Q2 2023 Earnings Call

August 8, 2023

latham Group

SWIM | Nasdaq Listed

Disclaimer

Forward-looking Statements
Certain statements in this presentation constitute forward-looking statements under federal securities laws. These forward-looking statements reflect our views with respect to future events and financial performance as of the date of this presentation or otherwise specified herein. Actual events and results may differ materially from those contemplated by such forward-looking statements due to risks and other factors that are set forth in our Annual Report on Form 10-K and subsequent reports filed or furnished with the SEC, as well as our earnings release issued as of the date of this presentation. Our forward-looking statements further do not reflect the potential impact of any future acquisitions, merger, dispositions, joint ventures or investments we may undertake. We expressly disclaim any obligation to update any forward-looking statements, 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), Adjusted EBITDA margin, Net Debt, and Net Debt Leverage Ratio. This presentation includes certain non-GAAP financial measures. These non-GAAP financial measures supplement our GAAP disclosures and should not be considered an alternative to GAAP financial measures, and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Reconciliations of directly comparable GAAP measures to these non-GAAP measures can be found in the Appendix to this presentation.

For the definitions of certain non-GAAP measures, how such non-GAAP measures provide useful information to investors, how management utilizes them and the limitations on their use, see our earnings release issued as of the date of this presentation.

Net Debt and Net Debt Leverage Ratio are non-GAAP financial measures used in monitoring and evaluating our overall liquidity, financial flexibility, and leverage. Other companies may calculate similarly-titled non-GAAP measures differently, limiting their usefulness as comparative measures. We define Net Debt as total debt less cash and cash equivalents. We define the Net Debt Leverage Ratio as Net Debt divided by last twelve months ("LTM") of Adjusted EBITDA. We believe this measure is an important indicator of our ability to service our long-term debt obligations. There are material limitations to using Net Debt Leverage Ratio as we may not always be able to use cash to repay debt on a dollar-for-dollar basis.

Q2 2023 Highlights

1. Delivered sequential improvement in net sales, gross margin, and adjusted EBITDA margin in Q2'23 vs. Q1'23
2. Continued to actively manage costs, production levels, and inventory to align with demand while maintaining lead times
3. Digital tools and marketing efforts continued to drive increased website activity and leads to dealers
4. Focus on dealer recruitment delivering momentum in new dealer signups
5. Enhanced liquidity in Q2'23, positioning us well for 2H'23 as we continue to right size inventory levels

Strategic Priorities

- Drive material conversion from concrete to fiberglass
- Leverage direct-to-homeowner strategy and digital innovations
- Enhance and expand strategic partnerships with dealers
- Execute continuous improvement initiatives and prudently manage costs

Execute Continuous Improvement Initiatives and Prudently Manage Costs

Continuous Improvement & Prudent Cost Management

- Continuing to match production, staffing, and inventory levels to demand

- Took further actions in Q2’23 and Q3’23 to enhance operating efficiency, including a reduction in manufacturing overhead, headcount reductions, and restricting discretionary spending
  - Expect to realize an additional $12 million in annualized cost savings, with $6 million expected to be realized in fiscal 2023

- Gaining traction on our lean and value engineering efforts, improving the efficiency of our manufacturing processes

Enhancing Fiberglass Manufacturing to Capitalize on Conversion Opportunity

Drive Fiberglass Conversion

Kingston, Ontario


Seminole, Oklahoma


Kingston, Ontario

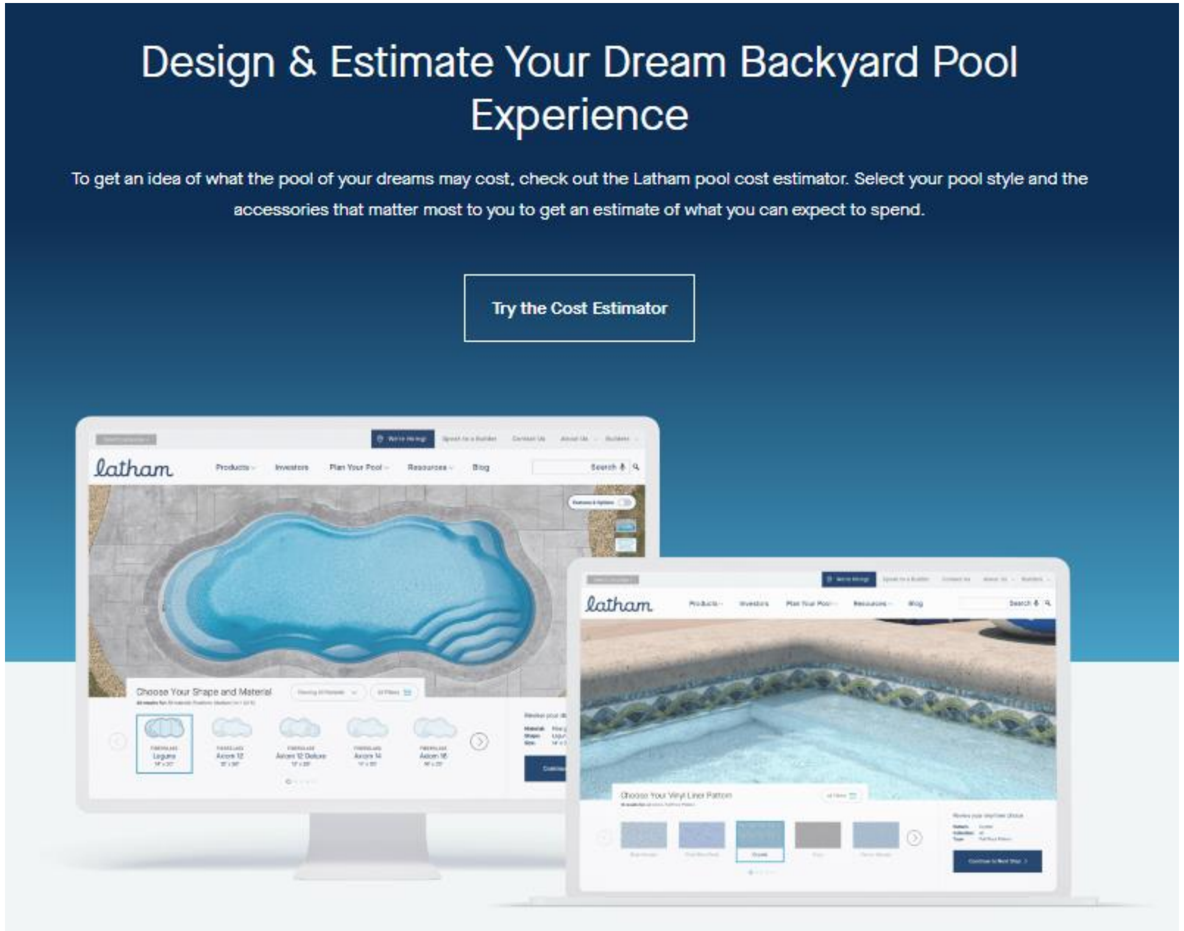
Seminole, Oklahoma

- Celebrated the grand opening of our Kingston, Ontario and Seminole, Oklahoma fiberglass manufacturing facilities in Q2’23
- Enable improved lead times and reduced freight costs
- Allow us to better serve large markets with strong fiberglass conversion opportunities (Eastern Canada, U.S. Northeast, Upper Midwest, Southwest, and South Central)

Strong Momentum with Latham's Direct-to-Homeowner Strategy and Digital Tools

Leverage Direct-to-Homeowner Strategy

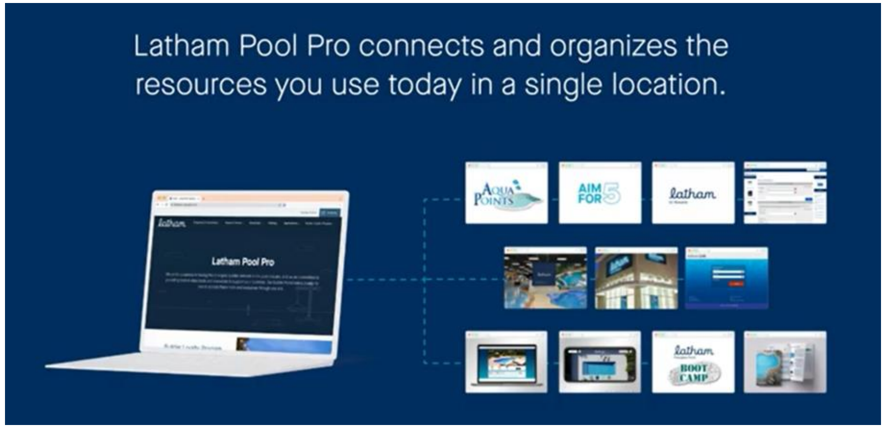
- Year-over-year growth in website activity and leads to dealers in Q2'23
- Homeowners continue to leverage Latham's digital tools with momentum in Pool Cost Estimator sessions and new MyLatham accounts
- Roughly half of leads in 2023 YTD have an active MyLatham account



Focus on Dealer Recruitment and Enhancing Value-added Services for Latham Grand Dealers

Enhance Strategic Partnerships with Dealers

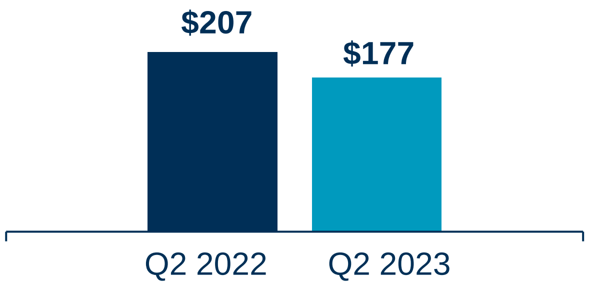
- Heading into peak pool building season, had strong demand for hands-on training bootcamps held at our world-class training facility in Zephyrhills, Florida
- Enhancing our value-added services to strengthen our ability to attract and retain dealers and position dealers for success with launch of new Latham Pro website planned by the end of 2023
- On track to meet internal targets for new dealers with year-over-year growth in new dealer signups in 1H’23



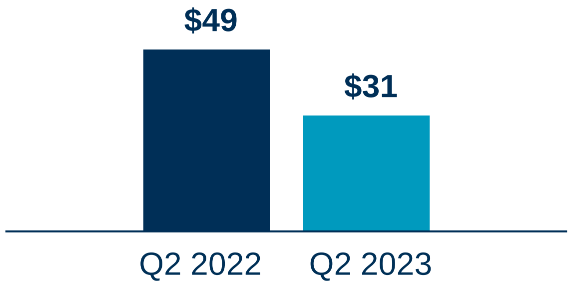
Q2 and 1H 2023 Financial Highlights

Q2 2023

Net Sales
($ in millions)



Adjusted EBITDA[1]
($ in millions)

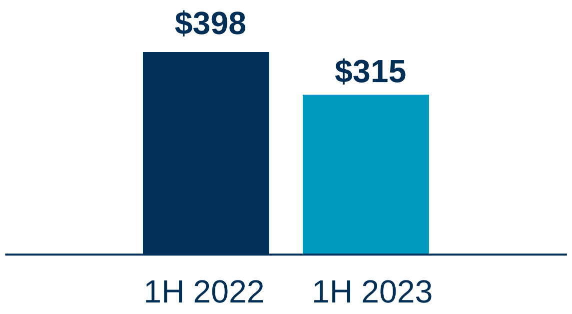


Key Drivers

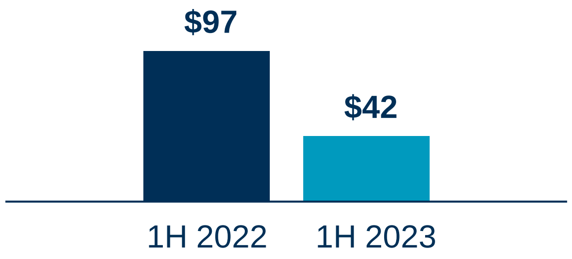
- Continued macroeconomic challenges
- Sell-through of higher cost inventory
- Impact of inflation
- Right sizing of our inventory
- Ability to maintain price
- Benefits of cost actions taken in Q4’22 and Q2’23

1H 2023

Net Sales
($ in millions)



Adjusted EBITDA[1]
($ in millions)



Key Drivers

- Tough year-over-year comparisons created from elevated backlogs entering into 1H’22
- Pool market returned to pre-2020 seasonality in Q1’23
- Continued macroeconomic challenges
- Sell-through of higher cost inventory
- Negative fixed cost leverage due to year-over-year volume declines
- Impact of inflation
- Right sizing of our inventory

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

Disciplined Approach to Capital Allocation

Reinvesting in the Business	• Targeted investments in organic growth opportunities that generate significant returns and value creation • Focus on fiberglass production / delivery equipment and new fiberglass molds
Selective Strategic Investments in Inorganic Growth	• Strong history of successful M&A integration • Ample opportunity for additional add-ons given industry fragmentation
Maintaining a Strong Balance Sheet	• As of July 1, 2023, had cash and cash equivalents of $43 million, $75 million of borrowing availability on our $75 million Revolving Credit Facility – providing total liquidity of $118 million - and total debt of $312 million. • Net Debt Leverage Ratio(1) was 3.0x at end of Q2 2023
Returning Capital to Shareholders	• As of July 1, 2023, $77 million remained available for repurchases of its shares of Common Stock pursuant to the Company's $100 million authorization

(1) Calculated by net debt divided by LTM Adjusted EBITDA for the four fiscal quarters ended July 1, 2023. See appendix for the reconciliation of Adjusted EBITDA to net loss and Net Debt and Net Debt Leverage Ratio to the comparable GAAP measure.

Fiscal 2023 Outlook[1]

$ in millions	Updated Outlook		Prior Outlook	
Metric	**Low**	**High**	**Low**	**High**
Net Sales	$570	$600	$565	$615
Adjusted EBITDA[2]	$90	$100	$90	$110
Capital Expenditures	$32	$38	$35	$40

Reflects:

- First half fiscal 2023 results
- Current outlook for demand based on expected declines in the industry for U.S. new in-ground pool installations in 2023 vs 2022
- Continued progress executing our strategy to drive material conversion from concrete to fiberglass swimming pools
- Continued investment and momentum in our lead generation efforts and digital tools, positioning us well for the long-term
- Benefits from our cost reduction, productivity, and continuous improvement initiatives
- Disciplined capital investments with a focus on the completion of projects for the Kingston, Ontario and Seminole, Oklahoma fiberglass manufacturing facilities

(1) Represents guidance given by the Company as of August 8, 2023. These are forward-looking statements. See “Forward-looking statements” on page 2 of this presentation.
(2) A reconciliation of Latham’s projected Adjusted EBITDA to net income (loss) is not available due to uncertainty related to our future income tax expense.

Latham: A Compelling Long-term 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

Q&A

Appendix

Non-GAAP Reconciliations

Adjusted EBITDA and Adjusted EBITDA Margin

(in thousands)	Fiscal Quarter Ended July 1, 2023	Fiscal Quarter Ended July 2, 2022	Two Fiscal Quarters Ended July 1, 2023	Two Fiscal Quarters Ended July 2, 2022
Net income (loss)	$ 5,715	$ 4,303	$ (8,653)	$ 1,463
Depreciation and amortization	10,026	9,780	19,284	19,274
Interest expense, net	4,486	3,164	15,290	4,929
Income tax expense	4,884	10,983	1,956	16,290
Loss on sale and disposal of property and equipment	5	124	13	124
Restructuring charges[(a)]	278	106	797	119
Stock-based compensation expense[(b)]	5,764	16,429	12,533	33,354
Unrealized (gains) losses on foreign currency transactions[(c)]	(1,198)	1,718	(468)	1,714
Strategic initiative costs[(d)]	935	669	2,002	2,487
Acquisition and integration related costs[(e)]	—	—	11	257
Loss on extinguishment of debt[(f)]	—	—	—	3,465
Underwriting fees related to offering of common stock[(g)]	—	—	—	11,437
Odessa fire[(h)]	93	1,523	(771)	1,523
Other[(i)]	11	(146)	38	179
Adjusted EBITDA	$ 30,999	$ 48,653	$ 42,032	$ 96,615
Net sales	$ 177,128	$ 206,800	$ 314,847	$ 398,414
Net income (loss) margin	3.2%	2.1%	(2.7)%	0.4%
Adjusted EBITDA margin	17.5%	23.5%	13.3%	24.2%

(a) Represents costs related to a cost reduction plan announced in 2022 to optimize production and shift schedules, implement a workforce reduction, and to shut down our Bossier City, Louisiana facility. Also includes severance and other costs for our executive management changes and additional costs related to our 2023 cost reduction plan which includes further actions to reduce our manufacturing overhead by reducing headcount, and restricting discretionary spend.
(b) Represents non-cash stock-based compensation expense.
(c) Represents unrealized foreign currency transaction (gains) 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 debt refinancing on February 23, 2022.
(g) Represents underwriting fees related to our offering of common stock that was completed in January 2022.
(h) Represents costs incurred and insurance recoveries in excess of costs incurred for the period related to a production facility fire in Odessa, Texas.
(i) 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 acquisition of Radiant, which was amortized through cost of sales in the condensed consolidated statements of operations, and (iii) other items.

Non-GAAP Reconciliations

Net Debt and Net Debt Leverage Ratio

(in thousands)	As of July 1, 2023		As of April 1, 2023	
Total debt	$	312,041	$	360,461
Less:				
Cash		(43,116)		(55,016)
Net Debt		268,925		305,455
LTM Adjusted EBITDA[(a)]		88,669		106,323
Net Debt Leverage Ratio		3.0x		2.9x

(a) LTM Adjusted EBITDA is the sum of the Company's Adjusted EBITDA for the four fiscal quarters ended July 1, 2023 and April 1, 2023. See Appendix for the reconciliation of Adjusted EBITDA to net loss.