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PRESENTATION

Operator

Good morning, and welcome to the fourth quarter and fiscal year 2020 conference call for Leslie's, Inc. (Operator Instructions). As a reminder, this conference is being recorded and will be available for replay later today on the company's website. I'll now turn the call over to Caitlin Churchill, Investor Relations.

Caitlin Churchill

Thank you, and good morning. I would like to remind everyone that comments made today may include forward-looking statements. Which are subject to significant risks and uncertainties that could cause the company's actual results to differ materially from management's current expectations. These statements speak as of today and will not be updated in the future if circumstances change. Please review the cautionary statements and risk factors contained in the company's earnings press release and recent filings with the SEC.

During the call today, management may refer to certain non-GAAP financial measures. A reconciliation between the GAAP and non-GAAP financial measures can be found in the company's earnings press release, which was filed with the SEC today and posted to the Investor Relations section of Leslie's website at ir.lesliespool.com. On the call today from Leslie's, Inc. is Mike Egeck, Chief Executive Officer; and Steve Weddell, Chief Financial Officer. With that, I will turn the call over to Mike Egeck. Mike?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Thanks, Caitlin, and good morning, everyone. Thank you for joining us today. It is great to be here on our first earnings call following our IPO. I speak for all of us at Leslie's when I say we are pleased to have completed what was a very exciting and a very expedited and Zoom-intensive IPO process. Now that we have that behind us, we have settled into life as a public company with all of our focus firmly on executing against our initiatives to further solidify our market leadership and on driving value for all of our stakeholders.

For those of you who have met me over Zoom before, you might notice my voice is a little rougher than normal today. I'm a little under the weather.

I'm going to say, I'm running at about 90%. But Steve is running as normal, 120%, so we should be fine. And most importantly, we have good numbers to present including posting our 57th consecutive year of sales growth and handily surpassing $1 billion in sales for the first time in our company's history, achieving comp sales growth of 18% and driven both by consumer file growth and filed productivity and growing adjusted EBITDA to a record $183 million.

Steve will discuss our financial performance in more detail shortly. But I would note that our results reflect the 3 pillars that are unique to Leslie's and that make our business so compelling: One, we operate in one of the most advantaged and fundamentally attractive consumer products industries. An industry which benefits from highly predictable, recurring and nondiscretionary demand. Two, we have developed an integrated network of capabilities and assets that our competitors simply cannot match; and three, despite being the largest direct-to-consumer brand in our industry, we have tremendous growth opportunities.

Let me make a couple of points about the current state of the pool industry. The first is that the installed base of pools in the U.S. has grown every year for 50 years. But this year was an all-time record year for new pool permit growth. It is estimated that more than 200,000 goals will be built in 2020 and 2021. And once a new pool is built, that has to be maintained, which is where we come in. An average pool cost about $800 a year to maintain, which creates an annuity-like revenue stream of aftermarket spend. We estimate that the 200,000 new pools built this year and next year will create $5 billion in incremental aftermarket lifetime value and will benefit our business for years to come.

The second point is that this year, the industry benefited from an acceleration in several macro trends that collectively contributed to what we believe is a permanent step expansion in demand. This year, we saw an increased focus on and investment in the home, the embracing of a healthy outdoor lifestyle, a migration to the suburbs and exurbs and a heightened attention to safety and sanitization. All of these appear to be enduring secular trends that will persist long after the pandemic is behind us and will create favorable tailwinds for Leslie's as we move into fiscal 2021 and beyond.

Our results benefit from this resilient and strong industry backdrop but they're driven by the competitive advantages of our integrated ecosystem of physical and digital assets, which enable us to provide pool and spa as a total solution, whatever their need and wherever, whenever and however they want to shop. A key capability in our ecosystem is our proprietary digitized AccuBlue water test, which provides pool owners a pool score and a complete step-by-step prescription for proper water treatment in a clean safe pool. This is an important point to understand with regards to how we compete. Our competitors sell pool products. We sell the total step-by-step solution for a clean, safe and beautiful pool. That is the end product consumers need and want, now more than ever.

We began to roll out of AccuBlue earlier this year and it is now in place across all of our physical locations, and we are seeing the benefits reflected in our comp sales. In addition to completing the AccuBlue rollout, our expanded omnichannel capabilities, including BOPIS, BORIS, ship from store and ship to store, remain on schedule to be operational time for cool season 2021. And fully implemented, these capabilities will allow us to both leverage inventory more effectively and to serve any cooler spa within the Continental U.S. in 24 hours further strengthening our integrated ecosystem and competitive positioning.

Now let's talk about growth. Despite our leading market share position, we have multiple sizable growth opportunities available to us. U.S. pool industry is highly fragmented with an estimated 8,000 regional and independent operators and third-party research has validated there are 700 residential and 200 Pro markets that are still underserved. We have multiple levers that we can and will deploy against these opportunities to expand our market share, including additional residential and Pro locations, utilizing our new digital capabilities, and programmatic M&A.

Let me take a moment to discuss a few of our other key initiatives, starting with growing our consumer file. With the enhanced marketing capabilities we've developed, we have a significant opportunity to continue to increase customer acquisition and reactivation spend with high ROIs. We're presently focusing our file growth efforts on reactivating lapsed consumers, targeting the 200,000 new pools and adding new consumers by leveraging our proprietary database of virtually all the 14 million pools and spas in the U.S.

Next, driving greater loyalty among our existing consumers. We believe we have a clear opportunity to expand our existing consumer share of wallet through the introduction of the revamped loyalty program and enhancing our product and service assortment. We're currently developing loyalty 2.0 with proven best practice enhancements to drive loyalty penetration and member value and are on track to launch in time for pool season next year. We will support our new loyalty program with an enhanced assortment with particular focus on expanding spa and hot tub products, lifestyle and recreation products as well as operating eco-friendly products across our categories.

And then there is the Pro market. Although we've grown our Pro business significantly in the last 5 years, we sell less than 10% market share. Our research suggests that small and mid-sized professional consumers value convenience and referrals, both of which Leslie's is uniquely positioned to offer given our 936 locations in the industry's largest consumer file. With additional Pro locations the launch of a Pro affiliate program and a dedicated Pro website, all coming online in 2021, we intend to continue to grow share in this attractive market.

Finally, launching our new connected pool technology and subscription service, which we believe represents a disruptive opportunity in pool and spa care. As some of you know, we are leveraging our proprietary water testing software to develop a full service, connected home solution that test your water, develops and prescribes the treatment plan and deliveries to your home the assortment of products needed to maintain a clean, safe and beautiful pool. We know through our research that there is considerable demand for this offering, and we plan to have the initial version of Accublue Home in market for cool season 2021.

As we all know, fiscal 2020 has been an unprecedented year. Before I turn the call over to Steve to discuss in more detail our results and outlook, I want to take a moment to thank our teams for their dedication and contributions. Our store and operating team rose to all the challenges and opportunities that 2020 presented and worked diligently to safely and efficiently serve our consumers while still producing excellent operating results. I'm extremely proud of how our associates performed this year and that, that performance that enabled us to successfully enter the public markets. We have an outstanding team; a proven, durable business model; and clear strategies to capitalize on the growth opportunities in front of us. We feel very good about our 2020 results, and we look forward to continuing our track record of growth in 2021.

With that, I'll turn the call over to Steve. Steve?

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

Thank you, Mike, and good morning, everyone. As Mike said, fiscal 2020 was a record year for Leslie's as we generated total sales of over $1.1 billion and achieved our 57th consecutive year of sales growth. Our entire organization rose to the challenges and opportunities in this unprecedented environment and continue to execute against our strategy. Today, we'll review a few topics: First, our fiscal 2020 and fourth quarter financial performance. Next, our guidance for fiscal 2021. And finally, our long-term growth algorithm.

I'm pleased to report that we delivered a very strong year as we previewed in the recent development section of our S-1 filed in October. I'll be discussing all results inclusive of the 53rd week in fiscal 2020. We estimate the 53rd week contributed approximately $18 million in sales, $3 million in adjusted EBITDA and $1.5 million in net income for the fourth quarter and the full year. Both fiscal 2019 and fiscal 2021 consists of 52-week periods. And as a reminder, our fiscal year ends on a Saturday closest to September 30.

We adopted the new lease accounting standard referred to as ASC 842, effective as of the beginning of fiscal 2020. The adoption of ASC 842 increased SG&A cost by $1.3 million, reduced interest expense by $1.2 million and reduced depreciation and amortization by $0.1 million in the fourth quarter and for fiscal 2020. As of October 3, 2020, we recorded operating lease right-of-use assets of $178 million, and we recorded operating lease liabilities totaling $185 million on our consolidated balance sheets.

Now I'd like to discuss results for fiscal 2020. The 53rd week -- the 53-week period ended October 3, 2020. We delivered a total sales increase of 19.8% and an adjusted EBITDA increase of 14.2%. Comparable sales, which is a measure on a 52-week basis, grew 18%. We experienced broad-based sales strength across channels and product categories throughout the year as we benefit from robust industry tailwinds and as we executed on the growth initiatives Mike outlined earlier. Our sales of $1,112 million were at the high end of the range of $1,108 million to $1,112 million provided in our S-1.

Gross profit increased 21.3% to $460.7 million in fiscal 2020 from $379.7 million in the prior year. The increase in gross profit was primarily due to increased sales volume, while occupancy costs remain consistent. Gross margin rate expanded by 51 basis points to 41.4% from 40.9% in the prior year. Selling, general and administrative expenses referred to as SG&A increased 21.8% to $314.3 million from $258.2 million in the prior year. The increase in SG&A was primarily driven by increased costs related to higher sales volume, expenses associated with COVID-19 of $8.6 million for temporary wage increases in personal protective equipment, expenses related to strategic consolidation of certain locations totaling $3.5 million and higher compensation expense associated with onetime bonus payments of $2.9 million.

Reported SG&A also includes other items that are add-backs from an adjusted EBITDA and adjusted net income standpoint, such as management fees, equity-based compensation and loss on disposition of assets, which totaled $7.5 million in fiscal 2020 and $8.4 million in the prior year. Excluding these items, not indicative of our core operating performance, SG&A grew 16.9% over the prior year. Our effective tax rate was 4.3% compared to 95.5% in the prior year with the reduction primarily related to valuation allowance activity due to the limitation of interest expense deductions in fiscal 2019. Net income increased to $58.6 million from $0.7 million in the prior year. This is above the range of $52.3 to $55.7 million provided in our S-1. Adjusted net income increased to $65.0 million from $12.8 million in the prior year. Diluted income per share increased $0.37 from $0 in the prior year. Diluted adjusted net income per share was $0.42 in fiscal 2020.

Our adjusted net income and adjusted net income per share do not include pro forma adjustments for interest expense related to the pay down of our senior secured notes, senior unsecured notes, public company costs expected to be incurred following our IPO or the impact of primary shares, restricted stock units or stock options issued in connection with our IPO. Adjusted EBITDA for the year increased 14.2% to $182.8 million from $160.0 million in the prior year. Excluding the impact of the newly adopted lease accounting standard, adjusted EBITDA would have increased 15.1% to $184.1 million.

Moving to our fourth quarter of fiscal 2020 performance. We finished the year strong with acceleration in our fourth quarter performance as sales increased 27.9%, inclusive of the 53rd week. Sales for the fourth quarter of fiscal 2020 were $381.3 million compared to $298.2 million in the fourth quarter of fiscal 2019. Comparable sales, which is measured on a 13-week basis, increased 23.3%.

Let me provide some context around this performance. In the first quarter of fiscal 2020, which is the period ended December 28, 2019, and before the pandemic began, we generated a comp of 3.4%. In the second quarter, as we rolled out our AccuBlue water test process and executed against a number of our initiatives, we generated a comp of 13.7%. And then in our fiscal third quarter, the pandemic began to impact the industry, and we experienced a considerable increase in consumer demand due to consumers' heightened focus on water sanitation, water safety, outdoor living and the general increase in time spent at home. We generated a comp of 19.4% in our third quarter, followed by continued strength throughout the fourth quarter when we generated a comp of 23.3%.

Gross profit increased 26.9% to $166.6 million from $131.3 million in the fourth quarter of fiscal 2019. Gross margin rate narrowed slightly to 43.7% from 44.0% in the prior year as occupancy leverage was more than offset by business mix, as well as a considered effort to clear through inventory to make way for innovative products being introduced in 2021.

SG&A increased 36.2% to $98.6 million. From $72.4 million in the fourth quarter of fiscal 2019. The increase in SG&A was primarily driven by increased costs related to higher sales volume, higher compensation expense of $7.2 million related to performance pay accruals and $2.3 million of expenses associated with COVID-19. SG&A also includes other items like management fees, equity-based compensation and loss on disposition of assets, which totaled $2.0 million in the fourth quarter of fiscal 2020 and $3.8 million in the prior year. Excluding these items not indicative of our core operating performance, SG&A grew 27% over the prior year.

Net income increased to $42.1 million from $0.8 million in the fourth quarter of fiscal 2019, and adjusted net income increased to $43.7 million from $5.8 million in the prior year. Diluted income per share increased $0.27 from $0 in the prior year, and diluted adjusted income per share was $0.28 in the fourth quarter of fiscal 2020. Adjusted EBITDA increased 12.2% to $78.4 million from $69.9 million in the fourth quarter of fiscal 2019. Excluding the impact of the newly adopted lease accounting standard, adjusted EBITDA increased 14.1% to $79.8 million.

Moving now to the balance sheet. We ended the year with cash and cash equivalents of $157.1 million compared to $90.9 million at the end of fiscal 2019 and ahead of guidance of $156 million provided in our S-1. On inventory, even with sales growth of nearly 20% during fiscal 2020, we actively managed our inventory down in line with seasonal trends and finished with slightly lower inventory balances versus the prior year-end. At the end of fiscal 2020, total inventory was $149 million compared to $149.7 million at the end of the prior year. With regard to debt, at the end of fiscal 2020, total funded debt was $1,201 million and net debt was $1,044 million.

As Mike mentioned earlier, after our fiscal year-end, we completed our IPO, which included the sale of 30 million primary shares of our common stock at an offering price of $17 per share. Our net proceeds from the transaction were approximately $459 million after deducting underwriting discounts and commissions and other offering expenses. We used a portion of these proceeds to repay the entire amount outstanding on our senior unsecured floating rate notes due 2024 and will use the remaining proceeds for working capital and general corporate purposes.

Before I turn to 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. The first half of the fiscal year accounts for approximately 20% of our annual sales, while the third quarter represents approximately 45%, and the fourth quarter represents approximately 35%. We have a long track record of investing in our business throughout the year, including an operating expenses, working capital and capital expenditures related to our growth initiatives. While these investments drive performance during our primary selling season, they reduced our earnings and cash flow during the first half of our fiscal year.

We plan to provide annual guidance, but it is important to understand the seasonality as you think about our business on a quarterly basis. In addition, as a result of fiscal 2020 being a 53-week year, there are calendar shifts that will take place in fiscal 2021 that will impact our quarterly comparisons on a year-over-year basis. For example, in the first quarter of fiscal 2021 we replace a higher-volume week towards the end of season, that is the last week of September, with a lower-volume week at the end of our first quarter. That is the last week of December. We will outline these shifts and their impact when we report each quarter.

As it relates to the first quarter of fiscal 2021, while we are not providing details on our quarter-to-date performance, we are pleased that to date, our sales results have exceeded our internal expectations, and we look forward to reporting our first quarter results in February. Our fiscal year 2021 includes 52 weeks and ends on October 2, 2021. For the year, we're providing the following guidance: We expect sales of $1.155 billion to $1.175 billion and adjusted EBITDA of $192 million to $198 million. We expect net income of $82 million to $92 million and adjusted net income of $96 million to $106 million. We expect diluted net income per share of $0.42 to $0.47 and diluted adjusted net income per share of $0.50 to $0.55. We estimate a diluted share count of approximately 193 million shares, which includes common stock outstanding following our IPO and the dilutive effects of restricted stock units and stock options currently outstanding.

Looking beyond fiscal 2021, we have a long-term growth algorithm that target sales growth in the mid- to high single-digit range based on industry growth and our strategies to expand market share; low double-digit EBITDA growth based on stable-to-positive gross margins 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 is important to note that not included in this range is more aggressive debt pay down, potential redeployment of excess cash back into the business, or returning cash to shareholders.

In summary, first, fiscal 2020 was a record year for Leslie's as we drove strong financial results throughout the year. We generated total sales of over $1.1 billion, and it represented our 57th consecutive year of sales growth. Second, our entire organization rose to the challenges and opportunities in this unprecedented environment. And I share Mike's appreciation and gratitude for the contributions by all of our associates. And finally, looking to 2021, we will continue our relentless focus on enhancing our consumers' experience and executing on our initiatives to continue to drive growth and market share gains. And with that, I will hand it over to the operator to open the lines for Q&A. Thank you. Melissa?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ryan Merkel with William Blair.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Two questions for me. So first off, I've been getting a lot of questions about surge sales in 2020 that might not repeat in 2021. I know this is hard to answer, but how are you thinking about that?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Ryan, this is Mike. Question was how do -- we're thinking about search sales?

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Yes. What if there's any sales items that might not repeat in 2021 that happened in 2020?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

You mean in terms of general search or in terms of items?

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Yes, however you want to answer it, I was thinking more in terms of certain products like heaters and above-ground pools, but however you guys are thinking about it.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. Understood. And look, I think I'll answer it both ways. First, there's, for sure, some unmet demand in above-ground pools. We sold out very early as did the whole industry. I'll remind everyone, it's not a big percent of our business, both spas and above-ground pools, but they've all sold out very early. We've been aggressive with our inventory purchases for this year. And we expect it to be a really good year for above-ground pools and spas and hot tubs. So that -- in terms of that, I think, we'll see continued trends of what we saw this year.

Heaters. We're in pretty good shape for the year, but the demand has remained strong all the way through the end of this year and now. And people are clearly trying to stretch the amount of time that they can use their pool.

In terms of search overall, I'll take this moment to say we're really pleased with how our transformation to a digitally and performance-driven -- performance return-driven marketing acquisition is going. We saw a nice acceleration in the fourth quarter of our customer file growth. And as we continue to spend into customer acquisition, we're still getting really high ROIs, which gives us confidence to continue to increase that percentage. That answer your questions?

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Yes. Yes, it did. And then just secondly, I hear that equipment and chemical prices are going up. Can you just discuss how pricing might impact sales in '21? And then do you expect to see some gross margin lift from price cost?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. On -- let me talk about chemicals first. As most of you probably know, there was a fire in a rather major Trichlor-producing plant earlier this year. That particular plant produced close to 40% of the of the Trichlor granules for the industry. So somewhat disruptive to the industry, our supply is actually with a different domestic. We have a long-term relationship, long-term contract, both for amount and for price. So we feel good about our particular position, but we do expect to see some inflation higher than normal in chemical pricing for this year.

And on the equipment side, I think in better shape there. As Steve mentioned, our margins in fourth quarter were impacted, to some extent, by moving some branded inventory, equipment inventory primarily out of our inventory to make room for some proprietary branded product, which we feel is better product and also gives us, as you know, at a higher margin. So we expect some margin improvement in our equipment business, not so much from industry pricing but from our switch from more -- into more proprietary branded product.

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

And Ryan, this is Steve. I'd also add just in the industry, as you know, inflation is regularly passed on to consumers. So to the extent there are price increases, we do see an ability to pass those on. And second point is when you think of managing from a channel perspective, whether it's locations versus digital, the equipment manufacturers have much more aggressively kind of managed the channels in the last 12 months, and we're certainly seeing some progress against that.

Operator

Our next question comes from the line of Jonathan Matuszewski with Jefferies.

Jonathan Richard Matuszewski - *Jefferies LLC, Research Division - Equity Analyst*

A nice finish to the fiscal year. Just a follow-up, Mike, my first question is, you mentioned making more room for the proprietary branded product. I think 55% of your sales are private label now, and you have that 70% long-term target. So how should we think about kind of the annual expansion of private label sales? What's embedded in your model for next year in terms of the penetration of sales that should get that private label margin boost?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes, Jonathan, thanks for the question. The -- we're targeting about 200 to 300 basis points expansion in the proprietary brand mix each year. So when we talk about getting to 70%, it's over the -- it's over the next 5, 7 years type of time frame. And this would be kind of a normal expansion, I would say.

Jonathan Richard Matuszewski - *Jefferies LLC, Research Division - Equity Analyst*

Great. And then just my follow-up question, on AccuBlue Home, could you elaborate a little bit more on the go-to-market strategy for your first iteration of that solution? It sounds as if early interest is strong in a product like that. So how are you guys thinking about the marketing angle and how you'll communicate the benefits to consumers?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. Well, I think the big news on AccuBlue Home is we have prototypes out in the field now, testing with consumers. So that was a nice milestone in our development. With regards to the subscription and what that subscription price would be, that's still TBD, but our research has identified a sweet spot, and we're quite comfortable we'll be able to get there which should result in pretty high adoption. The -- we've asked everyone not to build into their models, for 2021, a big lift from a AccuBlue Home. It's going to be a launch, the volume might be a little bit limited by production. But the important thing for us is to get it in the market, get proof of adoption, get proof, learn a lot as we go along. And then it's really a 2022 initiative at scale for us.

Operator

Our next question comes from the line of Peter Benedict with Baird.

Peter Sloan Benedict - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

A quick question. Just on curious on e-commerce, just what you can tell us about kind of how you kind of ended up the year there and how you're thinking about e-comm in '21 as -- particularly as the store-based fulfillment capabilities start to scale? That's my first question.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. Well, look, we're very pleased with the e-commerce business through all of 2020. We don't break out our digital sales growth separately. I will say it's growing faster than the physical locations, as you might expect. And it's an unknown, right, how the omnichannel capabilities will affect the e-commerce business next year. For sure, it's going to be a positive. You look at people like Tractor and Home Depot and the amount of business, the percent of their business that they're doing through buy online, pick up in store, specifically, is quite impressive. We're not sure how to model that. We know it will be a positive. We think we have it modeled conservatively. But we are ready to go. Likely March is when we'll be fully implemented. And we look forward to seeing how it works.

The way we look at those omnichannel capabilities, though, it's really that connection of our physical asset base to our digital asset base, that's just something that consumers expect. So we can model it however we want. But the important thing is, as a consumer-first company, we need to have those capabilities because that's what the consumer expects from us.

Peter Sloan Benedict - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Sure. That makes sense. And my next question or follow-up would just be on the AccuBlue water testing rollout. Just remind us what that cadence was, if you can, this year. And then just how that was impacting the stores? And do you expect that impact to kind of build next year in '21? Or is this kind of a one-shot deal in terms of lift that provides the stores? What's your thinking around that?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. We rolled it out last year kind of quarter-by-quarter. It was -- we only had about 11 locations in Q1, then we got up into the mid-200s by Q2. And then by Q3, we had it in about 60% of our fleet, which is where we ended the year because during the season, we slowed down the implementation. We just recently, in the last couple of weeks, finished the implementation into all of the store base.

And what we've seen when they go into the store is pretty consistent. We get a several hundred basis point lift right off the bat. And that list seems to be durable. And we've got some indication, and this, we're just going to have to see more data on. We've got some indication that there's a virtuous cycle there that as people experience the score, really, really the gamification of it and understand the sanitization level of their pools, they test more often. And as they test more often, they continue to refine their pool, and we see the lift really coming from the number of store visits and transactions. So we've got a little bit of the more you test -- the more you like it, the more you test. And we're going to be tracking that very closely as we go into 2021 to see how the lift matures.

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

And Peter, remember that this new AccuBlue test in stores, tests a complete solution each and every time in a much more efficient way. And so we're certainly seeing consumers adopt the solutions, and that's resulting in better sanitized water and safer water, and as Mike talked about, kind of repeat visits and closer tie to Leslie's.

Operator

Our next question comes from the line of Peter Keith with Piper Sandler.

Peter Jacob Keith - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

I know you were talking about meeting the demand this coming year. And I typically don't think of you as a holiday-oriented retailer. But I'm curious if you're seeing any unusual activity here going into the Christmas season, that might suggest continued investment in the pool and the backyard as consumers are now thinking ahead to the spring and summer.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes, Peter, good question. I've come from businesses that are very, very holiday and winter season oriented. So I have to say, I was in some ways, looking forward to a business that slowed down a little during the holiday season. But surprisingly to me, we have seen a lift. And I think what we're seeing is the continuation, just as you mentioned, of trends around investment in the home and the backyard continuing through the holiday season. Our sales of patio heaters, above-ground pools, now that they're starting to come back online in some respect and particularly in the hot tubs. And even in recreation products for the pool, have all been quite strong. So yes. I think what you're hypothesizing, we are seeing happen in the pool space, at least for our business.

Peter Jacob Keith - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Okay. Good to hear. And then also another theme that seems to be building into '21 is just an improving housing market with increased turnover. How do you think about your business maybe over a multiyear period in conjunction with a strong housing market?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Well, I think the biggest thing for us is pools, right? And that 200,000 new pools in 2020 and 2021, that's a big thing for us. They have to get built before we can start maintaining them. But that's a permanent step change in the installed base. And we're just very, very pleased to see that. The move to the suburbs with the continued development of new housing and remodeling investment, there's 64 million homes in the U.S. that have room for a pool that don't have one. So we don't have data on pool builds past '21, but we would expect that investment in the backyard as an Oasis and a family sanctuary should continue, and we would expect some strong pool-build activity for the next several years.

Operator

Our next question comes from the line of Steven Forbes with Guggenheim Securities.

Steven Paul Forbes - *Guggenheim Securities, LLC, Research Division - Analyst*

Maybe to start with a follow-up to an earlier question, right, if we think back to the historic 80-20 mix of nondiscretionary versus discretionary, and you sort of talked about some strength here, right, during the holiday and recreation products, patio heaters. If we look back in 2020, can you sort of baseline on how you would speak to the comp trends, right, in those more discretionary product categories relative to the core of nondiscretionary as we try to build the walk for next year? We'd love to see how you contextualize, right, the potential transitory versus secular revenue contributions.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. I would say, across our product categories, we saw very nice growth in 2020. We had a range from like 6% growth, the 36% growth. But the key categories, the major categories, chemicals, equipment, maintenance supplies, all around the kind of 20% growth, where the business was. So it was really a lift across all of the product categories. Some of the pool recreation products were toward the higher end, things like floats and pool toys. But we were pleased that the strength we saw last year was pretty much across the board and didn't, in any way, significantly change the penetration of any one category.

Steven Paul Forbes - *Guggenheim Securities, LLC, Research Division - Analyst*

That's great to hear. And then just a quick follow-up. Are you thinking about the excitements here around permitting activity for new pools and your initiatives around customer file growth? Curious if you guys have done the work and sort of have insights to share around how the -- how those -- the location of those permits with the potential locations, right, compare to your current market exposure from a retail store base and how you sort of think about those new pools in a do-it-for-me versus do-it-yourself backdrop?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. Well, I would say, our information on the pool permits in terms of geography is pretty much aligned with existing pool builds. So it's really focused in Sunbelt, right, where we have lots and lots of physical locations, right? In the Sunbelt, we've got a Leslie's location within 15 miles of 90% of the pools. So we feel we're in really good shape to service those customers if they want to be serviced in a physical location. We can also service them digitally, right? And with the ship from store and BOPIS capabilities we have coming on, we think a lot of customers will avail themselves of that.

In terms of the DIFM and DIY, we're setting ourselves up so that these new pool owners will get a welcome kit from Leslie's so that we can introduce ourselves. But as we explained, during the road show and IPO process, we're really agnostic to whether a consumer is DIFM or DIY. We have a nice professional business, we have our physical location base and we have our digital assets. So we've set ourselves up so that we can be DIY, DIFM agnostic. And we'll see where those new consumers fall.

Operator

Our next question comes from the line of Simeon Gutman with Morgan Stanley.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Had a question first about the quarter. You mentioned relative to the S-1. I think your sales came in at the high end of the range. I don't -- I think, on EBITDA, it may have come at just slightly below the midpoint. Can you talk about what was the dynamic? And then I don't know if you can share around your internal expectations about gross margin for the fourth quarter. But can you talk about how that -- how the gross margin compared to your expectations?

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

Yes, sure. Happy to. Thanks, Simeon, for the question. So when you think about performance in the fourth quarter, we were impacted by the SG&A increase associated with the new lease accounting standard of about $1.3 million. So if you add that back, we're at $184.1 million versus the midpoint in the S-1 document, and that's for the year, sorry, of approximately $183.9 million, so slightly above. I think when you think of the beat on the top line, that was in part driven by some of the clearance of inventory that I talked about. So came in a little bit lower margin. And that's part of what drove the margin, the slight reduction in Q4. So it did see that full flow-through for the quarter and ultimately for the year.

But I think as we look at performance for the full year, roll through the guidance, kind of top end of the range for sales above the midpoint of the range from an EBITDA perspective. And then when you look at gross margin specifically for Q4 and you think about the kind of reported number on the fourth quarter, we were about 33 basis points down. If you think about the discounts related to the clearance that account for about 100 basis of the decline. So there'll be a lot of familiar trends, right? We saw occupancy leverage. We saw improvement in rates in each one of our businesses. Saw an offset from some business mix. And then this is a fairly discrete item on some of this inventory that got moved that had an impact.

So all in all, deliberate decisions and feel good about where we came out for the year. Then overall on a gross margin perspective, we're up 51 basis points over last year. So feel good with the results.

Simeon Ari Gutman - *Morgan Stanley, Research Division - Executive Director*

Okay. That's helpful. Next, I want to ask about demand in the next fiscal year. I know we're talking about pool permits. Curious if there's anything new regarding the pace of new construction or new pool construction orders, granted, it's only going to be a small part of business, I think. And then it sounds like fourth quarter -- or fourth quarter -- or sorry, the quarter-to-date has gone better for the dynamics mentioned. Does any of that inform you about how demand could shape up next year? Does it feel like bias that it's going to be better than you think? I don't know if there's anything you can learn from any of these factors before permitting the quarter-to-date results.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. Simeon, I think, the way to think about that is we're very encouraged by the trends year-to-date. The pool permits are known. So they're not -- I don't see them changing, and that's a real lift to the business. But it's really important to keep in mind, right? The first half of our year is only 20% of our year. So while it's nice to have a great start to the year, and we'll always take that, we're very much keeping in mind internally that we have vast majority of the year ahead of us. Now we're really confident in the initiatives that we have in place, but we're not in -- we're not going to guide any differently than Steve laid out at the beginning of the presentation based on what we know at the moment.

Operator

Our next question comes from the line of Kate McShane with Goldman Sachs.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

With regards to inventory, I know you were making some changes to make way for some new product, but inventory is down versus what sounds like another year of very strong sales. So could you talk about what your inventory looks like ex that change in equipment? And why -- if you're chasing any categories?

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

Yes. Thanks, Kate. Good question. And again, I think from an overall inventory perspective, probably impacted, call it, $5 million to $10 million in total inventory. But again, you'll see how we typically manage our seasonality now is a time at which we're starting to bring inventory in. We're negotiating with our vendors. We're procuring product. We're preparing for season. We can invest like nobody else can invest in inventory. And we will be prepared for season in the elevated demand that we see coming.

As Mike talked about in some of the categories where we were not able to meet demand ourselves and the industry, above-ground pools, hot tubs and I think unique for this year, potentially some chemical categories. Again, I think we're uniquely positioned to invest in those categories in order to meet the demand that we see coming in, in fiscal 2021. So I wouldn't necessarily characterize it as chasing, but -- because I do believe we'll have more inventory for the coming year than we've had in the past. But I think we will have continued opportunities to work closely with our vendor partners. And to identify new vendors to source products to meet the demand for fiscal '21.

Katharine Amanda McShane - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

And then my next question unrelated is just on the Pro. I know during the road show that this was an area that you're focused on, your store openings are going to be a little bit more concentrated around the Pro. Just wondering if there was any update there in terms of the progress that you're making with that particular customer segment and how you're weighing the options of continuing to grow that business between digital stores and acquisitions.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes, Kate, I'll take that one. I'll start by saying, look, the Pro market for us -- we had another really nice year of growth in 2020. So we're pleased with that. But we're also still just really scratch the surface there. And as we've talked about, we've got the 3 initiatives lined up for 2021 to accelerate our growth there. The first one being additional locations. And I'll remind you, those are both new locations and conversions of some residential locations. So those are underway.

And second is the Pro affiliate program, which is in its final design phases and will be launched in February of next year. And then also the Pro website, which is up and running in test mode internally at the moment. So we'll see a demo of it tomorrow, actually. So feel good about where we are with those, and we're looking forward to getting those out in the market and seeing the impact because, like I said, this is a market that's traditionally been underserved by us. And the research that shows us that the Pro consumers like the idea of convenience, put a high-value on it, put a high-value on referrals. That just gives us real structural advantages to go after this market. And I'm really -- I'm excited to get those 3 initiatives out in the marketplace and see what it does to our growth.

Operator

Our next question comes from the line of Liz Suzuki with Bank of America.

Elizabeth Lane Suzuki - *BofA Merrill Lynch, Research Division - VP*

Great. So I would imagine that pool owners really try to extend the pool season for as long as possible this year, given lack of other forms of entertainment. Did that change the way that the 53rd week played out this year versus others in the past, where it may have been maybe less of a margin headwind because it wound up being a pretty decent extra week in terms of volume?

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

Yes. It's a good question, Liz. And I think there's probably a couple of countervailing trends. So yes, extended season, I think, both just due to current conditions and some better weather as well. I will drive more chemical sales, right? Chemical sales come in at decent margins. What it delays is closings. In closings are also involve chemicals and come in at good margins as well. So I think it likely drove some incremental volume in the 53rd week that maybe is not as typical, but in some ways it pushed off the inevitable, which is the coming winter and the closing season. So we had some pickup in Q1 from closings.

Elizabeth Lane Suzuki - *BofA Merrill Lynch, Research Division - VP*

Got it. Makes sense. And I guess as a follow-up, I mean, has the extension of -- I mean, I guess that you would have seen some of that in the first quarter then from the later closing. And would you expect pool owners to be opening their pools even earlier this year? And what impact do you think that could have on the seasonality of 2021?

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

Yes. And I'd characterize that as really weather permitting. I think there will be a bias in the current environment to open your body water earlier. But if it's still snow in the Northeast or Midwest, you're not going to open your pool. So it is dependent on some of the weather conditions, but with the bias of opening earlier and keeping it open longer, certainly could have a minor shift, I'd characterize it, as the core driver will be ultimately, the conditions during what we call kind of the shoulder season.

Operator

Thank you. Ladies and gentlemen, our final question today comes from line of Garik Shmois with Loop Capital Markets.

Garik Simha Shmois - *Loop Capital Markets LLC, Research Division - MD*

You cited a pickup in your customer file in the fourth quarter. I don't know if there's any way to provide some color as to if there's any specific initiatives that was driving the increase. And given the increase in pool permits, is there a way to think about the potential increase in your customer file in fiscal '21, maybe relative to the 2% to 3% in your growth algorithm?

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

Yes. It's a good question, Garik. The acceleration in growth of new customer acquisition in Q4 is really all about us switching our acquisition strategy from direct mail to digital. And what we're finding is that's just a much more effective way to acquire customers. And we have a really nice ROI on that spend. And as we talked about during the IPO process, 2021, we're going to increase our marketing spend somewhat but what we're really going to do is continue that shift from direct mail to digital. That should give us some outsized gains in our ability to acquire new customers. And I think that specifically and our ability to target that digital acquisition at the 200,000 new pool owners at our lapsed file. We also track new home ownership that has pools.

For example, if someone moves right from a house with the pool that potentially is us losing a customer, but we've got customers coming in who purchase that house. So we're getting much, much better at mining our file in targeting our digital capabilities at potential new customers. And we can do that because we know where all the pools are, we know where all the new pools are being built, and we know when somebody moves from a home with a pool or moves into a home with a pool. So I think that's one of the most -- it's one of those 6 growth levers that we talked about. And I would say, in 2021, it's one that I'm feeling very good about us executing.

Garik Simha Shmois - *Loop Capital Markets LLC, Research Division - MD*

Great. And then just a follow-up, just around the seasonality and maybe more of a model question. As you think about the 20% of sales that typically happen in the first half of the year, lots of puts and takes, but is that a fair ballpark again to use as we think about fiscal '21? Or is there anything else seasonally that you want to call out that might deviate off of that? I mean you recognize that you had a good start to Q1 and maybe you're seeing some benefit from delayed closures and maybe an earlier start to the pool season weather permitting. So anything to call out relative to the cadence of sales that you outlined.

Steven M. Weddell - *Leslie's, Inc. - Executive VP, CFO, Secretary & Treasurer*

Yes. No. This is Steve. Nothing major. I'd say, when you think about the seasonality and the timing of the 53rd week, your fiscal compares are going to be lower in Q1 and Q4. They're going to be higher in Q2 and Q3. And again, it follows the natural week-to-week seasonality. When you look at the first half of the year, the give-up weak in Q1 and the pickup week in Q2, relatively similar. So by the time you get through the first half and certainly, by the time you get to the end of the year, we've completed a full season. And you'll have less noise. But from quarter-to-quarter, it will -- certainly, Q1 and Q2 on a stand-alone basis will have some noise.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to management for any final comments.

Michael R. Egeck - *Leslie's, Inc. - CEO & Director*

We'd like to thank everyone for joining us today. And from all of us at Leslie's, we wish you and your families a happy and safe holiday season. Thank you very much.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
