

**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 **December 30, 2023**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
TO**

Commission File Number: 001-39667

LESLIE'S, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**2005 East Indian School Road
Phoenix, AZ**

(Address of principal executive offices)

20-8397425

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

85016

(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	LESL	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of January 26, 2024, the Registrant had 184,513,174 shares of common stock, \$0.001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations or financial condition, business strategy, legal proceedings, competitive advantages, market size, growth opportunities, industry expectations, 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 (including rising interest rates, recession fears, and inflationary pressures), geopolitical events or conflicts, and the housing market;
- disruptions in the operations of our distribution centers;
- 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 including evolving legal standards and regulations concerning environmental, social and governance (“ESG”) matters;
- our ability to obtain additional capital to finance operations;
- commodity price inflation and deflation;
- impacts on our business from epidemics, pandemics, or natural disasters;
- impacts on our business from cyber incidents and other security threats or disruptions;
- our ability to remediate material weaknesses or other deficiencies in our internal control over financial reporting or to maintain effective disclosure controls and procedures and internal control over financial reporting; 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 (“SEC”).

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” in our Annual Report on Form 10-K for the year ended September 30, 2023 and in our other filings with the SEC. 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, changed expectations, the occurrence of unanticipated events or otherwise, except as required by law. We may not actually achieve the plans, intentions, outcomes, 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)

	December 30, 2023 (Unaudited)	September 30, 2023 (Audited)	December 31, 2022 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 8,394	\$ 55,420	\$ 2,691
Accounts and other receivables, net	22,488	29,396	46,375
Inventories	334,031	311,837	429,517
Prepaid expenses and other current assets	27,131	23,633	29,921
Total current assets	392,044	420,286	508,504
Property and equipment, net	92,405	90,285	75,049
Operating lease right-of-use assets	238,296	251,460	233,852
Goodwill and other intangibles, net	217,909	218,855	218,119
Deferred tax assets	15,988	7,598	—
Other assets	41,878	45,951	41,258
Total assets	<u>\$ 998,520</u>	<u>\$ 1,034,435</u>	<u>\$ 1,076,782</u>
Liabilities and stockholders' deficit			
Current liabilities			
Accounts payable	\$ 63,541	\$ 58,556	\$ 117,269
Accrued expenses and other current liabilities	69,854	90,598	65,494
Operating lease liabilities	63,078	62,794	63,251
Income taxes payable	—	5,782	480
Current portion of long-term debt	8,100	8,100	8,100
Total current liabilities	204,573	225,830	254,594
Deferred tax liabilities	—	—	676
Operating lease liabilities, noncurrent	179,413	193,222	174,954
Revolving Credit Facility	38,000	—	91,000
Long-term debt, net	771,718	773,276	778,133
Other long-term liabilities	3,464	3,469	3,060
Total liabilities	1,197,168	1,195,797	1,302,417
Commitments and contingencies			
Stockholders' deficit			
Common stock, \$0.001 par value, 1,000,000,000 shares authorized and 184,513,174, 184,333,670, and 183,564,172 issued and outstanding as of December 30, 2023, September 30, 2023, and December 31, 2022, respectively.	184	184	184
Additional paid in capital	101,547	99,280	92,508
Retained deficit	(300,379)	(260,826)	(318,327)
Total stockholders' deficit	(198,648)	(161,362)	(225,635)
Total liabilities and stockholders' deficit	<u>\$ 998,520</u>	<u>\$ 1,034,435</u>	<u>\$ 1,076,782</u>

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

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

	Three Months Ended	
	December 30, 2023	December 31, 2022
Sales	\$ 173,960	\$ 195,104
Cost of merchandise and services sold	123,552	129,808
Gross profit	50,408	65,296
Selling, general and administrative expenses	86,878	92,281
Operating loss	(36,470)	(26,985)
Other expense:		
Interest expense	17,071	13,360
Total other expense	17,071	13,360
Loss before taxes	(53,541)	(40,345)
Income tax benefit	(13,988)	(10,086)
Net loss	<u>\$ (39,553)</u>	<u>\$ (30,259)</u>
Earnings per share:		
Basic	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>
Diluted	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>
Weighted average shares outstanding:		
Basic	184,383	183,513
Diluted	184,383	183,513

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		Total	
	Shares	Amount	Paid in Capital	Retained Deficit	Stockholders' Deficit	
Balance, October 1, 2022	183,481	\$ 183	\$ 89,934	\$ (288,068)	\$ (197,951)	
Issuance of common stock under the Plan	110	1	—	—	1	
Equity-based compensation	—	—	2,993	—	2,993	
Restricted stock units surrendered in lieu of withholding taxes	(27)	—	(419)	—	(419)	
Net loss	—	—	—	(30,259)	(30,259)	
Balance, December 31, 2022	<u>183,564</u>	<u>\$ 184</u>	<u>\$ 92,508</u>	<u>\$ (318,327)</u>	<u>\$ (225,635)</u>	
Balance, September 30, 2023	184,334	\$ 184	\$ 99,280	\$ (260,826)	\$ (161,362)	
Issuance of common stock under the Plan	221	—	—	—	—	
Equity-based compensation	—	—	2,695	—	2,695	
Restricted stock units surrendered in lieu of withholding taxes	(42)	—	(428)	—	(428)	
Net loss	—	—	—	(39,553)	(39,553)	
Balance, December 30, 2023	<u>184,513</u>	<u>\$ 184</u>	<u>\$ 101,547</u>	<u>\$ (300,379)</u>	<u>\$ (198,648)</u>	

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

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

	Three Months Ended	
	December 30, 2023	December 31, 2022
Operating Activities		
Net loss	\$ (39,553)	\$ (30,259)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,330	8,503
Equity-based compensation	2,695	2,993
Amortization of deferred financing costs and debt discounts	560	502
Provision for doubtful accounts	140	10
Deferred income taxes	(8,389)	1,944
Loss on asset dispositions	61	6
Changes in operating assets and liabilities:		
Accounts and other receivables	6,767	(1,090)
Inventories	(22,194)	(64,770)
Prepaid expenses and other current assets	(3,498)	(6,429)
Other assets	3,981	(3,601)
Accounts payable	4,985	(39,187)
Accrued expenses and other current liabilities	(19,616)	(41,622)
Income taxes payable	(5,782)	(12,031)
Operating lease assets and liabilities, net	(361)	622
Net cash used in operating activities	(71,874)	(184,409)
Investing Activities		
Purchases of property and equipment	(10,739)	(5,697)
Business acquisitions, net of cash acquired	—	(8,540)
Proceeds from asset dispositions	40	488
Net cash used in investing activities	(10,699)	(13,749)
Financing Activities		
Borrowings on Revolving Credit Facility	39,500	91,000
Payments on Revolving Credit Facility	(1,500)	—
Repayment of long-term debt	(2,025)	(2,025)
Payments of employee tax withholdings related to restricted stock vesting	(428)	(419)
Net cash provided by financing activities	35,547	88,556
Net decrease in cash and cash equivalents	(47,026)	(109,602)
Cash and cash equivalents, beginning of period	55,420	112,293
Cash and cash equivalents, end of period	<u>\$ 8,394</u>	<u>\$ 2,691</u>
Supplemental Information:		
Cash paid for interest	\$ 16,489	\$ 12,593
Cash paid for income taxes, net of refunds received	183	1

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

LESLIE'S, INC.
NOTES TO THE UNAUDITED 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 over 1,000 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 September 30, 2023.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on our results of operations.

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 December 30, 2023 and December 31, 2022 refer to the 13 weeks ended December 30, 2023 and December 31, 2022, respectively.

Use of Estimates

Management is required to make certain estimates and assumptions during the preparation of the condensed consolidated financial statements in accordance with GAAP. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the condensed consolidated financial statements. They also impact the reported amount of net income (loss) during any period. Actual results could differ from those estimates.

Significant estimates underlying the accompanying condensed consolidated financial statements include inventory reserves, lease assumptions, vendor rebate programs, our loyalty program, the determination of income taxes payable and deferred income taxes, sales returns reserve, self-insurance liabilities, the recoverability of intangible assets and goodwill, fair value of assets acquired in a business combination, and contingent consideration related to business combinations.

Seasonality

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

Summary of Other Significant Accounting Policies

There have been no changes to our Significant Accounting Policies since our Annual Report on Form 10-K for the year ended September 30, 2023. For more information regarding our Significant Accounting Policies and Estimates, see Note 2—Summary of Significant Accounting Policies included in our Annual Report on Form 10-K for the year ended September 30, 2023.

Recent Accounting Pronouncements

In December 2023, the FASB issued Accounting Standards Update (“ASU”) No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which includes amendments that further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. This update is effective for annual periods beginning after December 15, 2024, though early adoption is permitted. We are currently evaluating the ASU to determine its impact on our disclosures, however we do not expect there to be a material impact.

Note 3 — Goodwill and Other Intangibles, Net

Goodwill

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

	December 30, 2023	September 30, 2023	December 31, 2022
Balance at beginning of the period	\$ 180,698	\$ 173,513	\$ 173,513
Acquisitions, net of measurement period adjustments	—	7,185	2,650
Balance at the end of the period	<u>\$ 180,698</u>	<u>\$ 180,698</u>	<u>\$ 176,163</u>

Other Intangible Assets

Other intangible assets consisted of the following as of December 30, 2023 (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)	9.6	\$ 22,100	\$ (3,834)	\$ 18,266
Trade name and trademarks (indefinite life)	Indefinite	9,350	—	9,350
Non-compete agreements	5.1	2,260	(1,214)	1,046
Consumer relationships	7.2	15,400	(6,980)	8,420
Other intangibles	4.8	4,000	(3,871)	129
Total		<u>\$ 53,110</u>	<u>\$ (15,899)</u>	<u>\$ 37,211</u>

Other intangible assets consisted of the following as of September 30, 2023 (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)	9.8	\$ 26,740	\$ (7,958)	\$ 18,782
Trade name and trademarks (indefinite life)	Indefinite	9,350	—	9,350
Non-compete agreements	5.4	8,683	(7,585)	1,098
Consumer relationships	7.4	24,100	(15,317)	8,783
Other intangibles	5.1	6,620	(6,476)	144
Total		<u>\$ 75,493</u>	<u>\$ (37,336)</u>	<u>\$ 38,157</u>

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Other intangible assets consisted of the following as of December 31, 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)	10.5	\$ 27,140	\$ (6,224)	\$ 20,916
Trade name and trademarks (indefinite life)	Indefinite	9,350	—	9,350
Non-compete agreements	6.1	8,683	(7,431)	1,252
Consumer relationships	7.7	24,100	(13,879)	10,221
Other intangibles	5.8	6,620	(6,403)	217
Total		<u>\$ 75,893</u>	<u>\$ (33,937)</u>	<u>\$ 41,956</u>

Amortization expense was \$0.9 million for the three months ended December 30, 2023 and December 31, 2022, respectively. No impairment of goodwill or other intangible assets was recorded during the three months ended December 30, 2023 and December 31, 2022, respectively.

The following table summarizes the estimated future amortization expense related to finite-lived intangible assets on our condensed consolidated balance sheet as of December 30, 2023 (in thousands):

	Amount
Remainder of fiscal 2024	\$ 2,782
2025	3,632
2026	3,385
2027	3,262
2028	3,154
Thereafter	11,646
Total	<u>\$ 27,861</u>

Note 4—Accounts and Other Receivables, Net

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

	December 30, 2023	September 30, 2023	December 31, 2022
Vendor and other rebates receivable	\$ 6,532	\$ 6,818	\$ 27,521
Customer receivables	13,400	18,334	15,969
Other receivables	4,229	5,900	4,512
Allowance for doubtful accounts	(1,673)	(1,656)	(1,627)
Total	<u>\$ 22,488</u>	<u>\$ 29,396</u>	<u>\$ 46,375</u>

Note 5—Inventories

Inventories consisted of the following (in thousands):

	December 30, 2023	September 30, 2023	December 31, 2022
Raw materials	\$ 4,633	\$ 3,076	\$ 7,987
Finished goods	329,398	308,761	421,530
Total	<u>\$ 334,031</u>	<u>\$ 311,837</u>	<u>\$ 429,517</u>

Note 6—Prepaid Expenses and Other Current Assets

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

	December 30, 2023	September 30, 2023	December 31, 2022
Prepaid insurance	\$ 4,702	\$ 1,236	\$ 6,812
Prepaid occupancy costs	1,976	1,967	2,004
Prepaid sales tax	1,843	4,060	1,753
Prepaid inventory	—	—	771
Prepaid other	6,592	6,239	4,382
Other current assets	12,018	10,131	14,199
Total	\$ 27,131	\$ 23,633	\$ 29,921

Note 7—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	December 30, 2023	September 30, 2023	December 31, 2022
Accrued payroll and employee benefits	\$ 14,493	\$ 18,558	\$ 13,154
Customer deposits	4,491	7,356	7,505
Interest	603	581	579
Inventory related accruals	7,821	13,843	11,254
Loyalty and deferred revenue	7,264	6,785	6,157
Sales tax	4,043	9,146	4,528
Self-insurance reserves	10,024	9,138	8,417
Other accrued liabilities	21,115	25,191	13,900
Total	\$ 69,854	\$ 90,598	\$ 65,494

As of December 30, 2023, September 30, 2023, and December 31, 2022, capital expenditures included in other accrued liabilities were \$0.7 million, \$1.5 million, and \$0.4 million, respectively.

Note 8—Long-Term Debt, Net

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

	Effective Interest Rate ⁽¹⁾	December 30, 2023	September 30, 2023	December 31, 2022
Term Loan	8.21 % ⁽²⁾	\$ 787,725	\$ 789,750	\$ 795,825
Revolving Credit Facility	7.25 % ⁽³⁾	38,000	—	91,000
Total long-term debt		825,725	789,750	886,825
Less: current portion of long-term debt		(8,100)	(8,100)	(8,100)
Less: noncurrent Revolving Credit Facility		(38,000)	—	(91,000)
Less: unamortized discount		(2,191)	(2,316)	(2,684)
Less: deferred financing charges		(5,716)	(6,058)	(6,908)
Total long-term debt, net		\$ 771,718	\$ 773,276	\$ 778,133

(1)Effective interest rates as of December 30, 2023.

(2)Carries interest at a specified margin over the Term Secured Overnight Financing Rate (“SOFR”) between 2.50% and 2.75% with a minimum SOFR of 0.50% plus a SOFR adjustment.

(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 Term SOFR loans, with a SOFR adjustment.

Term Loan

In June 2023, we entered into Amendment No. 1 (“Term Loan Amendment”) to our Amended and Restated Term Loan Credit Agreement (“Term Loan”). The Term Loan Amendment (i) replaced the existing LIBOR-based interest rate benchmark with a Term SOFR-based benchmark and (ii) amended certain other related terms and provisions, including the addition of a SOFR adjustment of (a) 0.11448% per annum for one-month, (b) 0.26161% per annum for three months, and (c) 0.42826% per annum for six months. The other material terms of the Term Loan remained substantially unchanged.

The 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 Term SOFR loans and (ii) 1.75% for loans that are ABR loans (the “Applicable Rate”). 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 Term SOFR loans and 1.75% for ABR loans and (b) if the first lien leverage ratio is less than or equal to 2.75 to 1.00, the applicable rate will be 2.50% for Term SOFR loans and 1.50% for ABR loans. For Term SOFR loans, the loans will bear interest at the Term SOFR-based benchmark rate plus the Applicable Rate and the SOFR adjustment, as defined above.

Revolving Credit Facility

In March 2023, we entered into Amendment No. 6 to our \$200.0 million credit facility (“Revolving Credit Facility”) maturing on August 13, 2025 (the “Amendment”). The Amendment (i) increased the revolving credit commitments under the Revolving Credit Facility in the amount of \$50.0 million, such that the aggregate commitments are \$250.0 million and (ii) replaced the existing LIBOR-based rate with a Term SOFR-based rate, as an interest rate benchmark. The Revolving Credit Facility has (i) an applicable margin on base rate loans with a range of 0.25% to 0.75%, (ii) an applicable margin on Term SOFR loans with a range of 1.25% and 1.75%, (iii) a SOFR Adjustment of 0.10% for all borrowing periods, (iv) a floor of 0% per annum, and (v) a commitment fee rate of 0.25% per annum. The other material terms of the Revolving Credit Facility prior to the Amendment remained substantially unchanged.

As of December 30, 2023, we had \$38.0 million outstanding on our Revolving Credit Facility. No amounts were outstanding on the Revolving Credit Facility as of September 30, 2023. The amount available under our Revolving Credit Facility was reduced by \$10.6 million and \$11.4 million of existing standby letters of credit as of December 30, 2023 and September 30, 2023, respectively.

Representations and Covenants

Substantially all of our assets are pledged as collateral to secure our indebtedness. The Term Loan does not require us to comply with any financial covenants. The Term Loan and the Revolving Credit Facility contain customary representations and warranties, covenants, and conditions to borrowing. No event of default occurred as of December 30, 2023, September 30, 2023, and December 31, 2022.

Future Debt Maturities

The following table summarizes the debt maturities and scheduled principal repayments of our indebtedness as of December 30, 2023 (in thousands):

	Amount
Remainder of fiscal 2024	\$ 4,050
2025	48,125
2026	8,100
2027	8,100
2028	757,350
Thereafter	—
Total	<u>\$ 825,725</u>

Note 9—Income Taxes

Our effective income tax rate was 26.1% for the three months ended December 30, 2023, compared to 25.0% for the three months ended December 31, 2022. The difference between the statutory rate and our effective rate for the three months ended December 30, 2023 and December 31, 2022 was primarily attributable to state taxes. Our effective income tax rate can fluctuate due to factors including valuation allowances, changes in tax laws, federal and state audits, and the impact of other discrete items.

Note 10—Commitments & Contingencies**Contingencies**

On September 8, 2023, a class action complaint for violation of federal securities laws was filed by West Palm Beach Police Pension Fund in the U.S. District Court for the District of Arizona against us, our Chief Executive Officer and our former Chief Financial Officer. The complaint alleges that we violated federal securities laws by issuing materially false and misleading statements that failed to disclose adverse facts about our financial guidance, business operations and prospects, and seeks class certification, damages, interest, attorneys' fees, and other relief. Due to the early stage of this proceeding, we cannot reasonably estimate the potential range of loss, if any. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

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 on our condensed consolidated financial position or results of operations. We did not record any material loss contingencies as of December 30, 2023, September 30, 2023, and December 31, 2022, 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 December 30, 2023, September 30, 2023, and December 31, 2022, respectively. We had standby letters of credit outstanding in the amount of \$10.6 million as of December 30, 2023 for the purpose of securing such obligations under our workers' compensation self-insurance programs.

Note 11—Related Party Transactions

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 at the time of the transaction, 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 12—Share Repurchase Program for detailed information regarding our share repurchase program.

Note 12—Share Repurchase Program

On December 3, 2021, the board of directors authorized a share repurchase program for up to an aggregate of \$300 million of the Company's outstanding shares of common stock over a period of three years, expiring December 31, 2024. The amount, price, manner, and timing of repurchases are determined by the Company in its discretion and depends on a number of factors, including legal requirements, price, economic and market conditions, the Company's financial condition, capital requirements, cash flows, results of operations, future business prospects, and other factors our management may deem relevant. The share repurchase program may be amended, suspended, or discontinued at any time. Shares may be repurchased from time-to-time using a variety of methods, including on the open market and/or in privately negotiated transactions, including under plans complying with Rule 10b5-1 under the Exchange Act, as part of accelerated share repurchases, and other methods.

On December 16, 2021, the Company repurchased and retired 7.5 million shares of common stock at a price per share of \$20.25 under the program. 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 of shares 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 shares were originally issued), and increasing retained deficit by the remaining excess cost of \$24.4 million.

As of December 30, 2023, approximately \$147.7 million remained available for future purchases under our share repurchase program.

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

	Three Months Ended	
	December 30, 2023	December 31, 2022
Total number of shares repurchased	—	27
Total amount paid for shares repurchased	\$ —	\$ 419

Note 13—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 non-qualified stock options to purchase Leslie’s common stock (each, a “Stock Option”), restricted stock units (“RSUs”) and performance stock units (“PSUs”) which may settle in Leslie’s, Inc. common stock to our directors, executives, and eligible employees of the Company. The vesting of the Company’s outstanding and unvested Stock Options, RSUs, and PSUs is contingent upon each holder’s continued service through the date of each applicable vesting event. As of December 30, 2023, we had approximately 6.4 million shares of common stock available for future grants under the Plan.

As of December 30, 2023, the aggregate unamortized value of all outstanding equity-based compensation awards was approximately \$24.6 million, which is expected to be recognized over a weighted average period of approximately 2.7 years.

Stock Options

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. The following tables summarizes our Stock Option activity under the Plan during the three months ended December 30, 2023 (in thousands, except per share amounts):

	Number of Options	Weighted Average Exercise Price
Outstanding, Beginning	3,308	\$ 18.10
Granted	—	—
Exercised	—	—
Forfeited/Expired	(230)	19.23
Balance, Ending	<u>3,078</u>	\$ 18.02
Vested and exercisable as of December 30, 2023	<u>2,352</u>	\$ 17.78
		As of December 30, 2023
Aggregate intrinsic value of options outstanding		\$ —
Unamortized value of unvested stock options		\$ 3,115
Weighted average years that expense is expected to be recognized		0.9
Weighted average remaining contractual years outstanding		7.2

Restricted Stock Units and Performance Units

RSUs represent grants that vest ratably upon the satisfaction of time-based requirements. PSUs represent grants potentially issuable in the future based upon the Company’s achievement of certain performance conditions. The fair value of our RSUs and PSUs are calculated based on the Company’s stock price on the date of the grant.

The following table summarizes our RSU and PSU activity under the Plan during the three months ended December 30, 2023 (in thousands, except per share amounts):

	Number of RSUs/PSUs	Weighted Average Grant Date Fair Value
Outstanding, Beginning	2,084	\$ 11.92
Granted	1,638	5.43
Vested	(221)	8.49
Forfeited	(133)	15.22
Balance, Ending	<u>3,368</u>	\$ 8.86

During the three months ended December 30, 2023, 0.4 million PSUs were granted subject to the Company achieving certain adjusted net income and sales performance targets on a cumulative basis during fiscal years 2024 and 2025. The criteria are based on a range of these performance targets in which participants may earn between 0% to 200% of the base number of awards granted. The weighted average grant date fair value of the PSUs was \$5.43. The Company assesses the attainment of target payout rates each reporting period. Equity-based compensation expense is recognized for awards deemed probable of vesting.

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In December 2022, the Company granted 0.3 million PSUs subject to the Company achieving certain adjusted net income and sales performance targets on a cumulative basis during each of the fiscal years 2023, 2024, and 2025. The criteria are based on a range of these performance targets in which participants may earn between 0% to 200% of the base number of awards granted. As of December 30, 2023, the performance targets had not been met for the PSUs to vest, and no PSUs had vested as of such date.

	As of December 30, 2023	
Unamortized value of unvested RSUs/PSUs	\$	21,505
Weighted average period (years) expense is expected to be recognized		2.9

During the three months ended December 30, 2023 and December 31, 2022, equity-based compensation expense was \$2.7 million and \$3.0 million, respectively. Equity-based compensation expense is reported in selling, general, & administrative expenses (“SG&A”) in our condensed consolidated statements of operations.

Note 14—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	
	December 30, 2023	December 31, 2022
Numerator:		
Net loss	\$ (39,553)	\$ (30,259)
Denominator:		
Weighted average shares outstanding - basic	184,383	183,513
Effect of dilutive securities:		
Stock Options	—	—
RSUs	—	—
Weighted average shares outstanding - diluted	<u>184,383</u>	<u>183,513</u>
Basic earnings per share	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>
Diluted earnings per share	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>

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

	Three Months Ended	
	December 30, 2023	December 31, 2022
Stock Options	3,182	3,699
RSUs	1,703	1,969
Total	<u>4,885</u>	<u>5,668</u>

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

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes, which are included elsewhere in this Quarterly Report on Form 10-Q. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Actual results or outcomes may differ materially from those anticipated in these forward-looking statements, which are subject to risks, uncertainties, and other factors, including those described in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 and in our other filings with the SEC.

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 December 30, 2023 and December 31, 2022 refer to the 13 weeks ended December 30, 2023 and December 31, 2022, respectively.

Our Company

We are the largest and most trusted direct-to-consumer brand in the \$15 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 over 1,000 branded locations and a robust digital platform. We have a market-leading share of approximately 15% of residential aftermarket product spend as of 2022, our physical network is larger than the sum of our 20 largest competitors’ physical networks and our digital sales are estimated to be greater than five times as large as that of our largest digital competitor. 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. More than 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 growth and profitability in challenging 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. 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 generally accepted accounting principles (“GAAP”) are sales, gross profit and gross margin, selling, general and administrative expenses (“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 growth 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 one year 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 buildouts, fixtures, and equipment, which we amortize over time as well as cash required for inventory.

As of December 30, 2023, we operated over 1,000 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 the 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. We recognize vendor rebates based on historical data. 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 and digital platform, and our 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 and may 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 (gain) on debt extinguishment, loss (gain) on asset and contract dispositions, executive transition costs, severance, costs related to equity offerings, strategic project costs, merger and acquisition costs, 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 titled 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 (gain) on debt extinguishment, loss (gain) on asset and contract dispositions, executive transition costs, severance, costs related to equity offerings, strategic project costs, merger and acquisition costs, 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 Macroeconomic Events and Uncertainties

Our financial performance and condition may be impacted to varying extents from period to period by macroeconomic and geopolitical developments, including public health crises, escalating global conflicts, supply chain disruptions, labor market constraints, rising rates of inflation, rising interest rates, general economic slowdown, and potential failures among financial institutions. The direct and indirect impact COVID-19 has had on our financial and operating performance since 2020 has made period-to-period analysis and accurate forecasting difficult. Due to the non-discretionary nature of our products and services, our business delivered strong growth and profitability throughout the pandemic, in spite of restrictions on the operation of our locations and distribution facilities. Significant disruption to our supply chain for products we sell, as a result of COVID-19, geopolitical conflict or otherwise, can also have a material impact on our sales and earnings and cause unpredictable changes in results. In addition, we believe adverse macroeconomic trends and uncertainties also increase consumers' sensitivity to price and result in cost-conscious behavior, which can result in corresponding declines in sales and/or gross profit.

An additional uncertainty that can impact our results of operations is consumer purchasing patterns. Due to the highly unstable supply of granular chlorine compounds over the last three years, we believe some customers stockpiled chemicals, resulting in unexpected changes in demand. As a result of such behavior, our revenue may be higher than normal during the periods of stockpiling and may be lower than normal during the periods after stockpiling has occurred.

Results of Operations

We derived our condensed consolidated statements of operations for the three months ended December 30, 2023 and December 31, 2022 from our condensed consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of our sales (in thousands, except per share amounts):

Statements of Operations Data:	Three Months Ended	
	December 30, 2023	December 31, 2022
Sales	\$ 173,960	\$ 195,104
Cost of merchandise and services sold	123,552	129,808
Gross profit	50,408	65,296
Selling, general and administrative expenses	86,878	92,281
Operating loss	(36,470)	(26,985)
Other expense:		
Interest expense	17,071	13,360
Total other expense	17,071	13,360
Loss before taxes	(53,541)	(40,345)
Income tax benefit	(13,988)	(10,086)
Net loss	<u>\$ (39,553)</u>	<u>\$ (30,259)</u>
Earnings per share		
Basic	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>
Diluted	<u>\$ (0.21)</u>	<u>\$ (0.16)</u>
Weighted average shares outstanding		
Basic	184,383	183,513
Diluted	184,383	183,513
Percentage of Sales ⁽¹⁾	(%)	(%)
Sales	100.0	100.0
Cost of merchandise and services sold	71.0	66.5
Gross margin	29.0	33.5
Selling, general and administrative expenses	49.9	47.3
Operating loss	(21.0)	(13.8)
Other expense:		
Interest expense	9.8	6.8
Total other expense	9.8	6.8
Loss before taxes	(30.8)	(20.7)
Income tax benefit	(8.0)	(5.2)
Net loss	<u>(22.7)</u>	<u>(15.5)</u>
Other Financial and Operations Data:		
Number of new and acquired locations, net	(1)	2
Number of locations open at end of period	1,007	992
Comparable sales growth ⁽²⁾	(11.7)%	4.0 %
Adjusted EBITDA ⁽³⁾	\$ (24,420)	\$ (11,915)
Adjusted EBITDA as a percentage of sales ⁽³⁾	(14.0)%	(6.1)%
Adjusted net loss ⁽³⁾	\$ (36,763)	\$ (25,333)
Adjusted diluted earnings per share	\$ (0.20)	\$ (0.14)

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

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

(3)The tables below provide a reconciliation from our net loss to Adjusted EBITDA and net loss to Adjusted net loss for the three months ended December 30, 2023 and December 31, 2022, respectively (in thousands).

	Three Months Ended	
	December 30, 2023	December 31, 2022
Net loss	\$ (39,553)	\$ (30,259)
Interest expense	17,071	13,360
Income tax benefit	(13,988)	(10,086)
Depreciation and amortization expense ⁽¹⁾	8,330	8,503
Equity-based compensation expense ⁽²⁾	2,728	3,044
Strategic project costs ⁽³⁾	123	720
Executive transition costs and other ⁽⁴⁾	869	2,803
Adjusted EBITDA	<u>\$ (24,420)</u>	<u>\$ (11,915)</u>

	Three Months Ended	
	December 30, 2023	December 31, 2022
Net loss	\$ (39,553)	\$ (30,259)
Equity-based compensation expense ⁽²⁾	2,728	3,044
Strategic project costs ⁽³⁾	123	720
Executive transition costs and other ⁽⁴⁾	869	2,803
Tax effects of these adjustments ⁽⁵⁾	(930)	(1,641)
Adjusted net loss	<u>\$ (36,763)</u>	<u>\$ (25,333)</u>

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

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

(3)Represents non-recurring costs, such as third-party consulting costs, which 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.

(4)Includes certain senior executive transition costs and severance associated with completed corporate restructuring activities across the organization, losses (gains) on asset dispositions, merger and acquisition costs, and other non-recurring, non-cash, or discrete items as determined by management. Amounts are reported in SG&A in our condensed consolidated statements of operations.

(5)Represents the tax effect of the total adjustments based on our combined U.S. federal and state statutory tax rates. Amounts are reported in income tax benefit in our condensed consolidated statements of operations.

Selected Financial Information

Sales

Sales decreased to \$174.0 million for the three months ended December 30, 2023, from \$195.1 million in the prior year period, a decrease of \$21.1 million, or 10.8%. Comparable sales decreased \$22.6 million, or 11.7%, compared to the prior year period. Non-comparable sales including acquisitions and new stores contributed \$2.6 million in the period.

Gross Profit and Gross Margin

Gross profit decreased to \$50.4 million for the three months ended December 30, 2023 from \$65.3 million in the prior year period, a decrease of \$14.9 million, or 22.8%. Gross margin decreased to 29.0% compared to 33.5% in the prior year period, which represents a decrease of 450 basis points. The changes in gross margin were primarily driven by the timing of rebate recognition resulting in a decrease of 235 basis points, expensing of previously capitalized distribution expenses resulting in a decrease of 105 basis points, deleverage on distribution and occupancy costs due to lower comparable sales resulting in a decrease of 220 basis points, partially offset by favorability in inventory adjustments resulting in an increase of 110 basis points.

Selling, General and Administrative Expenses

SG&A decreased to \$86.9 million during the three months ended December 30, 2023 from \$92.3 million in the prior year period, an decrease of \$5.4 million, or 5.9%. This decrease in SG&A was primarily related to a decrease in merchant fees associated with corresponding lower sales, lower headcount and executive transition costs, and lower merger and acquisition costs.

Interest Expense

Interest expense increased to \$17.1 million for the three months ended December 30, 2023 from \$13.4 million in the prior year period, an increase of \$3.7 million. This increase was due to higher interest rates on our Term Loan and Revolving Credit Facility.

Income Taxes

Income tax benefit increased to \$14.0 million for the three months ended December 30, 2023 compared to \$10.1 million in the prior year period, an increase of \$3.9 million. This increase was primarily attributable to a higher pretax loss.

The effective income tax rate was a benefit of 26.1% and 25.0% for the three months ended December 30, 2023 and December 31, 2022, respectively, and included net income tax expenses attributable to equity-based compensation awards in each period.

Net Loss and Earnings per Share

Net loss increased to \$(39.6) million for the three months ended December 30, 2023 compared to \$(30.3) million in the prior year period, an increase of \$9.3 million. Diluted earnings per share was \$(0.21) for the three months ended December 30, 2023 compared to \$(0.16) in the prior year period.

Adjusted net loss increased to \$(36.8) million for the three months ended December 30, 2023 compared to \$(25.3) million in the prior year period, an increase of \$11.5 million. Adjusted diluted earnings per share was \$(0.20) for the three months ended December 30, 2023 compared to \$(0.14) in the prior year period.

Adjusted EBITDA

Adjusted EBITDA decreased to \$(24.4) million for the three months ended December 30, 2023 compared to \$(11.9) million in the prior year period, a decrease of \$12.5 million. These decreases were primarily due to decreases in gross profit.

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. 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 on our earnings and cash flow 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 generally 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 \$8.4 million and \$55.4 million as of December 30, 2023 and September 30, 2023, respectively. As of December 30, 2023, we had \$38.0 million outstanding on our Revolving Credit Facility. We had no amounts outstanding on our Revolving Credit Facility as of September 30, 2023.

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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 December 30, 2023, outstanding standby letters of credit totaled \$10.6 million and, after considering borrowing base restrictions, we had \$201.4 million of available borrowing capacity under the terms of the Revolving Credit Facility. As of December 30, 2023, there have been no events of default 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):

	Three Months Ended	
	December 30, 2023	December 31, 2022
Net cash used in operating activities	\$ (71,874)	\$ (184,409)
Net cash used in investing activities	(10,699)	(13,749)
Net cash provided by financing activities	35,547	88,556
Net decrease in cash and cash equivalents	<u>\$ (47,026)</u>	<u>\$ (109,602)</u>

Cash Used in Operating Activities

Net cash used in operating activities was \$71.9 million compared to \$184.4 million in the prior year period, a decrease of \$112.5 million. The decrease was primarily driven by changes in working capital related to reductions in product inventories.

Cash Used in Investing Activities

Net cash used in investing activities decreased to \$10.7 million for the three months ended December 30, 2023 compared to \$13.7 million in the prior year period, a decrease of \$3.0 million. This decrease was primarily driven by lower investments for business acquisitions, partially offset by increased investments in property and equipment.

Cash Provided by Financing Activities

Net cash provided by financing activities for the three months ended December 30, 2023 was \$35.5 million compared to \$88.6 million in the prior year period, a decrease of \$53.1 million. This decrease was primarily driven by lower borrowings on our Revolving Credit Facility during the period.

Share Repurchase Program

On December 3, 2021, the board of directors authorized a share repurchase program for up to an aggregate of \$300 million of the Company's outstanding shares of common stock over a period of three years, expiring December 31, 2024. As of December 30, 2023, approximately \$147.7 million remained available for future purchases under our share repurchase program (see Note 12—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 have been no material changes to our contractual obligations and other commitments during the three months ended December 30, 2023 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Critical Accounting Estimates

The preparation of our condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reported periods. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require a company to make its most difficult and subjective judgments. Based on this definition, we have identified the critical accounting policies and judgments, which are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023. We base these estimates on historical results and various other assumptions we believe to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

There have been no material changes to our critical accounting estimates during the three months ended December 30, 2023 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

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 September 30, 2023.

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 September 30, 2023.

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 as of December 30, 2023. Based on that evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that the design and operation of our disclosure controls and procedures were ineffective as the material weaknesses in internal control over financial reporting that was disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 was not yet remediated as of December 30, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 30, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as described below.

Remediation

As previously disclosed in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, we are in the process of implementing a plan to address the material weaknesses in internal control over financial reporting that were disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We anticipate that the remediation of these material weaknesses will be completed during fiscal year 2024. We are committed to continuing to improve our internal control processes, and, as we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify certain of our remediation measures described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to other litigation, 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 December 30, 2023, 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.

Except as set forth in Note 10 - Commitments and Contingencies to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, there have been no material changes to the legal proceedings described in Part I Item 3 "Legal Proceedings" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

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 September 30, 2023.

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.

(a) Information Required to be Disclosed on Form 8-K

None.

(b) Changes to Procedures for Recommending Director Nominees

Not applicable.

(c) Trading Plans

During the quarter ended December 30, 2023, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.1*	2024 Form of Performance Unit Award Agreement pursuant to 2020 Omnibus Incentive Plan			
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934			
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934			
32.1+	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350			
32.2+	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350			
101.INS*	Inline XBRL Instance Document			
101.SCH*	Inline XBRL Schema Document			
101.CAL*	Inline XBRL Calculation Linkbase Document			
101.LAB*	Inline XBRL Label Linkbase Document			
101.PRE*	Inline XBRL Presentation Linkbase Document			
101.DEF*	Inline XBRL Definition Linkbase Document			
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document).			

* Filed herewith.

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

SIGNATURES

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

LESLIE'S, INC.

Date: February 1, 2024

By:

/s/ Scott Bowman
Scott Bowman
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**LESLIE'S, INC.
2020 OMNIBUS INCENTIVE PLAN
PERFORMANCE UNIT AWARD**

[FULL NAME]

Leslie's, Inc. (the "Company") hereby grants you an award of Performance Units (your "Performance Units" and also referred to as this "Award") under the Leslie's, Inc. 2020 Omnibus Incentive Plan (the "Plan"), effective as of the Grant Date, with the following terms and conditions:

Grant Date:	[GRANT DATE]
Target Number of Performance Units:	TARGET [#] SHARES GRANTED
Maximum Number of Performance Units:	200% of Target Number of Performance Units
Performance Periods:	Performance Period: Fiscal Year 2024 through Fiscal Year 2025
Vesting and Settlement:	<p>Your Performance Units are eligible to be earned in accordance with <u>Appendix A</u>, attached hereto, provided that you remain in continuous employment or service with the Company or an Affiliate through the applicable Settlement Date (as defined below).</p> <p>If, prior to the Second Settlement Date, your employment or service with the Company or its Affiliates is terminated due to your Disability, or due to your death, this Award will be earned and be settled promptly as to either (i) the number of Performance Units that were earned as of the end of the completed Performance Period but were not yet settled, or (ii) 100% of the Target Number of Performance Units that remain subject to the Performance Period. For purposes of this Award, "Disability" means you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.</p> <p>Except as otherwise provided above (or below, in connection with a Change of Control), upon your termination of employment, or cessation of services to, the Company and its Affiliates prior to any Settlement Date, you will forfeit the Performance Units that have not yet been settled.</p>
Change of Control	<p>If a Change of Control occurs in which the Administrator determines that the successor or surviving corporation (or parent thereof) has assumed or substituted the Performance Units granted hereby in the manner contemplated by Section 17(c) of the Plan, then the performance measures in <u>Appendix A</u> shall be deemed achieved based on actual performance for completed fiscal years within the</p>

Performance Period and at the Target performance for any incomplete fiscal years within the Performance Period, and you will be entitled to receive that number of Performance Units so long as you remain in the continuous employment or service by the Company or one of its Affiliates through the applicable Settlement Date.

Notwithstanding anything to the contrary herein, if, within the 24-month period following such Change of Control, your employment or service with the Company and its Affiliates is terminated by the Company or one of its Affiliates without Cause (other than due to death or Disability) [or by you with Good Reason], then the number of Performance Units eligible to be earned under the paragraph above shall become fully earned as of the date of termination of employment or service. ["Good Reason" means, for the purposes of this Award, your resignation within 60 days after the occurrence any of the following events without your consent: (i) a material reduction in your duties that is inconsistent with your position at the time of the Grant Date, (ii) any material reduction in your base annual salary or target annual bonus (other than in connection with a general decrease in the base salaries or target bonuses for all officers of the Company), (iii) a requirement by the Company that you relocate your principal office to a facility more than 50 miles from your principal office immediately prior to the Change of Control (which relocation increases your commute); or (iv) there is a willful failure or refusal by the Company to perform any material obligation under any written employment agreement between you and the Company; provided however, that with regard to (i) through (iv) you must provide the Company with written notice of the event allegedly constituting "Good Reason," and the Company will have 15 days from the date it receives such written notice to cure such event.]

If a Change of Control occurs in which the successor or surviving corporation (or parent thereof) has not assumed or substituted the Performance Units granted hereby in the manner contemplated by Section 17(c) of the Plan, then the performance measures in Appendix A shall be deemed achieved based actual performance for completed fiscal years within the Performance Period and Target performance for incomplete fiscal years within the Performance Period, and you shall fully earn that number of Performance Units immediately prior to the Change of Control.

Settlement of Performance Units:

As soon as administratively practicable after the end of the Performance Period, the Administrator shall solely and exclusively make all determinations with regard to the calculation of performance (pursuant to Appendix A) during the Performance Period and the number of Performance Units which the participant is entitled to receive under this Award. Settlement with respect to 50% of the earned Performance Units shall occur on a date chosen by the Administrator following certification of performance, but in any event within ninety (90) days following the end of the Performance Period and in any event no later than March 15th of the calendar year immediately following the calendar year in which the Performance

Period ends (the "First Settlement Date"). Settlement with respect to 50% of the earned Performance Units shall occur on a date chosen by the Administrator on or after the last day of Fiscal Year 2026, but in any event within ninety (90) days following the last day of Fiscal Year 2026, and in any event no later than March 15, 2027 (the "Second Settlement Date"). To the extent an event triggering earlier settlement occurs as explicitly provided for in this Agreement, settlement shall occur on a date chosen by the Administrator following certification of performance, if applicable, or otherwise following such triggering event, but in any event within ninety (90) days following such triggering event, and in any event no later than March 15th of the calendar year immediately following the calendar year in which such triggering event occurs (the "Early Settlement Date," and each of the First Settlement Date, the Second Settlement Date, or the Early Settlement Date, as applicable, the "Settlement Date"). The Company will settle your earned Performance Units by issuing in your name certificate(s) or making an appropriate book entry for a number of Shares equal to the number of Performance Units that have been earned..

Transferability of
Performance Units:

You may not sell, transfer or otherwise alienate or hypothecate this Award or any of your Performance Units until they are earned and settled. In addition, by accepting this Award, you agree not to sell any Shares acquired under this Award other than as set forth in the Plan and at a time when applicable laws, Company policies or an agreement between the Company and its underwriters do not prohibit a sale.

Rights as Shareholder; Dividend
Equivalents:

You will not be deemed for any purposes to be a shareholder of the Company with respect to any of the Performance Units (including with respect to voting or dividends), unless and until a certificate for Shares is issued upon settlement of the Performance Units. Notwithstanding the preceding sentence, each Performance Unit shall be credited with dividend equivalents, which shall be withheld by the Company for your account. Dividend equivalents credited to your account and attributable to a Performance Unit shall be distributed (without interest) to you at the same time as the underlying Share is delivered upon settlement of such Performance Unit and, if such Performance Unit is forfeited, you shall have no right to such dividend equivalents. Any adjustments for dividend equivalents shall be in the sole discretion of the Administrator and may be payable (i) in cash, (ii) in Shares with a Fair Market Value as of the applicable settlement date equal to the dividend equivalents, or (iii) in an adjustment to the underlying number of Shares subject to the Performance Units.

Taxes:

You (and not the Company or any Affiliate) shall be responsible for your federal, state, local or foreign tax liability and any of your other tax consequences that may arise as a result of the transactions contemplated by this Award. You shall rely solely on the determinations of your own tax advisors or your own determinations, and not on any statements or representations by the Company or any of its agents, with regard to all such tax matters.

To the extent that the receipt, earning or settlement of the Performance Units, or other event, results in income to you for federal, state or local income tax purposes, you shall deliver to the Company or its Affiliate, at the time the Company or its Affiliate, is obligated to withhold taxes in connection with such receipt, earning, settlement or other event, as the case may be, such amount as the Company or its Affiliate requires to meet its withholding obligation under applicable tax laws or regulations, and if you fail to do so, the Company shall not be obligated to deliver any Shares to you and shall have the right and authority to deduct or withhold from other compensation payable to you an amount sufficient to satisfy its withholding obligations.

In furtherance of the forgoing, unless alternative arrangements to fund tax withholding obligations are made in advance in a manner acceptable to the Company, your acceptance of the Award constitutes your instruction and authorization to the Company to cause to be sold (by the Company's designated broker) on your behalf a whole number of Shares from those Shares issued to you as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy your tax withholding obligations. Such Shares will be sold on the day of the event giving rise to the tax withholding obligation or as soon thereafter as practicable. You will be responsible for all broker's fees and other costs of sale. The number of Shares sold may be determined by considering any applicable withholding rates, including maximum applicable rates. You further acknowledge that the Company or its designee is under no obligation to arrange for such sale at any particular price.

Miscellaneous:

- Neither the Plan nor the grant of this Award shall constitute or be evidence of any agreement or understanding, express or implied, that you have a right to continue as an employee or otherwise remain in the service of the Company or any of its Affiliates for any period of time, or at any particular rate of compensation. Nothing in this Award will interfere with or restrict the rights of the Company or its Affiliates—which are expressly reserved—to remove, terminate or discharge you at any time for any reason whatsoever or for no reason, subject to the Company's certificate of incorporation, bylaws and other similar governing documents and applicable law. Any value under your Performance Units is not part of your normal or expected compensation for purposes of calculating any severance, retirement, welfare, insurance or similar employee benefit. The grant of your Performance Units does not create any right to receive any future awards.

- The Plan and this Award constitute the entire understanding of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements between you and the Company with respect to the subject matter hereof. You expressly warrant that you are

not accepting this Award in reliance on any promises, representations or inducements, other than those contained herein.

- By accepting the grant of your Performance Units, you agree not to sell any Shares acquired in connection with the Performance Units other than as set forth in the Plan and at a time when applicable laws, Company policies or an agreement between the Company and its underwriters do not prohibit a sale.

- As a condition of the granting of this Award, you agree, for yourself and your legal representatives or guardians, that this Award shall be interpreted by the Administrator, and that any interpretation by the Administrator of the terms of this Award or the Plan, and any determination made by the Administrator pursuant to this Award, shall be final, binding and conclusive.

- Subject to the terms of the Plan, the Administrator may modify or amend this Award without your consent as permitted by Section 15(c) of the Plan or: (i) to the extent such action is deemed necessary by the Administrator to comply with any applicable law or the listing requirements of any principal securities exchange or market on which the Shares are then traded; (ii) to the extent the action is deemed necessary by the Administrator to preserve favorable accounting or tax treatment of any award for the Company; or (iii) to the extent the Administrator determines that such action does not materially and adversely affect the value of this Award or that such action is in the best interest of you or any other person who may then have an interest in this Award.

- You acknowledge and expressly agree to the governing law and jurisdiction and waiver of jury trial terms of Section 18(g) of the Plan (and any successor terms).

- This Award may be executed in counterparts. The Company may deliver any documents related to current or future participation in the Plan by electronic means. You consent to receive those documents by electronic delivery and to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

- The invalidity or unenforceability of any term of the Plan or this Agreement will not affect the validity or enforceability of any other term of the Plan or this Agreement, and each other term of the Plan and this Agreement will be severable and enforceable to the extent permitted by applicable law.

- You must, upon request of the Company, do all acts and execute, deliver and perform all additional documents, instruments and agreements that may be reasonably required by the Company to implement this Agreement.

•All awards, amounts, and benefits received or outstanding under the Plan will be subject to clawback, cancellation, recoupment, rescission, payback, reduction or other similar action in accordance with the terms of any Company clawback or similar policy or any applicable law related to such actions, as may be in effect from time to time. You acknowledge and expressly agree to the Company's application, implementation and enforcement of any applicable Company clawback or similar policy that may apply to you, whether adopted before or after the Grant Date, and any term of applicable law relating to clawback, cancellation, recoupment, rescission, payback or reduction of compensation, and the Company may take such actions as may be necessary to effectuate any such policy or applicable law, without further consideration or action.

•This Award, and any issuance of Shares hereunder, is intended to comply and shall be interpreted in accordance with Section 409A of the Code. Upon your "separation from service," the Company shall determine whether any Shares issued to you in accordance with this Award could be determined to be payments from a nonqualified deferred compensation plan and whether you are a "specified employee" as of the applicable payment date (each as defined by Section 409A of the Code). If you are determined to be a "specified employee" and any such payments are payable in connection with your separation from service, and are not exempt from Section 409A of the Code as a short-term deferral or otherwise, these payments, to the extent otherwise payable within 6 months after your date of separation from service, will be paid in a lump sum on the earlier of: (i) the date that is 6 months after your date of separation from service or (ii) the date of your death . The foregoing 6-month delay shall be applied if and only to the extent necessary to avoid the imposition of taxes under Section 409A of the Code. For purposes of Section 409A of the Code, the payments to be made to you in accordance with this Agreement shall be treated as a right to a series of separate payments.

This Award is granted under and governed by the terms and conditions of the Plan. The terms of the Plan to the extent not stated herein are expressly incorporated herein by reference and in the event of any conflict between this Award and the Plan, the terms of the Plan shall govern, control and supersede over the provisions of this Award. Capitalized terms used in this Award and not defined shall have the meanings given in the Plan.

BY ACCEPTING THIS AWARD, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED HEREIN AND IN THE PLAN. YOU ALSO ACKNOWLEDGE RECEIPT OF THE PLAN. YOU REPRESENT TO THE COMPANY THAT YOU HAVE READ AND FULLY

UNDERSTAND THIS AWARD AND THE PLAN AND THAT YOUR DECISION TO PARTICIPATE IN THE PLAN IS COMPLETELY VOLUNTARY. YOU ALSO ACKNOWLEDGE THAT YOU ARE RELYING SOLELY ON YOUR OWN ADVISORS REGARDING THE TAX CONSEQUENCES OF YOUR PERFORMANCE UNITS. **YOU MUST ACCEPT THIS AWARD WITHIN THIRTY (30) DAYS AFTER IT IS FIRST PRESENTED TO YOU FOR REVIEW, BY RETURNING A SIGNED COPY TO THE COMPANY IN ACCORDANCE WITH SUCH PROCEDURES AS THE COMPANY MAY ESTABLISH.**

[Signature Pages Follow]

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LESLIE'S, INC.

By: _____
[NAME]

[TITLE]

Date: [GRANT DATE]

[PARTICIPANT NAME]

By: _____

Date: _____

**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: February 1, 2024

By:

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

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

I, Scott Bowman, 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: February 1, 2024

By:

/s/ Scott Bowman
Scott Bowman
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Leslie's, Inc. (the "Company") for the quarter ended December 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: February 1, 2024

By:

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

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

In connection with the Quarterly Report on Form 10-Q of Leslie's, Inc. (the "Company") for the quarter ended December 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: February 1, 2024

By:

/s/ Scott Bowman
Scott Bowman
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)



