

# THIRD QUARTER 2022 EARNINGS

November 1, 2022

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# THIRD QUARTER 2022 EARNINGS CALL


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# Disclaimer

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This press release contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995 (the "Act") and releases issued by the Securities and Exchange Commission (the "SEC"). Such forward-looking statements relating to Hayward are based on the beliefs of Hayward's management as well as assumptions made by, and information currently available to it. These forward-looking statements include, but are not limited to, statements about Hayward's strategies, plans, objectives, expectations, intentions, expenditures and assumptions and other statements contained in or incorporated by reference in this earnings release that are not historical facts. When used in this document, words such as "guidance," "may," "will," "should," "could," "intend," "potential," "continue," "anticipate," "believe," "estimate," "expect," "plan," "target," "predict," "project," "seek" and similar expressions as they relate to Hayward are intended to identify forward-looking statements. Hayward believes that it is important to communicate its future expectations to its stockholders, and it therefore makes forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that Hayward is not able to accurately predict or control, and actual results may differ materially from the expectations it describes in its forward-looking statements.

Examples of forward-looking statements include, among others, statements Hayward makes regarding: Hayward's outlook, financial position; business plans and objectives; general economic and industry trends; business prospects; future product development and acquisition strategies; growth and expansion opportunities; operating results; and working capital and liquidity. The forward-looking statements in this earnings release are only predictions. Hayward may not achieve the plans, intentions or expectations disclosed in Hayward's forward-looking statements, and you should not place significant reliance on its forward-looking statements. Hayward has based these forward-looking statements largely on its current expectations and projections about future events and financial trends that it believes may affect its business, financial condition and results of operations. Moreover, neither Hayward nor any other person assumes responsibility for the accuracy and completeness of forward-looking statements taken from third-party industry and market reports.

Important factors that could affect Hayward's future results and could cause those results or other outcomes to differ materially from those indicated in its forward-looking statements include the following: its ability to execute on its growth strategies and expansion opportunities; uncertainties affecting the pace of distribution channel destocking and its impact on sales volumes; its ability to maintain favorable relationships with suppliers and manage disruptions to its global supply chain and the availability of raw materials, including as a result of the COVID-19 pandemic; its relationships with and the performance of distributors, builders, buying groups, retailers and servicers who sell Hayward's products to pool owners; competition from national and global companies, as well as lower-cost manufacturers; impacts on Hayward's business from the sensitivity of its business to seasonality and unfavorable economic business and weather conditions; Hayward's ability to identify emerging technological and other trends in its target end markets; Hayward's ability to develop, manufacture and effectively and profitably market and sell its new planned and future products; failure of markets to accept new product introductions and enhancements; the ability to successfully identify, finance, complete and integrate acquisitions; Hayward's ability to attract and retain senior management and other qualified personnel; regulatory changes and developments affecting Hayward's current and future products; volatility in currency exchange rates; Hayward's ability to realize cost savings from restructuring activities; Hayward's ability to service its existing indebtedness and obtain additional capital to finance operations and its growth opportunities; impacts on Hayward's business from political, regulatory, economic, trade, and other risks associated with operating foreign businesses, including risks associated with geopolitical conflict; Hayward's ability to establish and maintain intellectual property protection for its products, as well as its ability to operate its business without infringing, misappropriating or otherwise violating the intellectual property rights of others; the impact of material cost and other inflation; the impact of changes in laws, regulations and administrative policy, including those that limit U.S. tax benefits, impact trade agreements and tariffs, or address the impacts of climate change; the outcome of litigation and governmental proceedings; impacts on Hayward's business from the COVID-19 pandemic; and other factors set forth in "Risk Factors" in Hayward's Annual Report on Form 10-K for the year ended December 31, 2021 and its Quarterly Report on Form 10-Q for the period ended July 2, 2022.

Many of these factors are macroeconomic in nature and are, therefore, beyond Hayward's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, Hayward's actual results, performance or achievements may vary materially from those described in this earnings release as anticipated, believed, estimated, expected, intended, planned or projected. The forward-looking statements included in this earnings release are made only as of the date of this earnings release. Unless required by United States federal securities laws, Hayward neither intends nor assumes any obligation to update these forward-looking statements for any reason after the date of this earnings release to conform these statements to actual results or to changes in Hayward's expectations.

**NON-GAAP FINANCIAL MEASURES**

This earnings release includes certain financial measures not presented in accordance with the generally accepted accounting principles in the United States ("GAAP") including adjusted net income, adjusted basic EPS, adjusted diluted EPS, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted gross profit margin, adjusted segment income, adjusted segment income margin, net debt and free cash flow. These financial measures are not measures of financial performance in accordance with GAAP and may exclude items that are significant in understanding and assessing the Company's financial results. Therefore, these measures should not be considered in isolation or as an alternative to net income (loss), segment income or other measures of profitability or performance under GAAP. You should be aware that the Company's presentation of these measures may not be comparable to similarly titled measures used by other companies, which may be defined and calculated differently. See the appendix for a reconciliation of historical non-GAAP measures to the most directly comparable GAAP measures.

Reconciliation for the forward-looking full year fiscal 2022 net sales and adjusted EBITDA outlook is not being provided, as Hayward does not currently have sufficient data to accurately estimate the variables and individual adjustments for such reconciliation.


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# Q3 2022 Key Messages



## Q3 2022 results in line with our expectations

- Consumer demand increased year-over-year; channel inventories normalizing



## Continue to win in the marketplace

- Solid share gain, target account conversion, new product adoption and price realization



## Executing appropriate actions to optimize the cost structure and position for growth

- Resetting production levels and discretionary spending while prioritizing growth investments



## Refining full year 2022 guidance

- Guidance contemplates higher than expected inflation impacting Q4, normalizing channel inventory, geopolitical events in Europe



## Continued progress on ESG commitments

- Published first ESG data sheet during the quarter


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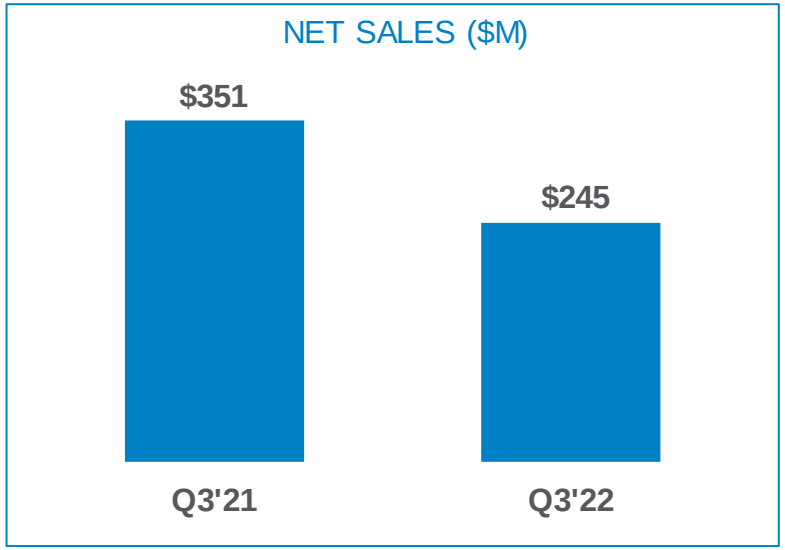
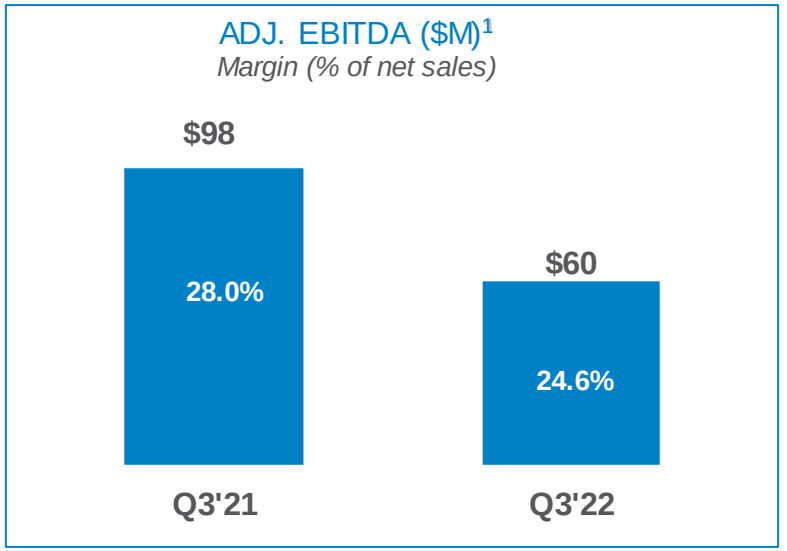
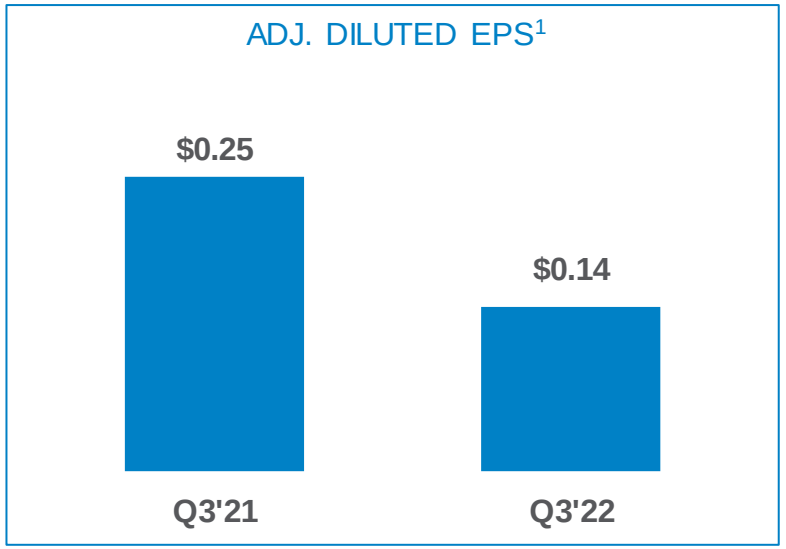
# Q3 2022 Financial Overview




## INCREASED CONSUMER DEMAND; REDUCED CHANNEL INVENTORY LEVELS

- ✓ Price realization, share gain, resiliency of core U.S. market
- ✓ Temporary channel inventory reset, softer conditions in certain markets (Europe, Canada)

## PROACTIVE MARGIN MANAGEMENT

- ✓ Savings associated with recent cost actions to be progressively realized in Q4
- ✓ Further price actions following continued inflation in Q3
- ✓ Decremental margins limited to 36%

1. See Appendix for a reconciliation of non-GAAP measures to the most directly comparable GAAP measures.

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# Business Update

| | |
|---|---|
| **End Consumer Demand** | ✓ Core U.S. market: channel sell-through increased, led by year-round markets (sunbelt)<br>✓ Europe: negatively impacted by geopolitical events<br>✓ Increased sell-through reflects underlying demand in the U.S.; reduced sell-in reflects destocking globally |
| **Market Share** | ✓ Continued structural share gain in the U.S., notably in the sunbelt<br>✓ Share gain sustainability due to technology leadership, as evidenced by 20% growth in Totally Hayward Partners<br>✓ NPI Vitality Index +17% YoY in Q3 |
| **Price - Cost** | ✓ Certain commodity prices starting to decline; yet inflationary pressure to COGS continues<br>✓ Announced an additional 4-5% price increase in Q4 to support margins in 2023<br>✓ Very disciplined industry; expect pricing to hold |
| **Channel Inventory** | ✓ Working proactively with channel partners to reduce inventory to appropriate levels for the upcoming season<br>✓ Channel inventory at distributors reduced by ~$80M in Q3; continued normalization expected in Q4 2022 |
| **Cost Structure Realignment** | ✓ Taking responsible actions to streamline the organization and optimize the cost structure to support margins<br>✓ Targeted 2023 SG&A annual savings of $25M to $30M; initial savings of $8M to be realized in 2022 |


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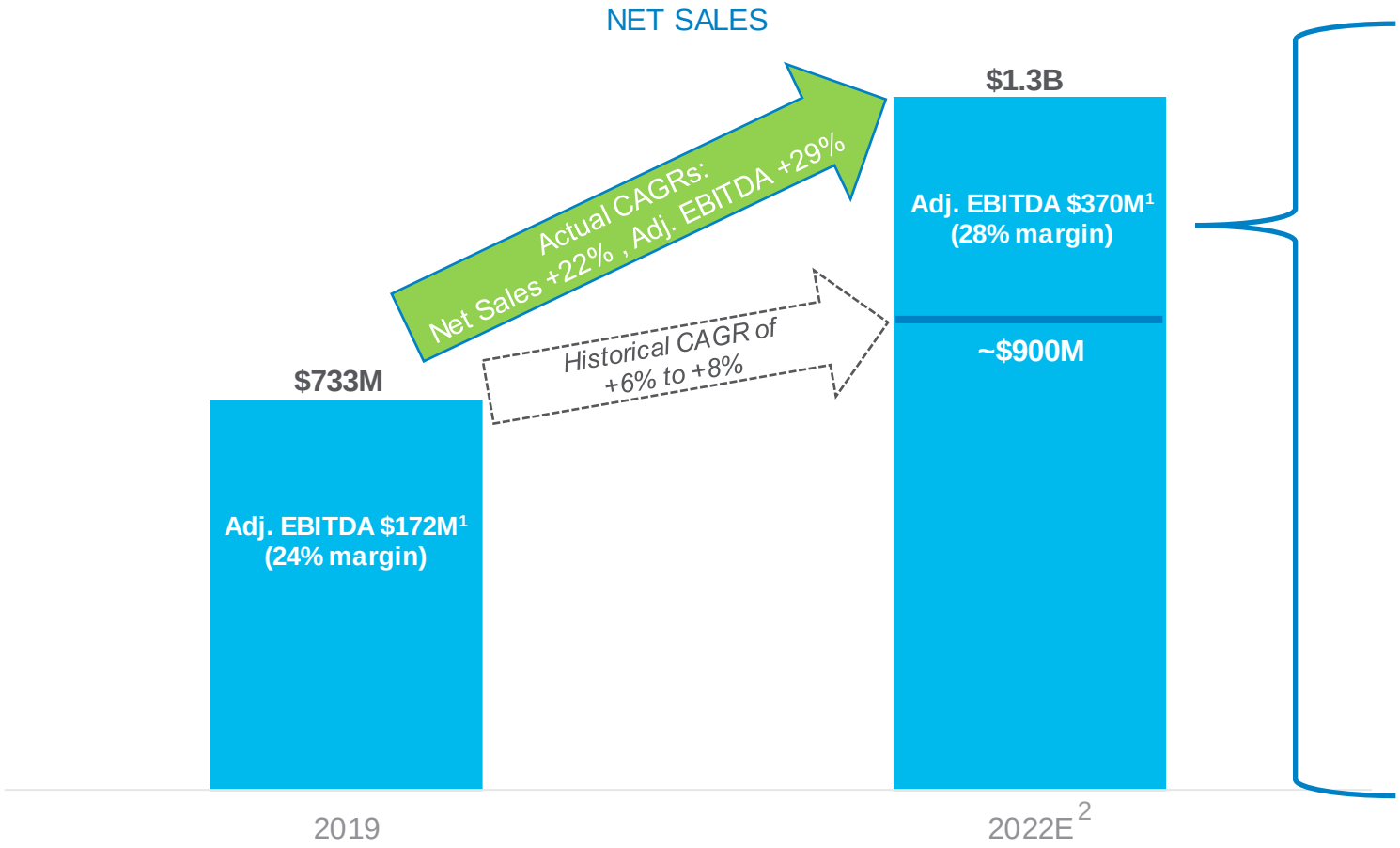
# Successful Transformation Driving Outperformance




## Innovative New Products

- ✓ Accelerated new product development roadmap
- ✓ New IOT-enabled product introductions
- ✓ Best-in-class products in the top growth categories

## Restructured Go-To-Market Model

- ✓ Restructured sales force
- ✓ New business development teams focused solely on new customer acquisition, dealer conversion
- ✓ Leading multi-channel presence

## Enhanced Operational Excellence

- ✓ Long-standing commitment to Lean Enterprise
- ✓ Optimized footprint, resulting in increased capacity
- ✓ New distribution centers, automation investments

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1.See Appendix for a reconciliation of historical non-GAAP measure to the most directly comparable GAAP measure. Reconciliation of the non-GAAP measure estimated for the year ending December 31, 2022 is not predictable and is not included. Such item is calculated in a manner consistent with adjusted EBITDA for historical periods.
2.2022E represents the implied FY 2022 guidance.

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# Conversion Upgrades

## Key Sustainable Aftermarket Conversion Opportunities Increase TAM

| | NEW CONSTRUCTION TAKE RATE | AFTERMARKET PENETRATION | OPPORTUNITY GAP | | HAYW 3-YEAR CUMULATIVE UNIT GROWTH[1] | HAYWARD TECHNOLOGY ENABLING PRODUCT INTRODUCTIONS IN LTM |
|---|---|---|---|---|---|---|
| **Digital Conversion** IoT Controls | ~67% | ~29% | ~38% | Available TAM $6.6B | **160%** |  **Omni PL** New range of IoT automation controls |
| **Chemical Conversion** Salt Chlorinators | ~62% | ~37% | ~25% | | **110%** |  **AquaRite S3** Unique capability, full sanitization at lowest salt levels |
| **Energy Conversion** Variable Speed Pumps | ~78% | ~41% | ~37% | | **140%** |  **XE Pumps** Full range of DOE-compliant multi-speed pumps |

Source: Management estimates rounded to the nearest percentage; based on US market and third-party share data
1.For the Q2 LTM periods; 3 years for Digital and Chemical Conversion, 2 years for Energy Conversion

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# Third Quarter 2022 Financials

**NET SALES OF $245M**

## NET SALES (30%) YOY

- Increased consumer demand with contribution from acquisitions, reduced by channel inventory destocking.
- Additional price realization to combat continued cost inflation

**GROSS PROFIT OF $108M**

## GROSS PROFIT MARGIN OF 43.9%

- Price realization offset by leverage on lower volumes and inflation
- Adverse impact of purchase accounting of 108 basis points

**ADJ. EBITDA[1] OF $60M**

## ADJ. EBITDA[1] MARGIN OF 24.6%

- Decremental margins limited to 36%, benefiting from a reduction in incentive compensation and sales rebates
- Cost actions underway to support margins

**ADJ. DILUTED EPS[1] OF $0.14**

## DILUTED EPS OF $0.10; ADJ. DILUTED EPS[1] OF $0.14

- Share count reduced by 23M shares (10%) YoY

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Source: Company financial data.
1 See Appendix for a reconciliation of non-GAAP measures to the most directly comparable GAAP measures.

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# North America Q3 2022 Segment Overview

## NET SALES

**$204M**

**-31.7% YoY**

- Core U.S. market sell-through increased
- Favorable contributions from pricing of 12% and acquisitions of 3%
- Volume reduced due to channel inventory destocking

## GROSS PROFIT MARGIN

**$92M**

**45.1% margin**

- Price realization offset by inflation and lower operating leverage on volume reductions
- Unfavorable purchase accounting impact of 128 basis points

## ADJUSTED SEGMENT INCOME[1]

**$57M**

**27.9% margin**

- SG&A cost reduction actions initiated in Q3



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1 See Appendix for a reconciliation of non-GAAP measures to the most directly comparable GAAP measures.

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# Europe and ROW Q3 2022 Segment Overview

## NET SALES

**$42M**

**-20.6% YoY**

- Favorable contribution from pricing of 10% offset by lower volumes 23% and unfavorable foreign exchange of 7%
- Volume reduced due to geopolitical events, economic uncertainty, and channel inventory destocking

## GROSS PROFIT MARGIN

**$16M**

**38.3% margin**

- Price realization and favorable customer mix offset by inflation and lower operating leverage on volume reductions

## ADJUSTED SEGMENT INCOME[1]

**$9M**

**20.8% margin**

- SG&A cost reduction actions initiated in Q3



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1 See Appendix for a reconciliation of non-GAAP measures to the most directly comparable GAAP measures.

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# Balance Sheet and Cash Flow Highlights

## BALANCE SHEET ($M)

| | Q3 2022 |
|---|---|
| Cash and cash equivalents | $73 |
| Total debt principal | |
| Term debt (2028 maturity)[1] | $988 |
| ABL revolver (2026 maturity) | $100 |
| LTM adj. EBITDA[2] | $420 |
| Net leverage[3] | **2.4x** |

## CASH FLOW ($M)

| | Q3 2022 | YTD 2022 |
|---|---|---|
| Cash flow from operating activities | $80 | $144 |
| Less capex | ($8) | ($24) |
| Free cash flow | $72 | $120 |
| Free cash flow conversion[4] | **312%** | **73%** |

**STRONG BALANCE SHEET WITH NO NEAR-TERM DEBT MATURITIES PROVIDES FLEXIBILITY**

**ROBUST FCF CONVERSION REFLECTS HIGH QUALITY EARNINGS AND SUPPORTS GROWTH INVESTMENTS**

1. $500m of the term debt is swapped with swap maturities in 2025 ($250m) and 2027 ($250m)
2. See Appendix for a reconciliation of non-GAAP measures to the most directly comparable GAAP measures
3. Net leverage is calculated as (A) total debt less cash and cash equivalents divided by (B) the sum of trailing twelve months adjusted EBITDA
4. Free cash flow for the nine months ended is calculated as net cash provided by operating activities of $143.7 less capital expenditures $23.5, for the three months ended is calculated as the nine months ended result less free cash flow for the six months ended July 2, 2022 of $47.9, calculated as cash provided by operating activities of $63.7 less capital expenditures of $15.8.
5. Free cash flow / net income


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# Balanced Capital Allocation Priorities

| | |
|---|---|
| **Growth Investments** | ✓ Innovative new product development, IoT digital leadership<br>✓ Commercial programs, dealer conversions<br>✓ Operational excellence, productivity, growth capex |
| **Strategic M&A** | ✓ Pipeline of tuck-in opportunities to complement our product offering, geographic footprint, commercial relationships<br>✓ Acquired 4 companies in Controls, Water Features and Lighting in last year for $83M[1] |
| **Return to Shareholders** | ✓ Share repurchases of $50M in Q3 and $343M YTD 2022<br>✓ $400M remaining on existing $450M 3-year authorization<br>✓ Adj. EPS accretion of 10% from repurchases completed to date |

Funding **strategic growth investments and shareholder returns** while maintaining **prudent financial leverage**

1. Combined purchase price, net of cash acquired


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# 2022 Financial Outlook

**FULL YEAR 2022**

Net sales down approximately 6% YoY

Adjusted EBITDA[1] of $365M to $370M



**OUTLOOK REFLECTS:**

+ Resilient, recurring aftermarket demand
+ Continued share gain, price realization and technology adoption
+ Phased approach to enterprise cost reduction program
- Channel inventory reduction
- Uncertain global economic environment
- Geopolitical events in Europe
- Persistent inflation

1. Reconciliation for the full-year fiscal 2022 Adjusted EBITDA outlook is not being provided, as Hayward does not currently have sufficient data to accurately estimate variables and individual adjustments for such reconciliation, Adjusted EBITDA estimated for full-year fiscal 2022 is calculated in a manner consistent with historical adjusted EBITDA included in this presentation

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# Q3 2022 Key Takeaways

- Q3 2022 results in line with our expectations
- Continue to win in the marketplace
- Executing appropriate actions to optimize the cost structure and position for growth
- Refining full year 2022 guidance
- Continued progress on ESG commitments


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# APPENDIX

## Non-GAAP Reconciliations

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# Adjusted EBITDA & Adjusted EBITDA Margin Reconciliation

**APPENDIX**

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2022 | October 2, 2021 | October 1, 2022 | October 2, 2021 |
| Net income | $ 23,087 | $ 50,321 | $ 163,379 | $ 140,004 |
| Depreciation | 4,333 | 4,847 | 13,931 | 14,096 |
| Amortization | 10,249 | 10,405 | 28,437 | 30,903 |
| Interest expense | 13,938 | 11,050 | 35,105 | 42,297 |
| Income taxes | 3,549 | 14,336 | 47,968 | 42,072 |
| Loss on extinguishment of debt | — | — | — | 9,418 |
| EBITDA | 55,156 | 90,959 | 288,820 | 278,790 |
| Stock-based compensation [(a)] | (4) | 484 | 1,248 | 16,383 |
| Sponsor management fees [(b)] | — | — | — | 90 |
| Currency exchange items [(c)] | 52 | 1,149 | 2,776 | 4,379 |
| Acquisition and restructuring related expense, net [(d)] | 2,288 | 783 | 9,499 | 2,452 |
| Other [(e)] | 2,935 | 4,954 | 11,970 | 13,941 |
| Total Adjustments | 5,271 | 7,370 | 25,493 | 37,245 |
| Adjusted EBITDA | $ 60,427 | $ 98,329 | $ 314,313 | $ 316,035 |
| Adjusted EBITDA margin | 24.6 % | 28.0 % | 29.8 % | 30.1 % |

(a) Represents non-cash stock-based compensation expense related to equity awards issued to management, employees, and directors. Beginning in the three months ended July 2, 2022, the adjustment includes only expense related to awards issued under the 2017 Equity Incentive Plan, which were awards granted prior to the effective date of Hayward's initial public offering (the "IPO"), whereas in prior periods, the adjustment included stock-based compensation expense for all equity awards. Under the historical presentation, the stock-based compensation adjustment for the three and nine months ended October 1, 2022 would have been an expense of $1.8 million and $4.7 million, respectively.

(b) Represents fees paid to certain of the Company's controlling stockholders for services rendered pursuant to a 2017 management services agreement. This agreement and the corresponding payment obligation ceased on March 16, 2021, the effective date of the IPO.

(c) Represents unrealized non-cash losses (gains) on foreign denominated monetary assets and liabilities and foreign currency contracts.

(d) Adjustments in the three months ended October 1, 2022 are primarily driven by separation costs associated with a reduction-in-force as well as costs associated with the relocation of the corporate headquarters. Adjustments in the nine months ended October 1, 2022 are primarily driven by transaction costs associated with the acquisition of the Specialty Lighting Business, costs associated with the relocation of the corporate headquarters, and separation costs associated with a reduction-in-force. Adjustments in the three and nine months ended October 2, 2021 are primarily driven by restructuring related costs associated with the exit of a redundant manufacturing and distribution facility and costs associated with the relocation of the corporate headquarters.

(e) Adjustments in the three months ended October 1, 2022 primarily includes the non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business. Adjustments in the three months ended October 2, 2021 include a legal settlement and fees, costs related to a fire at our manufacturing and administrative facilities in Yuncos, Spain, and operating losses related to an early-stage product business acquired in 2018 that was phased out.

Adjustments in the nine months ended October 1, 2022 include expenses associated with the discontinuation of a product joint development agreement, a non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business, and costs incurred related to the selling stockholder offering of shares in May 2022, which are reported in SG&A in our unaudited condensed consolidated statements of operations, partially offset by gains resulting from an insurance policy reimbursement related to the fire incident in Yuncos, Spain. Adjustments in the nine months ended October 2, 2021 include a write-off related to the aforementioned fire in Yuncos, Spain, a legal settlement and fees related to patent infringement litigation, expenses incurred in preparation for the IPO and transaction related bonuses, costs related to our debt refinancing, and operating losses related to an early stage product business acquired in 2018 that was phased out.


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# Last Twelve Months Adjusted EBITDA Reconciliation

**APPENDIX**

| (Dollars in thousands) | Last Twelve Months[f] October 1, 2022 | Fiscal Year December 31, 2021 |
|---|---|---|
| Net income | $ 227,100 | $ 203,725 |
| Depreciation | 18,661 | 18,826 |
| Amortization | 36,524 | 38,990 |
| Interest expense | 43,662 | 50,854 |
| Income taxes | 62,312 | 56,416 |
| Loss on extinguishment of debt | — | 9,418 |
| EBITDA | 388,259 | 378,229 |
| Stock-based compensation [a] | 3,884 | 19,019 |
| Sponsor management fees [b] | — | 90 |
| Currency exchange items [c] | 2,882 | 4,485 |
| Acquisition and restructuring related expense, net [d] | 22,077 | 15,030 |
| Other [e] | 2,914 | 4,884 |
| Total Adjustments | 31,757 | 43,508 |
| Adjusted EBITDA | $ 420,016 | $ 421,737 |
| Adjusted EBITDA margin | 29.8 % | 30.1 % |

(a) Represents non-cash stock-based compensation expense related to equity awards issued to management, employees, and directors. Beginning in the three months ended July 2, 2022, the adjustment includes only expense related to awards issued under the 2017 Equity Incentive Plan, which were awards granted prior to the effective date of Hayward's initial public offering (the "IPO"), whereas in prior periods, the adjustment included stock-based compensation expense for all equity awards. Under the historical presentation, the stock-based compensation adjustment for the three and nine months ended October 1, 2022 would have been an expense of $1.8 million and $4.7 million, respectively.

(b) Represents fees paid to certain of the Company's controlling stockholders for services rendered pursuant to a 2017 management services agreement. This agreement and the corresponding payment obligation ceased on March 16, 2021, the effective date of the IPO.

(c) Represents unrealized non-cash losses (gains) on foreign denominated monetary assets and liabilities and foreign currency contracts.

(d) Adjustments in the last twelve months ended October 1, 2022 include business restructuring related costs associated with the exit of an early-stage product business acquired in 2018, transaction costs associated with the acquisition of the Specialty Lighting Business, costs associated with the relocation of the corporate headquarters, and separation costs associated with a reduction-in-force. Adjustments in the last twelve months ended December 31, 2021 include business restructuring related costs associated with the exit of an early-stage product business acquired in 2018, severance and relocation costs associated with the relocation of our corporate headquarters, and business restructuring related costs associated with the exit of redundant manufacturing and distribution facilities.

(e) Adjustments in the last twelve months ended October 1, 2022 include expenses associated with the discontinuation of a product joint development agreement, a non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business, and costs incurred related to the selling stockholder offering of shares in May 2022, which are reported in SG&A in our unaudited condensed consolidated statements of operations, partially offset by gains resulting from an insurance policy reimbursement related to the fire incident in Yuncos, Spain.

Adjustments in the twelve months ended December 31, 2021 include net insurance settlement proceeds for property damage loss as well as the consequential business interruption loss amount caused by the fire incident in Yuncos Spain, a legal settlement and related fees, operating losses related to the early stage product business acquired in 2018, debt refinancing expenses, and expenses incurred in preparation with the IPO.

(f) Items for the last twelve months ended October 1, 2022 are calculated by adding the item for the nine months ended October 1, 2022 plus Fiscal Year ended December 31, 2021 and subtracting the item for the nine months ended October 2, 2021.


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# 2019 Adjusted EBITDA Reconciliation

**APPENDIX**

(Dollars in millions)

| | 2019 |
|---|---|
| Net income | $ 8.5 |
| Depreciation | 17.2 |
| Amortization | 46.8 |
| Interest expense | 84.5 |
| Income taxes | 3.6 |
| **EBITDA** | 160.6 |
| Stock-based compensation(a) | 1.6 |
| Sponsor management fees(b) | 0.8 |
| Currency exchange items(c) | 4.2 |
| Acquisition and restructuring related expense, net(d) | 1.4 |
| Other(e) | 3.8 |
| Total Adjustments | $ 11.8 |
| **Adjusted EBITDA** | $172.4 |
| **Adjusted EBITDA margin** | 23.5% |

a) Represents non-cash stock-based compensation expense related to equity awards issued.

b) Represents discretionary fees paid to our Sponsors for management services rendered pursuant to a management agreement with the Company. These payments will cease as of the effective date of our initial public offering.

c) Represents non-cash mark to market gains (losses) on foreign currency contracts.

d) Adjustments include net one-time costs associated with reorganizations, nets of a gain on the sale of real estate, and remeasurement of a contingent consideration, as well as operating losses related to an early stage product business acquired in 2018 that was phased out in 2021.

e) Includes professional fees, financing fees, expenses incurred in preparation for our initial public offering, additional health and safety expense related to COVID-19, and other costs that we believe are not representative of our ongoing business operations.


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# Adjusted net income and EPS Reconciliation

**APPENDIX**

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | | |
|---|---|---|---|---|---|
| | October 1, 2022 | October 2, 2021 | October 1, 2022 | October 2, 2021 | |
| Net income | $ 23,087 | $ 50,321 | $ 163,379 | $ 140,004 | (a) |
| Tax adjustments [a] | (2,897) | (2,410) | (3,128) | (5,255) | |
| Other adjustments and amortization: | | | | | |
| Stock-based compensation [b] | (4) | 484 | 1,248 | 16,383 | |
| Sponsor management fees [c] | — | — | — | 90 | |
| Currency exchange items [d] | 52 | 1,149 | 2,776 | 4,379 | (b) |
| Acquisition and restructuring related expense, net [e] | 2,288 | 783 | 9,499 | 2,452 | |
| Other [f] | 2,935 | 4,954 | 11,970 | 13,941 | |
| EBITDA adjustments | 5,271 | 7,370 | 25,493 | 37,245 | |
| Loss on extinguishment of debt | — | — | — | 9,418 | (c) |
| Amortization | 10,249 | 10,405 | 28,437 | 30,903 | |
| Tax effect[a] | (3,756) | (4,604) | (13,066) | (20,492) | (d) |
| | | | | | (e) |
| Pro forma adjustments [g]: | | | | | |
| Interest savings | — | — | — | 6,443 | |
| Acquisitions | — | 875 | 2,761 | 3,079 | |
| Tax effect[a] | — | (227) | (667) | (2,623) | (f) |
| Adjusted net income | $ 31,954 | $ 61,730 | $ 203,209 | $ 198,722 | |
| Weighted average number of common shares outstanding, basic | 212,905,429 | 231,339,007 | 222,009,824 | 172,820,430 | |
| Weighted average number of common shares outstanding, diluted | 222,006,615 | 243,783,501 | 232,131,395 | 185,673,814 | |
| Adjusted basic EPS[h] | $ 0.15 | $ 0.27 | 0.92 | 1.15 | |
| Adjusted diluted EPS[h] | $ 0.14 | $ 0.25 | 0.88 | 1.07 | |

(a) Tax adjustments for the three and nine months ended October 1, 2022 reflect a normalized tax rate of 24.2% and 24.5% compared to our effective tax rate of 13.3% and 22.7%, respectively. Our effective tax rate for the three and nine months ended October 1, 2022 includes the impact of the revaluation of deferred tax liabilities as a result of state tax law changes and the tax benefit resulting from the exercise of stock options. Tax adjustments for the three and nine months ended October 2, 2021 reflect a normalized tax rate of 25.9% and 25.1% compared to our effective tax rate of 22.2% and 23.1%, respectively. Our effective tax rate for the three and nine months ended October 1, 2022 includes the impact of the release of a valuation allowance on the deferred tax assets and the tax benefit resulting from the exercise of stock options. All non-tax adjustments are effected at the normalized rate.

(b) Represents non-cash stock-based compensation expense related to equity awards issued to management, employees, and directors. Beginning in the three months ended July 2, 2022, the adjustment includes only expense related to awards issued under the 2017 Equity Incentive Plan, which were awards granted prior to the effective date of Hayward's initial public offering (the "IPO"), whereas in prior periods, the adjustment included stock-based compensation expense for all equity awards. Under the historical presentation, the stock-based compensation adjustment for the three and nine months ended October 1, 2022 would have been an expense of $1.8 million and $4.7 million, respectively.

(c) Represents fees paid to certain of the Company's controlling stockholders for services rendered pursuant to a 2017 management services agreement. This agreement and the corresponding payment obligation ceased on March 16, 2021, the effective date of the IPO.

(d) Represents unrealized non-cash losses (gains) on foreign denominated monetary assets and liabilities and foreign currency contracts.

(e) Adjustments in the three months ended October 1, 2022 are primarily driven by separation costs associated with a reduction-in-force as well as costs associated with the relocation of the corporate headquarters. Adjustments in the nine months ended October 1, 2022 are primarily driven by transaction costs associated with the acquisition of the Specialty Lighting Business, costs associated with the relocation of the corporate headquarters, and separation costs associated with a reduction-in-force. Adjustments in the three and nine months ended October 2, 2021 are primarily driven by restructuring related costs associated with the exit of a redundant manufacturing and distribution facility and costs associated with the relocation of the corporate headquarters.

(f) Adjustments in the three months ended October 1, 2022 primarily includes the non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business. Adjustments in the three months ended October 2, 2021 include a legal settlement and fees, costs related to a fire at our manufacturing and administrative facilities in Yuncos, Spain, and operating losses related to an early-stage product business acquired in 2018 that was phased out.

Adjustments in the nine months ended October 1, 2022 include expenses associated with the discontinuation of a product joint development agreement, a non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business, and costs incurred related to the selling stockholder offering of shares in May 2022, which are reported in SG&A in our unaudited condensed consolidated statements of operations, partially offset by gains resulting from an insurance policy reimbursement related to the fire incident in Yuncos, Spain. Adjustments in the nine months ended October 2, 2021 include a write-off related to the aforementioned fire in Yuncos, Spain, a legal settlement and fees related to patent infringement litigation, expenses incurred in preparation for the IPO and transaction related bonuses, costs related to our debt refinancing, and operating losses related to an early stage product business acquired in 2018 that was phased out.

(g) The adjustments for the nine months ended October 1, 2022 represent pro-forma adjustments related to the acquisition of the Specialty Lighting Business and the adjustments for the three and nine months ended October 2, 2021 represent pro-forma adjustments related to interest savings from repayment in full of our Second Lien Term Facility and partial repayment of our First Lien Credit Agreement as if such payments had occurred at the beginning of the period.

(h) For the nine months ended October 2, 2021, adjusted net income used in the computation of adjusted basic and diluted EPS does not include certain IPO related items impacting net income attributable to common stockholders used as the numerator of the US GAAP basic and diluted EPS computations, including a deemed dividend to Class A shareholders of $85.5 million and dividends to Class C shareholders of $41 thousand. Including these items in the calculation of adjusted EPS would result in adjusted basic and diluted EPS of $0.58 and $0.54 per share, respectively.


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# Adjusted Segment Income Reconciliations

APPENDIX

| (Dollars in thousands) | Three Months Ended October 1, 2022 | | | Three Months Ended October 2, 2021 | | |
|---|---|---|---|---|---|---|
| | Total | NAM | E&RW | Total | NAM | E&RW |
| Net sales | $ 245,267 | $ 203,674 | $ 41,593 | $ 350,624 | $ 298,236 | $ 52,388 |
| Gross profit | $ 107,784 | $ 91,850 | $ 15,934 | $ 162,454 | $ 141,655 | $ 20,799 |
| Gross profit margin % [(a)] | 43.9 % | 45.1 % | 38.3 % | 46.3 % | 47.5 % | 39.7 % |
| Segment income | $ 57,493 | $ 48,704 | $ 8,789 | $ 102,502 | $ 91,920 | $ 10,582 |
| Segment income margin % | 23.4 % | 23.9 % | 21.1 % | 29.2 % | 30.8 % | 20.2 % |
| Depreciation | 4,049 | 3,853 | 196 | 4,428 | 4,253 | 175 |
| Amortization | 1,728 | 1,728 | — | 1,705 | 1,705 | — |
| Stock-based compensation | (276) | (284) | 8 | (92) | (126) | 34 |
| Other [(b)] | 2,516 | 2,878 | (362) | 957 | 568 | 389 |
| Total adjustments | 8,017 | 8,175 | (158) | 6,998 | 6,400 | 598 |
| Adjusted segment income | $ 65,510 | $ 56,879 | $ 8,631 | $ 109,500 | $ 98,320 | $ 11,180 |
| Adjusted segment income margin % | 26.7 % | 27.9 % | 20.8 % | 31.2 % | 33.0 % | 21.3 % |
| *Expenses not allocated to segments* | | | | | | |
| Corporate expense, net | $ 6,344 | | | $ 15,225 | | |
| Acquisition and restructuring related expense | 2,288 | | | 783 | | |
| Amortization of intangible assets | 8,521 | | | 8,700 | | |
| Operating income | $ 40,340 | | | $ 77,794 | | |

(a) Excluding the non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business, adjusted gross profit margin was 45.0%, an increase of 108 basis points, for the three months ended October 1, 2022. For NAM, excluding the impact of the purchase accounting adjustment, adjusted gross profit margin was 46.4%, an increase of 128 basis points, for the three months ended October 1, 2022

(b) The three months ended October 1, 2022 for NAM includes a non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business. The three months ended October 2, 2021 includes operating losses which relate to an early stage product business acquired in 2018 that was phased out in 2021.

The three months ended October 1, 2022 for E&RW includes collections of previously reserved bad debt expense related to certain customers impacted by the conflict in Russia and Ukraine. The three months ended October 2, 2021 represents the impact of a fire at our manufacturing and administrative facilities in Yuncos, Spain.


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# Adjusted Segment Income Reconciliations, continued

APPENDIX

| (Dollars in thousands) | Nine Months Ended October 1, 2022 | | | Nine Months Ended October 2, 2021 | | |
|---|---|---|---|---|---|---|
| | Total | NAM | E&RW | Total | NAM | E&RW |
| Net sales | $1,055,169 | $ 892,050 | $ 163,119 | $1,049,409 | $ 863,276 | $ 186,133 |
| Gross profit | $ 487,543 | $ 421,725 | $ 65,818 | $ 490,376 | $ 416,753 | $ 73,623 |
| Gross profit margin % | 46.2 % | 47.3 % | 40.3 % | 46.7 % | 48.3 % | 39.6 % |
| Segment income | $ 306,844 | $ 267,854 | $ 38,990 | $ 304,848 | $ 267,020 | $ 37,828 |
| Segment income margin % | 29.08 % | 30.0 % | 23.9 % | 29.0 % | 30.9 % | 20.3 % |
| Depreciation | 13,006 | 12,435 | 571 | 13,496 | 12,653 | 843 |
| Amortization | 4,609 | 4,609 | — | 4,740 | 4,740 | — |
| Stock-based compensation | 183 | 72 | 111 | 7,904 | 7,318 | 586 |
| Other [(a)] | 8,966 | 8,616 | 350 | 6,991 | 1,551 | 5,440 |
| Total adjustments | 26,764 | 25,732 | 1,032 | 33,131 | 26,262 | 6,869 |
| Adjusted segment income [(a)] | $ 333,608 | $ 293,586 | $ 40,022 | $ 337,979 | $ 293,282 | $ 44,697 |
| Adjusted segment income margin % [(a)] | 31.6 % | 32.9 % | 24.5 % | 32.2 % | 34.0 % | 24.0 % |
| *Expenses not allocated to segments* | | | | | | |
| Corporate expense, net | $ 24,009 | | | $ 37,788 | | |
| Acquisition and restructuring related expense | 9,499 | | | 2,452 | | |
| Amortization of intangible assets | 23,828 | | | 26,162 | | |
| Operating income | $ 249,508 | | | $ 238,446 | | |

(a) The nine months ended October 1, 2022 for NAM includes expenses associated with the discontinuation of a product joint development agreement and a non-cash increase in cost of goods sold resulting from the fair value inventory step-up adjustment recognized as part of the purchase accounting for the Specialty Lighting Business. The nine months ended October 2, 2021 include operating losses which relate to an early stage product business acquired in 2018 that was phased out in 2021.

The nine months ended October 1, 2022 for E&RW includes bad debt reserves related to certain customers impacted by the conflict in Russia and Ukraine partially offset by subsequent collections. The nine months ended October 2, 2021 represents the impact of a fire at our manufacturing and administrative facilities in Yuncos, Spain.


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