Q1 2023 Earnings Call

May 9, 2023

latham Group

SWIM | Nasdaq Listed

Disclaimer

Forward-looking Statements

Certain statements in this presentation constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this presentation other than statements of historical fact may constitute forward-looking statements, including statements regarding our future operating results and financial position, our business strategy and plans, business and market trends, our objectives for future operations, macroeconomic and geopolitical conditions, and the sufficiency of our cash balances, working capital and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs. These statements involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside of our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including: 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; changes in access to consumer credit or increases in interest rates impacting consumers' ability to finance their purchases of pools; macroeconomic conditions; our ability to sustain further growth in our business; adverse weather conditions; natural disasters, war, terrorism, public health issues or other catastrophic events; our ability to attract, develop and retain highly qualified personnel; our ability to attract dealers and distributors to purchase our products; the loss of our largest customers or suppliers; our ability to source the quantity or quality of raw materials and components, and increases in costs thereof; inflationary impacts; product quality issues, warranty claims or safety concerns; competition; failure to meet customer specifications or consumer expectations; our inability to collect accounts receivables from our customers; challenges in the implementation of our enterprise resource planning system; changes or increases in environmental, health, safety, transportation and other government regulations; the effects of climate change and the expanding legal and regulatory restrictions intended to address climate change; our ability to obtain transportation services to deliver our product and to obtain raw materials timely, and increases in transportation costs; enforcement of intellectual property rights by or against us; the risks of doing business internationally; cyber security breaches and data leaks, and our dependence on information technology systems; and other factors set forth under "Risk Factors" and elsewhere in our most recent Annual Report on Form 10-K and subsequent reports we file or furnish with the SEC. New emerging risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business, financial condition, results of operations and cash flows. Although we believe that the expectations reflected in the forward-looking statements are reasonable and our expectations based on third-party information and projections are from sources that management believes to be reputable, we cannot guarantee future results, levels of activities, performance or achievements. These forward-looking statements reflect our views with respect to future events as of the date hereof or the date specified herein, and we have based these forward-looking statements on our current expectations and projections about future events and trends. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date hereof. We anticipate that subsequent events and developments will cause our views to change. Our forward-looking statements further do not reflect the potential impact of any future acquisitions, merger, dispositions, joint ventures or investments we may undertake.

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. Adjusted EBITDA and Adjusted EBITDA margin 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. Net Debt and Net Debt Leverage Ratio are non-GAAP financial measures used in monitoring and evaluating our overall liquidity, financial flexibility, and leverage. 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 and Net Debt to the applicable most comparable GAAP measure, net loss and total debt, respectively, in this presentation.

Adjusted EBITDA and Adjusted EBITDA Margin

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, to utilize as a significant performance metric in our annual management incentive bonus plan compensation, 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 (gain) 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) underwriting fees related to offering of common stock, (xii) the Odessa fire and other such unusual events, (xiii) IPO costs and (xiv) other items that we do not believe are indicative of our core operating performance.

Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures and should not be considered as alternatives to net loss 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. 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 stock-based compensation, which will remain a key element of our overall 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.

Net Debt and Net Debt Leverage Ratio

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.

Q1 2023 Highlights

1. Net sales and Adjusted EBITDA results above our expectations in spite of the continued challenging macroeconomic environment and difficult year-over-year comparison

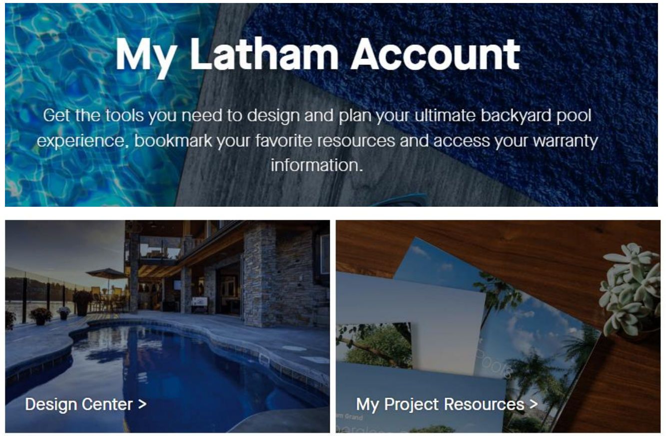
2. Benefited from previously announced cost reduction and ongoing lean and value engineering initiatives

3. Right sized inventory to align with current demand while ensuring excellent delivery lead times across our product portfolio

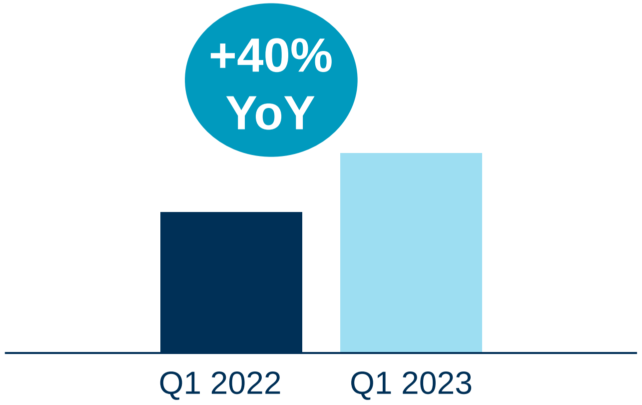
4. Continued to see the increasing benefit from our lead generation engine and digital tools

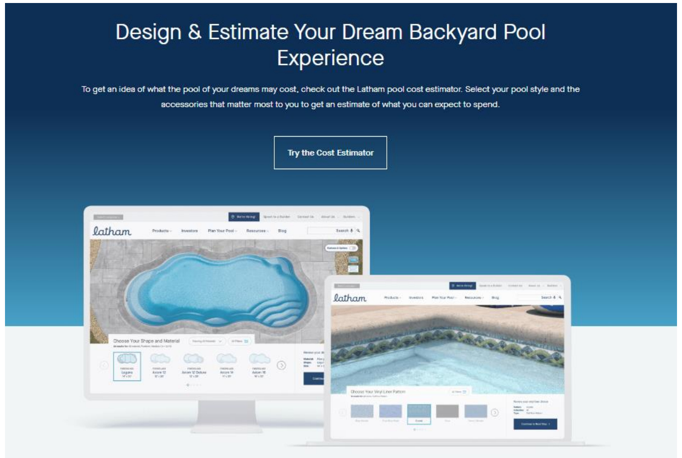
Lead Generation Engine and Digital Tools Indicate Strong Underlying Consumer Interest in Pool Ownership

My Latham Users / Profiles

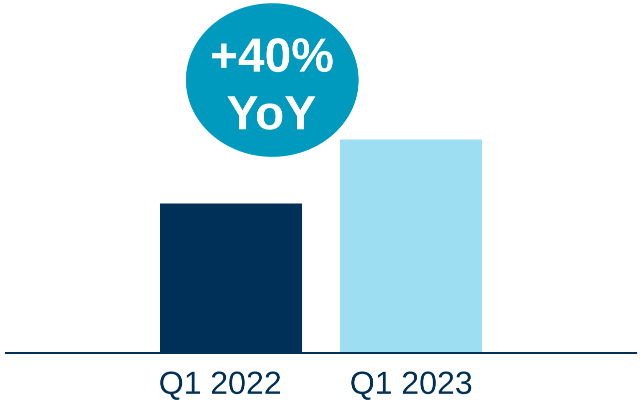


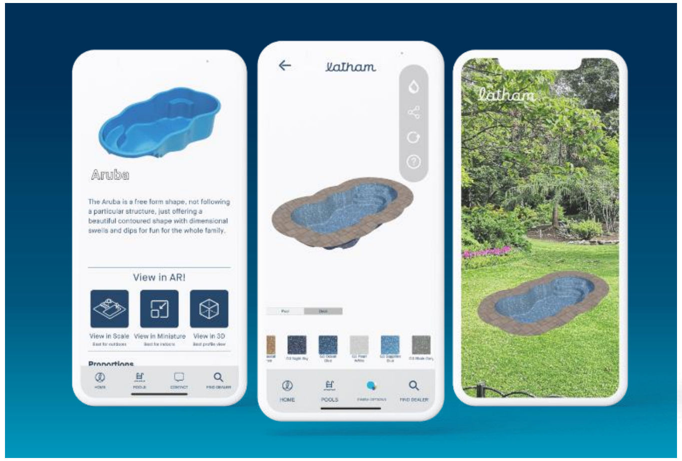
Pool Cost Estimator Submissions





Augmented Reality App Downloads

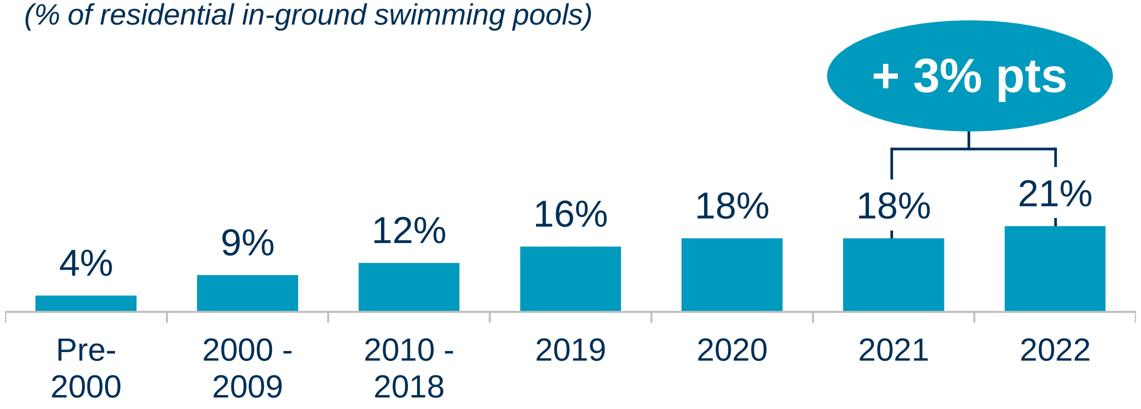




Fiberglass Continues to Present an Attractive Opportunity to Drive Long-term Growth

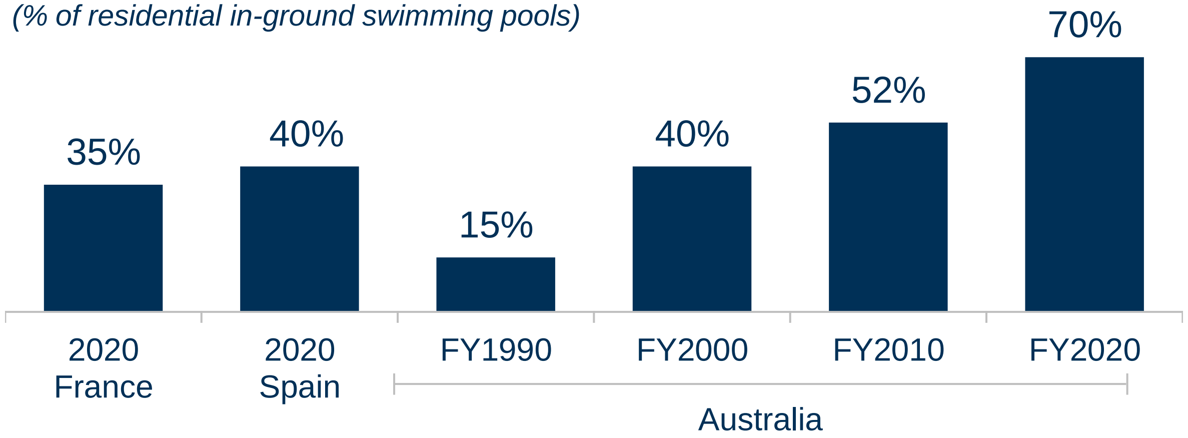
Fiberglass Share of U.S. Pool Installations

(% of residential in-ground swimming pools)

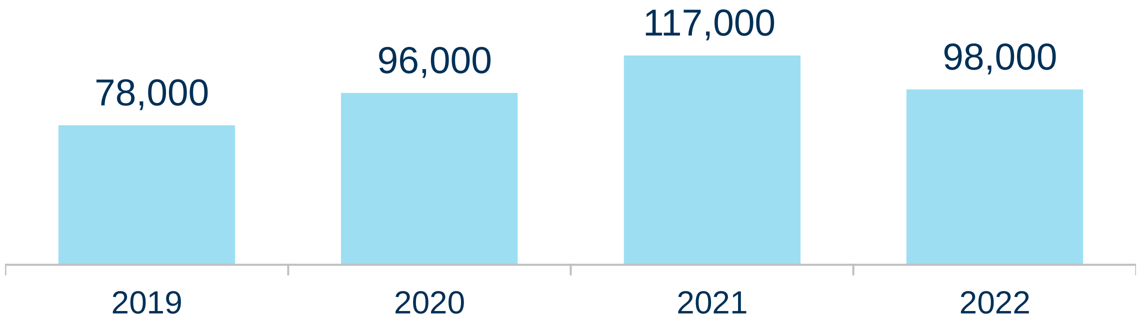


International Fiberglass Market Penetration

(% of residential in-ground swimming pools)



New U.S. In-ground Residential Pool Installations (1)

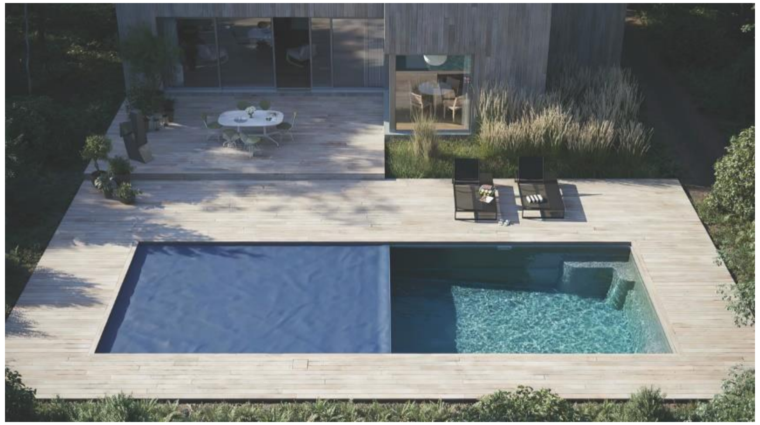


Source: Management's analysis based on information from studies by a third-party research consulting firm in 2019-2020 commissioned by the Company, management's knowledge of market participants, and PK Data

(1) Defined as new in-ground pool starts, per PK Data.

Strong Momentum in Our Covers Products

- Latham has been championing awareness of automatic safety covers, translating into topline results
  - Grew net sales for automatic safety covers in Q1’23 vs. Q1’22
  - Doubled net sales for automatic safety covers in FY’22 vs. FY’19



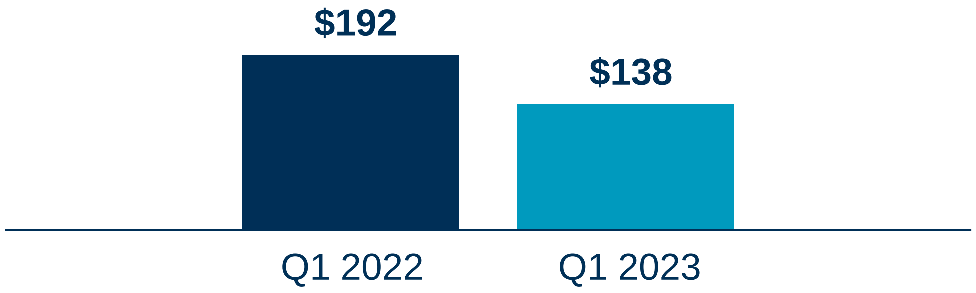
Automatic Safety Cover

- Previously announced the launch of Measure by Latham, a new AI-powered measuring tool, supports recurring revenue opportunity with winter safety covers and in-ground liners
  - Launched the initial rollout of Measure By Latham for winter safety covers to select dealers

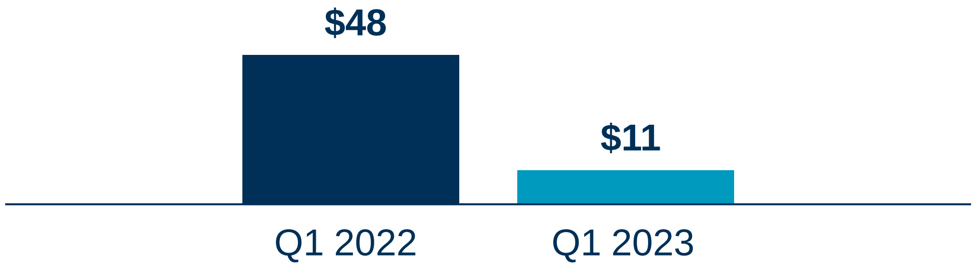
Measure by Latham

Q1 2023 Financial Results

Net Sales
($ in millions)



Adjusted EBITDA[1]
($ in millions)



Key Drivers

- Pool market returned to pre-2020 seasonality
- Elevated backlogs and production in Q1’22
- Wholesale channel continued to destock packaged pool inventory
- Continued macroeconomic challenges
- Negative fixed cost leverage due to volume declines
- Sell-through of higher cost inventory
- Impact of inflation
- Right sizing of our inventory

(1) See Appendix for the reconciliation of Adjusted EBITDA to net 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 April 1, 2023, cash and cash equivalents of $55 million, $27 million of borrowing availability on our $75 million Revolving Credit Facility, and total debt of $360 million • Net Debt Leverage Ratio(1) was 2.9x at end of Q1 2023
Returning Capital to Shareholders	• As of April 1, 2023, $77 million remained available for share 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 April 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]

Metric	Low	High
Net Sales	$565 million	$615 million
Adjusted EBITDA[2]	$90 million	$110 million
Capital Expenditures	$35 million	$40 million

Reflects:

- First quarter fiscal 2023 results
- The impact of macroeconomic challenges on consumer spending and demand, resulting in anticipated declines in the industry for U.S. new in-ground pool installations in 2023 versus 2022
- Normalization of packaged pool channel inventory in the wholesale distribution channel from elevated levels, which is expected to remain a headwind through at least the first half of 2023
- Continued progress executing our strategy to drive material conversion from concrete to fiberglass swimming pools, supported by our continued momentum on our lead generation efforts and digital tools
- Benefits from previously announced cost reduction actions 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 May 9, 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 loss is not available due to uncertainty related to our future income tax expense.

Looking Ahead: Strong Fundamentals and Long-Term Growth Opportunities

Drive Fiberglass Conversion From Concrete

- Drove year-over-year U.S. fiberglass penetration expansion in 2022, proving fiberglass's ability to take share and outperform the overall U.S. pool market

Enhance Fiberglass Manufacturing Capabilities

- Our new fiberglass manufacturing facility in Kingston, Ontario began production in April 2023
  - Enables us to continue to grow in the Eastern Canadian and U.S. Northeast and Upper Midwest regions and better balance our manufacturing footprint
- Now shipping fiberglass pool orders out of our Oklahoma fiberglass manufacturing facility, which will allow us to better service the U.S. Southwest

Capitalize on Recurring Revenue Opportunities

- Strong opportunities for recurring revenue portion of our business – replacement covers and liners – as the installed based continues to grow and age
- Launching tools to capitalize on recurring revenue opportunities (i.e., Measure by Latham)

Leverage Direct-to-Homeowner Strategy and Drive Lead Generation

- Lead generation engine and digital tools continue to point to strong underlying interest in pool ownership

Enhance Strategic Partnerships with Dealers

- Focused on deepening and expanding our relationships with dealers through lead generation efforts, hands-on training, and value-added resources

Q&A

Appendix

Non-GAAP Reconciliations
Adjusted EBITDA and Adjusted EBITDA Margin

($ in thousands)	Fiscal Quarter Ended April 1, 2023	Fiscal Quarter Ended April 2, 2022
Net loss	$ (14,368)	$ (2,840)
Depreciation and amortization	9,258	9,494
Interest expense	10,804	1,765
Income tax (benefit) expense	(2,928)	5,307
Loss on sale and disposal of property and equipment	8	—
Restructuring charges[a]	519	13
Stock-based compensation expense[b]	6,769	16,925
Unrealized losses (gains) on foreign currency transactions[c]	730	(4)
Strategic initiative costs[d]	1,067	1,818
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]	(864)	—
Other[i]	27	325
Adjusted EBITDA	$ 11,033	$ 47,962
Net sales	$ 137,719	$ 191,614
Net loss margin	(10.4) %	(1.5)%
Adjusted EBITDA margin	8.0 %	25.0%

(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.
(b) Represents non-cash stock-based compensation expense.
(c) Represents unrealized foreign currency transaction losses (gain) 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 acquisitions 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 April 1, 2023	
Total debt	$	360,461
Less:		
Cash		(55,016)
Net Debt		305,455
LTM Adjusted EBITDA[a]		106,323
Net Debt Leverage Ratio		2.9x

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