Q3 2022 Earnings Call

November 10, 2022

latham Group

SWIM | Nasdaq Listed

Disclaimer

Forward-looking Statements

Certain statements contained in this presentation are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are generally identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," "would" and, in each case, their negative or other various or comparable terminology. In addition, our management may from time to time make oral forward-looking statements. All statements, other than statements of historical facts, are forward-looking statements. These forward-looking statements reflect our views with respect to future events as of the date of this release and are based on our management's current expectations, estimates, forecasts, projections, assumptions, beliefs and information. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. All such forward-looking statements are subject to risks and uncertainties, many of which are outside of our control, and could cause future events or results to be materially different from those stated or implied in this document. It is not possible to predict or identify all such risks. These risks include, but are not limited to: secular shifts in consumer demand for swimming pools and spending on outdoor living spaces; slow pace of material conversion from concrete pools to fiberglass pools in the pool industry; general economic conditions and uncertainties affecting markets in which we operate and economic volatility that could adversely impact the Company's business, including the COVID-19 pandemic and inflation; the impact of the war between the Russian Federation and Ukraine, including the impact of sanctions imposed by Western governments; changes in access to consumer credit or increases in interest rates impacting consumers' ability to finance their purchases of pools; the impact of weather on the Company's business; the Company's ability to attract new customers and retain existing customers, including the ability to generate additional potential sales leads for our dealers and the ability to convert leads generated into ultimate sales of products to consumers; the Company's ability to sustain further growth and to manage it effectively; the ability of the Company's suppliers to continue to deliver the quantity or quality of materials sufficient to meet the Company's needs to manufacture the Company's products; the availability and cost of third-party transportation services for the Company's products and raw materials; product quality issues; the Company's ability to successfully defend litigation brought against the Company; the Company's ability to adequately obtain, maintain, protect and enforce the Company's intellectual property and proprietary rights and claims of intellectual property and proprietary right infringement, misappropriation or other violation by competitors and third parties; failure to hire and retain qualified employees and personnel; exposure to risks associated with international sales and operations, including foreign currency exchange rates, corruption and instability; security breaches, cyber-attacks and other interruptions to the Company's and the Company's third-party service providers' technological and physical infrastructures; catastrophic events, including war, terrorism and other international conflicts, public health issues or natural catastrophes and accidents; risk of increased regulation of the Company's operations, particularly related to environmental laws; fluctuations in our operating results; inability to compete successfully against current and future competitors; inability to achieve projected savings from our cost reduction initiatives; and other risks, uncertainties and factors described under the section titled "Risk Factors" in our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings filed with the U.S. Securities and Exchange Commission (the "SEC") by the Company, as well as other filings that the Company will make, or has made, with the SEC. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this presentation and in other filings. We expressly disclaim any obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Non-GAAP Financial Measures

We track our non-GAAP financial measures to monitor and manage our underlying financial performance. This presentation includes the presentation of Adjusted EBITDA (including on a last twelve months' basis) and Adjusted EBITDA margin, which are non-GAAP financial measures that exclude the impact of certain costs, losses and gains that are required to be included in our profit and loss measures under GAAP. Although we believe these measures are useful to investors and analysts for the same reasons it is useful to management, as discussed below, these measures are neither a substitute for, nor superior to, U.S. GAAP financial measures or disclosures. Other companies may calculate similarly-titled non-GAAP measures differently, limiting their usefulness as comparative measures. We have reconciled Adjusted EBITDA to the applicable most comparable GAAP measure, net income, throughout this presentation.

Adjusted EBITDA and Adjusted EBITDA margin are key metrics used by management and our board of directors to assess our financial performance. Adjusted EBITDA and Adjusted EBITDA margin are 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 and Adjusted EBITDA margin 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, and as a performance measure in certain employee incentive programs. We have presented Adjusted EBITDA and Adjusted EBITDA margin solely as supplemental disclosures because we believe they allow for a more complete analysis of results of operations and assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that are non-cash items or which we do not believe are indicative of our core operating performance, such as (i) depreciation and amortization, (ii) interest expense, (iii) income tax (benefit) expense, (iv) loss on sale and disposal of property and equipment, (v) restructuring charges, (vi) stock-based compensation expense, (vii) unrealized (gains) losses on foreign currency transactions, (viii) strategic initiative costs, (ix) acquisition and integration related costs, (x) loss on extinguishment of debt, (xi) other, (xii) underwriting fees related to offering of common stock, (xiii) Odessa fire and (xiv) IPO costs.

Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures and should not be considered as alternatives to net income as a measure of financial performance or any other performance measure derived in accordance with GAAP, and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA and Adjusted EBITDA margin, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. There can be no assurance that we will not modify the presentation of Adjusted EBITDA and Adjusted EBITDA margin in the future, and any such modification may be material. Our presentation of Adjusted EBITDA and Adjusted EBITDA margin should not be construed to imply that our future results will be unaffected by any such adjustments. In addition, other companies, including companies in our industry, may not calculate Adjusted EBITDA and Adjusted EBITDA margin at all or may calculate Adjusted EBITDA and Adjusted EBITDA margin differently and accordingly, are not necessarily comparable to similarly entitled measures of other companies, which reduces the usefulness of Adjusted EBITDA and Adjusted EBITDA margin as tools for comparison.

Adjusted EBITDA and Adjusted EBITDA margin have their limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are that Adjusted EBITDA and Adjusted EBITDA margin:

- do not reflect every expenditure, future requirements for capital expenditures or contractual commitments;
- do not reflect changes in our working capital needs;
- do not reflect the interest expense, or the amounts necessary to service interest or principal payments, on our outstanding debt;
- do not reflect income tax (benefit) expense, and because the payment of taxes is part of our operations, tax expense is a necessary element of our costs and ability to operate;
- do not reflect non-cash equity compensation, which will remain a key element of our overall equity-based compensation package; and
- do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations.

Although depreciation and amortization are eliminated in the calculation of Adjusted EBITDA and Adjusted EBITDA margin, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA and Adjusted EBITDA margin do not reflect any costs of such replacements.

Q3 2022 Highlights

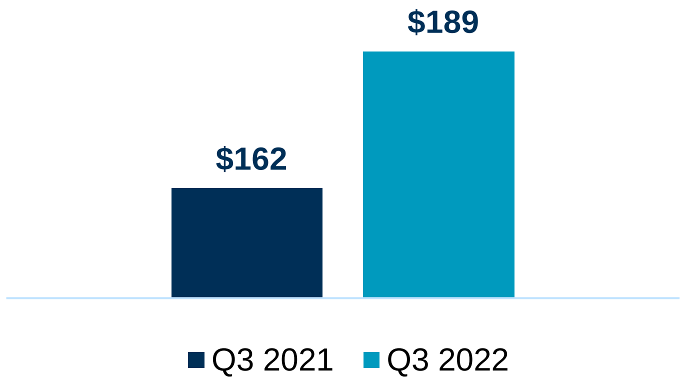
Strong topline growth across our product portfolio

Continued to drive year-over-year improvement in North American fiberglass production

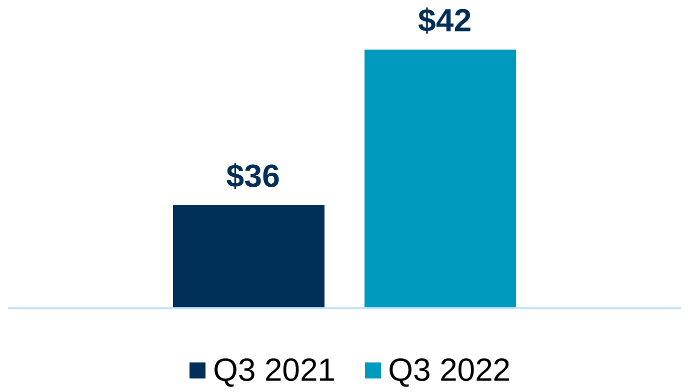
Substantially normalized lead times across the non-fiberglass product portfolio

Pricing actions offset inflation, although not at a magnitude to hold year-over-year gross margins

Net Sales
($ in millions)
+17% YoY Growth



Adjusted EBITDA[1]
($ in millions)
+17% YoY Growth



NOTE:
1. See Appendix for the reconciliation of Adjusted EBITDA to net income (loss)

Go-Forward Strategy

Reduce Costs

- Cost reduction initiatives expected to generate annual operating expense savings of ~$12 million in FY23:
  - Optimizing production and shift schedules
  - Implemented a workforce reduction
  - Streamlining cover and liner manufacturing footprint with the closure of Bossier City, Louisiana facility

Lean & value engineering disciplines allow us to execute on other value-added cost reduction initiatives

Leverage Direct-to-Homeowner Strategy and Lead Generation Engine

- Positioned as a key resource for homeowners' pool buying journey
- Driving traffic to our website
- Increasing downloads of MyLatham and Pool Cost Estimator tools
- Launched targeted regional campaigns to complement dealers' installation capacity

Tremendous untapped demand of U.S. homes without a pool today

Drive Fiberglass Conversion

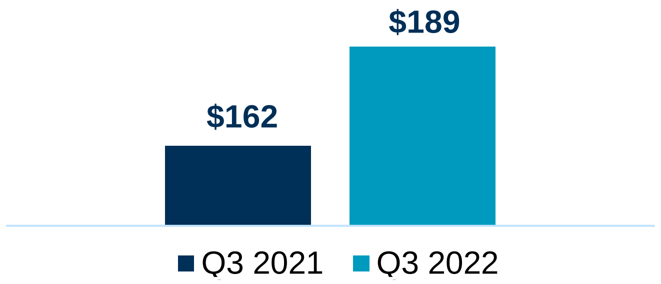
- Enhancing leadership position through capacity initiatives, model lineup expansion and deepening/expanding dealer relationships
- Continued progress on construction of new Kingston, Ontario fiberglass facility
- Acquired fiberglass manufacturing assets in Seminole, Oklahoma

Fiberglass remains an important driver of Latham's ability to outperform market

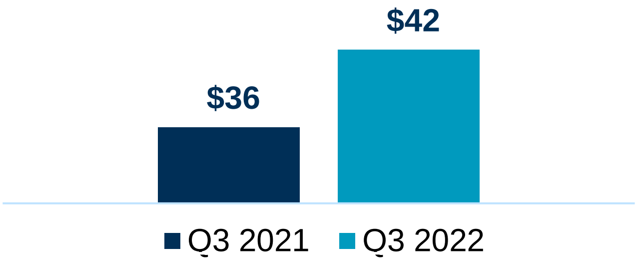
Q3 / YTD 2022 Financial Highlights

Q3

Net Sales
($ in millions)
+17% YoY Growth

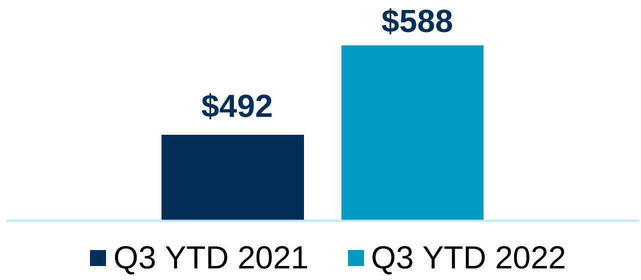


Adjusted EBITDA[1]
($ in millions)
+17% YoY Growth

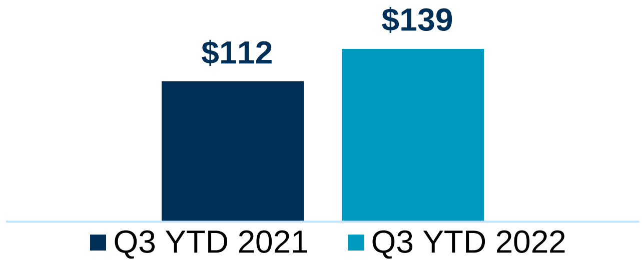


YTD

Net Sales
($ in millions)
+20% YoY Growth



Adjusted EBITDA[1]
($ in millions)
+23% YoY Growth



Key Drivers

- Net sales growth across all three product categories - in-ground swimming pools, covers and liners
- Topline growth driven by price
- Overall volumes relatively flat versus prior year
  - Continued fiberglass volume growth year-over-year

NOTE:
1. See Appendix for the reconciliation of Adjusted EBITDA to net income (loss)

Responding to Current Market Conditions

Latham's continuous improvement culture coupled with the recent cost reduction actions strengthen our ability to navigate the challenging market environment while still prioritizing our growth strategy

Cost Reduction Actions

- Optimized production and shift schedules
- Implementing a workforce reduction
- Streamlining our cover and liner manufacturing footprint with the closure of Bossier City, Louisiana facility

Impact

- Expect to realize annualized savings of about $12 million in FY23
- Expect to incur approximately $2 million in total charges for employee severance expenses and facility shutdown costs in Q4'22 and into Q1'23

Financial Outlook

FISCAL 2022 OUTLOOK[1]

Net Sales
~$685 million to $700 million

Adjusted EBITDA
~$140 million to $145 million

Capital Expenditures
~$40 million to $45 million

Key Drivers:

- Continued volume declines in packaged pools as wholesalers destock existing inventory
- Softer demand for pools as macroeconomic environment drives some delayed consumer purchase decisions
- Ongoing execution of strategic initiatives
  - Drive the material conversion to fiberglass
  - Leverage our unique direct-to-consumer digital strategies

THREE-TO-FIVE YEAR TARGETS[2]

Net Sales Growth
10% to 12%

Adjusted EBITDA Growth
12% to 15%

Adjusted EBITDA Margin
+500 bps

Key Drivers:

- Our consumer-driven strategy, as evidenced by our proven ability to generate sales qualified leads
- Material conversion from concrete to manufactured pools, particularly fiberglass
- Latham's capacity investments
- Our disciplined approach to price and cost management

NOTE
1. Represents guidance given by the Company as of November 10, 2022. These are forward-looking statements. See “Forward-looking statements” on page 2 of this presentation. A reconciliation of Latham’s projected Adjusted EBITDA to net income is not available due to uncertainty related to our future income tax expense.
2. These are goals/targets and are not projections. These are forward-looking statements, which are subject to significant business, economic, regulatory and competitive uncertainties and contingencies, many of which are beyond the control of the Company and its management, and are based upon assumptions with respect to future decisions, which are subject to change. Actual results will vary and those variations may be material. Nothing in this presentation should be regarded as a representation by any person that these goals/targets will be achieved. See “Forward-looking statements” on page 2 of this presentation.

Latham: A Compelling Growth Story

- Serving a large and attractive market benefitting from material conversion
- The leading consumer brand in the residential pool market
- Unique direct-to-homeowner model driving business for our dealer partners
- Broadest portfolio of branded products known for quality, durability and aesthetics
- Broad reach, regulatory expertise and technological capabilities create significant competitive advantages
- Multiple levers to continue to drive growth across our platform
- Visionary management team with proven track record of execution

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Q&A

Appendix

Non-GAAP Reconciliations

(in thousands)	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	October 1, 2022	October 2, 2021	October 1, 2022	October 2, 2021
Net income (loss)	$ 11,876	$ (11,296)	$ 13,339	$ (56,361)
Depreciation and amortization	9,560	8,019	28,834	23,689
Interest expense	4,264	4,271	9,193	20,843
Income tax (benefit) expense	9,109	7,807	25,399	15,908
Loss on sale and disposal of property and equipment	22	38	146	225
Restructuring charges(a)	287	376	406	783
Stock-based compensation(b)	7,061	27,603	40,415	104,578
Unrealized losses on foreign currency transactions(c)	1,103	1,740	2,817	948
Strategic initiative costs(d)	532	778	3,019	1,154
Acquisition and integration related costs(e)	—	306	257	378
Loss on extinguishment of debt (f)	—	—	3,465	—
Other(g)	(39)	(3,535)	140	(3,626)
Underwriting fees related to offering of common stock (h)	—	—	11,437	—
Odessa fire (i)	(1,523)	—	—	—
IPO Costs (j)	—	—	—	3,956
Adjusted EBITDA	$ 42,252	$ 36,107	$ 138,867	$ 112,475
Net sales	$ 189,398	$ 161,957	$ 587,812	$ 491,592
Net income (loss) margin	6.3%	(7.0%)	2.3%	(11.5%)
Adjusted EBITDA Margin	22.3%	22.3%	23.6%	22.9%

(a) Represents severance and other costs for our executive management changes.
(b) Represents non-cash stock-based compensation expense.
(c) Represents unrealized foreign currency transaction losses associated with our international subsidiaries.
(d) Represents fees paid to external consultants for our strategic initiatives.
(e) Represents acquisition and integration costs primarily related to the acquisition of Radiant, the equity investment in Premier Pools & Spas, as well as other costs related to potential transactions.
(f) Represents the loss on extinguishment of debt in connection with our Refinancing (as defined below).
(g) Other costs consist of other discrete items as determined by management, primarily including (i) fees paid to external advisors for various matters, (ii) non-cash adjustments to record the step-up in the fair value of inventory related to the acquisitions of GL International, LLC and Radiant, which are amortized through cost of sales in the condensed consolidated statements of operations, (iii) gain on sale of equity method investment, and (iv) other items.
(h) Represents underwriting fees related to our offering of common stock that was completed in January 2022.
(i) Represents costs incurred and insurance recoveries related to a production facility fire in Odessa, Texas.
(j) These expenses are primarily composed of legal, accounting and professional fees incurred in connection with our initial public offering that are not capitalizable, which are included within selling, general and administrative expense.