Leslie’s, Inc. 2022 Investor Day

Farah Soi, ICR

Introduction *(Slides 1-4)*
Good Morning.

Welcome to everyone joining us today both here in Arizona as well as virtually, for Leslie’s Investor Meeting. We are thrilled to finally meet many of you in person and our entire leadership team is excited to discuss our business and growth strategy with you.

Earlier this morning we released our fourth quarter and full year fiscal 2022 results as well as our guidance for fiscal 2023. Mike Egeck, our CEO, and Steve Weddell, our CFO, will begin today’s discussion with a review of those results and the underlying drivers to the guidance for next fiscal year.

Following that discussion, the team will provide more detail on Leslie’s and the industry it operates in as well as its integrated ecosystem.

We will then have a short break and reconvene at 9:30AM Mountain Standard Time to review our growth strategies before opening it up to Q&A.

Following Q&A, for those here with us, we will break for lunch and then will convene at the entrance to the conference center to meet the buses that will be departing at 12pm sharp to bring us to Leslie’s office and store tour. The same buses will then leave the store for the airport at 2 PM Mountain Standard Time with a drive time of approximately 30 minutes.

Before I turn the presentation over to Mike and the team, please review our safe harbor statement on page 2 of the presentation and in our Form 10-K. Throughout this presentation, we may make certain forward-looking statements that pertain to our future. These statements reflect our current forecast based on our knowledge of our business today and we are under no obligation to update these statements. In addition, actual results may differ materially from these expectations due to risks and uncertainties as outlined in our public filings.

Mike…

Mike Egeck, Chief Executive Officer

Slide 5
Thank you, Farah - and good morning, everyone. Thank you all for joining us, particularly those of you who have made the trip to join us live in Scottsdale for our first ever Investor Day.

I would like to note that we have posted today’s earnings and investor deck to Leslie’s IR site – and that a replay of today’s webcast will be available on the site about 24 hours after we finish.

I am going to start this morning by highlighting our key Q4 results and accomplishments and then move to the same for our full year performance.

Steve will then walk you through our fourth quarter and full year financial results in detail and introduce our outlook for Fiscal 2023. After that we will move to the Investor Presentation portion of today’s agenda followed by Q and A.

Okay let’s get started.

Slide 6

I am pleased to report that our Q4 performance resulted in another record quarter and continued the strong results we have delivered throughout the year:

- Sales for the quarter increased 16% to a record $476M with broad-based strength across our consumer groups.
- Residential Pool grew 10% for the quarter, PRO Pool grew 18% and Residential Hot Tub grew 80%
- Comp sales increased 10% for the quarter – and the two-year stack comp for the quarter was 27%.
- Gross profit for the quarter was a record $217M; and
- Adjusted EBITDA for the quarter was a record $100M.

Two points I would like to make regarding our Q4 performance:
First – Due to the outstanding efforts of our supply chain team - our New Jersey distribution center performed very well during the quarter, became more efficient as the quarter progressed, and is operating to the standards of our other facilities.
Second – As we had anticipated - promotions for the quarter normalized to roughly the levels we saw in Q4 2019, and the supply and cost of certain specialty chemicals remained a challenge.

However, our merchant teams were able to offset the impact of both these factors by implementing select retail price increases across key items in our product assortment and aggressively counter sourcing product with new vendors. With these actions, product gross margin increased 16 bps and the total gross margin decrease was limited to 30bps.

Slide 7

Moving to our results for the full year -- Fiscal 2022 represented our 59th consecutive year of growth and produced all-time record Sales, Gross Profit, and adjusted EBITDA

- Sales for the year grew 16% to a record $1.6B
- Comp sales were plus 11% and the 2-year stack was 32%. Product cost inflation for the year was approximately 9%.
- Gross profit for the year grew 13% to a record $674M
- Gross margin for the year decreased 120 bps. The decrease in margin rate was driven primarily by business mix due to the outperformance of our lower margin PRO and Hot Tub consumer groups - and to a lesser extent by the challenges we experienced in Q3 with regard to specialty chemical costing, our New Jersey DC, and the industry promotional cadence.
- Adjusted EBITDA for the year was a record $292M.

Our Q4 and full year performance reflects the tremendous efforts and contributions of our associates and vendor partners to meet continued strong consumer demand in the face of the discrete operating challenges arising from what remains an unpredictable and constrained supply chain across many of our product categories. It is also a testament to the organization's ability to continue to execute our growth initiatives at a high level in an increasingly unpredictable macro environment.

Throughout 2022 Leslie’s and the pool industry benefitted from the continuation of strong consumer demand.
This demand was driven by the macro trends that accelerated with the onset of the pandemic and were elevated by work from home and hybrid work schedules.

Those macro trends – which we will discuss in more detail later in the presentation – in combination with three years of strong pool builds, equipment cost inflation driven by innovation, and sanitizer cost inflation have created a pool industry that is significantly larger than it was pre-pandemic.

Industry research estimates that over the last 3 years 340,000 new pools have been built, and that the industry as a whole has grown approximately 30%. Over that same time period – the competitive advantages derived from our integrated system of physical and digital assets -- working together with our strategic growth initiatives – has resulted in sales growth of 68%, a three year stack comp of 50%, and meaningful share gains.

Slide 8
Slide 8 of the deck bridges our Fiscal Year 2022 sales in two ways.

First - By Consumer Group:
- Our Residential Pool group grew 10% for the year and contributed 8% of total company growth.
- Our PRO Pool group grew 20% and contributed 3% of total growth
- And our Residential Hot Tub group grew 80% and contributed 6% of our total growth of 16%.

Second - By Strategic Growth Initiative:
Our Consumer File grew 3% on an adjusted basis for the year and contributed 1% of total growth. On an unadjusted basis our consumer file has grown 10% over the last two years and 25% over the last 3 years as we leaned into our digital marketing strategies, drove consistently high ROIs and capitalized on new customer acquisition driven by our advantaged TriChlor in-stock positions.

With regards to Deeper Relationships with our customers: Average Revenue per Consumer grew 22% for the year - our Loyalty file ended the year with 17% more members than the prior year - and Loyalty members accounted for 74% of Leslie's transactions. Consumers continue to be drawn to the key benefits of Pool Perks – a 5% earn rate and free shipping.

Our PRO Initiative continues to deliver strong results: We ended the year with 80 PRO locations and 2750 Pro Partner contracts. I have previously referred to our PRO Partners as PRO Affiliates. This change in naming convention is purposeful and reflects the input of our PRO Customers – they prefer the term Partner so we made the change.
For the year our Pro Partner sales increased 45%. Our total PRO business grew 20% for the year and now accounts for 15% of our total sales -- but remains a small percentage of the approximately $4.4B Pro market.

Moving to M and A – For the year we completed 6 acquisitions that added 27 locations. Earlier this month we closed on our first acquisition of fiscal 2023 -- Splash Pools -- which adds 5 locations across Florida and Louisiana. We continue to see a wealth of acquisition opportunities in the pool and spa industry and continue to be able to acquire good businesses at attractive multiples.

With regard to our Whitespace initiative – for the year we built 14 new locations and grew our digital sales in underserved markets by 39%. With the 14 new builds and the acquisition of 27 locations we ended our fiscal 2022 with 38 net new locations and a total of 990 locations.

Finally -- With regard to AccuBlue Home --I am very pleased to be able to say that at the end of our presentation we are going to show you the production V2.0 device and announce our commercial launch of the program for pool season 2023.

Now I will turn it over to Steve to discuss our Fiscal year 2022 results in more detail and introduce our 2023 Outlook.
Steve…

Steve Weddell, Chief Financial Officer

Slide 9
Thank you, Mike, and good morning everyone.

As you can see from our earnings release, we reported record results for both the fourth quarter and full year Fiscal 2022. In the fourth quarter, we performed in line with our outlook and our team recovered nicely from the execution challenges we experienced in the third quarter.

Today, I'll review:
- Our fourth quarter of fiscal 2022 performance;
- Our performance for full year fiscal 2022;
- Our outlook for fiscal 2023; and
- Our capital allocation priorities

I'll start on slide 9. For the fourth quarter we reported record Sales of $476 million, an increase of 16.3% or $67 million when compared to the fourth quarter of fiscal 2021. Our comparable sales increased 10.2%, or $42 million. This increase is on top of our calendar adjusted comparable sales growth of 16.3% in the fourth quarter of fiscal 2021 and represents comparable sales growth on a two-year stack basis of 26.5%. Our non-comparable sales increased by $25 million, driven by six completed acquisitions and 14 new store openings in the last year.

We continued to see broad based strength across our three consumer groups in the quarter as we generated comparable sales growth of 9% for Residential Pool, 17% for Pro Pool, and 13% for Residential Hot Tub. On a two-year stack basis, we generated comparable sales growth on a calendar adjusted basis of 21% for Residential Pool, 62% for Pro Pool, and 32% for Residential Hot Tub. Weather for the full quarter was slightly positive.

Gross Profit increased 15.5% or $29 million when compared to the fourth quarter of fiscal 2021 and gross margin rate decreased by 30 basis points to 45.7% from 46.0% in the prior year. During the quarter, business mix negatively impacted gross margins by 110 bps and incremental distribution expenses by 25 bps, partially offset by higher product margins of 15 bps and occupancy and other leverage of 90 bps. Improved product margins resulted from pricing actions taken during the fourth quarter.

Now I'll turn to SG&A. SG&A increased 10.9% or $13 million when compared to the fourth quarter of fiscal 2021 and decreased as a percentage of sales by 140 basis points. While we continued to invest to support our growth, we were disciplined with expense management considering the heightened inflationary environment during the quarter. We estimate inflation during the quarter impacted SG&A by approximately $8 million, primarily related to payroll and digital marketing spend. The current year quarter also has an additional $5 million of non-comparable SG&A associated with acquired businesses.

We generated record adjusted EBITDA of $100 million, an increase of 21.3% or $18 million when compared to the fourth quarter of fiscal 2021.

Adjusted net income increased to $64 million in the fourth quarter of fiscal 2022, an increase of 27.5% or $14 million when compared to the fourth quarter of fiscal 2021. And Adjusted diluted earnings per share was 35 cents in the fourth quarter of Fiscal 2022, an increase of 34.6%, compared to 26 cents in the prior year.

Slide 10

Now let's turn to full year fiscal 2022 results on slide 10. Following are a few highlights:

For fiscal 2022, we reported Sales of $1.6 billion, an increase of 16.3% or $219 million when compared to the prior year. Our comparable sales increased 10.6%, or $143 million. This increase is on top of our calendar adjusted comparable sales growth of 21.2% in fiscal 2021 and represents comparable sales growth on a two-year stack basis of 31.8%. Non-comparable sales increased by $76 million.

Gross Profit increased 13.2% or $79 million when compared to the prior year and gross margin rate decreased by 120 basis points to 43.1% from 44.3% in the prior year. During fiscal 2022, gross margins were negatively impacted by business mix and lower product margins related to promotions and higher product costs. This decrease in gross margin was partially offset by distribution as well as occupancy and other leverage for the full year.

Adjusted EBITDA improved by $21 million to $292 million from $271 million in the prior year.

For Fiscal 2022, our effective tax rate was 23.6% reflecting a statutory rate of approximately 25% and discrete benefits related to equity-based compensation awards and research and development credits.

Adjusted net income was $176 million in fiscal 2022, compared to adjusted net income of $161 million in the prior year. And adjusted diluted earnings per share was 95 cents in fiscal 2022 and 85 cents in the prior year.

Moving to the balance sheet, we finished fiscal 2022 with cash and cash equivalents of $112 million, compared to $344 million at the end of fiscal 2021. The reduction in cash and cash equivalents was primarily due to share repurchases, investments in inventory, and higher M&A activity during the year.

On inventory, we ended fiscal 2022 with $362 million, flat when compared to the third quarter and up $163 million, or 82%, compared to $199 million at the end of fiscal 2021. The increase in inventory is primarily related to equipment, chemicals, and M&A activity. Both the equipment and chemical product categories are non-discretionary in nature and are not subject to technology or fashion risk. We view our current elevated inventory position as appropriate given the uncertainty of supply going into fiscal 2023. Our number one priority will be to put the company in a position to meet consumer demand. We also need to see industry supply chains become more predictable. When we feel we can adequately meet consumer demand and we see an improvement in supply chains, then we will pursue opportunities to reduce inventory.

On debt, at the end of fiscal 2022, we had $798 million outstanding on our secured term loan facility compared to $806 million at the end of the prior year. The applicable rate on our term loan during the fourth quarter was LIBOR + 250 bps, our effective interest rate was 4.3%, and the facility matures in March 2028. Funded debt less cash totaled $686 million at the end of fiscal 2022.

Slide 12

Now let me turn to our outlook for Fiscal 2023 on slide 12.

In Fiscal 2023, we're expecting a more uncertain macroeconomic environment up to and including a recession that will pressure industry sales, margins, and earnings growth. Approximately 80% of our sales are non-discretionary products and services, which will mitigate…but not eliminate…the impact on our business. In light of the macroeconomic outlook, for Fiscal 2023, we're providing the following annual outlook:

We expect sales of $1,560 million to $1,640 million representing flat to an increase of 5% compared to fiscal 2022. Let's turn to slide 13 to walk through our sales build.

Slide 13

At the low end of our outlook, we modeled comparable sales growth of approximately negative 5% which is comprised of the following: a 5% decline in non-discretionary non-trichlor sales, a 15% decline in trichlor pricing, a 20% decline in discretionary sales, and 5% inflation on all fiscal 2022 sales.

The low end also includes non-comparable sales growth of approximately $75 million.

At the high end of our outlook, we modeled flat comparable sales growth which is comprised of the following: flat non-discretionary non-trichlor sales, a 10% decline in trichlor pricing, a 15% decline in discretionary sales, and 5% inflation on all fiscal 2022 sales.

The high end also includes non-comparable sales growth of $75 million.

To be clear on trichlor pricing, our intent is to maintain pricing at current levels as we expect increased trichlor costs across the industry in fiscal 2023 and we have not seen recent price decreases. However, we're in a position to remain competitive and we have the ability to match prices to maintain or grow market share.

BACK to Slide 12
Let's turn back to slide 12 to cover the rest of our outlook.

We expect gross profit of $667 million to $708 million which implies a decrease of 35bps to flat gross margins when compared to Fiscal 2022. While we continue to see opportunities to improve margins in each of our businesses as a result of our structural advantages, we expect continued headwinds on margins from business mix and investments in supply chain in Fiscal 2023.

We expect adjusted EBITDA of $280 million to $310 million representing a decrease of 4% to an increase of 6% compared to fiscal 2022. We will continue to aggressively manage operating costs in the current environment while continuing to invest in high return opportunities to drive growth in each of our businesses. We've provided additional drivers on gross margin and Adjusted EBITDA on slide 16 for your reference.

We expect net income of $131 million to $146 million, and adjusted net income of $145 million to $160 million. We expect diluted adjusted earnings per share of 78 cents to 86 cents representing a decrease of 9% to 18% compared to fiscal 2022.

Our outlook assumes an average LIBOR rate on our floating rate debt of 4.8% during fiscal 2023 and our outlook assumes interest expense will be approximately $30 million higher than fiscal 2022. Our outlook also includes a higher effective tax rate of 25%. Combined, interest and taxes negatively impact year-over-year net income by approximately $25 million and EPS by 13 cents per share.

We estimate a diluted share count of 185 million shares to 187 million shares and our outlook does not factor in any potential share repurchases during fiscal 2023.

Finally, on our outlook, I want to remind everyone of the natural seasonality within our business. Our primary selling season occurs during our fiscal third and fourth quarters, which span April through September. We invest in our business throughout the year, including in operating expenses, working capital and capital expenditures related to our growth initiatives. While these investments drive performance during our primary selling season, they reduce our earnings and cash flow during the first half of our fiscal year. In fiscal 2023, we expect negative comparable sales growth and significant gross margin declines in the first half of the year given the strength of the comparable periods in fiscal 2022 and fixed cost deleverage from negative comparable sales. We also expect to generate all of our Adjusted EBITDA and earnings in the 2nd half of the year.

More specifically on the first quarter, we expect the following to impact results:
- In the current quarter, we're experiencing significantly less favorable weather when compared to last year;
- In Q1-2022, we had a more advantaged trichlor position when compared to others in the industry; and
- In Q1-2022, we realized higher average retail price increases ahead of larger industry cost increases

As we step back and look ahead, our growth strategies continue to drive an attractive long-term growth algorithm over time. Our algorithm is supported by industry growth, our differentiated market position, and our unique capabilities. First, sales growth in the MSD to HSD range, based on industry growth and our strategies to expand market share. LDD EBITDA growth based on stable to positive 25bps gross margins increase and SG&A leverage. Earnings growth in the mid-to high-teens range driven by flat depreciation and amortization, modest reductions in interest expense, and a consistent tax rate. It's important to note that this range does not include potential re-deployment of excess cash back into the business, more aggressive debt paydown, or returning cash to shareholders.

Slide 14
On capital allocation, we continue to have a balanced and disciplined approach, and our priorities remain as follows: Our first priority is capital structure, and we finished the year in a solid position.

We had net debt divided by Adjusted EBITDA of 2.3x, we had $112 million of cash on hand and a $200 million revolving credit facility. Also, our first debt maturity is our revolver in 2025. Our second priority is to invest in growth through both capital expenditures and M&A.

In fiscal 2022, we deployed $108 million towards acquisitions, and we invested $32 million in capital expenditures. Over the last year, we’ve accelerated the pace of M&A and our pipeline of M&A opportunities continues to grow. Our final priority is to return excess cash to shareholders and in fiscal 2022, we repurchased shares totaling $152 million dollars. For fiscal 2023, our outlook includes M&A investments of $15 million, capital expenditures of $50 million, and no share repurchases. In fiscal 2023, our capital expenditures include $15 million associated with the expansion of tableting capacity at Stellar Manufacturing that we expect to be available for the 2024 pool season.

Before I turn it back to Mike, I want to address one item that will be covered in greater detail in our Form 10-K that we expect to file later today. In short, we have identified a material weakness in internal control related to IT general controls. These controls relate to user access over certain IT systems that support our financial reporting processes. We have not identified any misstatements in the financial statements as a result of these deficiencies. We have taken a number of actions to begin remediation and will consider the material weakness remediated when the applicable controls operate for a sufficient period of time and we conclude through testing that the controls are operating effectively. We expect remediation to be completed during fiscal 2023.

And with that I will hand it back over to Mike. Thank you.

Mike Egeck, Chief Executive Officer

Slide 15

Thanks Steve. Fiscal year 2022 was a solid year for Leslie’s and I am very proud of the team’s contributions and the results they drove. However – 2022 was also a year that reiterated the challenges in predicting how macro conditions can impact the business. We expect the 2023 macro to be more unpredictable and challenging than 2022 -- up to and including a recession.

Knowing we can’t count on being able to accurately predict what macro conditions the business may face -- we have prepared ourselves for a range of outcomes principally driven by the levers that Steve discussed – discretionary and non-discretionary product demand, TriChlor retail pricing, and inflation.

Based on those scenarios our 2023 outlook range is lower than our long-term growth algorithm. We think this is the prudent approach. However, we think it is important to note that we do not see a scenario where we give back significant portions of the gains of the last three years.

We remain confident in the durability of our business model and in our ability to grow our market share in challenging macro environments. This confidence is based on the fundamental advantages of the 80% of our business that is non-discretionary and recurring in nature -- the competitive advantages of our integrated system of physical and digital assets -- and the further execution of our diversified strategic growth initiatives.

On Slide 15 we have bridged to the midpoint of our 2023 sales guidance in two ways – by consumer group and by strategic growth initiative. On the left side of slide 15 you can see that we are modeling sales from our Residential Pool consumers to be flat – the PRO consumer group to to contribute 1% of total growth and the Residential Hot Tub consumer group to contribute an additional 1% to our total growth of 2%. In this scenario the growth in PRO and Residential Hot Tub is driven entirely by non-comp stores and acquisitions.

On the right hand side of slide 15, we bridge sales to the same midpoint scenario with no file growth, an Average Revenue per Customer that reflects a negative 2.5% comp – consisting of plus 1 percent AOV and minus 3.5 percent transactions --

and no comp growth in our PRO business. These negative scenarios for our first three initiatives are more than offset by our Whitespace and M&A initiatives.

It is important to note that with the today's announcement of our most recent acquisition -- the M&A contribution reflected in our midpoint guidance is substantially complete.

That concludes the Earnings Release portion of today's presentation.

Slide 17
We are now going to shift into our Investor Presentation. As a reminder we will have an hour for Q+A on both the earnings and investor presentation at the end of our prepared remarks.

Slide 18
Turning to slide 18 of the deck.

As I was reviewing our previous presentations, I realized that we have spent a lot of time explaining how proper pool care is necessary, complex, and challenging. We make it sound like an unpleasant chore that has to be done. What we have not spoken to as much is how aspirational pools are --- and how much people love their pools – and how much people love the Leslie's brand.

We do a lot of consumer insight research and pool owners are happy to share how they use their pools – for exercise, recreation, relaxation, entertaining, as a playground for grandkids, and other fun filled activities. When pool maintenance is non-discretionary you can default to people maintaining their pool simply because they have to.

The truth is they also maintain their pool because they love it -- love all the ways they use it and love all the memories they create. But they also are quite clear that maintenance can be hard. And that's where Leslie's comes in. Leslie's is the number one brand in pool supplies – with the highest aided brand awareness, the highest unaided brand awareness and the highest affinity. When consumers describe Leslie's, they consistently use the words trust and expertise.

What great attributes to be known for, what a responsibility for us to uphold, and what a great way to illustrate the value of the Leslie's brand. Leslie's is pool owners trusted expert partner in maintaining a clean, safe and beautiful pool --- and all the moments and memories that come from it.

Slide 19
Slide 19 is a quick overview of the Leslie's business.

- We are the dominant direct to consumer market share leader in the Pool and Hot Tub industry
- Our physical network of 990 locations is bigger than our 20 largest competitors combined
- Our digital sales are 5 times larger than our next largest digital competitor -- and if our digital business was a standalone entity - it would be the number 2 pool supply retailer in the industry behind only our own store network
- We are the only direct to consumer pool supply company with true omni-channel capabilities
- We launched the industry's first and largest loyalty program
- And as we just discussed - our Fiscal 2022 – which ended on October 1, 2022, was a record year for Leslie's with sales growth of 16% to $1.6 billion and adjusted EBITDA growth of 8% to $292M

Fiscal 2022 also represented our 59th consecutive year of revenue growth.

Slide 20
59 consecutive years of growth – growth in every year since the company was founded in 1963 by Phil Leslie in Northern California. That is a staggering accomplishment and a testament to consistent execution and an incredibly durable business model. This streak is something the entire company takes great pride in. And it is also a lot of pressure, no team wants to be the one that breaks the streak, but it is a pressure and a challenge that all of us in the company welcome.

Slide 21
Moving to Slide 21. It’s not just that we have grown every year of our history – we have also gained market share. In the last decade, we have gained 540 bps of market share. We are also confident we gained share in the 2022 pool season. Based on third party aggregated credit card data and our internal data – our growth rate of 16% percent in fiscal 2022 was 1800 bps higher than our specialty pool competitors.

Slide 22
As you can see summarized on slide 22 - our growth over the last two decades plus has spanned multiple occurrences of a broad range of macro environments, including:

- Reduced rates of new pool builds
- GDP contraction
- Housing industry slowdowns
- Declines in consumer spending
- High inflation
- Rising interest rates

In particular, as you can see on this slide – The business performed well during the 2006 – 2009 recession and over the last 22 years has grown at a CAGR approximately four times that of the installed base.

Slide 23
Slide 23 shows the same data in different view – with the addition of which macro events occurred at which times. As you can see many of these macro events actually overlapped. Which means that the Leslie’s business model has proven to be very durable during a variety of compounded, complex, and challenging economic times. Today we believe we are better equipped to grow profitably in challenging macroeconomic conditions than at any other time in our history.

Slide 24
Slide 24 shows our recent results and 2023 outlook for sales and EBITDA.

As you can see over the last three years, we have grown sales at a 19% CAGR and adj. EBITDA at a 22% CAGR - well above our long-term growth algorithm. As we discussed earlier, we do expect this top line and bottom-line growth to moderate in 2023 and our outlook range contemplates a recession at the low end. But there are key attributes of our model that give us confidence in our performance even in a recessionary backdrop.

Those attributes are:

- The performance of the brand and the business in other challenging macro periods over time.
- The stickiness of the key secular trends that provide a tailwind to the business.
- The fundamental advantages of the non-discretionary needs-based demand of the aftermarket pool industry
- The competitive advantages derived from our network of physical and digital assets
- And the momentum we have in our Strategic Growth Initiatives.

Slide 25
Moving to slide 25. When I joined Leslie’s in early 2020, I was impressed by what was - at the time - 56 consecutive years of growth and the dominant industry leading market share that growth had created. However, what I found even more interesting and attractive was that despite that lengthy track record of success --- there were still significant growth opportunities.

One of the first projects we undertook in 2020 was a thorough review and assessment of those growth opportunities to determine which were:

- The largest and most significant

- The most consistent and predictable
- The ones we were best able to execute against
- And which – when executed well - would provide us the greatest competitive advantage.

That comprehensive review by the senior leadership led us to the definition and adoption of the Strategic Growth Initiatives you see on slide 25. Consistent focus on the execution strategy for each initiative has resulted in three years of strong results – despite having to simultaneously navigate the pandemic and recurring supply chain challenges. It is a gratifying start – but we still have lots of opportunities and room for growth across each of these initiatives.

Slide 26

Slide 26 is our senior leadership team. The breadth and depth of this team, and their assorted experience and skillsets is what has allowed us to advance our Strategic Growth Initiatives and drive our profitable growth. The team is an excellent mix of modern retail, financial, and operating expertise and all of them have a strong track record of success both in their prior positions and at Leslie's. All of the team is here today and available for our Q+A session. And, clearly it's not just this team driving the results. It's the totality of our more than 4,000 associates who took their effort and contributions to the next level with the onset of the pandemic and have sustained that performance since.

Slide 27

Moving now to slide 27. The events of the last 3 years, the pandemic, social unrest, and now a macro economic slowdown has brought into clear focus for our organization the need to elevate our ESG program across the entirety of our business. As you can see – we have made significant progress across each of the environmental, social, and governance components of our ESG roadmap. And, importantly we have aligned and integrated our ESG efforts into our culture and our strategy. Over the last two years we have accomplished the following:

- Named our Chief Legal Officer, Brad Gazaway as Executive Leader of our ESG initiatives and hired a Director of ESG.
- Formed a Sustainability Working Group comprised of internal resources and external advisors to work on ESG priorities and projects at the direction of the Board and Management.
- Published our inaugural ESG report in September of 2021 covering our fiscal 2020, and our second ESG report in September of this year covering our fiscal 2021. This year's report included our first greenhouse gas emissions analysis.
- Elected James Ray, Jr to our board of directors and appointed Mr. Ray as Lead Independent Director. Mr. Ray has extensive experience in supply chain and operating leadership.
- We also Elected Claire Spofford - CEO of J.Jill - to our board of directors in May of 2022.
- With the addition of Ms. Spofford, our 10-member board now consists of 6 independent, 4 women, and 3 ethnically diverse members.
- ---And all of our committees are now fully comprised of independent directors.

We have good momentum in our ESG efforts, and we are committed to continuing our work to be an organization that makes a positive difference for our consumers, associates, shareholders, and the communities in which we operate. Now I'll turn it back to Steve to speak to the three pillars we believe make Leslie's a uniquely advantaged business.

Steve Weddell, Chief Financial Officer

Slide 29

Thanks Mike. Let's turn to slide 29. There are three key pillars that make Leslie's unique and that we believe make it a very compelling investment opportunity:

#1 – We operate in one of THE most advantaged consumer products industries:

- It's large – over $15B
- It has non-discretionary, recurring annuity-like demand because once a pool is built it has to be maintained
- It has predictable growth – the installed pool base has grown every year for 52 years.

#2 – We have built a consumer-centric integrated network of assets and capabilities that are:

- Unmatched in scale and reach
- And that allows us to provide total pool and spa care solutions to all consumers, Whatever their need, and Wherever, Whenever, and However they want to engage with us
- None of our competitors have that capability.

#3 - Despite being the largest direct-to-consumer brand in the industry, we have:

- Significant white space opportunities across all of the consumer types we serve and all the channels we operate
- And we have the capabilities, talent and tangible growth initiatives to address these opportunities

Slide 31

Now let's walk through the advantages of the Pool and Spa industry. On slide 31, you can see that the Market we operate in is made up of 3 types of consumers:

- Residential Pool
- Residential Hot Tub
- And Pool Professionals – The Pro Market

Each of these markets is sizeable and in total they add up to 14M bodies of water and $15B of annual, total aftermarket spend. Two points I want to reinforce; the first is that Leslie's is the only company that addresses the needs of all 3 types of pool and spa consumers. And the second is that we have significant white space opportunities with all of these consumers, including Residential Pool, which is our largest consumer base.

Slide 32

Next, we'll spend a few minutes to walk through the annuity-like demand of pool maintenance. Turning to slide 33...

Slide 33

Probably like most of you, I've had a lifetime of exposure to pools and spas…but it wasn't until I got to know Leslie's that I began to appreciate the complexities of pool care.
Let's start with a simple fact…pool care is more complex than most consumers expect…and yet essential to get right. If you use a pool, you don't want any doubt in your mind that the water is safe.
There are six critical components to proper pool maintenance:

- Water balance and sanitation
- Water circulation and filtration, and
- Cleaning and water testing.

It's an ongoing and iterative process that requires regular water tests in order to keep more than ten different chemical ratios in equilibrium…and unless you use Leslie's water test prescriptions with specific actionable steps, achieving that water balance is trial and error.
And if any of these chemical levels get out of balance, you quickly have a problem on your hands

Slide 34

Let's turn to slide 34 where you can see that once a pool is built, maintenance is not optional.
Deferring maintenance, draining pools, or filling them in, are all more expensive than maintaining them on a regular basis.

- Lack of proper maintenance leads to poor water quality which can create health problems and damage equipment
- If you drain a pool, the physical structure of the pool will be damaged or even rise above the ground
- …and if you fill it in, it's an expensive construction project requiring punching holes in the vessel, demolishing the top layer of the pool…and on top of the out-of-pocket costs, it's going to reduce the value of your home

None of these are good alternatives to basic pool maintenance. As a result, pools are long-lived assets.

Slide 35
On the next slide, 35, you can see the impact of regular maintenance over the lifespan of a pool – which conservatively is more than 30 years. On average, consumers spend $900 per year on their pool for maintenance.

So, the spend during the lifespan of a single new pool represents over $27,000 of aftermarket spend. This spend is highly defensible. Each pool effectively creates an annuity-like stream of non-discretionary demand, and when you factor in the estimated 340,000 new in-ground pools installed in 2019 to 2022, this has created more than $9 billion in additional maintenance demand over the life of the pools.

It's important to note that we are NOT dependent on new pool construction for growth. As Mike discussed earlier, we have demonstrated the ability to grow in all economic environments as we primarily focus on the installed base of 14 million pools and spas.

Slide 36
That being said, the installed base has grown more than 500% over the past 50 years since they started collecting data, and it's grown each and every year.

Slide 37
Over the next few slides, we'll talk through a number of factors driving growth for the industry and for Leslie's.

We'll start with slide 37. Many of the macro trends driving consumer demand in the pool industry remain intact and should continue to drive growth over the next several years. The desire for a healthy outdoor lifestyle – ongoing investment in the home and backyard – the great migration to the sunbelt – a heightened sense of safety and sanitization – hybrid and full-time work from home schedules – and pool equipment innovation all support the forecast for underlying growth in our industry to continue.

Against this favorable industry backdrop, we are confident that we can grow Leslie's faster than the industry and across our Consumer Types.

Slide 38
Slide 38 shows the power of the migration to the sunbelt. Projected population growth through 2040 shows that 1 in 4 interstate movers are relocating to a sunbelt state with the West forecasted to grow +21% and the South forecasted to grow +23%. Nearly 60% of in-ground pools are located in the sunbelt and the number of pools per capita in the sunbelt is more than 3 times higher than in winter markets. These migration trends provide a favorable backdrop for new pool builds and pool usage.

Slide 39
Let's turn to slide 39. Consumers are embracing innovation in the pool equipment product category and we see substantial opportunity to increase penetration in the aftermarket.

Key factors driving adoption include a step function change in energy efficiency, increased convenience for consumers in maintaining their pool, and many of the products just work better. A lot of credit goes to our vendor partners who have done a great job developing new products that appeal to consumers.

It's also important to understand that the sale of these innovative products are heavily assisted sales and many require installation services. As Mike said earlier, when consumers describe Leslie's they consistently use the words trust and expertise. Leslie's associates are uniquely positioned to introduce these products to pool owners based on our consumer relationships. Leslie's is also uniquely positioned to install products for consumers in their backyards through our approximately 350 in-field service technicians across the country. Associate knowledge and installation services are essential as there is a higher upfront cost for these products...but they offer great value to consumers.

Based on the level of penetration for these product categories across the aftermarket and new builds, we see an incremental sales opportunity of $15 billion over time. This only accounts for the initial conversion to these innovative products and does not factor in the increased sales related to future repair or replacement of the equipment.

Slide 40
Turning to slide 40, Leslie’s is uniquely positioned to benefit from trends in consumer behavior. Through our integrated network that Moyo LaBode will speak about in more detail, we have the capability to serve the needs of all bodies of water and we can be agnostic around the classification of consumers as DIY or DIFM. In 2021, about 2/3rd of consumers take care of their own pool and about one-third of consumers hire a professional to take care of their pool. However, in a challenging macro-economic environment like we expect in 2023, the percentage of DIY consumers may increase and we’re positioned to capture any potential shift in our Residential Pool business.

We’re also seeing a shift in shopping patterns where consumers are increasingly shopping at pool supply retail locations and dedicated ecommerce sites. According to PK Data, there has been a favorable shift of approximately 120 bps post-pandemic.

Finally, on this slide you can see that consumers increased their usage of pools post-pandemic by about one-day per month. While the increase in pool usage has been supportive of our growth, it has not been the core driver of growth.

Slide 41
On slide 41, you can see the evolution of our Total Addressable Market which further demonstrates the predictable growth of our industry.

Starting at the bottom, the Residential Pool category, which is Leslie’s largest business, has grown the fastest at a compounded growth rate of over 6%. Professional Pool has grown at 4% and Residential Hot Tub has grown at 3%. All three categories have grown at a rate faster than the overall economy and Leslie’s has significantly outpaced industry growth as we continue to gain market share.

Our current Total Addressable Market is over $15 billion and it’s grown 67% over the last decade.

In this section we’ve reviewed key characteristics of the pool aftermarket industry – it’s large, creates annuity-like demand, and generates predictable growth.

We continue to be optimistic about the growth outlook for our industry…and as the industry leader, we are even more excited about the growth prospects for Leslie’s.

Now I would like to turn it over to Moyo LaBode to review Leslie’s Integrated Ecosystem.

Moyo…

Moyo LaBode, Chief Merchandising Officer

Slide 42
Good Morning, I’m Moyo LaBode, Chief Merchandising Officer. I joined Leslie’s about 18 months ago. Prior to Leslie’s I spent time at Barnes and Noble, Home Depot and Target in a variety of merchandising, sourcing, and operations roles. I’m really excited to be part of Leslie’s growth story.

One of Leslie’s most significant differentiators is our network of physical and digital properties. Which is:

- Unmatched in scale and reach
- Consumer centric
- And allows us to provide pool owners with a total solution for a clean, safe and beautiful pool.

Slide 43

On Slide 43, let’s walk through each part of our integrated ecosystem, starting with our physical network:

Over the last 59 years, we have built the most extensive and geographically diverse pool and spa network in the United States. It’s comprised of 3 formats: Residential, PRO, and Hot Tub.

Leslie’s physical network consists of 990 locations including:

- 863 Residential Stores in 39 states
- 80 Professional Stores and
- 47 Hot Tub Stores

Our physical footprint ensures we are close to the customer. In fact, over 90% of pools in the continental U.S. are within 15 minutes of a Leslie’s Store.

Our digital network is a platform of complementary, branded, proprietary eCommerce sites and marketplace storefronts. This allows us to serve the needs of all types of digital customers. And, each site has a curated merchandising and pricing strategy to appeal to a specific customer.

Leslie’s mobile app supports Leslie’s sites and stores and has been downloaded over 600,000 times. We know over 60% of shopping starts online – as the phone has become the front door to most shopping experiences. Leslie’s.com has a complete “pool lifestyle” offering of products and services from trusted brands – including a large assortment of our own brands and products. Leslie’s PRO site launched in 2021 as a qualified access site for Pool Professionals. It carries an extensive assortment specifically targeted to meet the needs of the Pro. The In The Swim site offers a broad assortment at great prices focused on the Do It Yourself and above-ground pool owner.

We operate Marketplace Storefronts across Amazon, eBay, and Walmart. These storefronts offer a basic assortment of pool supplies at an opening price point.

Taken together, our sites capture nearly two thirds of all online pool and spa traffic, and our network volume is over 5 times that of the #2 online provider.

Slide 44

Turning to slide 44. Leslie’s large physical, digital, and mobile footprints are brought together in an ecosystem called Leslie’s Connect. The ecosystem supports millions of direct consumer relationships. Our omni-channel capabilities allow our customers to shop whenever, wherever and however they choose including:

- Buy online Pick up in Store
- Ship from Store
- Ship to Store and
- Buy online, Return to store

Leslie’s Connect creates a friction free and fast shopping experience for our customers. Importantly, Leslie’s is the only pool and spa retailer with these capabilities.

Slide 45

Moving to slide 45. Our business model is a combination of product and service offerings. Leslie’s product offerings reflect an extensive assortment with over 30,000 SKUs.

- More than 80% of sales are from recurring non-discretionary products, like chlorine, that support daily and weekly pool maintenance.
- 55% of our product offerings are exclusive to Leslie’s. For chemicals that number is over 85%.

Exclusivity drives consumer loyalty at a higher margin rate.

There are two parts to our service offering:

First, all of our locations offer:

- Expert advice and consumer education,
- Free water tests and treatment plans,
- and free repairs and extended warranties for products purchased from Leslie’s.

Second, we have the industry’s largest in-field service team consisting of more than 350 certified technicians that provide on-site installation, trouble shooting, and repair. Our in-location and field services – testing, analysis, advice, education, installation and repair – are a critical component of the value equation only Leslie’s offers consumers. These services are a significant differentiator to Mass, Home Improvement, Club, and Online competitors. Our competitors sell products – which are only part of the solution.

We offer a Total Solution that results in a safe and great-looking pool.

Slide 46

On slide 46. Proprietary chemicals are the backbone of our product assortment. They support pool openings, weekly maintenance and pool closings. The assortment also needs to - and does - serve a wide range and age of equipment. In fact, the average age of a US pool is 23 years. And as a pool ages, the likelihood of more frequent maintenance and repair increases. Aging equipment also represents a significant upgrade opportunity. Our assortment is constantly evolving to support present and emerging sustainable products that are energy efficient, and reduce chemical and water consumption. Perfect Weekly is an example of a best-selling sustainable item exclusive to Leslie’s. Perfect weekly is a maintenance product that keeps pools clean, reduces chlorine use and lowers water evaporation all through a simple non-toxic formula.

Slide 47

On slide 47. Pool owners know that keeping pool water healthy, safe and looking great can be challenging. Pool water is always changing based on numerous factors such as:

- Weather – Heat, Rain
- Number of swimmers both pets & people and
- Maintenance routines

Testing pool water, on a weekly or more frequent basis, ensures a healthy, well-maintained pool. Leslie’s is the undisputed leader in water testing with over 50M tests and 59 years of testing experience. Our expertise led us to launch the proprietary AccuBlue water test in 2020. AccuBlue replaces difficult to use and inaccurate manual test strips with a digitized, gamified experience that delivers a pool score and step-by-step prescription for a clean, safe, beautiful pool. It’s truly a game changer.

Slide 48

Moving to slide 48. Our Integrated Ecosystem is a network of assets, capabilities and expertise unique to Leslie’s.

- At the center of it all, is our relationship with millions of consumers, both residential and professional.
- In addition, we offer differentiated products and services.
- And we bring it together with Leslie’s Connect, serving customers through physical, digital and mobile platforms

Regardless of their need, WHENEVER, WHEREVER, and HOWEVER they choose to engage us, Leslie’s stands alone in providing customers a total solution.

Now, I’ll turn it over to Steve to discuss our Supply Chain

Steve Weddell, Chief Financial Officer

Slide 49
Thanks, Moyo.

Over the next few slides, I'll talk through specific actions we're taking to improve our supply chain across three key areas:
- First, expand capacity
- Second, stock more inventory across our network
- Finally, diversify our supply base

As we discussed on our last earnings call, during the third quarter we experienced execution challenges at our New Jersey distribution center. These challenges resulted from a delayed start to the pool season in the northeast, unforeseen levels of vendor shipments and DC receiving activity in season as supply chain disruptions moderated, and we didn't have the staffing and plan in place to support this combination of factors. During the third quarter, we also experienced supply shortages from certain vendors in season that required higher cost substitutes to serve consumer demand.
We believe the actions we took during the fourth quarter and the actions we will take during fiscal 2023 will improve service levels and mitigate supply chain risks.

Slide 50
One of our competitive advantages is our vertical integration in distribution. Our vertical integration enables us optimize product flow and to better understand industry cost structure.

On slide 50, you can see a layout of where our distribution centers and 3PLs are located. Today, we operate six residential pool distribution centers, serve consumers through an additional four 3PLs, and we operate three manufacturing sites. Our national footprint allows us to efficiently fulfill store and digital demand as our distribution locations are strategically located within the critical mass of stores and pool consumers in their respective regions.
In fiscal 2023, our first opportunity is to expand capacity across our network and I'll highlight a few actions we're taking:
- First: Create flexibility to implement a two-shift, seven-day a week model during pool season. This will give us the ability to increase capacity in our existing distribution centers by over 40% when compared to our operating model in fiscal 2022. In fiscal 2022, we were able to quickly scale up warehouse associates but we did not have shift managers or supervisors in place to effectively utilize the additional resources. We're investing approximately $750K to hire managers and supervisors across our network to be in a position to scale operations during pool season.
- Second: Add new 3PLs to support seasonal demand. In the past, we have successfully utilized 3PLs to support high volume SKUs in seasonal markets like the northeast. We have the ability to optimize order flow through the use of these facilities, relieve pressure on our existing distribution centers, and 3PLs have an attractive variable cost structure that we can utilize on a seasonal basis.
- Third: We have hired a new omni-channel fulfilment leader who has experience optimizing omni-channel capabilities to meet consumer demand

Slide 51
On slide 51, we highlight a number of strategic investments on our roadmap that will allow us to better serve consumers, increase capacity, and optimize our supply chain.

We start on the left hand side with the foundational investment of a new order management system that we implemented in 2020 to 2021. The rollout included Manhattan Active Omni and Salesforce Commerce Cloud which enabled the omni-channel capabilities Moyo just discussed.

The second bar is a key supply chain enabler…we're currently implementing new merchandise financial planning and inventory management systems that we expect to roll out in 2023. These new tools will allow us to optimize planning and allocation of products across our network to meet consumer demand and enable us to more effectively manage profitability across our portfolio of products and services.

Next on our roadmap are additional foundational investments that include new point of sale and enterprise resource planning systems. Both will be common platforms across our businesses that will allow us to better serve consumers, support organic growth, and accelerate the pace of integration of newly acquired businesses.

Finally, our next supply chain investment will be to upgrade our warehouse management system and we're targeting implementation for fiscal 2025.

Our team has a track record of successfully implementing new systems and our entire organization is highly focused on continuous improvement.

Slide 52

Now let's shift gears and turn to slide 52 to review opportunities to improve our inventory position.
Our top priority is to have product in-stock to meet consumer demand. Vendor supply chains have been unpredictable across a number of key product categories over the last few years. While we're pleased with our team's tireless efforts and the collaboration from our vendor partners, this unpredictability has impacted product availability, customer service levels, and we've missed sales.

We're encouraged that supply chains appear to be improving, but we will continue to lean in on inventory investments until we see sustained performance leading up to and through pool season. We have the ability to use our balance as a competitive advantage and we will continue to carry higher inventory levels in both our stores and our distribution centers. We will also focus on the earlier receipt of goods so we can use our distribution capabilities to position inventory across our network in advance of season.

As a reminder, we primarily sell non-discretionary products and most of the incremental inventory falls into the chemical and equipment categories that are not subject to technology or fashion risk.
When we believe we have sufficient inventory to meet consumer demand through season...and after we see supply chains across the industry become more predictable...then we will strategically manage inventory levels down to recoup some of the investment we have made in working capital over the last few years.

Slide 53

On slide 53, we cover our third opportunity to optimize our supply chain through diversifying our supply base.
On the prior slide, I talked about the unpredictable nature of our supply chain. Over the last couple years, but more acutely in fiscal 2022, we experienced product shortages from a larger number of existing vendors in season. For certain products we offer to consumers, we work with a network of local, regional, and national vendors and a number of these vendors simply did not have the capacity to support our continued growth.

We have long-term relationships with a broad base of vendors across the country and across product categories. These relationships allowed us to get back in stock during the second half of fiscal 2022, but we experienced stock outs and we procured replacement product at higher costs for both the product and the distribution of those products to stores and consumers.

Going into the 2023 pool season, we will further mitigate supply chain risk by contracting supply with additional vendor partners and we will be receiving inventory earlier to minimize stock outs in season. We believe the actions we've laid out on the last few slides will materially improve our supply chain and position us to better serve consumers.

And now we're going to take a short break and will reconvene at 9:30am Mountain Time, 11:30am Eastern Time to discuss our growth initiatives.

Mike Africa, Chief Digital Officer

Slide 54
Hi everyone, I'm Mike Africa, Chief Digital Officer at Leslie's. I've been in retail for 22 years helping companies rapidly scale their ecommerce businesses and accelerate their digital transformation. I joined Leslie's about 15 months ago and have never seen a company quite like Leslie's. The fact that the company has grown for 59 straight years is incredible.

As Mike said earlier, we have implemented 6 growth initiatives and have good momentum across all 6. What I'm most excited about is our ample opportunity to continue this growth with expectations that each of the first five initiatives will contribute 100 to 300 basis points in growth on average per year over time. During the next few slides, I will be covering the first two initiatives: Grow Customer File and Deepen Customer Relationships.

Slide 55
At Leslie's, we put tremendous focus on growing our customer file. It's a fundamental measure of growing market share and a healthy business. It's simple: if you grow your file, your business will grow. This is why growing our customer base is our number one priority in marketing and it's paid off with our target file growing over 25% the past 3 years.

This is because we have clear advantages that we can leverage:
First, a strong LTV / CAC ratio allows us to confidently invest in marketing. This is because pools create an annuity like demand. Once you have one, you spend money to maintain it year in year out. Thus, we significantly invest in marketing and continuously improve our ROI through better targeting, optimizing channel mix, and delivering relevant content.
Our second advantage? There are over 8.7 million residential pools in the US and over the past 59 years, we've amassed a proprietary database of pool ownership. Yes, we know where pools are currently located, and where new ones are being built. This information allows us to micro target both new and existing customers. We leverage this information across all our channels including CTV, display, paid search, social, and direct mail. Then we layer on our 1st party data to further refine our targeting and deliver more relevant content.

Leslie's third advantage is our investment in our martech stack. Over the past several years, these investments include media mix modeling, multi-touch attribution, marketing orchestration and customer identification. These tools and capabilities allow us to manage our marketing investments differently. Rather than setting a dollar budget that we manage to, we set an ROI target that we spend to. If we continue to achieve our targeted return, we continue to invest.

The investments allow us to optimize our mix to ensure a proper balance between top of funnel to bottom of funnel campaigns. This builds awareness, drives consideration, and increases conversion across all channels. Furthermore, with nearly 1000 stores, it allows us to measure our digital efforts not only online but offline as well, ensuring high return on our marketing dollars.

Slide 56
Turning to Slide 56 – our second Strategic Growth Initiative is to deepen relationships with our customers. We use Average Revenue per Customer as the primary KPI to measure this initiative. Moving forward, I will refer to Average Revenue per Customer as ARC. As you can see on the slide, our ARC has increased 24% since 2019 and our share of wallet has increased 302 bps during that same time period. As Steve showed earlier, pool owners spend $900 per year for maintenance. So, even with 24% growth in ARC over the last three years, we still have a significant opportunity to gain additional wallet share.

How will we do so? First, we will leverage our marketing data to drive higher frequency, adoption into new categories, and drive growth in our Pool Perks loyalty program. Second, we will capitalize on our retail fleet of nearly 1000 stores, expertise of our store associates, and our continuous investment in digital transformation that create a customer experience that is impossible for smaller competitors and big box retailers to replicate. Through this network we will be able to drive more omni-channel shopping. Third, we will continue to showcase our industry leading water testing platform, AccuBlue. As you will hear from Clay, AccuBlue is the most accurate test in the market that prescribes a proper treatment plan to help customers maintain a clean, safe, and beautiful pool. Finally, we will take advantage of the category expansion into

Eco-friendly products to drive higher ARC. As Moyo mentioned earlier, we are expanding our assortment to include sustainable products that are energy efficient, reduce chemical usage, and lower water consumption.

The above initiatives will help us retain customers and as you can see on the slide, our customers become more valuable over time with retained customers spending $354, 20% higher than our average customer.

Slide 57

Let's turn now to Slide 57 and talk about our Loyalty program – Pool Perks. Pool Perks is a powerful lever that drives higher retention rates and plays a key role in increasing ARC. Pool Perks best-in-class benefits - 5% rewards, free shipping, extended warranties, and exclusive offers - has really resonated with our customer base. When compared to non-members, Pool Perks members have a retention rate and Lifetime Value 3 times higher, and ARC 2 times higher. These metrics illustrate the value of the program and the importance of continuously messaging the benefits of the program. It nurtures our relationship with loyalty customers who represent 74% of our total transactions and 80% of our residential sales in 2022.

With our investments in marketing, focus on increasing ARC, and strong loyalty program we have created a solid foundation to grow our customer count and increase our wallet share.

Now I will turn it over to Paula who will be discussing the Pro Initiative.

Paula Baker, Chief Revenue Officer

Slide 58

Good morning, everyone. I am Paula Baker, Chief Revenue Officer for Leslie's. I oversee the sales and operations for our Retail Stores and Service teams, our PRO Business, as well as our Hot Tub Companies, and Call Center. Prior to joining Leslie's three ago, I worked for Best Buy for 15 years, most recently serving as the President of Retail.

I am excited to talk to you today about two of our strategic initiatives: our PRO business and the Whitespace opportunity we see for our stores.

First, let's start with our Pro Initiative - an exciting and growing part of our Leslie's business!

- Leslie's PRO business is unique in the industry. The total addressable market is approximately $4.4B, and because of our size, scale, and value propositions, we believe we can gain market share with our initiative.
- We are the only company that can fully meet our PRO customers where, when, and how they want to do business with us.
- Whether online, in store, over the phone, or while in the backyard, we can serve our PRO Partners in a way the best suits their business needs.

Our PRO Initiative launched in 2020 with a three-part strategy: Leslie's PRO Partner program, Leslie's PRO stores, and the Leslie's PRO website. Since our launch, the PRO Business has grown 73% and represents 15% of our company revenue. Let me provide an overview of each of the three strategies:

Slide 59

First, our Leslie's PRO Partner Program.

Let's define the two segments of our Pro Customers:

- A Pro customer is a pool trade professional that owns, operates, or oversees a weekly/monthly pool service route. They are the typical "One-polers" that operate one truck in their business and can service 50-75 pools annually.
- A Pro Partner is a customer with whom Leslie's has developed a relationship and has engaged in a partnership to mutually benefit both parties. They typically have 2 or more trucks and service 75+ pools annually.

All of our PROs primarily service the pools of residential homeowners year-round. They are business owners that want to continue to grow and expand their businesses and see Leslie's as a trusted partner in making that happen!
While Leslie's has served Pool professionals for decades, the PRO Partner Program we launched in 2020 offers a differentiated and significantly improved experience which makes Leslie's valuable to these PRO Partners. PRO partners receive:

- Preferred Pricing
- Customer Referrals for pool maintenance
- Rebate program
- Additional benefits of AccuBlue water testing and instore pool cleaner inspections

And a PRO customer spends on average more than 25X what a residential customer does, which makes PROs very valuable to us!

Our second Pro strategy is our Leslie's PRO Stores:
Before I talk about the Pro stores specifically, it's important to note that EVERY LESLIE'S STORE serves our Pro customers and Pro Partners. However, the PRO Branded stores do have features that specifically cater to the Pro customer.

Our PRO locations average 4200 s.f. and carry an average of 1500 SKUs. The depth and breadth of assortment is greater than a typical residential stores for the SKUs that are in highest demand from our PRO customers. The PRO Stores generate 2x the sales of a residential location and have a higher EBITDA contribution. And, when we convert or build a new PRO location, PRO sales and residential sales across all stores in the market increase. PRO locations do not cannibalize PRO sales from the surrounding residential stores.

Our PRO Stores offer

- Convenient locations
- Expanded store hours
- Expanded assortment
- Omni-Channel Capabilities
- Trusted partnerships with our store teams that are trained and knowledgeable about PRO customer needs

Today, we have 80 PRO locations and we plan to convert or build another 20 PRO Stores in 2023. And, with third party analysis, we have an opportunity to operate more than 350 PRO locations.

And, to complement our physical locations, we also launched our third strategy: Leslie's PRO Website, a dedicated, members only website that allows our PRO customers the convenience of shopping online while at home, in their truck, or in a customer's backyard.

The site offers omni-channel capabilities that allow our PRO customers to shop at their convenience and have product readily available for pick up in store or delivered to their homes, so they are maximizing their time providing the best service to their customers!

Slide 60

How does Leslie's compete in the PRO category? Simply stated: Convenience and Value

As a company our real estate strategy is very straight forward – we are where the pools are. 90% of all pools in the continental U.S. are within 15 minutes of our nearly 1,000 Leslie's locations. This makes Leslie's the closest most convenient option. We also understand that our PRO Partners expect value in their products. The depth and breadth of our PRO assortment is high quality and competitively priced.

To further capitalize on our ability to compete in the PRO Market, we have our sights set on continued growth:

Target number of PRO Partners / Stores for 2023:

- Target of 4,000 PRO Partners
- Target is 100 PRO - Branded Stores

Target number of PRO Partners / Stores longer term:

- Target of 10,000 PRO partners
- 350+ PRO locations

Our PRO Partners are business owners that want to continue to grow and expand their businesses and see Leslie’s as a trusted partner in making that happen! We uniquely deliver what is most important to them – convenience, speed, assortment and value as well as best in class water testing and referrals. That is why as I said at the beginning, Our PRO Business and our PRO Partners are an exciting and growing part of our Leslie’s business!

<u>Slide 61</u>

Now let’s turn to slide 61 and discuss how we plan to continue expanding our physical footprint. First, some context on our residential stores:

Our residential locations average about 3,500 sqft and carry approximately 900 SKUs. Our upfront investment is approximately $350k, the maintenance capital is modest, and cash on cash returns of more than 35% in year 4.

As of the end of our fiscal 2022, Leslie’s operates 990 physical locations across 39 states. These include our 863 residential pool locations, 80 PRO locations, and 47 hot tub locations. We believe we have a clear path to doubling our store count through a mix of new store openings and M&A.

We take a top-down approach to expand our physical network. We say that ‘we are where the pools are.’ That’s no coincidence – there’s a high-correlation between pool density and store performance in any given market. The more pools, the more non-discretionary demand, the better the stores perform. So, we begin by identifying markets with high pool density where Leslie’s is either underrepresented or does not have an existing presence utilizing a mix of proprietary and third-party data.

Once we identify a target market, we canvas the competitive landscape to determine if local pool owners are adequately served by existing specialty pool retailers, or if there’s a whitespace opportunity for new store growth. Then we take a buy-or-build approach to enter the target market. We either acquire well-run “Hometown Heroes” or if none are present or actionable, we build new stores.

This represents a significant opportunity for Leslie’s. We have identified nearly 700 incremental residential whitespace opportunities and nearly 200 PRO opportunities. Capitalizing on these two opportunities would add nearly 900 store locations and bring our store count to nearly 1,900.

The M&A opportunity is much more significant. We estimate that there are 8,000 independent specialty retailers in the U.S. and 2,500 Hot Tub specialty retailers.

It’s important to note that we can also target underserved markets with targeted digital outreach and branded marketplace sites. This can be particularly efficient in markets that have lower in ground pool density and may not have the right economics for a physical location.

Finally, whitespace is dynamic, not static. We’ve discussed the secular trends in population migration to the south and southwest, and we’ve noted consistent growth in new pool installations. Over time, we expect the installed base of pools to grow and new pool markets to develop, creating additional opportunities for store expansion.

Now, I’d like to turn it over to Clay to talk about our last two strategic initiatives – M&A and disruptive innovation. Thank you.

Clay Spann, VP Strategy and M&A

Slide 62

Thank you, Paula. My name is Clay Spann – I'm the Vice President of Strategy and M&A and I've been with Leslie's for two and a half years. Before Leslie's, I was with J.P. Morgan's Investment Bank, advising consumer and retail companies. I later joined *L* Catterton, where I invested in consumer businesses and worked closely alongside management teams to develop sustainable long-term growth strategies. Now, at Leslie's, I oversee corporate strategy and M&A. I'll start with M&A.

Between 2010 and 2020, Leslie's acquired an average of one business per year. In late 2020, we established M&A as our fifth Strategic Growth Initiative and began to accelerate our pace of acquisitions. We acquired three businesses in 2021, six in 2022, and as Mike noted earlier, we have already completed our first acquisition of fiscal 2023. The ten acquisitions completed in the last two years account for nearly 140 million dollars in annual sales volume and 25 million dollars in annual adjusted EBITDA – and we are just getting started. We've acquired five businesses in the last six months alone, and our pipeline continues to build.

The specialty pool industry is highly fragmented. We estimate there are 8,000 independent specialty pool locations across the United States, representing more than 5 billion dollars in annual volume. This is a significant opportunity with a long runway. And Leslie's is uniquely advantaged to consolidate the industry based on our:

- Scale
- Value-added capabilities to benefit our consumers
- And importantly, our brand

We complement our programmatic M&A practice with a programmatic integration playbook. We bring to bear our resources and competitive advantages to accelerate the growth of these newly acquired businesses while optimizing cost structure. As evidence, we've taken our FY21 acquisitions and grew their topline by 45% and more than doubled their EBITDA contribution during the first full year under Leslie's ownership.

Our programmatic M&A practice is driving shareholder value. The 120 million dollars invested in the last two years has brought in 25 million dollars of incremental EBITDA. Capitalized at our consolidated trading multiple, that's roughly 200 million dollars of equity value creation.

So, three things I'd like for you to take away:

- First: Leslie's can deliver significant growth through M&A – independent players represent $5B in annual volume
- Second: M&A is a sustainable growth driver – with 8,000 independents, there are always actionable opportunities
- Third: Leslie's M&A practice is highly accretive – we transact at attractive multiples and capitalize on significant synergy opportunities to deliver superior risk adjusted returns

Slide 63

Now let's review our final strategic initiative – disruptive innovation.

Leslie's has a strong legacy of 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.

In 1963, we pioneered complimentary in-store water testing, we later added complimentary in-store equipment repair services, in 2014 we introduced the industry's first loyalty program, in 2021 we developed the industry's only omni-channel platform, and most recently, we began piloting AccuBlue Home – the total at-home solution for a clean, safe, and beautiful pool.

One of the most impactful offerings to come out of our disruptive innovation practice is our in-store proprietary AccuBlue water test experience. We use best-in-class water testing technology and pair it with our proprietary AccuBlue software to deliver the most comprehensive and accurate test results available to pool owners. This is the only end-to-end total solution for water testing and treatment, and it's offered for free in all Leslie's locations.

Other pool supply stores may offer free water testing, but their tests are far less precise, less comprehensive, they rely on manual calculations, and any treatment recommendations are prone to human error.

Here's a quick look at the differences between the Leslie's AccuBlue water test experience and the water test services provided by other pool supply retailers.

– VIDEO –

Slide 64

As you can see, we have the most comprehensive, accurate, and actionable water test in the market, and that matters because it grows our share of wallet with customers and has proven to be a powerful retention tool. Customers who regularly test their water with us spend 2 times more than those who don't, they transact twice as often, and the ease and accuracy of the water test experience keeps consumers coming back to Leslie's. We are two times as likely to retain a water test customer than a non-water test customer. Simply put, customers who test with Leslie's, spend more with Leslie's.

So, in 2020, we began developing a way to make it even easier for pool owners to test their water with us. A year later, we began piloting AccuBlue Home – a comprehensive water testing and treatment program that brings our proprietary AccuBlue technology into the homes of our customers.

Slide 65

Here's how it works. Pool owners sign-up, and in return they receive an AccuBlue device to test their water from the convenience of their own home. The device is integrated with the Leslie's mobile app, which processes the test results and generates a pool score and the same comprehensive and easy to follow treatment plan Leslie's customers receive in store. Pool owners can then buy the products they need through our mobile app and have them delivered right to their door or pick them up in store. AccuBlue Home membership is $50 per month, and in return, members receive $50 in monthly credits – so it's practically free. The credits are good for a year and can be used toward any product purchases from Leslie's – in app, online, or in store. At $50 per month, program members are committing $600 of their annual pool supply spend to Leslie's. As Mike Africa pointed out earlier, our average revenue per residential customer is just shy of $300 per year, and the average pool owner spends $900 per year on pool supplies. So, when a pool owner signs up, they're not committing to spend any more on pool supplies than they normally would, they're just committing to buying more of what they already need from Leslie's.

We've been piloting AccuBlue Home for over a year now. Here are some of our preliminary observations:

- On average, AccuBlue Home members increase their spend with Leslie's by 80% after enrolling in the program
- AccuBlue Home customers spend 3x more with Leslie's than non-AccuBlue Home customers
- And finally, consumers see value in the program – after over a year, we've retained over 75% of our original pilot program members.

We're highly encouraged by these results, but we're also keenly aware that we have some early adopters within our pilot group who are demonstrating super-user behavior

Now let's shift gears to discuss what we have in store for the future. During the last year, we completed the development of our next generation 'v2.0' AccuBlue Home device. We're piloting this new version with select consumers, and the early feedback has been positive. They like how it looks, they like that it's easier to use, and **we** like that it's less expensive to produce.

I'm pleased to share that Leslie's will be opening the AccuBlue Home program to the public before pool season 2023, complete with our next generation device.

– VIDEO –

Slide 66

AccuBlue Home is poised to fundamentally change the way consumers test and treat their pools. We surveyed hundreds of pool owners across the country – some who shop with Leslie's, some who don't, and nearly 60% expressed a high or very high level of interest in joining the program. The broad appeal of this offering gives us some indication of just how impactful this program can be for our business over the coming years. For the near-term, we're planning on producing 10,000 units in fiscal 2023.

We're really excited for the upcoming release of AccuBlue Home, and so are our customers – because there's nothing else like it in the market. No one else is able to offer the most comprehensive water testing technology to consumers, let alone through a program that pays for itself. No one else has the benefit of nearly 60 years and 50 million water tests behind their proprietary treatment plan software. And no one else has a nationwide omni-channel platform to make the recommended products available to pool owners on the same day. Simply put – AccuBlue Home is the total at-home solution for a clean, safe, and beautiful pool. And it's only available at Leslie's.

With that, I'll turn it back over to Mike to wrap things up.

Mike Egeck, Chief Executive Officer

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We are going to end the presentation today repeating the three key pillars that make Leslie's unique and that we believe make it a compelling investment.

#1 – We operate in one of THE most advantaged consumer products industries:

- It's large - $15B plus
- It has annuity-like demand because once a pool is built it has to be maintained
- It has predictable growth – the installed pool base has grown every year for 52 years

#2 – We have built a consumer-centric integrated ecosystem of physical and digital assets that is:

- Unmatched in scale and reach
- And that allows us to provide total pool and spa care solutions to all consumers, Whatever, their need, and Wherever, Whenever, and However they want to engage with us
- None of our competitors have that capability

#3 – Despite being the largest direct-to-consumer brand in the industry, we have:

- Significant white space opportunities across all of the consumer types we serve and all the channels we operate
- The capabilities and talent to address these opportunities
- Multiple early-stage Strategic Growth Initiatives
- And a pipeline of disruptive innovation that only Leslie's can bring to the pool and spa consumer

In a unique and advantaged industry – Leslie's is uniquely positioned and advantaged to win. And we are winning. We have grown for 59 consecutive years by being a trusted expert partner to our customers – by knowing and understanding their needs and their pools needs and by providing a total solution for a clean safe and beautiful pool. This has made us the undisputed industry leader and we are obsessively focused on maintaining and growing that position regardless of the macro environment.

Thank you. Now we will open it up for Q & A.