

FOURTH QUARTER AND FULL YEAR 2022 EARNINGS

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FOURTH QUARTER AND FULL YEAR 2022 EARNINGS CALL

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Disclaimer

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This presentation 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 Holdings, Inc. ("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 2023 guidance; business plans and objectives; anticipated SG&A cost savings; general economic and industry trends; business prospects; future product development and acquisition strategies; and growth and expansion opportunities. 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 relationships with and the performance of distributors, builders, buying groups, retailers and servicers who sell Hayward's products to pool owners; impacts on Hayward's business from the sensitivity of its business to seasonality and unfavorable economic business and weather conditions; competition from national and global companies, as well as lower-cost manufacturers; Hayward's ability to develop, manufacture and effectively and profitably market and sell its new planned and future products; its ability to execute on its growth strategies and expansion 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; 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; Hayward's ability to identify emerging technological and other trends in its target end markets; failure of markets to accept new product introductions and enhancements; the ability to successfully identify, finance, complete and integrate acquisitions; its reliance on information technology systems and susceptibility to threats to those systems, including cybersecurity threats, and risks arising from its collection and use of personal information data; regulatory changes and developments affecting Hayward's current and future products; volatility in currency exchange rates and interest rates; Hayward's ability to service its existing indebtedness and obtain additional capital to finance operations and its growth opportunities; 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; Hayward's ability to attract and retain senior management and other qualified personnel; 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 product manufacturing disruptions, including as a result of catastrophic and other events beyond its control, including risks associated with geopolitical conflict; uncertainties affecting the pace of distribution channel destocking and its impact on sales volumes; Hayward's ability to realize cost savings from restructuring activities; Hayward's and its customers' ability to manage product inventory in an effective and efficient manner; and other factors set forth in "Risk Factors" in Hayward's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

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, consolidated segment income, adjusted consolidated segment income, adjusted consolidated segment income margin, adjusted segment income, adjusted segment income margin, 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, performance or financial condition 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 2023 adjusted EBITDA and free cash flow guidance is not being provided, as Hayward does not currently have sufficient data to accurately estimate the variables and individual adjustments for such reconciliation. Adjusted EBITDA and free cash flow estimated for full fiscal year 2023 is calculated in a manner consistent with historical adjusted EBITDA and free cash flow, respectively, included in this presentation.

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Key Messages

Delivered Q4 2022 results in line with expectations

- Results reflect continued reduction of channel inventory days on hand

Executed appropriate actions to optimize the cost structure and position for future growth

- Achieved the planned structural SG&A spending reductions while maintaining growth investments

Demonstrated operational excellence, agile manufacturing capabilities

- Managed production levels as appropriate to satisfy demand and support margins

Strengthened Hayward's position as premier company in attractive industry

- Share gain resulting from new product adoption and target account conversion

Introduced full year 2023 guidance

- Contemplates favorable price realization and cost control, offset by challenging macro conditions and channel inventory reduction

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Financial Overview

Q4 2022

- Net sales of $259M
- Adj. EBITDA[1] of $53M
- Adj. EBITDA margin[1] of 20.6%
- Adj. diluted EPS[1] of $0.11

FY 2022

- Net sales of $1.314B
- Adj. EBITDA[1] of $368M
- Adj. EBITDA margin[1] of 28.0%
- Adj. diluted EPS[1] of $0.98



RESULTS REFLECT:

- Positive price realization
- Traction with innovative new products
- Continued macroeconomic uncertainty
- Reducing distribution inventory levels
- Proactive cost/margin management

1. Non-GAAP financial measure. See the appendix for a reconciliation to the most directly comparable GAAP measure.

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Business Update

End Consumer Demand	✓ U.S. underlying demand trends moderating ✓ Northern Europe negatively impacted by geopolitical events
Market Share	✓ Structural share gain, notably in the strategically important U.S. sunbelt ✓ Technology leadership driving strong growth in “Totally Hayward” loyalty program
Price - Cost	✓ Inflation easing but remains elevated ✓ 4-5% price increase effective in January expected to hold
Channel Inventory	✓ Reduced channel inventory days on hand consistent with expectations in H2 2022 ✓ Softer global economic outlook expected to result in additional reduction in 2023
Cost Structure	✓ Streamlined the organization, optimized the cost structure ✓ Realized ~$9M in SG&A savings in Q4 2022; full savings of $25M to $30M expected in 2023
ESG	✓ Continued progress on ESG journey ✓ Established a strategy and reporting framework, launched a dedicated website, published first data sheet

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Growth Strategy Leverages Competitive Moat

Technology Leadership

Best-in-class products in key categories
Omni automation ecosystem

$20M+ annual RD&E investment
440 Patents worldwide, 137 Pending

Operational Excellence

Long-standing commitment to Lean

Vertically integrated, automated manufacturing

Production in region (~85% in USA)[2]



Strong Brand / Installed Base

 # 1 most trusted brand[1], highest rated for quality

Large installed base

~80% aftermarket sales mix

Multi Channel Strength

Distributors, builders, retailers, servicers, and e-commerce

"Totally Hayward" loyalty program with ~11,000 members

~1,500 Hayward authorized service centers

Source: Company financial information.
[1] Farnsworth Group survey of US pool professionals and homeowners (December 2020).
[2] Represents net sales from products manufactured in the United States.

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New Product Strategy

Focused New Product Development (NPD) Strategy to Ensure “Must Win” Product Categories are Prioritized and Heavily IP-protected

Pumps
Most efficient variable speed pumps, ENERGY STAR ® Partner of the Year award



IoT Controls
Superior Omni® ecosystem, highest rated App



Water Quality
Safest, 3-in-1 (UV, Ozone, AOP[1]) water treatment



Sanitization
Unique salt chlorination/controls system, uses 1/3 salt vs. legacy designs



Lighting
LED SmartPower ® control of Pool, Spa & Landscape lights



Heaters
Universal HC high efficiency, dual fuel gas heaters, smallest footprint in industry



BEST IN CLASS – DRIVES SHARE

1. Advanced Oxidation Process

Fourth Quarter 2022 Financials

NET SALES OF $259M

NET SALES (27%) YOY

- Price +9%, acquisitions +2%
- Volume -36% (channel inventory movements), F/X -1%

GROSS PROFIT OF $109M

GROSS PROFIT MARGIN OF 42.3%

- Strong price realization to combat inflation
- Lower operating leverage on reduced production volumes

ADJ. EBITDA[1] OF $53M

ADJ. EBITDA[1] MARGIN OF 20.6%

- Executed cost actions to support margins

ADJ. DILUTED EPS[1] OF $0.11

DILUTED EPS OF $0.07; ADJ. DILUTED EPS[1] OF $0.11

- Diluted share count reduced by ~25M shares (10%) YoY

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Source: Company financial data.
1. Non-GAAP financial measure. See Appendix for a reconciliation to the most directly comparable GAAP measure.

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Full Year 2022 Financials

NET SALES OF $1.314B

NET SALES (6%) YOY

- Price +13%, acquisitions +2%
- Volume -20% (channel inventory movements), F/X -2%

GROSS PROFIT OF $597M

GROSS PROFIT MARGIN OF 45.4%

- Strong price realization to combat inflation
- Lower operating leverage on reduced production volumes

ADJ. EBITDA[1] OF $368M

ADJ. EBITDA[1] MARGIN OF 28.0%

- Lower discretionary and volume-based expenses partially offset volume deleverage

ADJ. DILUTED EPS[1] OF $0.98

DILUTED EPS OF $0.78; ADJ. DILUTED EPS[1] OF $0.98

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Source: Company financial data.
1. Non-GAAP financial measure. See Appendix for a reconciliation to the most directly comparable GAAP measure.

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Q4 2022 Segment Overview

North America	Q4 2022
Net Sales	$216.8M
YoY Change	*(27.1%)*
Gross Profit	$93.1M
Gross Profit Margin	*43.0%*
Adj. Segment Income[1]	$47.2M
Adj. Segment Income Margin[1]	*21.8%*

- Pricing +9%, acquisitions +2%, volume -38%
- Volume reductions largely due to channel inventory movements
- SG&A cost reduction actions completed as planned in Q4

Europe and Rest of World	Q4 2022
Net Sales	$42.2M
YoY Change	*(23.1%)*
Gross Profit	$16.4M
Gross Profit Margin	*38.8%*
Adj. Segment Income[1]	$8.4M
Adj. Segment Income Margin[1]	*19.9%*

- Pricing +7%, volume -25%, F/X -5%
- Volume reductions due to geopolitical events, economic uncertainty, and channel inventory destocking

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1. Non-GAAP financial measure. See Appendix for a reconciliation to the most directly comparable GAAP measure.

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FY 2022 Segment Overview

North America	FY 2022
Net Sales	$1,108.9M
YoY Change	*(4.5%)*
Gross Profit	$514.9M
Gross Profit Margin	*46.4%*
Adj. Segment Income[1]	$340.8M
Adj. Segment Income Margin[1]	*30.7%*

- Pricing +15%, acquisitions +2%, volume -21%
- Volume reductions largely due to channel inventory movements

Europe and Rest of World	FY 2022
Net Sales	$205.3M
YoY Change	*(14.8%)*
Gross Profit	$82.2M
Gross Profit Margin	*40.0%*
Adj. Segment Income[1]	$48.4M
Adj. Segment Income Margin[1]	*23.6%*

- Pricing +8%, volumes -17%, F/X -6%
- Margins impacted by lower operating leverage

1. Non-GAAP financial measure. See Appendix for a reconciliation to the most directly comparable GAAP measure.

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Balance Sheet and Cash Flow Highlights

BALANCE SHEET ($M)

	12/31/2022
Cash and cash equivalents	$56
Total debt principal	$1,121
Term debt (2028 maturity)[1]	$1,098
ABL revolver (2026 maturity)	--
LTM adj. EBITDA[2]	$368
Net leverage[3]	**2.9x**

CASH FLOW ($M)

	Q4 2022	FY 2022
Cash flow from operating activities	($28)	$116
Less capex	($6)	($30)
Free cash flow[4]	($34)	$86

$268M TOTAL LIQUIDITY, NO NEAR-TERM DEBT MATURITIES PROVIDES FLEXIBILITY

DO NOT ANTICIPATE MAKING EXCESS FCF PAYMENTS IN 2023

EXPECT 2023 FCF >$150M; CONVERSION >100% OF NET INCOME[5]

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. Non-GAAP financial measure. See Appendix for a reconciliation to the most directly comparable GAAP measure.
3. Net leverage is a non-GAAP measure and 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 is calculated as net cash provided by operating activities less capital expenditures.
5. Free cash flow / net income.

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Balanced Capital Allocation Priorities

Growth Investments	✓ Innovative new product development, IoT digital leadership ✓ Commercial programs, dealer conversions ✓ Operational excellence, productivity, growth capex
Strategic M&A	✓ Pipeline of tuck-in opportunities to complement our product offering, geographic footprint, commercial relationships ✓ Four acquisitions in Controls, Water Features and Lighting in last 18 months for $85M[1]
Return to Shareholders	✓ Share repurchases of $343M in 2022 ✓ $400M remaining on existing $450M 3-year authorization ✓ Adj. EPS accretion of 11% in Q4 2022 from repurchases 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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FY 2023 Financial Outlook

Net sales down 18% to 22%

Reversion to normal seasonality
- Q1 lower than normal seasonality (channel destocking)

Adjusted EBITDA[1] of $265M to $285M

Free cash flow[1] exceeding $150M (>100% of net income)

FY 2023 modeling assumptions:
- Interest expense ~$78M
- Effective tax rate ~25%
- Capex ~$25M to $30M



OUTLOOK REFLECTS:

- Challenging macro conditions in North America, more significant in Europe & Rest of World
  - NAM aftermarket resilient
  - NAM new construction / remodel / upgrade down ~20% to 25%
  - ERW down >25%
- Channel inventory reduction
- Positive price realization of ~4-5%
- Full SG&A savings of $25M to $30M (~$9M of this achieved in 2022)
- Strong FCF improvement due to inventory and working capital reductions

1. Reconciliation for the full-year fiscal 2023 Adjusted EBITDA and free cash flow guidance is not being provided, as Hayward does not currently have sufficient data to accurately estimate variables and individual adjustments for such reconciliation, Adjusted EBITDA and free cash flow estimated for full-year fiscal 2022 is calculated in a manner consistent with historical adjusted EBITDA and free cash flow, respectively, included in this presentation

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Key Messages

- **Delivered Q4 2022 results in line with our expectations**
- **Executed appropriate actions to optimize the cost structure and position for future growth**
- **Demonstrated operational excellence, agile manufacturing capabilities**
- **Continued to position as premier company in attractive industry**
- **Introduced full year 2023 guidance**

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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 December 31,	Three Months Ended December 31,	Twelve Months Ended December 31,	Twelve Months Ended December 31,
Net income	$ 15,968	$ 63,721	$ 179,347	$ 203,725
Depreciation	5,315	4,730	19,246	18,826
Amortization	9,956	8,087	38,393	38,990
Interest expense	16,282	8,557	51,387	50,854
Income taxes	6,922	14,344	54,890	56,416
Loss on extinguishment of debt	—	—	—	9,418
EBITDA	54,443	99,439	343,263	378,229
Stock-based compensation [(a)]	354	2,636	1,602	19,019
Sponsor management fees [(b)]	—	—	—	90
Currency exchange items [(c)]	(1,850)	106	926	4,485
Acquisition and restructuring related expense, net [(d)]	(1,337)	12,578	8,162	15,030
Other [(e)]	1,652	(9,056)	13,622	4,884
Total Adjustments	(1,181)	6,264	24,312	43,508
Adjusted EBITDA	$ 53,262	$ 105,703	$ 367,575	$ 421,737
Adjusted EBITDA margin	20.6 %	30.0 %	28.0 %	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 months and twelve months ended December 31, 2022 would have been an expense of $2.2 million and $6.9 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 fiscal quarter ended December 31, 2022 include a $2.4 million gain resulting from the release of certain reserves associated with the exit of an early-stage product business discontinued in 2021, partially offset by separation costs associated with a reduction-in-force.

Adjustments in the fiscal quarter ended December 31, 2021 include $9.9 million of business restructuring related costs associated with the exit of an early-stage product business acquired in 2018, and $2.6 million severance and retention costs associated with the relocation of our Corporate headquarters.

Adjustments in the year ended December 31, 2022 primarily include $5.0 million of costs associated with the relocation of the Corporate headquarters, $2.9 million separation costs associated with a reduction-in-force, and $1.9 million transaction costs associated with the acquisition of the specialty lighting business of Halco Technologies, LLC ("Specialty Lighting Business"), partially offset by a $2.4 million gain resulting from the release of certain reserves associated with the exit of an early-stage product business discontinued in 2021.

Adjustments in the year ended December 31, 2021 primarily include $9.9 million of business restructuring related costs associated with the exit of an early-stage product business acquired in 2018, $3.0 million severance and relocation costs associated with the relocation of our Corporate headquarters, and $2.1 million of business restructuring related costs associated with the exit of redundant manufacturing and distribution facilities.

(e) Adjustments in the fiscal quarter ended December 31, 2022 primarily includes a $0.7 million 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, $0.7 million of transitional expenses incurred to enable go-forward public company regulatory compliance, and other immaterial items.

Adjustments in the fiscal quarter ended December 31, 2021 primarily include $12.8 million income related to the property damage and business interruption as a result of the fire incident in our manufacturing and administrative facilities in Yuncos, Spain as well as $2.5 million of operating losses associated with the early-stage product business mentioned above, and other immaterial items.

Adjustments in the year ended December 31, 2022 include $5.5 million of expenses associated with the discontinuation of a product joint development agreement, a $3.3 million 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, $2.3 million of transitional expenses incurred to enable go-forward public company regulatory compliance, $1.4 million of costs incurred related to the selling stockholder offering of shares in May 2022, which are reported in SG&A in our consolidated statements of operations, $0.9 million of expenses related to the Corporate headquarters transition, $0.2 million bad debt reserves related to certain customers impacted by the conflict in Russia and Ukraine, and other immaterial items, partially offset by subsequent collections and $1.1 million of gains resulting from an insurance policy reimbursement related to the fire incident in our manufacturing and administrative facilities in Yuncos, Spain.

Adjustments in the year ended December 31, 2021 primarily include $7.4 million net insurance settlement proceeds which reflects an incurred property damage loss of $5.4 million, recorded in the second quarter, offset by an insurance policy reimbursement of $12.8 million received in the fourth quarter for the aforementioned property loss as well as the consequential business interruption loss amount caused by the fire incident in Yuncos Spain, a $4.0 million legal reserve and fees, $4.0 million of operating losses related to the early-stage product business acquired in 2018 mentioned above, $1.9 million related to debt refinancing, $1.0 million related to our IPO, and other immaterial items.

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Adjusted net income and Adjusted EPS Reconciliation

APPENDIX

(Dollars in thousands, except per share data)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Twelve Months Ended December 31, 2022	Twelve Months Ended December 31, 2021
Net income	$ 15,968	$ 63,721	$ 179,347	$ 203,725
Tax adjustments [a]	1,164	(6,799)	(2,676)	(6,799)
Other adjustments and amortization:				
Stock-based compensation [b]	354	2,636	1,602	19,019
Sponsor management fees [c]	—	—	—	90
Currency exchange items [d]	(1,850)	106	926	4,485
Acquisition and restructuring related expense, net [e]	(1,337)	12,578	8,162	15,030
Other [f]	1,652	(9,056)	13,622	4,884
Total other adjustments	(1,181)	6,264	24,312	43,508
Loss on extinguishment of debt	—	—	—	9,418
Amortization	9,956	8,087	38,393	38,990
Tax effect [g]	(2,207)	(3,887)	(15,379)	(22,519)
Certain transactional-related adjustments [h]:				
Interest savings	—	—	—	6,443
Acquisitions	—	744	2,761	3,823
Tax effect [g]	—	(151)	(678)	(2,774)
Adjusted net income	$ 23,700	$ 67,979	$ 226,080	$ 273,815
Weighted average number of common shares outstanding, basic	211,406,214	232,454,438	219,945,024	187,688,087
Weighted average number of common shares outstanding, diluted	219,958,655	244,514,387	229,726,497	200,574,232
Basic EPS	$ 0.08	$ 0.27	$ 0.82	$ 0.52
Diluted EPS	$ 0.07	$ 0.26	$ 0.78	$ 0.49
Adjusted basic EPS [i]	$ 0.11	$ 0.29	1.03	1.46
Adjusted diluted EPS [i]	$ 0.11	$ 0.28	0.98	1.37

(a) Tax adjustments for the three and twelve months ended December 31, 2022 reflect a normalized tax rate of 25.2% and 24.6% compared to our effective tax rate of 30.2% and 23.4%, respectively. Our effective tax rate for the three months ended December 31, 2022 includes a 4% impact from withholding taxes related to the repatriation of foreign earnings and 1% impact associated with share-based compensation activity. Our effective tax rate for the twelve months ended December 31, 2022 includes a (0.9)% impact of the revaluation of deferred tax liabilities as a result of state tax law changes, (0.6)% impact from the exercise of stock options and a (0.1)% impact from return to provision items, partially offset by a 0.4% impact from withholding taxes related to the repatriation of foreign earnings. Tax adjustments for the three and twelve months ended December 31, 2021 reflect a normalized tax rate of 20.4% and 24.3% compared to our effective tax rate of 18.4% and 21.7%, respectively. Our effective tax rate for the three and twelve months ended December 31, 2021 includes the tax impacts associated with reversal of certain valuation allowances, the impact associated with share-based compensation activity and the impact of our exit of an early-stage product business phased out in 2021. The impact to the effective tax rate of the aforementioned items on the three-months ended December 31, 2021 were (1.1%), (0.7)% and (0.2)%, respectively. The impact to the effective tax rate of the aforementioned items on the twelve months ended December 31, 2021 were (1.4%), (0.9)% and (0.3)%, respectively.

(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 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 months and twelve months ended December 31, 2022 would have been an expense of $2.2 million and $6.9 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 fiscal quarter ended December 31, 2022 include a $2.4 million gain resulting from the release of certain reserves associated with the exit of an early-stage product business discontinued in 2021, partially offset by separation costs associated with a reduction-in-force.

Adjustments in the fiscal quarter ended December 31, 2021 include $9.9 million of business restructuring related costs associated with the exit of an early-stage product business acquired in 2018, and $2.6 million severance and retention costs associated with the relocation of our Corporate headquarters.

Adjustments in the year ended December 31, 2022 primarily include $5.0 million of costs associated with the relocation of the Corporate headquarters, $2.9 million separation costs associated with a reduction-in-force, and $1.9 million transaction costs associated with the acquisition of the Specialty Lighting Business, partially offset by a $2.4 million gain resulting from the release of certain reserves associated with the exit of an early-stage product business discontinued in 2021.

Adjustments in the year ended December 31, 2021 primarily include $9.9 million of business restructuring related costs associated with the exit of an early-stage product business acquired in 2018, $3.0 million severance and relocation costs associated with the relocation of our Corporate headquarters, and $2.1 million of business restructuring related costs associated with the exit of redundant manufacturing and distribution facilities.

(f) Adjustments in the fiscal quarter ended December 31, 2022 primarily includes a $0.7 million 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, $0.7 million of transitional expenses incurred to enable go-forward public company regulatory compliance, and other immaterial items.

Adjustments in the fiscal quarter ended December 31, 2021 primarily include $12.8 million income related to the property damage and business interruption as a result of the fire incident in our manufacturing and administrative facilities in Yuncos, Spain as well as $2.5 million of operating losses associated with the early-stage product business mentioned above, and other immaterial items.

Adjustments in the year ended December 31, 2022 include $5.5 million of expenses associated with the discontinuation of a product joint development agreement, a $3.3 million 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, $2.3 million of transitional expenses incurred to enable go-forward public company regulatory compliance, $1.4 million of costs incurred related to the selling stockholder offering of shares in May 2022, which are reported in SG&A in our consolidated statements of operations, $0.9 million of expenses related to the Corporate headquarters transition, $0.2 million bad debt reserves related to certain customers impacted by the conflict in Russia and Ukraine, and other immaterial items, partially offset by subsequent collections and $1.1 million of gains resulting from an insurance policy reimbursement related to the fire incident in our manufacturing and administrative facilities in Yuncos, Spain.

Adjustments in the year ended December 31, 2021 primarily include $7.4 million net insurance settlement proceeds which reflects an incurred property damage loss of $5.4 million, recorded in the second quarter, offset by an insurance policy reimbursement of $12.8 million received in the fourth quarter for the aforementioned property loss as well as the consequential business interruption loss amount caused by the fire incident in Yuncos Spain, a $4.0 million legal reserve and fees, $4.0 million of operating losses related to the early-stage product business acquired in 2018 mentioned above, $1.9 million related to debt refinancing, $1.0 million related to our IPO, and other immaterial items.

(g) The tax effect represents the immediately preceding adjustments at the normalized tax rates as discussed in footnote (a) above.

(h) The adjustments for the three and twelve months ended December 31, 2021 represent adjustments related to the acquisition of the Specialty Lighting Business as if the acquisition had occurred at the beginning of the period and 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.

(i) For the twelve months ended December 31, 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 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 $0.90 and $0.84 per share, respectively.

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Adjusted Segment Income Reconciliations

APPENDIX

(Dollars in thousands)	Three Months Ended December 31, 2022			Three Months Ended December 31, 2021		
	Total	NAM	E&RW	Total	NAM	E&RW
Net sales	$ 258,967	$ 216,809	$ 42,158	$ 352,385	$ 297,574	$ 54,811
Gross profit	109,492	93,130	16,362	165,406	142,197	23,209
Gross profit margin %	42.3 %	43.0 %	38.8 %	46.9 %	47.8 %	42.3 %
Income from operations before income taxes	$ 22,890			$ 78,065		
Expenses not allocated to segments						
Corporate expense, net	6,142			15,642		
Acquisition and restructuring related expense	(1,337)			12,578		
Amortization of intangible assets in selling, general, and administrative expense	8,301			6,485		
Interest expense, net	16,282			8,557		
Loss on debt extinguishment	—			—		
Other (income) expense, net	(3,107)			(7,094)		
Segment income	$ 49,171	$ 40,773	$ 8,398	$ 114,233	$ 92,866	$ 21,367
Segment income margin %	19.0 %	18.8 %	19.9 %	32.4 %	31.2 %	39.0 %
Depreciation	$ 4,809	$ 4,614	$ 195	$ 4,395	$ 4,218	$ 177
Amortization	1,656	1,656	—	1,612	1,611	1
Stock-based compensation [(a)]	(617)	(566)	(51)	1,327	1,323	4
Other [(b)]	568	716	(148)	(2,043)	3,114	(5,157)
Total adjustments	6,416	6,420	(4)	5,291	10,266	(4,975)
Adjusted segment income	$ 55,587	$ 47,193	$ 8,394	$ 119,524	$ 103,132	$ 16,392
Adjusted segment income margin %	21.5 %	21.8 %	19.9 %	33.9 %	34.7 %	29.9 %

(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 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 fiscal quarter ended December 31, 2022 would have been an expense of $0.5 million and $0.1 million for NAM and E&RW, respectively.

(b) Adjustments in the fiscal quarter ended December 31, 2022 for NAM includes a $0.7 million 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 fiscal quarter ended December 31, 2021 primarily includes operating losses of approximately $2.5 million which relate to an early-stage product business acquired in 2018 that was phased out in 2021.

Adjustments in the fiscal quarter ended December 31, 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 fiscal quarter ended December 31, 2021 primarily includes $5.4 million insurance proceeds associated with the fire incident in our Spain facility.

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Adjusted Segment Income Reconciliations, continued

APPENDIX

(Dollars in thousands)	Twelve Months Ended December 31, 2022			Twelve Months Ended December 31, 2021		
	Total	NAM	E&RW	Total	NAM	E&RW
Net sales	$1,314,136	$1,108,859	$ 205,277	$1,401,794	$1,160,850	$ 240,944
Gross profit	597,035	514,855	82,180	655,782	558,950	96,832
Gross profit margin %	45.4 %	46.4 %	40.0 %	46.8 %	48.2 %	40.2 %
Income from operations before income taxes	$ 234,237			$ 260,141		
Expenses not allocated to segments						
Corporate expense, net	30,151			53,430		
Acquisition and restructuring related expense	8,162			15,030		
Amortization of intangible assets in selling, general, and administrative expense	32,129			32,647		
Interest expense, net	51,387			50,854		
Loss on debt extinguishment	—			9,418		
Other (income) expense, net	(51)			(2,439)		
Segment income	$ 356,015	$ 308,627	$ 47,388	$ 419,081	$ 359,886	$ 59,195
Segment income margin %	27.1 %	27.8 %	23.1 %	29.9 %	31.0 %	24.6 %
Depreciation	$ 17,815	$ 17,049	$ 766	$ 17,891	$ 16,871	$ 1,020
Amortization	6,265	6,265	—	6,352	6,351	1
Stock-based compensation [(a)]	(434)	(494)	60	9,231	8,641	590
Other [(b)]	9,534	9,332	202	4,948	4,665	283
Total adjustments	33,180	32,152	1,028	38,422	36,528	1,894
Adjusted segment income	$ 389,195	$ 340,779	$ 48,416	$ 457,503	$ 396,414	$ 61,089
Adjusted segment income margin %	29.6 %	30.7 %	23.6 %	32.6 %	34.1 %	25.4 %

(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 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 twelve months ended December 31, 2022 would have been an expense of $0.6 million and $0.2 million for NAM and E&RW, respectively.

(b) Adjustments in the year ended December 31, 2022 for NAM include $5.5 million of expenses associated with the discontinuation of a product joint development agreement and a $3.3 million 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 other immaterial items.

Adjustments in the year ended December 31, 2021 for NAM include non-recurring severance expenses, retention bonuses, legal fees, and the operating losses of approximately $4.0 million related to an early-stage product business acquired in 2018 that was phased out in 2021.

Adjustments in the year ended December 31, 2022 for E&RW include $0.2 million bad debt reserves related to certain customers impacted by the conflict in Russia and Ukraine partially offset by subsequent collections.

Adjustments in the year ended December 31, 2021 for E&RW include $5.4 million of costs related to a fire at our manufacturing and administrative facilities in Yuncos Spain incurred in the second quarter of 2021 that were offset by the insurance proceeds received in the fourth quarter of 2021.

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