# 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 July 02, 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**<br>(State or other jurisdiction of incorporation or organization) | **20-8397425**<br>(I.R.S. Employer Identification No.) |
| **2005 East Indian School Road**<br>**Phoenix, AZ**<br>(Address of principal executive offices) | **85016**<br>(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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

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

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

As of August 1, 2022, the Registrant had 183,027,684 shares of common stock, $0.001 par value per share, outstanding.

**Table of Contents**

## 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 or outcomes 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;
- supply disruptions;
- 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, elsewhere in this Quarterly Report on Form 10-Q, and in our other filings with the Securities and Exchange Commission. 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 or outcomes 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)**

| | July 2, 2022 (Unaudited) | October 2, 2021 (Audited) | July 3, 2021 (Unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 193,130 | $ 343,498 | $ 307,395 |
| Accounts and other receivables, net | 47,266 | 38,860 | 47,848 |
| Inventories | 361,391 | 198,789 | 224,526 |
| Prepaid expenses and other current assets | 30,542 | 20,564 | 28,615 |
| Total current assets | 632,329 | 601,711 | 608,384 |
| Property and equipment, net | 71,653 | 70,335 | 66,363 |
| Operating lease right-of-use assets | 221,694 | 212,284 | 169,001 |
| Goodwill and other intangibles, net | 155,663 | 129,020 | 127,740 |
| Deferred tax assets | 1,230 | 3,734 | 6,386 |
| Other assets | 34,422 | 25,148 | 18,238 |
| Total assets | $ 1,116,991 | $ 1,042,232 | $ 996,112 |
| **Liabilities and stockholders' deficit** | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | $ 330,881 | $ 233,597 | $ 271,731 |
| Operating lease liabilities | 63,303 | 61,071 | 53,700 |
| Income taxes payable | 30,611 | 6,945 | 18,906 |
| Current portion of long-term debt | 8,100 | 8,100 | 8,100 |
| Total current liabilities | 432,895 | 309,713 | 352,437 |
| Operating lease liabilities, noncurrent | 161,473 | 160,037 | 118,941 |
| Long-term debt, net | 781,322 | 786,125 | 787,731 |
| Other long-term liabilities | 70 | 3,915 | 2,729 |
| Total liabilities | 1,375,760 | 1,259,790 | 1,261,838 |
| Commitments and contingencies | | | |
| Stockholders' deficit | | | |
| Common stock, $0.001 par value, 1,000,000,000 shares authorized and 183,027,684, 189,821,011, and 189,284,566 issued and outstanding as of July 2, 2022, October 2, 2021, and July 3, 2021, respectively. | 183 | 190 | 189 |
| Additional paid in capital | 87,050 | 204,711 | 201,085 |
| Retained deficit | (346,002 ) | (422,459 ) | (467,000 ) |
| Total stockholders' deficit | (258,769 ) | (217,558 ) | (265,726 ) |
| Total liabilities and stockholders' deficit | $ 1,116,991 | $ 1,042,232 | $ 996,112 |

*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)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 2021 |
| Sales | $ 673,633 | $ 596,543 | $ 1,086,529 | $ 933,991 |
| Cost of merchandise and services sold | 370,026 | 312,845 | 629,977 | 526,895 |
| Gross profit | 303,607 | 283,698 | 456,552 | 407,096 |
| Selling, general and administrative expenses | 131,469 | 117,264 | 300,872 | 265,127 |
| Operating income | 172,138 | 166,434 | 155,680 | 141,969 |
| Other expense: | | | | |
| Interest expense | 6,847 | 7,399 | 20,659 | 27,041 |
| Loss on debt extinguishment | — | — | — | 9,169 |
| Other (income) expenses, net | (143 ) | 861 | 407 | 1,917 |
| Total other expense | 6,704 | 8,260 | 21,066 | 38,127 |
| Income before taxes | 165,434 | 158,174 | 134,614 | 103,842 |
| Income tax expense | 42,448 | 39,372 | 33,519 | 21,749 |
| Net income | $ 122,986 | $ 118,802 | $ 101,095 | $ 82,093 |
| Earnings per share: | | | | |
| Basic | $ 0.67 | $ 0.63 | $ 0.55 | $ 0.45 |
| Diluted | $ 0.67 | $ 0.61 | $ 0.54 | $ 0.43 |
| Weighted average shares outstanding: | | | | |
| Basic | 182,937 | 188,264 | 184,707 | 184,021 |
| Diluted | 184,721 | 194,200 | 186,695 | 189,603 |

*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 | Retained | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | (Deficit) | Deficit | Deficit |
| Balance, April 3, 2021 | 186,885 | $ 187 | $ 194,605 | $ (585,802 ) | $ (391,010 ) |
| Issuance of common stock upon initial public offering, net of offering costs | 2,400 | 2 | — | — | 2 |
| Equity-based compensation | — | — | 6,480 | — | 6,480 |
| Net income | — | — | — | 118,802 | 118,802 |
| Balance, July 3, 2021 | 189,285 | $ 189 | $ 201,085 | $ (467,000 ) | $ (265,726 ) |
| | | | | | |
| Balance, April 2, 2022 | 182,784 | $ 183 | $ 83,074 | $ (468,988 ) | $ (385,731 ) |
| Issuance of common stock under the Plan | 244 | — | 1,049 | — | 1,049 |
| Equity-based compensation | — | — | 2,927 | — | 2,927 |
| Net income | — | — | — | 122,986 | 122,986 |
| Balance, July 2, 2022 | 183,028 | $ 183 | $ 87,050 | $ (346,002 ) | $ (258,769 ) |

| | Common Stock | | Additional Paid in Capital | Retained | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | (Deficit) | Deficit | Deficit |
| 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 | 458,557 | — | 458,587 |
| Issuance of common stock under the Plan | 2,785 | 2 | — | — | 2 |
| Equity-based compensation | — | — | 20,591 | — | 20,591 |
| Net income | — | — | — | 82,093 | 82,093 |
| Balance, July 3, 2021 | 189,285 | $ 189 | $ 201,085 | $ (467,000 ) | $ (265,726 ) |
| | | | | | |
| Balance, October 2, 2021 | 189,821 | $ 190 | $ 204,711 | $ (422,459 ) | $ (217,558 ) |
| Issuance of common stock under the Plan | 707 | 1 | 1,377 | — | 1,378 |
| Equity-based compensation | — | — | 8,462 | — | 8,462 |
| Repurchase and retirement of common stock | (7,500 ) | (8 ) | (127,500 ) | (24,638 ) | (152,146 ) |
| Net income | — | — | — | 101,095 | 101,095 |
| Balance, July 2, 2022 | 183,028 | $ 183 | $ 87,050 | $ (346,002 ) | $ (258,769 ) |

*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)**

| | Nine Months Ended | |
|---|---|---|
| | July 2, 2022 | July 3, 2021 |
| **Operating Activities** | | |
| Net income | $ 101,095 | $ 82,093 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 22,880 | 19,205 |
| Equity-based compensation | 8,462 | 20,591 |
| Amortization of deferred financing costs and debt discounts | 1,483 | 1,551 |
| Provision for doubtful accounts | 723 | 134 |
| Deferred income taxes | 2,504 | 197 |
| Loss (gain) on disposition of assets | 271 | (1,668 ) |
| Loss on debt extinguishment | — | 9,169 |
| Changes in operating assets and liabilities: | | |
| Accounts and other receivables | (9,129 ) | (16,501 ) |
| Inventories | (146,196 ) | (74,401 ) |
| Prepaid expenses and other current assets | (9,075 ) | 6,289 |
| Other assets | (9,429 ) | (15,696 ) |
| Accounts payable and accrued expenses | 91,145 | 73,350 |
| Income taxes payable | 23,666 | 17,049 |
| Operating lease assets and liabilities, net | (5,742 ) | (3,397 ) |
| Net cash provided by operating activities | 72,658 | 117,965 |
| **Investing Activities** | | |
| Purchases of property and equipment | (25,927 ) | (17,799 ) |
| Business acquisitions, net of cash acquired | (40,670 ) | (6,806 ) |
| Proceeds from disposition of fixed assets | 414 | 2,429 |
| Net cash used in investing activities | (66,183 ) | (22,176 ) |
| **Financing Activities** | | |
| Borrowings on revolving credit facility | 45,000 | — |
| Payments on revolving credit facility | (45,000 ) | — |
| Repayment of long-term debt | (6,075 ) | (394,110 ) |
| Issuance of long-term debt | — | 907 |
| Payment of deferred financing costs | — | (9,579 ) |
| Proceeds from options exercised | 1,378 | — |
| Repurchase and retirement of common stock | (152,146 ) | — |
| Proceeds from issuance of common stock upon initial public offering, net | — | 458,587 |
| Net cash (used in) provided by financing activities | (156,843 ) | 55,805 |
| Net (decrease) increase in cash and cash equivalents | (150,368 ) | 151,594 |
| Cash and cash equivalents, beginning of period | 343,498 | 155,801 |
| Cash and cash equivalents, end of period | $ 193,130 | $ 307,395 |
| **Supplemental Information:** | | |
| Interest | $ 19,409 | $ 29,549 |
| Income taxes, net of refunds received | 7,442 | 4,503 |

*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, and cleaning accessories, as well as safety, recreational, and fitness-related products. We currently market our products through 979 company-operated locations in 39 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 included in our Annual Report on Form 10-K for the year ended October 2, 2021.

***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 July 2, 2022 and the three months ended July 3, 2021 refer to the 13 weeks ended July 2, 2022 and July 3, 2021, respectively. References to the nine months ended July 2, 2022 and the nine months ended July 3, 2021 refer to the 39 weeks ended July 2, 2022 and July 3, 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 inventory obsolescence reserves, lease assumptions, vendor rebate programs, loyalty program, income taxes, sales returns, 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 July 2, 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—Long-Term Debt, Net) was determined to be $756.4 million and $802.9 million as of July 2, 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 and nine months ended July 2, 2022 and July 3, 2021, respectively.

***Seasonality***

Our business is highly seasonal. 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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. We adopted ASU 2019-12 as of October 3, 2021, (as of the beginning of the current annual period) and its adoption did not have a material impact on our consolidated financial statements.

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 adopted ASU 2021-08 during the second quarter of fiscal 2022 and its adoption did not have a material impact on our consolidated financial statements.

**Note 3—Business Combinations**

The following 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 tangible and intangible assets acquired and the liabilities assumed at their estimated fair values as of each acquisition date, with the excess recorded to goodwill. The goodwill resulting from these acquisitions is expected to be deductible for income tax purposes. During the measurement periods, which will not exceed one year from each closing, we will continue to obtain information to assist us in finalizing the acquisition date fair values. Any qualifying changes to our preliminary estimates will be recorded as adjustments to the respective assets and liabilities, with any residual amounts allocated to goodwill.

***Fiscal 2022 Acquisitions***

During the nine months ended July 2, 2022, we acquired three businesses for an aggregate purchase price of $40.7 million, inclusive of a contingent consideration of up to $1.0 million if certain performance metrics are achieved within one year of the closing date. These acquisitions expanded our pool and spa footprint and added 18 new retail locations. The following table sets forth the preliminary allocation of these acquisitions, net of immaterial measurement period adjustments, in the aggregate (in thousands):

| | | Total |
|---|---|---|
| Total purchase consideration, net of cash acquired | $ | 40,670 |
| Fair value of assets acquired and liabilities assumed: | | |
| Inventories | | 16,706 |
| Finite-lived intangible assets | | 4,500 |
| Other assets and liabilities, net | | (3,018 ) |
| Total assets acquired, net of liabilities assumed | | 18,188 |
| Goodwill | $ | 22,482 |

***Fiscal 2021 Acquisitions***

In fiscal 2021, we acquired three businesses for an aggregate purchase price of $8.9 million. These acquisitions consisted of retailers of supplies and services for hot tubs and swim spas and added eight locations. During the nine months ended July 2, 2022, we recorded measurement period adjustments resulting in an increase in goodwill of $1.7 million related to these acquisitions. The purchase accounting for two of the three acquisitions is complete.

## Note 4 —Goodwill and Other Intangibles, Net

***Goodwill***

The following table details the changes in goodwill (in thousands):

| | July 2, 2022 | October 2, 2021 | July 3, 2021 |
|---|---|---|---|
| Balance at beginning of the period | $ 101,114 | $ 93,295 | $ 93,295 |
| Acquisitions, net of measurement period adjustments[(1)] | 24,160 | 7,819 | 5,374 |
| Balance at the end of the period | $ 125,274 | $ 101,114 | $ 98,669 |

(1)Includes immaterial measurement period adjustments related to acquisitions completed in fiscal 2021.

***Other Intangible Assets***

Other intangible assets consisted of the following as of July 2, 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) | 9.5 | $ 10,440 | $ (5,505 ) | $ 4,935 |
| Trade name and trademarks (indefinite life) | Indefinite | 17,750 | — | 17,750 |
| Non-compete agreements | 6.7 | 8,683 | (7,328 ) | 1,355 |
| Consumer relationships | 6.0 | 19,000 | (12,926 ) | 6,074 |
| Other intangibles | 6.4 | 6,620 | (6,345 ) | 275 |
| Total | | $ 62,493 | $ (32,104 ) | $ 30,389 |

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 | | $ 57,943 | $ (30,037 ) | $ 27,906 |

Other intangible assets consisted of the following as of July 3, 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) | 2.9 | $ 5,940 | $ (5,236 ) | $ 704 |
| Trade name and trademarks (indefinite life) | Indefinite | 17,750 | — | 17,750 |
| Non-compete agreements | 7.4 | 9,333 | (7,174 ) | 2,159 |
| Consumer relationships | 6.5 | 19,000 | (11,276 ) | 7,724 |
| Other intangibles | 7.9 | 6,620 | (5,886 ) | 734 |
| Total | | $ 58,643 | $ (29,572 ) | $ 29,071 |

Amortization expense was $0.7 million for the three months ended July 2, 2022 and July 3, 2021, respectively. Amortization expense was $2.1 million and $1.0 million for the nine months ended July 2, 2022, and July 3, 2021, respectively. No impairment of goodwill or other intangible assets was recorded during the three and nine months ended July 2, 2022, and July 3, 2021, respectively.

The following table summarizes the estimated future amortization expense related to finite-lived intangible assets on our condensed consolidated balance sheet as of July 2, 2022 (in thousands):

| | Amount |
|---|---|
| Remainder of fiscal 2022 | $ 649 |
| 2023 | 2,373 |
| 2024 | 1,735 |
| 2025 | 1,638 |
| 2026 | 1,392 |
| Thereafter | 4,852 |
| Total | $ 12,639 |

**Note 5—Accounts and Other Receivables, Net**

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

| | July 2, 2022 | October 2, 2021 | July 3, 2021 |
|---|---|---|---|
| Vendor and other rebates receivable | $ 27,936 | $ 23,222 | $ 30,696 |
| Customer receivables | 17,470 | 13,473 | 14,493 |
| Other receivables | 2,985 | 4,621 | 3,236 |
| Allowance for doubtful accounts | (1,125 ) | (2,456 ) | (577 ) |
| Total | $ 47,266 | $ 38,860 | $ 47,848 |

**Note 6—Inventories**

Inventories consisted of the following (in thousands):

| | July 2, 2022 | October 2, 2021 | July 3, 2021 |
|---|---|---|---|
| Raw materials | $ 9,927 | $ 4,244 | $ 5,382 |
| Finished goods | 351,464 | 194,545 | 219,144 |
| Total | $ 361,391 | $ 198,789 | $ 224,526 |

**Note 7—Prepaid Expenses and Other Current Assets**

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

| | July 2, 2022 | October 2, 2021 | July 3, 2021 |
|---|---|---|---|
| Prepaid expenses | $ 19,764 | $ 12,814 | $ 18,772 |
| Other current assets | 10,778 | 7,750 | 9,843 |
| Total | $ 30,542 | $ 20,564 | $ 28,615 |

**Note 8—Accounts Payable and Accrued Expenses**

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

| | July 2,2022 | October 2, 2021 | July 3, 2021 |
|---|---|---|---|
| Accounts payable | $ 218,953 | $ 100,960 | $ 155,525 |
| Accrued payroll and employee benefits | 18,258 | 40,071 | 27,581 |
| Customer deposits | 15,134 | 19,861 | 17,593 |
| Interest | 4,496 | 4,898 | 4,919 |
| Inventory related accruals | 21,791 | 12,444 | 14,492 |
| Loyalty and deferred revenue | 6,392 | 6,685 | 5,897 |
| Sales taxes | 16,037 | 13,975 | 18,922 |
| Self-insurance reserves | 11,566 | 7,679 | 6,340 |
| Other accrued liabilities | 18,254 | 27,024 | 20,462 |
| Total | $ 330,881 | $ 233,597 | $ 271,731 |

As of July 2, 2022 and October 2, 2021 there were capital expenditures included in other accrued liabilities of $0.3 million and $1.5 million, respectively. As of July 3, 2021 there were no capital expenditures 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) | July 2, 2022 | October 2, 2021 | July 3, 2021 |
|---|---|---|---|---|
| Term Loan—due on March 9, 2028 | 3.02 % (2) | $ 799,875 | $ 805,950 | $ 807,975 |
| Revolving Credit Facility | 1.25 % (3) | — | — | — |
| Total long-term debt | | 799,875 | 805,950 | 807,975 |
| Less: current portion of long-term debt | | (8,100 ) | (8,100 ) | (8,100 ) |
| Less: unamortized discount | | (2,926 ) | (3,285 ) | (3,402 ) |
| Less: deferred financing charges | | (7,527 ) | (8,440 ) | (8,742 ) |
| Total long-term debt, net | | $ 781,322 | $ 786,125 | $ 787,731 |

(1)Effective interest rates as of July 2, 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%. As a result of the amendment during the nine months ended July 3, 2021, we recognized a $1.9 million loss on debt extinguishment on our condensed consolidated statements of operations.

***Revolving Credit Facility***

In April 2021, we entered into Amendment No. 5 to our $200.0 million credit facility (the “Revolving 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%.

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 July 2, 2022, October 2, 2021 and July 3, 2021, no amounts were outstanding on the Revolving Credit Facility, respectively. The amount available was reduced by $10.0 million of existing standby letters of credit as of July 2, 2022.

***Senior Unsecured Notes***

The senior unsecured notes principal of $390.0 million was paid in full on November 3, 2020, resulting in a loss on debt extinguishment of $7.3 million on our condensed consolidated statements of operations for the nine months ended July 3, 2021.

***Representations and Covenants***

Substantially all of our assets are pledged as collateral to secure our indebtedness. The Term Loan and the Revolving Credit Facility do not require us to comply with any financial covenants. The Term Loan and Revolving Credit Facility contain customary representations and warranties, covenants, and conditions to borrowing. No event of default had occurred as of July 2, 2022, October 2, 2021, or July 3, 2021.

***Future Debt Maturities***

The following table summarizes the debt maturities and scheduled principal repayments of our indebtedness as of July 2, 2022 (in thousands):

| | Amount |
|---|---|
| Remainder of fiscal 2022 | $ 2,025 |
| 2023 | 8,100 |
| 2024 | 6,075 |
| 2025 | 10,125 |
| 2026 | 8,100 |
| Thereafter | 765,450 |
| Total | $ 799,875 |

**Note 10—Income Taxes**

Our effective income tax rate was 24.9% for the nine months ended July 2, 2022, compared to 20.9% for the nine months ended July 3, 2021. The difference between the statutory rate and our effective rate for the nine months ended July 2, 2022 was primarily attributable to state taxes. The difference between the statutory rate and our effective rate for the nine months ended July 3, 2021 was primarily attributable to a reduction in the valuation allowance for our interest limitation carryforward and net income tax benefits attributable to equity-based compensation awards. 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 July 2, 2022, October 2, 2021, and July 3, 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 July 2, 2022 and October 2, 2021. We had standby letters of credit outstanding in the amounts of $10.0 million as of July 2, 2022 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 nine months ended July 3, 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 7.5 million 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 July 2, 2022, $148.1 million remains available for future purchases under the program.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 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 July 2, 2022, we had approximately 7.5 million shares of common stock available for future grants under the Plan.

As of July 2, 2022, the aggregate unamortized value of all outstanding equity-based compensation awards was approximately $31.5 million, which is expected to be recognized over a weighted average period of approximately 2.6 years.

***Stock Options***

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

| | July 2, 2022 | |
|---|---|---|
| | Number of Options | Weighted Average Exercise Price |
| Outstanding, Beginning | 4,877 | $ 18.22 |
| Granted | — | — |
| Exercised | (81 ) | 17.00 |
| Forfeited/Expired | (414 ) | 18.20 |
| Balance, Ending | 4,382 | $ 18.24 |
| Vested as of July 2, 2022[(1)] | 1,346 | $ 18.16 |

(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 nine months ended July 2, 2022.

| | As of July 2, 2022 |
|---|---|
| Aggregate intrinsic value of options outstanding | $ — |
| Unamortized value of unvested stock options | $ 10,781 |
| Weighted average period (years) that expense is expected to be recognized | 2.0 |
| Weighted average remaining contractual life (years) for options outstanding | 8.8 |

***Restricted Stock Units***

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

| | July 2, 2022 | |
|---|---|---|
| | Number of RSUs | Weighted Average Grant Date Fair Value |
| Outstanding, Beginning | 3,135 | $ 6.90 |
| Granted | 504 | 19.73 |
| Vested | (626 ) | 8.35 |
| Forfeited | (317 ) | 8.82 |
| Balance, Ending | 2,696 | $ 8.74 |

| | As of July 2, 2022 |
|---|---|
| Unamortized value of unvested RSUs | $ 20,750 |
| Weighted average period (years) expense is expected to be recognized | 3.0 |

During the three and nine months ended July 2, 2022, equity-based compensation expense was $2.9 million and $8.5 million, respectively, and includes Company related payroll tax expense. During the three and nine months ended July 3, 2021, equity-based compensation expense was $6.5 million and $20.6 million, respectively, and includes $0.4 million and $11.7 million associated with the vesting of performance-based equity units as a result of the Company's IPO, respectively. These costs are reported in selling, general and administrative expenses ("SG&A") in our condensed consolidated statements of operations.

**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 | | Nine Months Ended | |
|---|---|---|---|---|
| | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 2021 |
| **Numerator:** | | | | |
| Net income | $ 122,986 | $ 118,802 | $ 101,095 | $ 82,093 |
| **Denominator:** | | | | |
| Weighted average shares outstanding - basic | 182,937 | 188,264 | 184,707 | 184,021 |
| Effect of dilutive securities: | | | | |
| Stock options | 1 | 2,792 | 52 | 1,914 |
| RSUs | 1,783 | 3,144 | 1,936 | 3,668 |
| Weighted average shares outstanding - diluted | 184,721 | 194,200 | 186,695 | 189,603 |
| Basic earnings per share | $ 0.67 | $ 0.63 | $ 0.55 | $ 0.45 |
| Diluted earnings per share | $ 0.67 | $ 0.61 | $ 0.54 | $ 0.43 |

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 | | Nine Months Ended | |
|---|---|---|---|---|
| | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 2021 |
| Stock options | 3,967 | 290 | 1,742 | 218 |
| RSUs | 563 | — | 551 | 116 |
| Total | 4,530 | 290 | 2,293 | 334 |

**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. Actual results or outcomes may differ materially from those anticipated in these forward-looking statements, which are subject to risks, uncertainties, and other factors described in Part l, Item 1A,"Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended October 2, 2021, elsewhere in this Quarterly Report on Form 10-Q, and in our other filings with the Securities and Exchange Commission.*

*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 2022 refer to the fiscal year ended October 1, 2022. Fiscal 2022 includes 52 weeks of operations.*

## Our Company

We are the largest and most trusted direct-to-consumer brand in the $14 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 979 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 is 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 is not calculated in the same manner by all companies, and accordingly, is 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 July 2, 2022, we operated 979 retail locations in 39 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 to 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 across our retail locations, digital platform, 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 (income) 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 project 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 project 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. Closures and restrictions did not have a material impact on our performance during the 13- weeks ended July 2, 2022 and July 3, 2021, respectively. 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.

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.

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- and 39- weeks ended July 2, 2022 and July 3, 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).

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| **Statements of Operations data:** | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 2021 |
| Sales | $ 673,633 | $ 596,543 | $ 1,086,529 | $ 933,991 |
| Cost of merchandise and services sold | 370,026 | 312,845 | 629,977 | 526,895 |
| Gross profit | 303,607 | 283,698 | 456,552 | 407,096 |
| Selling, general and administrative expenses | 131,469 | 117,264 | 300,872 | 265,127 |
| Operating income | 172,138 | 166,434 | 155,680 | 141,969 |
| Other expense: | | | | |
| Interest expense | 6,847 | 7,399 | 20,659 | 27,041 |
| Loss on debt extinguishment | — | — | — | 9,169 |
| Other (income) expenses, net | (143 ) | 861 | 407 | 1,917 |
| Total other expense | 6,704 | 8,260 | 21,066 | 38,127 |
| Income before taxes | 165,434 | 158,174 | 134,614 | 103,842 |
| Income tax expense | 42,448 | 39,372 | 33,519 | 21,749 |
| Net income | $ 122,986 | $ 118,802 | $ 101,095 | $ 82,093 |
| Earnings per share | | | | |
| Basic | $ 0.67 | $ 0.63 | $ 0.55 | $ 0.45 |
| Diluted | $ 0.67 | $ 0.61 | $ 0.54 | $ 0.43 |
| Weighted average shares outstanding | | | | |
| Basic | 182,937 | 188,264 | 184,707 | 184,021 |
| Diluted | 184,721 | 194,200 | 186,695 | 189,603 |
| Percentage of Sales[(1)] | (%) | (%) | (%) | (%) |
| Sales | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of merchandise and services sold | 54.9 | 52.4 | 58.0 | 56.4 |
| Gross margin | 45.1 | 47.6 | 42.0 | 43.6 |
| Selling, general and administrative expenses | 19.5 | 19.7 | 27.7 | 28.4 |
| Operating income | 25.6 | 27.9 | 14.3 | 15.2 |
| Other expense: | | | | |
| Interest expense | 1.0 | 1.2 | 1.9 | 2.9 |
| Loss on debt extinguishment | — | — | — | 1.0 |
| Other (income) expenses, net | (0.0 ) | 0.1 | 0.0 | 0.2 |
| Total other expense | 1.0 | 1.4 | 1.9 | 4.1 |
| Income before taxes | 24.6 | 26.5 | 12.4 | 11.1 |
| Income tax expense | 6.3 | 6.6 | 3.1 | 2.3 |
| Net income | 18.3 | 19.9 | 9.3 | 8.8 |
| **Other Financial and Operations data:** | | | | |
| Number of new and acquired locations, net | 14 | 7 | 27 | 11 |
| Number of locations open at end of period | 979 | 946 | 979 | 946 |
| Comparable sales growth[(2)] | 7.4 % | 23.9 % | 10.7 % | 27.2 % |
| Adjusted EBITDA[(3)] | $ 182,942 | $ 179,346 | $ 192,734 | $ 188,631 |
| Adjusted EBITDA as a percentage of sales[(3)] | 27.2 % | 30.1 % | 17.7 % | 20.2 % |
| Adjusted net income[(3)] | $ 125,685 | $ 124,364 | $ 112,031 | $ 110,964 |
| Adjusted diluted earnings per share | $ 0.68 | $ 0.64 | $ 0.60 | $ 0.59 |

(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 income to Adjusted EBITDA and net income to Adjusted net income for the 13- and 39- weeks ended July 2, 2022 and July 3, 2021, respectively (in thousands).

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 2021 |
| Net income | $ 122,986 | $ 118,802 | $ 101,095 | $ 82,093 |
| Interest expense | 6,847 | 7,399 | 20,659 | 27,041 |
| Income tax expense | 42,448 | 39,372 | 33,519 | 21,749 |
| Depreciation and amortization expense[(1)] | 7,063 | 6,347 | 22,880 | 19,205 |
| Management fees[(2)] | — | — | — | 382 |
| Equity-based compensation expense[(3)] | 3,113 | 6,480 | 8,825 | 20,591 |
| Loss on debt extinguishment[(4)] | — | — | — | 9,169 |
| Costs related to equity offerings[(5)] | — | 778 | 550 | 9,986 |
| Strategic project costs[(6)] | 641 | — | 4,428 | — |
| Executive transition costs and other[(7)] | (156 ) | 168 | 778 | (1,585 ) |
| Adjusted EBITDA | $ 182,942 | $ 179,346 | $ 192,734 | $ 188,631 |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 2, 2022 | July 3, 2021 | July 2, 2022 | July 3, 2021 |
| Net income | $ 122,986 | $ 118,802 | $ 101,095 | $ 82,093 |
| Management fees[(2)] | — | — | — | 382 |
| Equity-based compensation expense[(3)] | 3,113 | 6,480 | 8,825 | 20,591 |
| Loss on debt extinguishment[(4)] | — | — | — | 9,169 |
| Costs related to equity offerings[(5)] | — | 778 | 550 | 9,986 |
| Strategic project costs[(6)] | 641 | — | 4,428 | — |
| Executive transition costs and other[(7)] | (156 ) | 168 | 778 | (1,585 ) |
| Tax effects of these adjustments[(8)] | (899 ) | (1,864 ) | (3,645 ) | (9,672 ) |
| Adjusted net income | $ 125,685 | $ 124,364 | $ 112,031 | $ 110,964 |

(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 Term Loan modification and the repayment of our senior unsecured notes during the nine months ended July 3, 2021 which 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 which are reported in other (income) 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, strategic projects, 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 (income) 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 expense in our condensed consolidated statements of operations.

***Selected Financial Information***

***Sales***

Sales increased to $673.6 million for the three months ended July 2, 2022, from $596.5 million in the prior year period, an increase of $77.1 million, or 12.9%. The increase was primarily driven by higher comparable sales growth of $44.6 million, or 7.4%, in the current year period as well as non-comparable sales of $32.5 million driven by acquisitions and new locations open for less than 52 weeks.

Sales increased to $1,086.5 million for the nine months ended July 2, 2022, from $934.0 million in the prior year period, an increase of $152.5 million, or 16.3%. The increase was primarily driven by higher comparable sales growth of $100.0 million, or 10.7%, in the current year period as well as non-comparable sales of $52.5 million driven by acquisitions and new locations open for less than 52 weeks.

***Gross Profit and Gross Margin***

Gross profit increased to $303.6 million for the three months ended July 2, 2022 from $283.7 million in the prior year period, an increase of $19.9 million, or 7.0%. Gross margin decreased to 45.1% compared to 47.6% in the prior year period, a decrease of 250 basis points. The increase in gross profit was primarily due to increased sales. The decrease in gross margin was primarily due to shifts in business mix, lower rate due to promotional activities and higher product costs, and increased distribution expenses, partially offset by occupancy leverage.

Gross profit increased to $456.6 million for the nine months ended July 2, 2022 from $407.1 million in the prior year period, an increase of $49.5 million, or 12.1%. Gross margin decreased to 42.0% compared to 43.6% in the prior year period, a decrease of 160 basis points. The increase in gross profit was primarily due to increased sales. The decrease in gross margin rate was primarily due to shifts in business mix, lower rate due to promotional activities and higher product costs, and increased distribution expenses, partially offset by occupancy leverage.

***Selling, General and Administrative Expenses***

SG&A increased to $131.5 million for the three months ended July 2, 2022 from $117.3 million in the prior year period, an increase of $14.2 million, or 12.1%. This increase in SG&A was primarily related to a $17.0 million increase associated with higher sales, acquisitions, and other investments to support Company growth, a $0.6 million increase primarily related to strategic project costs incurred in the third quarter of fiscal 2022, partially offset by lower non-cash equity-based compensation expense of $3.4 million. The reduction in equity-based compensation expense relates to the prior year vesting of performance-based equity units that were subject to the Company's achievement in fiscal 2021.

SG&A increased to $300.9 million for the nine months ended July 2, 2022 from $265.1 million in the prior year period, an increase of $35.8 million, or 13.5%. This increase in SG&A was primarily related to a $48.7 million increase associated with higher sales, acquisitions, and other investments to support Company growth, a $2.6 million reduction primarily in gain on sale of assets realized during the prior year period, and a $4.4 million increase related to strategic project costs incurred during the nine months ended July 2, 2022. This increase was offset by lower non-cash equity-based compensation costs of $11.8 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 during the prior year period.

***Total Other Expense***

Total other expenses decreased to $6.7 million for the three months ended July 2, 2022 from $8.3 million in the prior year period, a decrease of $1.6 million. The decrease in other expenses was primarily related to $0.8 million of follow-on offering costs and lower interest expense related to the principal payments on our long-term debt.

Total other expenses decreased to $21.1 million for the nine months ended July 2, 2022 from $38.1 million in the prior year period, a decrease of $17.0 million. The decrease in other expenses was primarily related to $9.2 million of non-cash loss on debt extinguishment related to the refinancing of the Term Loan and repayment of our senior unsecured notes during the nine months ended July 2, 2021, lower interest expense related to the repayment of our senior unsecured notes with the proceeds of our IPO of $6.4 million and $1.8 million of follow-on offering costs.

***Income Taxes***

Income tax expense increased to $42.4 million for the three months ended July 2, 2022 from $39.4 million in the prior year period, an increase of $3.0 million. Income tax expense increased to $33.5 million for the nine months ended July 2, 2022, from $21.7 million in the prior year period, an increase of $11.8 million.

The effective income tax rate was 25.7% and 24.9% for the three and nine months ended July 2, 2022, respectively, reflecting the income tax benefits attributable to equity-based compensation awards and research and development credits. The effective income tax rate was 24.9% for the three months ended July 3, 2021, reflecting income tax benefits attributable to equity-based compensation awards. The effective income tax rate was 20.9% for the nine months ended July 3, 2021, reflecting a decrease in the valuation allowance for our interest limitation carryforward and net income tax benefits attributable to equity-based compensation awards.

***Net Income and Earnings per Share***

Net income increased to $123.0 million for the three months ended July 2, 2022 compared to net income of $118.8 million in the prior year period, an increase of $4.2 million. Net income increased to $101.1 million for the nine months ended July 2, 2022 compared to net income of $82.1 million in the prior year period, an increase of $19.0 million.

Diluted earnings per share increased to $0.67 for the three months ended July 2, 2022 compared to $0.61 in the prior year period. Diluted earnings per share increased to $0.54 for the nine months ended July 2, 2022 from $0.43 in the prior year period.

Adjusted net income increased to $125.7 million for the three months ended July 2, 2022 compared to $124.4 million in the prior year period. Adjusted net income increased to $112.0 million for the nine months ended July 2, 2022 compared to $111.0 million in the prior year period.

Adjusted diluted earnings per share increased to $0.68 for the three months ended July 2, 2022 compared to $0.64 in the prior year period. Adjusted diluted earnings per share increased to $0.60 for the nine months ended July 2, 2022 compared to $0.59 in the prior year period.

***Adjusted EBITDA***

Adjusted EBITDA increased to $182.9 million for the three months ended July 2, 2022 compared to $179.3 million in the prior year period, an increase of $3.6 million. Adjusted EBITDA increased to $192.7 million for the nine months ended July 2, 2022 compared to $188.6 million in the prior year period, an increase of $4.1 million.

**Seasonality and Quarterly Fluctuations**

Our business is highly seasonal. 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 typically 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 as well as 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 Revolving 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 Revolving Credit Facility.

Cash and cash equivalents consist primarily of cash on deposit with banks. Cash and cash equivalents totaled $193.1 million and $343.5 million as of July 2, 2022 and October 2, 2021, respectively. As of July 2, 2022 and October 2, 2021, we did not have any outstanding borrowings under our Revolving 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 Revolving Credit Facility will be adequate to finance our working capital requirements, planned capital expenditures, strategic acquisitions, share repurchases, and debt service over the next 12 months. If cash provided by operating activities and borrowings under our Revolving 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.

As of July 2, 2022, outstanding standby letters of credit totaled $10.0 million and, after considering borrowing base restrictions, we had $190.0 million of available borrowing capacity under the terms of the Revolving Credit Facility. As of July 2, 2022, we were in compliance with the covenants under the Revolving 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):

| | Nine Months Ended | |
|---|---|---|
| | **July 2, 2022** | **July 3, 2021** |
| Net cash provided by operating activities | $ 72,658 | $ 117,965 |
| Net cash used in investing activities | (66,183 ) | (22,176 ) |
| Net cash (used in) provided by financing activities | (156,843 ) | 55,805 |
| Net (decrease) increase in cash and cash equivalents | $ (150,368 ) | $ 151,594 |

***Cash Provided by Operating Activities***

Net cash provided by operating activities decreased to $72.7 million for the nine months ended July 2, 2022 compared to $118.0 million in the prior year period, a decrease of $45.3 million. This decrease 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 $66.2 million for the nine months ended July 2, 2022 compared to $22.2 million in the prior year period, an increase of $44.0 million. This increase was primarily driven by increased spend for business acquisitions of $33.9 million and investments in property and equipment of $8.1 million, primarily related to new and existing retail locations and distribution centers.

***Cash (Used in) Provided by Financing Activities***

Net cash used in financing activities for the nine months ended July 2, 2022 of $156.8 million, was primarily related to the repurchase and retirement of common stock of $152.1 million and net repayment of debt of $6.1 million, partially offset by proceeds from option exercises of $1.4 million. Net cash provided by financing activities for the nine months ended July 3, 2021 of $55.8 million, was primarily related to proceeds raised during our IPO in November 2020 of $458.6 million, partially offset by the net repayment of long-term debt and deferred financing costs totaling $402.8 million.

***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. As of July 2, 2022, $148.1 million remained available for future purchases under the program (see Note 13—Share Repurchase Program to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q).

**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 and nine months ended July 2, 2022 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2021.

**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 three and nine months ended July 2, 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***

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2021.

***Impact of Inflation and Deflation***

There have been no material changes in our exposure to inflation or deflation from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2021.

## 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 July 2, 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 July 2, 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***

None.

***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 |
|---|---|---|---|---|
| 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**.**

**LESLIE'S, INC.**

Date: August 5, 2022 By: /s/ Steven M. Weddell

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

**Exhibit 31.1**

**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; and

5.The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

(b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2022 By: /s/ Michael R. Egeck
**Michael R. Egeck**
**Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 31.2**

**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; and

5.The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

(b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

| | | |
|---|---|---|
| Date: August 5, 2022 | By: | /s/ Steven M. Weddell<br>**Steven M. Weddell**<br>**Chief Financial Officer**<br>**(Principal Financial Officer and Principal Accounting Officer)** |

**Exhibit 32.1**

**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 July 2, 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: August 5, 2022 | By: | /s/ Michael R. Egeck<br>**Michael R. Egeck**<br>**Chief Executive Officer**<br>**(Principal Executive Officer)** |

**Exhibit 32.2**

**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 July 2, 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: August 5, 2022 | By: | /s/ Steven M. Weddell<br>**Steven M. Weddell**<br>**Chief Financial Officer**<br>**(Principal Financial Officer and Principal Accounting Officer)** |