intangibles	7.0	6,620	(5,952)	668
Total		<u>\$ 57,943</u>	<u>\$ (30,037)</u>	<u>\$ 27,906</u>

Other intangible assets consisted of the following as of January 2, 2021 (in thousands, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks (finite life)	3.4	\$ 5,540	\$ (5,167)	\$ 373
Trade name and trademarks (indefinite life)	Indefinite	17,750	—	17,750
Non-compete agreements	8.2	8,633	(6,958)	1,675
Consumer relationships	5.9	17,200	(10,485)	6,715
Other intangibles	7.1	6,620	(5,769)	851
Total		<u>\$ 55,743</u>	<u>\$ (28,379)</u>	<u>\$ 27,364</u>

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Amortization expense was \$1.3 million and \$0.5 million for the three months ended January 1, 2022 and January 2, 2021, respectively. No impairment of goodwill or other intangible assets was recorded during the three months ended January 1, 2022 or January 2, 2021.

The following table summarizes the estimated future amortization expense related to finite-lived intangible assets on our condensed consolidated balance sheet as of January 1, 2022 (in thousands):

	Amount
Remainder of fiscal 2022	\$ 1,167
2023	1,923
2024	1,285
2025	1,188
2026	942
Thereafter	2,384
Total	\$ 8,889

Note 5—Accounts and Other Receivables, Net

Accounts and other receivables, net consisted of the following (in thousands):

	January 1, 2022	October 2, 2021	January 2, 2021
Vendor and other rebates receivable	\$ 26,476	\$ 23,222	\$ 22,753
Customer receivables	11,415	13,473	5,533
Other receivables	4,155	4,621	9,523
Allowance for doubtful accounts	(2,693)	(2,456)	(693)
Total	\$ 39,353	\$ 38,860	\$ 37,116

Note 6—Inventories

Inventories consisted of the following (in thousands):

	January 1, 2022	October 2, 2021	January 2, 2021
Raw materials	\$ 4,741	\$ 4,244	\$ 2,577
Finished goods	239,891	194,545	171,958
Total	\$ 244,632	\$ 198,789	\$ 174,535

Note 7—Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	January 1, 2022	October 2, 2021	January 2, 2021
Prepayment for inventory	\$ 17,785	\$ —	\$ 11,500
Prepaid occupancy costs	4,682	8,326	3,368
Prepaid other	7,427	4,488	7,111
Other current assets	8,279	7,750	3,625
Total	\$ 38,173	\$ 20,564	\$ 25,604

Note 8—Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (in thousands):

	January 1, 2022	October 2, 2021	January 2, 2021
Accounts payable	\$ 99,540	\$ 100,960	\$ 69,046
Accrued payroll and employee benefits	16,354	40,071	19,394
Customer deposits	16,506	19,861	8,036
Interest	4,521	4,898	489
Inventory related accruals	9,166	12,444	6,685
Loyalty and deferred revenue	7,944	6,685	2,645
Sales taxes	8,189	13,975	8,072
Self-insurance reserves	8,709	7,679	5,953
Other accrued liabilities	17,895	27,024	6,544
Total	<u>\$ 188,824</u>	<u>\$ 233,597</u>	<u>\$ 126,864</u>

As of January 1, 2022 and January 2, 2021, there were no capital expenditures included in other accrued liabilities. As of October 2, 2021, \$1.5 million of capital expenditures are included in other accrued liabilities.

Note 9—Long-Term Debt, Net

Our long-term debt, net consisted of the following (in thousands, except interest rates):

	Effective Interest Rate ⁽¹⁾	January 1, 2022	October 2, 2021	January 2, 2021
Term Loan—due on March 9, 2028	3.00 % ⁽²⁾	\$ 803,925	\$ 805,950	\$ 809,093
ABL Credit Facility	1.25 % ⁽³⁾	—	—	—
Total long-term debt		803,925	805,950	809,093
Less: current portion of long-term debt		(8,100)	(8,100)	(8,341)
Less: unamortized discount		(3,164)	(3,285)	(2,317)
Less: deferred financing charges		(8,134)	(8,440)	(3,041)
Total long-term debt, net		<u>\$ 784,527</u>	<u>\$ 786,125</u>	<u>\$ 795,394</u>

(1)Effective interest rates as of January 1, 2022.

(2)Carries interest at a specified margin over LIBOR between 2.50% and 2.75% with a minimum LIBOR of 0.50%.

(3)Carries interest at a specific margin between 0.25% and 0.75% with respect to Base Rate loans and between 1.25% and 1.75% with respect to Eurodollar Rate loans.

Term Loan

In March 2021, we entered into an amendment to our Term Loan. The amended Term Loan provides for an \$810.0 million secured term loan facility with a maturity date of March 9, 2028. Borrowings under the Term Loan have an initial applicable rate, at our option of, (i) 2.75% for loans that are LIBOR loans and (ii) 1.75% of loans that are ABR loans. The applicable rate of the Term Loan is based on our first lien leverage ratio as follows: (a) if the first lien leverage ratio is greater than 2.75 to 1.00, the applicable rate will be 2.75% for LIBOR loans and 1.75% for ABR loans and (b) the first lien leverage ratio is less than or equal to 2.75 to 1.00, the applicable rate will be 2.50% for LIBOR loans and 1.50% for ABR loans. For LIBOR loans, the loans will bear interest at the adjusted LIBOR rate plus the applicable rate, where the adjusted LIBOR rate will not be less than 0.50%.

ABL Credit Facility

In April 2021, we entered into Amendment No. 5 to our \$200.0 million credit facility (the “ABL Credit Facility”) maturing on August 13, 2025 (the “Amendment”). The Amendment has (i) an applicable margin on the Base Rate loans with a range of 0.25% to 0.75%, (ii) an applicable margin on the Eurodollar Rate loans with a range of 1.25% to 1.75%, (iii) a LIBOR floor of 0%, and (iv) a commitment fee rate of 0.25%.

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We are also obligated to pay a commission on all outstanding letters of credit as well as customary administrative, issuance, fronting, amendment, payment, and negotiation fees. As of January 1, 2022 and October 2, 2021, no amounts were outstanding on the ABL Credit Facility. The amount available was reduced by \$9.0 million and \$9.2 million of existing standby letters of credit as of January 1, 2022 and October 2, 2021, respectively.

Senior Unsecured Notes

The senior unsecured notes principal of \$390.0 million was paid in full on November 3, 2020, resulting in a \$7.3 million loss on debt extinguishment reported in our condensed consolidated statements of operations during the three months ended January 2, 2021.

Representations and Covenants

Substantially all of our assets are pledged as collateral to secure our indebtedness. The Term Loan and the ABL Credit Facility do not require us to comply with any financial covenants. The Term Loan and ABL Credit Facility contain customary representations and warranties, covenants, and conditions to borrowing. No event of default had occurred as of January 1, 2022 or October 2, 2021.

Future Debt Maturities

The following table summarizes the debt maturities and scheduled principal repayments of our indebtedness as of January 1, 2022 (in thousands):

	Amount
Remainder of fiscal 2022	\$ 6,075
2023	8,100
2024	6,075
2025	10,125
2026	8,100
Thereafter	765,450
Total	<u>\$ 803,925</u>

Note 10—Income Taxes

Our effective income tax rate was a benefit of 26.7% for the three months ended January 1, 2022, compared to a benefit of 32.1% for the three months ended January 2, 2021. The difference between the statutory rate and our effective rate for the three months ended January 1, 2022 was primarily attributable to state taxes. The difference between the statutory rate and our effective rate for the three months ended January 2, 2021 was primarily attributable to a decrease in the valuation allowance for our interest limitation carryforward and state taxes. Our effective income tax rate can fluctuate due to factors including valuation allowances, changes in tax laws, federal and state audits, and the impact of other discrete items.

Note 11—Commitments & Contingencies**Contingencies**

We are defendants in lawsuits or potential claims encountered in the normal course of business. When the potential liability from a matter can be estimated and the loss is considered probable, we record the estimated loss. Due to uncertainties related to the resolution of lawsuits, investigations and claims, the ultimate outcome may differ from the estimates. We do not expect that the resolutions of any of these matters will have a material effect to our condensed consolidated financial position or results of operations. We did not record any material loss contingencies as of January 1, 2022 and October 2, 2021, respectively.

Our workers' compensation insurance program, general liability insurance program, and employee group medical plan have self-insurance retention features of up to \$0.4 million per event as of January 1, 2022 and October 2, 2021. We had standby letters of credit outstanding in the amounts of \$9.0 million and \$9.2 million as of January 1, 2022 and October 2, 2021, respectively, for the purpose of securing such obligations under our workers' compensation self-insurance programs.

Note 12—Related Party Transactions

In February 2017, we entered into a management services agreement with our private equity sponsors in connection with our acquisition in February 2017. The management services agreement provided that we pay an annual fee for management and advisory services to us and our affiliates, including general management consulting services, support and analysis with respect to financing alternatives and strategic planning functions. The management services agreement terminated in October 2020 in connection with the completion of our initial public offering (“IPO”). During the three months ended January 2, 2021, we paid or accrued management fees in the amount of \$0.4 million.

On December 14, 2021, the Company entered into a share repurchase agreement with Bubbles Investor Aggregator, L.P. and Explorer Investment Pte. Ltd. (together, the “Selling Stockholders”), each a greater than 5% beneficial owner of the Company’s common stock, providing for the repurchase by the Company from the Selling Stockholders of an aggregate of 7,500,000 shares of common stock, conditioned on the closing of a contemporaneous secondary public offering (the “Offering”). The price per share of repurchased common stock paid by the Company was \$20.25, which represents the per share price at which shares of common stock were sold to the public in the Offering less the underwriting discount. The repurchase transaction closed on December 16, 2021. See Note 13 - Share Repurchase Program for detailed information regarding the repurchase program.

Note 13—Share Repurchase Program

On December 3, 2021, the Board of Directors authorized a share repurchase program for up to an aggregate amount of \$300 million of the Company’s outstanding shares of common stock over a period of three years. The amount and timing of repurchases depends on a number of factors, including the Company’s financial condition, capital requirements, cash flows, results of operations, future business prospects, and other factors our management may deem relevant. The timing, volume, and nature of repurchases, are subject to market conditions, applicable securities laws and other factors and may be amended, suspended or discontinued at any time. Shares may be repurchased from time to time on the open market, in privately negotiated transactions, or otherwise.

On December 16, 2021, the Company repurchased and retired 7.5 million shares of common stock at a price per share of \$20.25. The Company paid \$151.9 million (\$152.1 million including offering costs) to fund the share repurchase using existing cash on hand. The Company accounted for the share repurchase and retirement under the cost method by deducting its par value from common stock, reducing additional paid-in-capital by \$127.5 million using the share price when the stock was originally issued, and the remaining excess cost of \$24.4 million increased retained deficit. As of January 1, 2022, \$148.1 million remained available for future purchases under the program.

The following table presents information about our repurchases of common stock (in thousands):

	Three Months Ended	
	January 1, 2022	January 2, 2021
Total number of shares repurchased	7,500	—
Total amount paid for shares repurchased	\$ 151,875	\$ —

Note 14—Equity-Based Compensation*Equity-Based Compensation**2020 Omnibus Incentive Plan*

In October 2020, we adopted the Leslie’s, Inc. 2020 Omnibus Incentive Plan (the “Plan”). The Plan provides for the grant of awards such as stock options to purchase Leslie’s common stock (each, a “Stock Option”) and restricted stock units (“RSUs”) which may settle in Leslie’s, Inc. common stock to our directors, executives and eligible employees of the Company. Stock Options granted under the Plan generally expire ten years from the date of grant and consist of Stock Options that vest upon the satisfaction of time-based requirements (“Service Stock Option”) and performance-based Stock Options that vest upon satisfaction of a performance-based requirement (“Performance Stock Options”). RSUs consist of grants that vest ratably upon the satisfaction of time-based requirements (“Service RSU”) and performance-based RSUs that vest upon satisfaction of performance-based requirements (“Performance RSU”). In each case, vesting of the Company’s outstanding and unvested Stock Options and RSUs is contingent upon the holder’s continued service through the date of each applicable vesting event. As of January 1, 2022, we had approximately 7.4 million shares of common stock available for future grants under the Plan.

As of January 1, 2022, the aggregate unamortized value of all outstanding equity-based compensation awards was approximately \$33.0 million, which is expected to be recognized over a weighted average period of approximately 2.8 years.

Stock Options

The following tables summarizes our Stock Option activity under the Plan for the three months ended (in thousands, except per share amounts):

	January 1, 2022	
	Number of Options	Weighted Average Exercise Price
Outstanding, Beginning	4,877	\$ 18.22
Granted	—	—
Exercised	(6)	17.00
Forfeited	(98)	20.44
Balance, Ending	<u>4,773</u>	\$ 18.18
Vested at January 1, 2022 ⁽¹⁾	<u>1,337</u>	\$ 17.56

(1)Includes 550,736 stock options that were subject to the Company's achievement of the fiscal 2021 net income target which was deemed to have been met during the three months ended January 1, 2022.

	As of January 1, 2022	
Aggregate intrinsic value of options outstanding	\$	27,244
Unamortized value of unvested stock options	\$	14,273
Weighted average period (years) that expense is expected to be recognized		2.3
Weighted average remaining contractual life (years) for options outstanding		9.3

Restricted Stock Units

The following table summarizes our RSU activity under the Plan for the three months ended (in thousands, except per share amounts):

	January 1, 2022	
	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding, Beginning	3,135	\$ 18.87
Granted	102	20.70
Vested	(170)	17.00
Forfeited	(78)	19.16
Balance, Ending	<u>2,989</u>	\$ 19.03
Unamortized value of unvested RSUs	\$	18,759
Weighted average period (years) expense is expected to be recognized		3.2

During the three months ended January 1, 2022, equity-based compensation expense was \$2.8 million and includes Company related payroll tax expense and is reported in selling, general and administrative expenses ("SG&A") in our condensed consolidated statements of operations. During the three months ended January 2, 2021, equity-based compensation expense was \$12.2 million and was primarily due to the vesting of performance-based equity units as a result of the Company's IPO.

Note 15—Earnings Per Share

The following is a reconciliation of basic weighted average common shares outstanding to diluted weighted average common shares outstanding (in thousands, except per share amounts):

	Three Months Ended	
	January 1, 2022	January 2, 2021
Numerator:		
Net loss	\$ (14,451)	\$ (30,257)
Denominator:		
Weighted average shares outstanding - basic	188,507	176,990
Effect of dilutive securities:		
Stock options	—	—
RSUs	—	—
Weighted average shares outstanding - diluted	<u>188,507</u>	<u>176,990</u>
Basic earnings per share	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>
Diluted earnings per share	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>

The following number of weighted-average potentially dilutive shares were excluded from the calculation of diluted earnings per share because the effect of including such shares would have been antidilutive (in thousands):

	Three Months Ended	
	January 1, 2022	January 2, 2021
Stock options	2,214	4,604
RSUs	240	5,949
	<u>2,454</u>	<u>10,553</u>

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

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes, which are included elsewhere in this Quarterly Report on Form 10-Q. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 2, 2021 filed with the SEC on December 10, 2021 or in other sections of this Quarterly Report on Form 10-Q.

We operate on a fiscal calendar that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to September 30th. In a 52-week fiscal year, each quarter contains 13 weeks of operations; in a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations. References to fiscal 2021 refer to the fiscal year ended October 2, 2021. Fiscal 2021 included 52 weeks of operations.

Our Company

We are the largest and most trusted direct-to-consumer brand in the \$11 billion United States pool and spa care industry, serving residential and professional consumers. Founded in 1963, we are the only direct-to-consumer pool and spa care brand with national scale, operating an integrated marketing and distribution ecosystem powered by a physical network of 959 branded locations and a robust digital platform. We offer an extensive assortment of professional-grade products, the majority of which are exclusive to Leslie’s, as well as certified installation and repair services, all of which are essential to the ongoing maintenance of pools and spas. Our dedicated team of associates, pool and spa care experts, and experienced service technicians are passionate about empowering our consumers with the knowledge, products, and solutions necessary to confidently maintain and enjoy their pools and spas. The considerable scale of our integrated marketing and distribution ecosystem, which is powered by our direct-to-consumer network, uniquely enables us to efficiently reach and service every pool and spa in the continental United States.

We operate primarily in the pool and spa aftermarket industry which is one of the most fundamentally attractive consumer categories given its scale, predictability, and growth outlook. We have a highly predictable, recurring revenue model, as evidenced by our 58 consecutive years of sales growth. Approximately 80% of our assortment is comprised of non-discretionary products essential to the care of residential and commercial pools and spas. Our assortment includes chemicals, equipment and parts, cleaning and maintenance equipment, and safety, recreational, and fitness-related products. We also offer important essential services, such as equipment installation and repair for residential consumers and professional pool operators. Consumers receive the benefit of extended vendor warranties on purchased products from our locations and on installations or repairs from our certified in-field technicians. We offer complimentary, commercial-grade in-store water testing and analysis via our proprietary AccuBlue® system, which increases consumer engagement, conversion, basket size, and loyalty, resulting in higher lifetime value. Our water treatment expertise is powered by data and intelligence accumulated from the millions of water tests we have performed over the years, positioning us as the most trusted water treatment service provider in the industry. Due to the non-discretionary nature of our products and services, our business has historically delivered strong, uninterrupted growth and profitability in all market environments, including through the Great Recession and the COVID-19 pandemic.

We have a legacy of leadership and disruptive innovation. Since our founding in 1963, we have been the leading innovator in our category and have provided our consumers with the most advanced pool and spa care available. As we have scaled, we have leveraged our competitive advantages to strategically reinvest in our business and intellectual property to develop new value-added capabilities. Over the course of our history, we have pioneered complimentary in-store water testing, offered complimentary in-store equipment repair services, introduced the industry’s first loyalty program, and developed an expansive platform of owned and exclusive brands. These differentiated capabilities allow us to meet the needs of any pool and spa owner, whether they care for their pool or spa themselves or rely on a professional, whenever, wherever, and however they choose to engage with us.

Key Factors and Measures We Use to Evaluate Our Business

We consider a variety of financial and operating measures in assessing the performance of our business. The key measures we use under United States GAAP are sales, gross profit and gross margin, SG&A, and operating income (loss). The key non-GAAP measures and other operating measures we use are comparable sales, comparable sales growth, Adjusted EBITDA, Adjusted net income (loss), and Adjusted earnings per share.

Sales

We offer a broad range of products that consists of regularly purchased, non-discretionary pool and spa maintenance items such as chemicals, equipment, cleaning accessories and parts, as well as installation and repair services for pool and spa equipment. Our offering of proprietary, owned and third-party brands across diverse product categories drives sales growth by attracting new consumers and encouraging repeat visits from our existing consumers. Revenue from merchandise sales at retail locations is recognized at the point

of sale, revenue from services are recognized when the services are rendered and revenue from e-commerce merchandise sales is generally recognized upon shipment of the merchandise. Revenue is recorded net of related discounts and sales tax. Payment from retail customers is generally at the point of sale and payment terms for professional pool operator customers are based on our credit requirements and generally have terms of less than 60 days. When we receive payment from a consumer before the consumer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue or as a customer deposit until the sale or service is complete. Sales are impacted by product mix and availability, as well as promotional and competitive activities and the spending habits of our consumers. Growth of our sales is primarily driven by comparable sales growth and expansion of our locations in existing and new markets.

Comparable Sales and Comparable Sales Growth

We measure comparable sales growth as the increase or decrease in sales recorded by the comparable base in any reporting period, compared to sales recorded by the comparable base in the prior reporting period. The comparable base includes sales through our locations and through our e-commerce websites and third-party marketplaces. Comparable sales is a key measure used by management and our board of directors to assess our financial performance.

We consider a new or acquired location comparable in the first full month after it has completed 52 weeks of sales. Closed locations become non-comparable during their last partial month of operation. Locations that are relocated are considered comparable at the time the relocation is complete. Comparable sales are not calculated in the same manner by all companies, and accordingly, are not necessarily comparable to similarly titled measures of other companies and may not be an appropriate measure for performance relative to other companies.

The number of new locations reflects the number of locations opened during a particular reporting period. New locations require an initial capital investment in location build-outs, fixtures, and equipment, which we amortize over time as well as cash required for inventory.

As of January 1, 2022, we operated 959 retail locations in 38 states across the United States. We owned 27 locations and leased the remainder of our locations. Our initial lease terms are typically five years with options to renew for multiple successive five-year periods. We evaluate new opportunities in new and existing markets based on the number of pools and spas in the market, competition, our existing locations, availability and cost of real estate, and distribution and operating costs of our locations. We review performance of our locations on a regular basis and evaluate opportunities to strategically close locations to improve our profitability. Our limited investment costs in individual locations and our ability to transfer sales to our extensive network of remaining locations and e-commerce websites allows us to improve profitability as a result of any strategic closures.

Gross Profit and Gross Margin

Gross profit is equal to our sales less our cost of merchandise and services sold. Cost of merchandise and services sold reflects the direct cost of purchased merchandise, costs to package certain chemical products, including direct materials and labor, costs to provide services, including labor and materials, as well as distribution and occupancy costs. The direct cost of purchased merchandise includes vendor rebates, which are generally treated as a reduction of merchandise costs. We recognize such vendor rebates at the time the obligations to purchase products or perform services have been completed, and the related inventory has been sold. Distribution costs include warehousing and transportation expenses, including costs associated with third-party fulfillment centers used to ship merchandise to our e-commerce consumers. Occupancy costs include the rent, common area maintenance, real estate taxes, and depreciation and amortization costs of all retail locations. These costs are significant and are expected to continue increase proportionate to our growth.

Gross margin is gross profit as a percentage of our sales. Gross margin is impacted by merchandise costs, pricing and promotions, product mix and availability, inflation, and service costs, which can vary. Our proprietary brands, custom-formulated products, and vertical integration provide us with cost savings, as well as greater control over product availability and quality as compared to other companies in the industry. Gross margin is also impacted by the costs of distribution and occupancy costs, which can vary.

Our gross profit is variable in nature and generally follows changes in sales. The components of our cost of merchandise and services sold may not be comparable to the components of cost of sales or similar measures of other companies. As a result, our gross profit and gross margin may not be comparable to similar data made available by other companies.

Selling, General and Administrative Expenses

Our SG&A includes selling and operating expenses at our retail locations and corporate-level general and administrative expenses. Selling and operating expenses at retail locations include payroll, bonus and benefit costs for personnel, supplies, and credit and debit card processing costs. Corporate expenses include payroll, bonus, and benefit costs for our corporate and field support functions,

equity-based compensation, marketing and advertising, insurance, utilities, occupancy costs related to our corporate office facilities, professional services, and depreciation and amortization for all assets, except those related to our retail locations and distribution operations, which are included in cost of merchandise and services sold. Selling and operating expenses generally vary proportionately with sales and the change in the number of locations. In contrast, general and administrative expenses are generally not directly proportional to sales and the change in the number of locations, but are expected to increase over time to support our growth and public company obligations. The components of our SG&A may not be comparable to the components of similar measures of other companies.

Operating Income (Loss)

Operating income (loss) is gross profit less SG&A. Operating income (loss) excludes interest expense, loss on debt extinguishment, income tax expense (benefit), and other expenses, net. We use operating income (loss) as an indicator of the productivity of our business and our ability to manage expenses.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest (including amortization of debt issuance costs), taxes, depreciation and amortization, management fees, equity-based compensation expense, loss on debt extinguishment, costs related to equity offerings, strategic initiative costs, executive transition costs, loss (gain) on disposition of assets, mark-to-market on interest rate cap, and other non-recurring, non-cash or discrete items. Adjusted EBITDA is a key measure used by management and our board of directors to assess our financial performance. Adjusted EBITDA is also frequently used by analysts, investors and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures. We use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other companies using similar measures.

Adjusted EBITDA is not a recognized measure of financial performance under GAAP but is used by some investors to determine a company's ability to service or incur indebtedness. Adjusted EBITDA is not calculated in the same manner by all companies, and accordingly, is not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies. Adjusted EBITDA should not be construed as an indicator of a company's operating performance in isolation from, or as a substitute for, net income (loss), cash flows from operations or cash flow data, all of which are prepared in accordance with GAAP. We have presented Adjusted EBITDA solely as supplemental disclosure because we believe it allows for a more complete analysis of results of operations. Adjusted EBITDA is not intended to represent, and should not be considered more meaningful than, or as an alternative to, measures of operating performance as determined in accordance with GAAP. In the future, we may incur expenses or charges such as those added back to calculate Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these items.

Adjusted Net Income (Loss) and Adjusted Earnings per Share

Adjusted net income (loss) and Adjusted earnings per share are additional key measures used by management and our board of directors to assess our financial performance. Adjusted net income (loss) and Adjusted earnings per share are also frequently used by analysts, investors, and other interested parties to evaluate companies in our industry, when considered alongside other GAAP measures.

Adjusted net income (loss) is defined as net income (loss) adjusted to exclude management fees, equity-based compensation expense, loss on debt extinguishment, costs related to equity offerings, strategic initiative costs, executive transition costs, loss (gain) on disposition of assets, mark-to-market on interest rate cap, and other non-recurring, non-cash or discrete items. Adjusted diluted earnings per share is defined as Adjusted net income (loss) divided by the diluted weighted average number of common shares outstanding.

Factors Affecting the Comparability of our Results of Operations

Our reported results have been affected by, among other events, the following events, which must be understood in order to assess the comparability of our period-to-period financial performance and condition.

Impact of COVID-19

We continue to closely monitor the ongoing impact of COVID-19 on all aspects of our business and in all of our locations. As of January 1, 2022, we operated 959 locations in 38 states and all locations are currently open. From time to time, certain of our locations may be temporarily closed or restricted to curbside service only. Closures and restrictions did not have a material impact on our performance during the 13 weeks ended January 1, 2022 and January 2, 2021. We remain committed to supporting federal, state, and local mandates to prevent the spread of COVID-19 while we operate our business and to do our part in protecting public health.

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We help keep our communities safe from serious public health risks by providing essential products and services. Water that is not properly maintained can serve as a breeding ground for potentially fatal bacteria and viruses.

As a business, the health and safety of our consumers, communities, and associates remain our highest priority, and we continue to take all precautions recommended by the Centers for Disease Control and Prevention to ensure their safety and well-being. We have proactively implemented extensive measures in response to COVID-19 throughout our business operations, including:

- Required employees who are experiencing symptoms or have been in close contact with someone who has symptoms or have been exposed to the coronavirus to stay home;
- Provided additional employee benefits related to COVID-19, including paid sick leave while employees recover from receiving the COVID-19 vaccine;
- Provided vaccination clinics for our employees at our corporate office and distribution centers;
- Distributed personal protective equipment and implemented new monitoring protocols, including the installation of contactless temperature scanners in our corporate offices and distribution centers;
- Enhanced facility cleaning including routine sanitization of high touch surfaces;
- Implemented social distancing guidelines in our locations;
- Implemented mask guidelines for all locations and distribution centers;
- Encouraged contactless payments and introduced curbside pickup and contact-free service calls;
- Executed remote workforce plan for associates in our corporate offices. Effective October 2021, all corporate office employees returned to work at the corporate office on a hybrid schedule; and
- Effective October 2021, enacted a vaccination policy requiring certain employees to provide proof of vaccination or receive a religious or medical exemption. The vaccination policy applies to all corporate office, field leadership, distribution center leadership, and outside sales employees.

We have also closely coordinated with our vendor partners to minimize the impact of supply disruptions and maintain the flow of essential products to meet the elevated demand from consumers in the current environment. The full impact of COVID-19 on our financial and operating performance depends significantly on the duration and severity of the pandemic, the actions taken to contain or mitigate its impact, and any changes in consumer behaviors. It is not possible to predict the likelihood, timing, or severity of the aforementioned direct and indirect impacts of COVID-19 on our business. Restrictions on the operation of our locations and distribution facilities could have a material impact on our sales and earnings. COVID-19 could also lead to significant disruption to our supply chain for products we sell and could have a material impact on our sales and earnings.

Business Acquisitions

Our business acquisitions did not have a material impact on our financial position or results of operations. See Note 3 – Business Combinations to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information regarding our business acquisitions.

Incremental Public Company Expenses

As a newly public company we will incur significant expenses on an ongoing basis that we did not incur as a private company. Those costs include additional director compensation and director and officer liability insurance expenses, as well as third-party and internal resources related to accounting, auditing, Sarbanes-Oxley Act compliance, legal, and investor and public relations expenses. These costs will generally be included in SG&A in our condensed consolidated statements of operations.

Results of Operations

We derived our condensed consolidated statements of operations for the 13 weeks ended January 1, 2022 and January 2, 2021 from our condensed consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of our sales (in thousands, except per share amounts).

Statements of Operations data:	Three Months Ended	
	January 1, 2022	January 2, 2021
Sales	\$ 184,824	\$ 145,006
Cost of merchandise and services sold	117,508	93,291
Gross profit	67,316	51,715
Selling, general and administrative expenses	79,785	77,489
Operating loss	(12,469)	(25,774)
Other expense:		
Interest expense	6,863	11,516
Loss on debt extinguishment	—	7,281
Other expenses, net	389	—
Total other expense	7,252	18,797
Loss before taxes	(19,721)	(44,571)
Income tax benefit	(5,270)	(14,314)
Net loss	<u>\$ (14,451)</u>	<u>\$ (30,257)</u>
Earnings per share		
Basic	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>
Diluted	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>
Weighted average shares outstanding		
Basic	188,507	176,990
Diluted	188,507	176,990
Percentage of Sales ⁽¹⁾	(%)	(%)
Sales	100.0	100.0
Cost of merchandise and services sold	63.6	64.3
Gross margin	36.4	35.7
Selling, general and administrative expenses	43.2	53.4
Operating loss	(6.7)	(17.8)
Other expense:		
Interest expense	3.7	7.9
Loss on debt extinguishment	—	5.0
Other expenses, net	0.2	—
Total other expense	3.9	13.0
Loss before taxes	(10.7)	(30.7)
Income tax benefit	(2.9)	(9.9)
Net loss	<u>(7.8)</u>	<u>(20.9)</u>
Other Financial and Operations data:		
Number of new and acquired locations	7	—
Number of locations open at end of period	959	936
Comparable sales growth ⁽²⁾	20.5 %	15.7 %
Adjusted EBITDA ⁽³⁾	\$ 1,096	\$ (243)
Adjusted EBITDA as a percentage of sales ⁽³⁾	0.6 %	(0.2)%
Adjusted net loss ⁽³⁾	\$ (10,916)	\$ (10,619)
Adjusted diluted earnings per share	\$ (0.06)	\$ (0.06)

(1)Components may not add to totals due to rounding.

(2)See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factors and Measures We Use to Evaluate Our Business.”

(3)The tables below provide a reconciliation from our net loss to Adjusted EBITDA and net loss to Adjusted net loss for the 13 weeks ended January 1, 2022 and January 2, 2021 (in thousands).

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net loss	\$ (14,451)	\$ (30,257)
Interest expense	6,863	11,516
Income tax benefit	(5,270)	(14,314)
Depreciation and amortization expense ⁽¹⁾	9,241	6,595
Management fees ⁽²⁾	—	382
Equity-based compensation expense ⁽³⁾	2,794	12,160
Loss on debt extinguishment ⁽⁴⁾	—	7,281
Costs related to equity offerings ⁽⁵⁾	389	8,152
Strategic initiative costs ⁽⁶⁾	1,513	—
Executive transition costs and other ⁽⁷⁾	17	(1,758)
Adjusted EBITDA	<u>\$ 1,096</u>	<u>\$ (243)</u>

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net loss	\$ (14,451)	\$ (30,257)
Management fees ⁽²⁾	—	382
Equity-based compensation expense ⁽³⁾	2,794	12,160
Loss on debt extinguishment ⁽⁴⁾	—	7,281
Costs related to equity offerings ⁽⁵⁾	389	8,152
Strategic initiative costs ⁽⁶⁾	1,513	—
Executive transition costs and other ⁽⁷⁾	17	(1,758)
Tax effects of these adjustments ⁽⁸⁾	(1,178)	(6,579)
Adjusted net loss	<u>\$ (10,916)</u>	<u>\$ (10,619)</u>

(1)Includes depreciation related to our distribution centers and locations, which is reported in cost of merchandise and services sold in our condensed consolidated statements of operations.

(2)Represents amounts paid or accrued in connection with our management services agreement, which was terminated upon the completion of our IPO in November 2020 and are reported in SG&A in our condensed consolidated statements of operations.

(3)Represents charges related to equity-based compensation and the related Company payroll tax expense which are reported in SG&A in our condensed consolidated statements of operations.

(4)Represents non-cash expense due to the write-off of deferred financing costs related to the repayment of our senior unsecured notes in fiscal 2021 and are reported in loss on debt extinguishment in our condensed consolidated statements of operations.

(5)Includes one-time payments of contractual amounts incurred in connection with our IPO that was completed in November 2020 which are reported in SG&A, and costs incurred for follow-on equity offerings in December 2021 which are reported in other expenses, net in our condensed consolidated statements of operations.

(6)Represents non-recurring costs, such as third-party consulting costs that are not part of our ongoing operations and are incurred to execute differentiated, project-based strategic initiatives, and are reported in SG&A in our condensed consolidated statements of operations.

(7)Includes executive transition costs, losses (gains) on disposition of fixed assets and other non-recurring, non-cash or discrete items as determined by management. Amounts are reported in SG&A and other expenses, net in our condensed consolidated statements of operations.

(8)Represents the tax effect of the total adjustments based on our actual statutory tax rate. Amounts are reported in income tax benefit in our condensed consolidated statements of operations.

Selected Financial Information

Sales

Sales increased to \$184.8 million for the three months ended January 1, 2022 from \$145.0 million in the prior year period, an increase of \$39.8 million, or 27.5%. The increase was primarily driven by higher comparable sales growth of \$29.7 million, or 20.5%, and non-comparable sales growth of \$10.1 million. The increase in comparable sales growth was driven by higher consumer demand and elevated retail price inflation in the core sanitizer and equipment product categories. Non-comparable sales growth was driven by acquisitions and new locations open for less than 52 weeks.

We believe that COVID-19 has accelerated secular trends in consumer behavior and has favorably impacted our sales. While the duration and effects of the COVID-19 pandemic are uncertain, we anticipate that the changes in consumer behavior will continue for the foreseeable future.

Gross Profit and Gross Margin

Gross profit increased to \$67.3 million for the three months ended January 1, 2022 from \$51.7 million in the prior year period, an increase of \$15.6 million, or 30.2%. Gross margin increased to 36.4% compared to 35.7% in the prior year period, an increase of 70 basis points. The increase in gross profit was primarily due to product margin improvements and occupancy leverage, partially offset by business mix.

Selling, General and Administrative Expenses

SG&A increased to \$79.8 million for the three months ended January 1, 2022 from \$77.5 million in the prior year period, an increase of \$2.3 million, or 3.0%. The increase in SG&A was primarily related to a \$14.0 million increase associated with higher sales and our continued investments to support Company growth, a \$2.6 million increase related to acquisitions completed after the end of the first quarter of fiscal 2021, a \$1.8 million reduction in gain on sale of assets realized in the first quarter of fiscal 2021, and a \$1.5 million increase related to strategic initiative costs incurred in the first quarter of fiscal 2022. These increases were offset by lower non-cash equity-based compensation costs of \$9.4 million and certain one-time payments of contractual amounts of \$8.2 million, as compared to the prior year period. These offsets were primarily incurred in connection with our IPO in the first quarter of fiscal 2021.

Total Other Expense

Total other expenses, net decreased to \$7.3 million for the three months ended January 1, 2022 from \$18.8 million in the prior year period, a decrease of \$11.5 million. This decrease was primarily due to a \$7.3 million non-cash loss on debt extinguishment related to the repayment of our senior unsecured notes during the three months ended January 1, 2021 and \$4.7 million of lower interest expense related to the repayment of our senior unsecured notes with the proceeds of our IPO in November 2020.

Income Taxes

We recorded an income tax benefit of \$5.3 million for the three months ended January 1, 2022 as compared to a \$14.3 million income tax benefit in the prior year period, a decrease of \$9.0 million. The decrease was primarily attributable to a lower pretax loss and the prior year reversal of a valuation allowance totaling \$5.4 million.

The effective income tax rate was a benefit of 26.7% for the three months ended January 1, 2022 and includes net income tax benefits attributable to equity-based compensation awards. The effective income tax rate was a benefit of 32.1% for the three months ended January 2, 2021 and includes a release of the valuation allowance for our interest limitation carryforward and net income tax benefits attributable to equity-based compensation awards.

Net Loss and Earnings per Share

Net loss improved to \$14.5 million for the three months ended January 1, 2022 from a net loss of \$30.3 million in the prior year period, an improvement of \$15.8 million. Diluted earnings per share improved to \$(0.08) for the three months ended January 1, 2022 from \$(0.17) in the prior year period, an improvement of \$0.09.

Adjusted net loss decreased slightly to \$10.9 million for the three months ended January 1, 2022 from an Adjusted net loss of \$10.6 million in the prior year period, a decrease of \$0.3 million. Adjusted diluted earnings per share was \$(0.06) for the three months ended January 1, 2022, consistent with the prior year period.

Adjusted EBITDA

Adjusted EBITDA increased to \$1.1 million for the three months ended January 1, 2022 from \$(0.2) million in the prior year period, an increase of \$1.3 million. This increase was due primarily to our increase in comparable sales and an improvement in gross margin.

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. In general, sales and earnings are highest during the third and fourth fiscal quarters, which include April through September and represent the peak months of swimming pool use. In fiscal 2021, we generated 75% of our sales and 97% of our Adjusted EBITDA in the third and fourth quarters of our fiscal year. Sales are substantially lower during our first and second fiscal quarters. We have a long track record of investing in our business throughout the year, including in operating expenses, working capital, and capital expenditures related to new locations and other growth initiatives. While these investments drive performance during the primary selling season in our third and fourth fiscal quarters, they have a negative impact during our first and second fiscal quarters.

We experience a build-up of inventory and accounts payable during the first and second fiscal quarters in anticipation of the peak swimming pool supply selling season. We negotiate extended payment terms with certain of our primary suppliers as we receive merchandise in December through March and we pay for merchandise in April through July.

The principal external factor affecting our business is weather. Hot weather can increase purchases of chemicals and other non-discretionary products and purchases of discretionary products, and can drive increased purchases of installation and repair services. Unseasonably cool weather or significant amounts of rainfall during the peak sales season can reduce chemical consumption in pools and spas and decrease consumer purchases of our products and services. In addition, unseasonably early or late warming trends can increase or decrease the length of the pool season and impact timing around pool openings and closings and, therefore, our total sales and timing of our sales.

We generally open new locations before our peak selling season begins and we close locations after our peak selling season ends. We expect that our quarterly results of operations will fluctuate depending on the timing and amount of sales contributed by new locations.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are net cash provided by operating activities and borrowing availability under our ABL Credit Facility. Historically, we have funded working capital requirements, capital expenditures, payments related to acquisitions, debt service requirements and repurchases of shares of our common stock with internally generated cash on hand and through our ABL Credit Facility.

Cash and cash equivalents consist primarily of cash on deposit with banks. Cash and cash equivalents totaled \$53.5 million, and \$343.5 million as of January 1, 2022 and October 2, 2021, respectively. As of January 1, 2022 and October 2, 2021, we did not have any outstanding borrowings under our ABL Credit Facility.

Our primary working capital requirements are for the purchase of inventory, payroll, rent, other facility costs, distribution costs, and general and administrative costs. Our working capital requirements fluctuate during the year, driven primarily by seasonality and the timing of inventory purchases.

Our capital expenditures are primarily related to infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems, ongoing location improvements, expenditures related to our distribution centers, and new location openings. We expect to fund capital expenditures from net cash provided by operating activities.

Based on our growth plans, we believe our cash and cash equivalents position, net cash provided by operating activities and borrowing availability under our ABL Credit Facility will be adequate to finance our working capital requirements, planned capital expenditures, share repurchases, and debt service over the next 12 months. In the future, we may also allocate capital toward additional strategic acquisitions and share repurchases. If cash provided by operating activities and borrowings under our ABL Credit Facility are not sufficient or available to meet our capital requirements, then we may need to obtain additional equity or debt financing. There can be no assurance that equity or debt financing will be available to us if we need it or, if available, whether the terms will be satisfactory to us.

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As of January 1, 2022, outstanding standby letters of credit totaled \$9.0 million and, after considering borrowing base restrictions, we had \$191.0 million of available borrowing capacity under the terms of the ABL Credit Facility. As of January 1, 2022, we were in compliance with the covenants under the ABL Credit Facility and our Term Loan agreements.

Summary of Cash Flows

A summary of our cash flows from operating, investing, and financing activities is presented in the following table (in thousands):

	Three Months Ended	
	January 1, 2022	January 2, 2021
Net cash used in operating activities	\$ (125,559)	\$ (119,291)
Net cash used in investing activities	(10,527)	(302)
Net cash (used in) provided by financing activities	(154,071)	66,601
Net decrease in cash and cash equivalents	<u>\$ (290,157)</u>	<u>\$ (52,992)</u>

Cash Used in Operating Activities

Net cash used in operating activities increased to \$125.6 million for the three months ended January 1, 2022 from \$119.3 million in the prior year period, an increase of \$6.3 million. This increase was primarily driven by changes in working capital related to the strategic investment in product inventories to meet heightened customer demand across product categories.

Cash Used in Investing Activities

Net cash used in investing activities increased to \$10.5 million for the three months ended January 1, 2022 from \$0.3 million in the prior year period, an increase of \$10.2 million. This increase was primarily driven by a business acquisition of \$5.1 million, higher purchases of property and equipment of \$2.7 million and proceeds from the disposition of fixed assets in the prior year period of \$2.4 million.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the three months ended January 1, 2022 of \$154.1 million, was primarily related to the repurchase and retirement of common stock of \$152.1 million, which includes offering costs, and the repayment of long-term debt of \$2.0 million. Net cash provided by financing activities for the three months ended January 2, 2021 of \$66.6 million, was primarily related to net proceeds raised during our IPO in November 2020 of \$458.6 million, partially offset by a \$396.1 million repayment of long term debt.

Share Repurchase Program

On December 3, 2021, the Board of Directors authorized a share repurchase program for up to an aggregate amount of \$300 million of the Company's outstanding shares of common stock over a period of three years. The amount and timing of repurchases depends on a number of factors, including the Company's financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our management may deem relevant. The timing, volume and nature of repurchases, are subject to market conditions, applicable securities laws and other factors and may be amended, suspended or discontinued at any time. Shares may be repurchased from time to time on the open market, in privately negotiated transactions, or otherwise.

On December 16, 2021, the Company repurchased and retired 7.5 million shares of common stock at a price per share of \$20.25. The Company paid \$151.9 million (\$152.1 million including offering costs) to fund the share repurchase using existing cash on hand. The Company accounted for the share repurchase and retirement under the cost method by deducting its par value from common stock, reducing additional paid-in-capital by \$127.5 million using the share price when the stock was originally issued, and the remaining

excess cost of \$24.4 million increased retained deficit. As of January 1, 2022, \$148.1 million remained available for future purchases under the program.

Contractual Obligations and Other Commitments

There were no material changes to our contractual obligations outside the ordinary course of our business during the three months ended January 1, 2022.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP and the applicable rules and regulations of the SEC for interim reporting. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no material changes to our critical accounting policies and estimates during the 13 weeks ended January 1, 2022 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2021.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 2 - Summary of Significant Accounting Policies to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our operating results are subject to risk from interest rate fluctuations on our borrowings, which carry variable interest rates. Our borrowings include our ABL Credit Facility and Term Loan. Our ABL Credit Facility provides for revolving loans of up to \$200.0 million, with a sub-commitment for issuance of letters of credit of \$25.0 million. Because our borrowings bear interest at a variable rate, we are exposed to market risks relating to changes in interest rates. As of January 1, 2022, we had variable rate debt outstanding of \$803.9 million under our Term Loan. No amounts were outstanding under our ABL Credit Facility as of January 1, 2022. Based on the outstanding variable rate loan balance for the Term Loan an increase or decrease of 1% in the effective interest rate would cause an increase or decrease in interest cost of approximately \$8.0 million over the next 12 months. From time to time, we may enter into interest rate cap agreements to manage interest rate risk. Such agreements cap the borrowing rate on variable debt to provide a hedge against the risk of rising rates. As of January 1, 2022 we had no interest rate cap agreements.

The United Kingdom's Financial Conduct Authority has announced the phased cessation of publication of LIBOR beginning after 2021 and continuing through 2023. When LIBOR is discontinued, we may need to change the terms of certain of our floating rate notes, interest rate cap agreements, and credit instruments which utilize LIBOR as a benchmark in determining the interest rate, to replace LIBOR with the new standard that is established. As a result, we may incur incremental costs in transition to a new standard, and interest rates on our current or future indebtedness may be adversely affected by the new standard. Decision have not been finalized regarding the replacement rates. As such, the potential effect of any such event on our cost of capital cannot yet be determined, but we do not expect it to have a material impact to our consolidated financial condition, results of operations, or cash flows.

Impact of Inflation

We experience inflation and deflation related to our purchase of certain products. This price volatility could potentially have a material impact on our financial condition and/or our results of operations. We actively manage the impact of inflation, including tariffs, through strong relationships with our diverse supplier base, vendor negotiation, and promotion management. We also strategically invest through inventory purchases in order to obtain favorable pricing ahead of any vendor price increases. In order to mitigate price volatility, we monitor price fluctuations and may adjust our selling prices accordingly, however, our ability to recover higher costs through increased pricing may be limited by the competitive environment in which we operate. We currently do not use derivative instruments to manage these risks.

Item 4. Controls and Procedures.

Management's Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the appropriate time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended January 1, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings.**

We are subject to various litigations, claims and other proceedings that arise from time to time in the ordinary course of business. We believe these actions are routine and incidental to the business. As of January 1, 2022, we had established reserves for claims that are probable and estimable and such reserves were not significant. While we cannot feasibly predict the outcome of these matters with certainty, we believe, based on examination of these matters, experience to date and discussions with counsel, that the ultimate liability, individually or in the aggregate, will not have a material adverse effect on our business, financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended October 2, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Issuer Purchases of Equity Securities***

The following table sets forth repurchases of our common stock under our \$300 million share repurchase program during the three months ended January 1, 2022:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Programs ⁽²⁾	Dollar Value of Shares that May Yet Be Purchased Under the Program
October 3, 2021 - October 30, 2021	—	\$ —	—	\$ —
October 31, 2021 - November 27, 2021	—	\$ —	—	\$ —
November 28, 2021 - January 1, 2022	7,500,000	\$ 20.25	7,500,000	\$ 148,125,000

(1) All repurchases disclosed in this table were repurchased as part of our publicly announced share repurchase program.

Sales of Unregistered Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.1	Share Repurchase Agreement dated December 14, 2021 among Leslie's, Inc. and the selling stockholders party thereto.	8-K	10.1	12/16/2021
10.2*	Leslie's, Inc. Annual Incentive Plan			
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934			
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934			
32.1+	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350			
32.2+	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350			
101.INS*	Inline XBRL Instance Document			
101.SCH*	Inline XBRL Schema Document			
101.CAL*	Inline XBRL Calculation Linkbase Document			
101.LAB*	Inline XBRL Label Linkbase Document			
101.PRE*	Inline XBRL Presentation Linkbase Document			
101.DEF*	Inline XBRL Definition Linkbase Document			
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document).			

* Filed herewith.

+ Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

Date: February 4, 2022

LESLIE'S, INC.

By:

/s/ Steven M. Weddell
Steven M. Weddell
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

LESLIE'S, INC.
ANNUAL INCENTIVE PLAN

(Effective as of October 3, 2021)

Article I. PURPOSE AND DURATION

Section I.01 Purpose. This Leslie's, Inc. Annual Incentive Plan, as amended from time to time (the "Plan") is intended to: (a) attract and retain top performing employees; (b) motivate employees by tying compensation to the performance of the Company or any portion thereof, as applicable; and (c) reward exceptional individual performance that supports overall Company objectives.

Section I.02 Duration. The Plan is effective for performance periods beginning as of October 3, 2021, and will remain in effect until terminated pursuant to Article 8.

Article II. DEFINITIONS AND CONSTRUCTION

Section II.01 Definitions. Wherever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

- (a) "Administrator" means, with respect to Executive Officers and other members of the Executive Board, the Committee, and with respect to all other Participants, the Chief Executive Officer of the Company.
 - (b) "Base Salary" of a Participant means the Participant's actual base salary earnings for the Performance Period.
 - (c) "Board" means the Board of Directors of the Company.
 - (d) "Company" means Leslie's, Inc., and its subsidiaries.
 - (e) "Committee" means the Compensation Committee of the Board.
 - (f) "Exchange Act" means the Securities Exchange Act of 1934, as amended. Any reference to a particular provision of the Exchange Act shall be deemed to include any successor provision thereto.
 - (g) "Executive Board" means the Executive Board of the Company as designated by the Chief Executive Officer from time to time.
 - (h) "Executive Officer" means an employee of the Company who is an "officer" within the meaning of Rule 16a-1(f) promulgated under the Exchange Act or, if at any time the Company does not have a class of securities registered pursuant to Section 12 of the Exchange Act, an employee of the Company who would be deemed an "officer" within the meaning of Rule 16a-1(f) if the Company had a class of securities so registered, as determined by the Board in its discretion.
 - (i) "Participant" means an Executive Officer or other employee who has been granted a Performance Award by the Administrator.
 - (j) "Performance Award" means an opportunity granted to a Participant to receive a payment based in whole or part on the extent to which one or more Performance Goals for one or more Performance Measures are achieved for the Performance Period, subject to the conditions described in the Plan and that the Administrator otherwise imposes.
 - (k) "Performance Measures" means the category or categories of performance that must be achieved as determined by the Administrator at the time of grant of a Performance Award. Performance Measures may be measured (1) for the Company on a consolidated basis, (2) for any one or more affiliates or divisions of the Company and/or (3) for any other business unit or units of the Company as defined by the Administrator. In addition, the Administrator may exercise discretion in determining eligibility for a Performance Award based on an individual or strategic performance evaluation as a condition to receiving all or any portion of an award payment.
 - (l) "Performance Goal" means the level(s) of performance for a Performance Measure that must be attained in order for a payment to be made under a Performance Award, and/or for the amount of payment to be determined based on the Performance Scale.
 - (m) "Performance Period" means a period of one fiscal year of the Company, or such other period as selected by the Administrator.
 - (n) "Performance Scale" means, with respect to a Performance Measure, a scale from which the level of achievement may be calculated for any given level of actual performance for such Performance Measure as determined by the Administrator.
 - (o) "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and other interpretive guidance issued thereunder, including any such regulations or guidance that may be amended or issued after the effective date hereof.
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Article III.ELIGIBILITY

Section III.01Eligibility. All Executive Officers, members of the Executive Board, and such other employees as designated by the Chief Executive Officer, shall be eligible to participate in the Plan.

Section III.02New Hires; Promotions. New Participants who become eligible after the beginning of the Performance Period due to new hire or promotion will receive an appropriate proration of the Performance Award based on length of employment or length in an eligible position, as applicable.

Section III.03Termination of Employment. Except as otherwise provided under the terms of an employment or severance agreement between a Participant and the Company, no Participant shall earn a Performance Award for a Performance Period unless the Participant is employed by the Company (or is on an approved leave of absence) on the payment date (determined in accordance with Section 5.02).

Article IV.CONTINGENT PERFORMANCE AWARDS

At the time of grant of a Performance Award, the Administrator shall determine for each award the Performance Measure(s), the Performance Goal(s) for each Performance Measure, the Performance Scale (which may vary for different Performance Measures), and the amount payable to the Participant if and to the extent the Performance Goals are met (as measured from the Performance Scale). The target bonus amount payable to a Participant may be designated as a flat dollar amount, as a percentage of the Participant's Base Salary, or as may be determined by any other means as the Administrator may specify at the time the Performance Award is granted.

Article V. PAYMENT

Section V.01Evaluating Performance and Computing Awards.

(a)As soon as practicable following the close of a Performance Period, the Administrator shall determine whether and to what extent the Performance Goals and other material terms of the Performance Award issued for such period were achieved and shall determine whether any discretionary adjustments under Subsection (b) shall be made. The Administrator may appropriately adjust any evaluation of performance under a Performance Goal. The Administrator (or its delegate) shall then determine the award amount payable to a Participant under the Performance Award.

(b)The Administrator may adjust (up or down) each Participant's potential award amount under any Performance Award, based upon individual/strategic performance and/or any other factors, in the Administrator's sole discretion[; provided that, in no event shall the final award amount to any individual Participant be greater than two hundred and forty percent (240%) of the target award amount for such Participant under a Performance Award; provided further that, aggregate payouts under the Plan for a fiscal year shall not exceed two hundred percent (200%) of the aggregate target bonus amounts of all Participants (determined at the time of payout)].

(c)There is no minimum award or guaranteed payment with respect to any Performance Award; all Performance Awards under the Plan are discretionary on the part of the Company, and the Company reserves the right, at all times, to reduce the payment with respect to a Performance Award or to pay no amount, in its sole discretion.

Section V.02Timing and Form of Payment. When the payment due to the Participant has been determined, payment shall be made in a cash lump sum, typically as soon as practicable after the Administrator has determined the extent to which the Performance Goals have been achieved. In no event will payment be made after the later of: (a) 2½ months after the end of the Company's first taxable year when the Performance Award is no longer subject to such "substantial risk of forfeiture" (under Section 409A), or (b) 2½ months after the end of a Participant's first taxable year when the Performance Award is no longer subject to such "substantial risk of forfeiture;" unless a later date is established by the Company, or the Company permits the Participant to designate a later date, in either case only as permitted under Section 409A.

Section V.03Recoupment. Compensation received by the Participant under the Plan shall be subject to the terms of any recoupment or clawback policy that may be adopted by the Company from time to time (including the Leslie's, Inc. Compensation Recovery Policy, as amended from time to time) and to any requirement of applicable law, regulation or listing standard that requires the Company to recoup or clawback compensation paid under this Plan.

Article VI.RIGHTS OF PARTICIPANTS

Section VI.01No Funding. No Participant shall have any interest in any fund or in any specific asset or assets of the Company by reason of any Performance Award under the Plan. It is intended that the Company has merely a contractual obligation to make payments when due hereunder and it is not intended that the Company hold any funds in reserve or trust to secure payments hereunder.

Section VI.02No Transfer. No Participant may assign, pledge, or encumber his or her interest under the Plan, or any part thereof.

Section VI.03No Implied Rights; Employment. Nothing contained in this Plan shall be construed to:

(a)Give any employee or Participant any right to receive any award other than in the sole discretion of the Administrator;

- (b) Limit in any way the right of the Company to terminate a Participant's employment at any time; or
- (c) Be evidence of any agreement or understanding, express or implied, that a Participant will be retained in any particular position or at any particular rate of remuneration.

Article VII. ADMINISTRATION

Section VII.01 General. The Plan shall be administered by the Administrator.

Section VII.02 Authority. In addition to the authority specifically provided herein, the Administrator shall have full power and discretionary authority to: (a) administer the Plan, including but not limited to the power and authority to construe and interpret the Plan; (b) correct errors, supply omissions or reconcile inconsistencies in the terms of the Plan or any Performance Award; (c) establish, amend or waive rules and regulations, and appoint such agents, as it deems appropriate for the Plan's administration; and (d) make any other determinations, including factual determinations, and take any other action as it determines is necessary or desirable for the Plan's administration.

Section VII.03 Decision Binding. The Administrator's determinations and decisions made pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all persons who have an interest in the Plan or an award, and such determinations and decisions shall not be reviewable.

Article VIII. AMENDMENT AND TERMINATION

Each of the Compensation Committee and the Board has the authority to terminate, change, modify or amend the provisions of the Plan at any time in its sole discretion, including during or after a Performance Period, which termination, change, modification or amendment may have retroactive effect. Furthermore, the Chief Executive Officer has the authority to make amendments to the Plan that do not significantly increase the cost of the Plan or increase or create the opportunity for an increase in the amount which an Executive Officer or member of the Executive Board receives under the Plan, and which in Chief Executive Officer's determination (a) clarify the terms of the Plan; (b) assist in the administration of the Plan; (c) are necessary or advisable for the Plan to comply with applicable law; or (d) are necessary or advisable for Performance Awards to be exempt from or comply with the requirements of Section 409A.

Article IX. TAX WITHHOLDING

The Company shall have the right to deduct from all cash payments made hereunder (or from any other payments due a Participant) any foreign, federal, state, or local taxes required by law to be withheld with respect to such cash payments.

Article X. SECTION 409A

The Plan is intended to be exempt from Section 409A and shall be administered and interpreted accordingly. Notwithstanding any other provision of the Plan, if any provision of the Plan conflicts with the requirements of Section 409A, the requirements of Section 409A shall supersede any such provision. In no event will the Company be liable for any additional tax, interest or penalties that may be imposed on a Participant by Section 409A or any damages for failing to comply with Section 409A.

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael R. Egeck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Leslie's, Inc.;
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.
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: February 4, 2022

By:

/s/ Michael R. Egeck
Michael R. Egeck
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven M. Weddell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Leslie's, Inc.;
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.
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: February 4, 2022

By:

/s/ Steven M. Weddell
Steven M. Weddell
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Leslie's, Inc. (the "Company") for the quarter ended January 1, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(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.

Date: February 4, 2022

By:

/s/ Michael R. Egeck
Michael R. Egeck
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Leslie's, Inc. (the "Company") for the quarter ended January 1, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (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.

Date: February 4, 2022

By:

/s/ Steven M. Weddell
Steven M. Weddell
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)
