



2022

SETTING  
MOMENTUM  
IN MOTION.

THE PGT INNOVATIONS FAMILY OF BRANDS







# THE PGT INNOVATIONS FAMILY OF BRANDS

A national manufacturer of premium windows, doors, and garage doors whose technically advanced products can withstand some of the toughest weather conditions on earth and are revolutionizing the way people live by unifying indoor and outdoor living spaces.

## **INVENT.**

We offer products and services based on deep understanding of our customers' total business needs.

## **BUILD.**

Our products are customized and made to order.

## **DELIVER.**

We offer the best total solution, ensuring customer loyalty and willingness to pay.





Impact Resistant  
Windows & Doors



CUSTOM WINDOWS + DOORS

WINDOOR<sup>®</sup>

HIGH PERFORMANCE DOORS & WINDOWS



western  
window systems

Anlin  
Windows-Doors

eze//  
breeze<sup>®</sup>

EZE PORCH EZE LIVING

ECO  
window systems

NewSouth  
WINDOW SOLUTIONS

NEWLY ACQUIRED IN 2022:

MARTIN  
DOOR





Jeff Jackson

## SETTING MOMENTUM IN MOTION.

"2022 was a dynamic year for PGT Innovations, and I'm very excited about our future. I'm honored to lead this great company and our team members who continue to demonstrate remarkable commitment, perseverance, and our strong culture."

**JEFF JACKSON**, PRESIDENT AND CEO

## DEAR FELLOW SHAREHOLDERS

**2022 was a dynamic year for PGT Innovations.** We delivered record sales and profit in 2022 across all of our brands and geographies, despite the changing economic landscape. We began the year undergirded by a strong U.S. economy and strong regional housing activity and ended the year in an environment with higher interest rates and inflation driving more uncertainty to the communities which we serve. Our Florida operations were also impacted by Hurricane Ian and a ransomware attack late in the year. Through it all, we continued to execute on our North Star:

PGT Innovations owns, operates, and scales high-margin, high-growth specialty building product brands across North America. We do so through a relentless focus on people, innovative solutions, and operational excellence.

Each of our 5,500 team members responded to this dynamic environment with remarkable commitment, continued perseverance, and courage. Early in 2022, we opened Coopey World, our new training center in Florida to improve the productivity of new team members and drive a reduction in turnover. In late September, our Florida team was impacted by the category 4 Hurricane Ian. Over 2,000 team members in southwest Florida were personally affected by the storm. We mobilized a response to protect our team members' welfare and safety, including distributing essential supplies to affected team members. We are proud to lead a caring team, and Hurricane Ian proved once again that spirit and culture of PGT Innovations remains strong.

During the year, we introduced several innovative premium solutions designed to exceed our customers' expectations. These new products were focused on improving the safety, security, and lifestyle of the consumers selecting PGT Innovation's products. We announced several new narrow sightline doors, designed to improve indoor/outdoor living experiences. We also announced that PGT Innovations will be the first U.S. window and door manufacturer to launch two new innovative glass products, our new Diamond Glass impact-resistant glass unit, and our Thin Triple Insulated Glass Unit. Diamond Glass is designed to provide greater clarity, additional scratch resistance, and lighter weight. Thin Triple Glass is designed to meet tightening North American Energy Standards, with a significant weight and cost advantage to other emerging technologies. Each of these new innovations come with the same design pressure and impact ratings of our current products.

Our operational excellence is a strategic advantage for the Company. The Covid-related demand strength and certain supply chain disruptions had multi-year impacts on certain customer experiences, consistent with effects seen across the building products industry. The Company addressed the concerns head-on and executed on our plans to resolve our customer issues, through increased investment, focus, and commitment. Each of our delivery, quality, and lead-time metrics improved during the year and we were able to make solid gains to improve our customer confidence. We believe these efforts will produce long-lasting benefits to our dealer and distributor partners, and to the homeowners in the communities in which we serve.

## FINANCIAL HIGHLIGHTS

Full year fiscal 2022 sales grew 28.5% to a record \$1.49 billion, including sales contribution for partial-year Anlin Windows & Doors and Eco Window Systems, both acquired during 2021 and from Martin Door Holdings, Inc. acquired in October 2022. Excluding sales from all acquisitions, we saw strong organic growth reflecting the increase in shipments we have seen across all our markets in 2022 compared to 2021, with especially strong growth in the PGT and Western Window brands.

Our fourth quarter acquisition of Martin Door will allow us to expand into an adjacent building products category, add premium garage doors to our product portfolio, broaden our geographic footprint and brand presence, while creating cross selling opportunities for both companies. In conjunction with the acquisition, we entered into a new five-year \$250 million revolving credit facility which allowed us to extend maturities while enhancing our liquidity.

We were able to deliver profit growth well in excess of the sales growth due to strong focus on improving operational excellence, cost controls for both fixed and variable costs, management of key supply chain input costs, and certain price increases. I am proud of the record results our team was able to deliver record results in this dynamic macro-economic environment.

## STRATEGIC PILLARS

PGT Innovations' delivered compound average annual sales growth rate of 24% over the past 10 years. This long-term performance is driven by our strategic framework, and we believe it can help us to continue to create long-term value for shareholders while serving our customers and communities. Our pillars are:

1. **Customer-centric innovation:** We strive to put the customer at the center of our business by designing, manufacturing, and delivering premium products with exceptional service before, during and after the sale. Our investments in R&D seek to anticipate builder and consumer preferences to bring products to market that deliver the performance and value that exceed our customers' expectations. Our marketing strategies enable us to gain insights into the market trends that are driving sales, and we will continue to evolve in this dynamic housing market.
2. **Attracting talent:** Our long-term success depends on attracting and retaining talented, dedicated employees with the right skills – and helping those team members succeed. We work hard to maintain a safe workplace, and supportive culture that rewards the entire team for their continued commitment. We work hard to be the employer of choice in each of our geographies through effective communications, competitive compensation packages, and creating opportunities for each of our team members to grow their careers.
3. **Scaling our business:** In 2022, we focused on operational excellence, and building our capacity and capabilities to meet our continued larger open order backlog and anticipated demand growth. We expanded our Western Window operations and increased capabilities at Anlin, and fully recognized the benefits of the Florida expansion from 2021. Our strategy has allowed us to increase capacity throughout 2022 and positions us for future growth.
4. **Strategically allocating capital:** Early in 2023, we modified our capital allocation strategy to prioritize a \$250 million share repurchase program. We believe this change will support profitable growth and generate shareholder value over the long term. Our current capital allocation priorities are:
  - Internal investment in projects expected to create value for our customers and shareholders. We continue to invest strategically in manufacturing capabilities, product development and marketing enhancements to meet expected long-term demand growth.
  - Share repurchases to return capital to our shareholders. We have committed to returning \$250 million in capital to our shareholders over three years, while maintaining conservative leverage targets, funding the repurchases through continued strong free cash flows.
  - Strategic acquisitions aligned with growth priorities expected to grow shareholder value over the long term. In the fourth quarter of 2022, we acquired Martin Doors to expand our product portfolio into premium custom garage doors. We will continue to look for accretive acquisition opportunities to support further expansion into new markets, new channels, and other product categories that offer strong growth potential and attractive margins.

## **CORPORATE RESPONSIBILITY**

PGT Innovations is committed to making a positive impact to the environment, our employees, and the communities we serve through investments that reduce our environmental footprint, improve working conditions, and provide for sound corporate governance. We believe our position on responsible growth will help create long-term value for our stakeholders and position our business for success in the future. A detailed description of our environmental, social and governance programs and initiatives can be found in our 2023 Proxy Statement.

## **LOOKING AHEAD**

Our performance in 2022 created a strong foundation for long-term growth and shareholder value generation. While the current macroeconomic environment, with higher inflation and interest rates, presents near-term uncertainty, we continue to invest in our core operations, innovative glass technologies, and our team members to ensure PGT Innovations will exceed customer and shareholder expectations. Our balanced exposure to both new construction and R&R markets, in addition to our geographic strength and diversity, will both protect and deliver higher returns.

I am very excited about our future. I am honored to lead this great company and believe PGT Innovations is in a strong position to achieve its strategic initiatives and generate long-term value for our shareholders. I thank you for your continued support and look forward to updating you on our progress.



Jeffrey T. Jackson  
President and Chief Executive Officer



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-37971

**PGT Innovations, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-0634715**  
(I.R.S. Employer  
Identification No.)

**1070 Technology Drive**  
**North Venice, Florida**  
(Address of principal executive offices)

**34275**  
(Zip Code)

Registrant's telephone number, including area code:  
**(941) 480-1600**

Former name, former address and former fiscal year, if changed since last report:

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$0.01 per share	PGTI	New York Stock Exchange, Inc.
Securities registered pursuant to Section 12 (g) of the Act: None		

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes  No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of July 1, 2022 was approximately \$1,017,936,586 based on the closing price per share on that date of \$17.72 as reported on the New York Stock Exchange.

The number of shares of the registrant's common stock, par value \$0.01, outstanding as of February 24, 2023, was 60,178,284.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the Company's 2023 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K. The Company's Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

**PGT Innovations, Inc.**

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## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

From time to time, we have made or will make forward-looking statements within the meaning of Section 21E of the Exchange Act. For those statements we claim the protection of the safe harbor provisions for forward-looking statements contained in such section. Forward-looking statements are not a statement of historical facts but are based on management's current beliefs, assumptions and expectations regarding our future performance, taking account of the information currently available to management. Forward-looking statements usually can be identified by the use of words such as "goal", "objective", "plan", "expect", "anticipate", "intend", "project", "believe", "estimate", "may", "could", or other words of similar meaning. Forward-looking statements provide our current expectations or forecasts of future events, results, circumstances or aspirations. Our disclosures in this Annual Report on Form 10-K (this "Report") contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission and in oral presentations. Forward-looking statements are based on assumptions and by their nature are subject to risks and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ materially from those described in our forward-looking statements include, but are not limited to:

- the impact of the COVID-19 pandemic (the "COVID-19 pandemic" or "Pandemic") and related measures taken by governmental or regulatory authorities to combat the Pandemic, including the impact of the Pandemic and these measures on the economies and demand for our products in the states where we sell them, and on our customers, suppliers, labor force, business, operations and financial performance;
- unpredictable weather and macroeconomic factors that may negatively impact the repair and remodel and new construction markets and the construction industry generally, especially in the state of Florida and the western United States, where the substantial portion of our sales are currently generated, and in the U.S. generally;
- changes in raw material prices, especially for aluminum, glass, vinyl, and steel, including, price increases due to the implementation of tariffs and other trade-related restrictions, Pandemic-related supply chain interruptions, or interruptions from the conflict in Ukraine;
- our dependence on a limited number of suppliers for certain of our key materials;
- our dependence on our impact-resistant product lines, which increased with the acquisition of Eco Enterprises, LLC ("Eco"), and contemporary indoor/outdoor window and door systems, and on consumer preferences for those types and styles of products;
- the effects of increased expenses or unanticipated liabilities incurred as a result of, or due to activities related to, our recent acquisitions, including our acquisitions of Martin and Anlin;
- our level of indebtedness, which increased in connection with our recent acquisitions, including our acquisitions of Martin and Anlin;
- increases in credit losses from obligations owed to us by our customers in the event of a downturn in the home repair and remodel or new home construction channels in our core markets and our inability to collect such obligations from such customers;
- the risks that the anticipated cost savings, synergies, revenue enhancement strategies and other benefits expected from our acquisitions of Martin and Anlin may not be fully realized or may take longer to realize than expected or that our actual integration costs may exceed our estimates;
- increases in transportation costs, including increases in fuel prices;
- our dependence on our limited number of geographically concentrated manufacturing facilities, which increased further due to our acquisition of Eco;

- sales fluctuations to and changes in our relationships with key customers;
- federal, state and local laws and regulations, including unfavorable changes in local building codes and environmental and energy code regulations;
- risks associated with our information technology systems, including cybersecurity-related risks, such as unauthorized intrusions into our systems by “hackers” and theft of data and information from our systems, and the risks that our information technology systems do not function as intended or experience temporary or long-term failures to perform as intended;
- product liability and warranty claims brought against us;
- in addition to our acquisitions of Martin and Anlin, our ability to successfully integrate businesses we may acquire in the future, or that any business we acquire may not perform as we expected when we acquired it; and
- the other risks and uncertainties discussed under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2022.

Any forward-looking statement made by us in this Annual Report on Form 10-K is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.



## PART I

### Item 1. BUSINESS

#### Our Company

PGT Innovations, Inc. (“we,” “us,” “our,” “PGTI” or the “Company”) manufactures and supplies premium windows and doors and fully customizable overhead garage doors, with the recent acquisition of Martin Door Holdings, Inc. (“Martin”) effective on October 14, 2022. Our impact-resistant products can withstand some of the toughest weather conditions on earth and, with our Western Window Systems (“WWS”) product lines, unify indoor/outdoor living spaces. We strive to create value through deep customer relationships, understanding the needs of the markets we serve, and a drive to develop category-defining products. We believe we are one of the nation’s largest manufacturers of impact-resistant windows and doors and hold leadership positions in our primary markets. We manufacture diverse lines of products, intended to appeal to different segments of the market, at different price-points, including high-end, luxury, premium and mass-custom fully customizable aluminum and vinyl windows and doors and porch enclosure products, targeting both the residential repair and remodeling and new construction end markets. We market our impact-resistant products under five recognized brands: PGT® Custom Windows & Doors, CGI® Windows and Doors, WinDoor®, NewSouth Window Solutions®, and Eco Enterprises, Inc. We believe all of these brands are positively associated with service, performance, quality, durability and energy efficiency. We also market a line of window and door products designed to unify indoor/outdoor living spaces under the two recognized brands of Western Window Systems® and Anlin®, which we believe are associated with innovation, quality, durability and energy efficiency in the indoor/outdoor living space markets. With the acquisition of Martin, we have added premium overhead garage doors to our product portfolio, entering into a building product adjacent to the window and door market, and further expanding our western geographic footprint.

On October 14, 2022, we completed the acquisition of Martin Door Holdings, Inc. (the “Martin Acquisition”). Headquartered in Salt Lake City, UT, Martin is a leading custom manufacturer of premium overhead garage doors and hardware serving the Western U.S. residential and commercial markets. The acquisition was done by WWS Acquisition, LLC, a Missouri limited liability company, and an indirect wholly owned subsidiary of PGT Innovations, Inc. Martin will operate under the Western Division of PGTI.

Our impact-resistant products combine heavy-duty aluminum or vinyl frames with laminated glass to ensure structural integrity, which provides protection from wind-driven projectiles of all sizes and other debris during a storm. Our impact-resistant products substantially reduce the likelihood of penetration by impacting projectiles, protecting people and property, while providing expansive, unblocked exterior views that other forms of protection, such as shutters or wood coverings, do not provide. Our impact-resistant products also offer many other benefits, including: (1) abatement of sound to substantially decrease outside noise, including during hurricanes; (2) protection against the damaging effects of ultra-violet light; (3) reduction of energy loss due to changing external temperatures; and (4) energy efficiency that can significantly reduce cooling and heating costs, as evidenced by the energy ratings our products have received. These impact-resistant products satisfy the nation’s most stringent building codes in hurricane-prone coastal states and provide an attractive alternative to shutters and other “active” forms of hurricane protection that require installation and removal before and after each storm. We also manufacture vinyl porch and patio enclosure products under our Eze-Breeze® brand, that are designed to allow air flow while protecting against inclement weather, making outdoor spaces more inviting.

The acquisition of NewSouth has supported our diversification into growing segments in the window and door industry, by enabling us to enter the direct-to-consumer channel, where NewSouth is a market leader in Florida. NewSouth’s direct-to-consumer model is supported by its showrooms and in-home sales. With the addition of NewSouth, we continued our strategy of growing in geographic areas outside of our core markets, with showrooms throughout the southern states.

The acquisition of Eco extended our residential market footprint with what we believe will be minimal overlap with our existing network of dealers, as most of Eco’s dealer-customers have not historically been our

customers. Eco's product offerings in the commercial market are expected to provide us with added product and customer diversification in that space, which we believe will be a high-growth market in future periods. By adding Eco's glass manufacturing capabilities to our operations, we expanded our glass production capabilities and capacity in order to strengthen and gain more control of our supply chain for glass.

The additions of Anlin and Western Window Systems ("WWS") to our family of brands expanded our portfolio of offerings and our geographical footprint and added award-winning and innovative products that combine performance and quality with clean, functional designs. Those products are designed for strength, easy integration into a variety of spaces, smooth operation and are tested for durability.

With the addition of Martin, we expanded into an adjacent window and door category by adding premium overhead garage doors to our product portfolio, and broadened our geographic footprint and brand presence in the high-growth Western region. Martin adds another recognized brand to our portfolio of brands, and we believe will open cross-selling opportunities for existing Western division brands and NewSouth Window Solutions.

With approximately 5,500 employees (as of December 31, 2022) at our various manufacturing facilities located in North Venice, Tampa, and Fort Myers, on the west coast of Florida, and Hialeah and Medley, on the east coast of Florida, as well as Phoenix, Arizona, Irvine and Clovis, California, and Salt Lake City, Utah, in the western U.S., our vertically integrated manufacturing capabilities include in-house glass cutting, tempering, laminating and insulating capabilities, which provide us with a consistent source of specialized glass, shorter lead times, lower costs relative to third-party sourcing and an overall more efficient production process. Additionally, our manufacturing process relies on just-in-time delivery of raw materials and components as well as synchronous flow to promote labor efficiency and throughput, allowing us to more consistently fulfill orders on-time for our valued customers.

The geographic regions in which we currently conduct business include the Southeastern U.S., Western U.S., Gulf Coast, and the Coastal mid-Atlantic. We also ship to the Caribbean, Central America and Canada. We distribute our products through multiple channels, including nearly 4,000 independently-owned dealers and distributors, national building supply distributors, the in-home sales/custom order divisions of major U.S. home building and improvement supply retailers and, with our acquisition of NewSouth, the direct-to-consumer channel. We believe this broad distribution network provides us with the flexibility to meet demand as it shifts between the repair and remodel, and residential and commercial new construction end markets.

## **History**

PGT Innovations, Inc. is a Delaware corporation. We were formed on December 16, 2003 as PGT, Inc. and operate our business through our various subsidiaries, including PGT Industries, Inc., a Florida corporation, which was founded in 1980 as Vinyl Tech, Inc. On June 27, 2006, we became a publicly listed company on the NASDAQ Global Market (NASDAQ) under the symbol "PGTI". We changed our name to PGT Innovations, Inc. which we announced on December 14, 2016. Effective on December 28, 2016, the listing of the Company's common stock was transferred to the New York Stock Exchange (NYSE) and our common stock began trading on the NYSE under our existing ticker symbol of "PGTI".

## **Industry Segments**

We operate as two segments based on geography: the Southeast segment, and the Western segment. See Part II, Item 8. Financial Statements and Supplemental Data, Note 19. Segments for more information.

## **Our Brands and Products**

### **PGT Custom Windows & Doors**

*WinGuard.* WinGuard is an impact-resistant product line that combines heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris and



satisfies increasingly stringent building codes. Our marketing and sales of the WinGuard product line are primarily targeted to hurricane-prone coastal states in the U.S., as well as the Caribbean and Central America. Combining the impact resistance of WinGuard with insulating glass creates energy efficient windows that can significantly reduce cooling and heating costs. Our “WinGuard Vinyl” line of windows and doors is designed to offer some of the highest design pressures available on impact-resistant windows and doors, in a modern profile, with larger sizes that satisfy the most stringent hurricane codes in the country. It protects against flying debris, intruders, outside noise and UV rays.

*EnergyVue.* EnergyVue is our non-impact-resistant vinyl window featuring energy-efficient insulating glass and multi-chambered frames that meet or exceed ENERGY STAR® standards in all climate zones to help consumers save on energy costs. Its new design has a refined modern profile and robust construction and is offered in larger sizes and higher design pressures, multiple frame colors, and a variety of hardware finishes, glass tints, grid styles and patterns.

*Aluminum.* We offer a complete line of fully customizable, non-impact-resistant aluminum frame windows and doors. These products primarily target regions with warmer climates, where aluminum is often preferred due to its ability to withstand higher structural loads. Adding insulating glass creates energy-efficient windows that can significantly reduce cooling and heating costs.

*Eze-Breeze.* Eze-Breeze non-glass vertical and horizontal sliding panels for porch enclosures are vinyl-glazed, aluminum-framed products used for enclosing screened-in porches that provide protection from inclement weather.

### **CGI**

*Sentinel.* Sentinel is a complete line of aluminum impact-resistant windows and doors from CGI that provides quality craftsmanship, energy efficiency and durability at an affordable price point. Sentinel windows and doors are designed and manufactured with the objectives of enhancing home aesthetics, while delivering protection from hurricane winds and wind-borne debris. Sentinel is custom manufactured to exact sizes within our wide range of design parameters, therefore, reducing on-site construction costs. In addition, Sentinel’s frame depth is designed for both new construction and replacement applications, resulting in faster, less intrusive installations.

*Targa.* Targa is CGI’s line of vinyl, energy-efficient, impact-resistant windows designed specifically to exceed the Florida impact codes, which are the most stringent impact standards in the U.S. Targa windows are designed with the objective of enhancing the aesthetics of a home, are relatively low maintenance, with long-term durability, and environmental compatibility.

*Sparta.* Sparta is CGI’s line of aluminum and vinyl impact-resistant windows and doors that are offered at relatively lower price points, and that meet Florida’s impact codes.

*Scout.* Scout is CGI’s line of aluminum non-impact windows and doors that are offered at a relatively lower price point.

### **WinDoor**

*WinDoor’s products carry the WinDoor® brand and carry various product names, including its 3000 and 4000 Series aluminum windows, its 6000, 7000 and 8000 Series aluminum sliding glass doors, and its 9000 Series thermally broken windows and doors.*

*Aluminum Doors and Windows.* WinDoor produces a wide array of high-end, luxury aluminum doors and windows, including impact and non-impact sliding glass doors and terrace doors, fixed picture windows, single hung windows, and horizontal rolling windows. All of WinDoor’s aluminum windows are available in impact and non-impact versions and meet or exceed ENERGY STAR® standards in all climate zones.

*Thermally Broken Doors and Windows.* WinDoor produces a variety of aluminum thermally broken doors and windows. WinDoor’s thermally broken products provide the strength of aluminum with the energy

ratings usually seen in only vinyl products. All of WinDoor's thermally broken products are available in multiple shapes and sizes, have earned high performance ratings on impact and non-impact certifications, and meet or exceed ENERGY STAR® standards in all climate zones.

*Estate by WinDoor.* Formerly part of CGI, our Estate Collection of windows and doors is one of WinDoor's premium aluminum impact-resistant product line. These windows and doors can be found in high-end homes, resorts and hotels, and in schools and office buildings. Our Estate Collection combines protection against hurricane force damage with architectural-grade quality, handcrafted details and modern engineering. These windows and doors protect and insulate against hurricane winds and wind-driven debris, outside noise, and offer UV protection. Estate's aluminum frames are thicker than many of our competitors' frames, making it a preferable choice for consumers in coastal areas prone to hurricanes.

### **Western Window Systems**

WWS's products are non-impact products, and include both customized products for its custom sales channel, and standard products for its volume, production builder, sales channel, and carry the Western Windows Systems® brand under four product categories of the Classic Line, Performance Line, Minimalist Multi-Slide Door, and the Simulated Steel Line.

*Classic Line.* WWS's Classic Line is a portfolio of high-quality, disappearing glass walls and windows that combine exceptional performance with clean design. The products of the Classic Line include fixed and operating windows, as well as sliding, folding and hinged doors. Sales of the Classic Line products are focused on the volume/production builder market in relatively temperate areas in the Southwestern United States.

*Performance Line.* The Performance Line by WWS is a family of moving glass walls and windows engineered to satisfy its customers' energy and structural requirements, while promoting a contemporary, modern architectural design. The Performance Line has broad thermal capabilities that allow this luxury line of products to satisfy all energy codes throughout the United States.

*Simulated Steel Line.* The Simulated Steel Line by WWS is a portfolio of thermally-broken, aluminum moving glass walls and windows that look like steel but are far more affordable. This portfolio of products embodies WWS's nearly 60 years of advancements in door and window design, and we believe exhibits luxury and refinement. The Simulated Steel Line has clean, narrow profiles which gives the glass components of the products a prominent positioning, while maximizing natural light.

*Minimalist Multi-Slide Door.* The recently launched Minimalist Multi-Slide door by WWS offers innovative narrow interlock stiles that provide a minimalist aesthetic with maximum daylight. This combination of large panel sizes, discreet lines, and energy efficient low-E, dual-pane glass delivers a beautiful new way to minimize the boundaries between indoors and outdoors.

### **NewSouth**

*Windows and Doors.* NewSouth manufactures a wide array of single-hung, double-hung, sliding, picture and visually appealing shaped vinyl windows which are durable and energy-efficient. NewSouth also manufactures durable and attractive patio and entry doors which we believe enhance safety and improve the appearance of entry spaces.

*Installation.* NewSouth provides quality installation of its windows and doors through an experienced group of installation services companies who are subcontracted to install its products.

### **Eco Window Systems and CGI Commercial**

Eco manufactures impact resistant windows and doors which are engineered to meet the toughest standards in the industry at the best price while ensuring the durability, elegance, and safety of all products for both the commercial and residential markets.



*Windows and Doors.* Eco manufactures a wide array of aluminum single-hung, horizontal rolling, fixed, and casement windows which are all impact resistant. Eco also manufactures several varieties of aluminum, impact-resistant patio and entry doors such as French, sliding, garage, bi-fold, and pivot which we believe complement the existing product lines offered by PGT Custom Windows & Doors and CGI Windows and Doors.

*Glass production.* Eco produces its own processed glass products, which supplies all of its window and door manufacturing operations' requirements for glass. Eco's glass production capacity also allows incremental vertical integration of glass for the production of certain of our other product lines, enabling us to strengthen and gain more control of our supply chain for glass. Eco also sells a small amount of glass other to third-party customers.

*Commercial Storefront System.* Our Commercial Storefront window system and entry doors are engineered to provide a flexible yet economical solution for a variety of applications. Our system is designed with the goal of providing easy fabrication and assembly, while also reducing installation time and challenges.

### **Anlin Windows and Doors**

Anlin is a California-based recognized brand for vinyl windows and doors in the remodel and replacement market. Anlin produces energy-efficient windows and doors with modern, energy saving technology, with a focus on noise reduction, delivering a high-quality product with appealing design and beauty. Anlin also provides consumer driven specialty products such as hinged patio doors with flexible options like in glass pet doors.

Anlin windows and patio doors are tested and certified by the National Fenestration Rating Council (NFRC), the American Architectural Manufacturers Association (AAMA), and Energy Star. Each certification assures homeowners that our windows and patio doors are manufactured to the highest quality and energy standards.

### **Martin Door**

Martin is headquartered in Salt Lake City, Utah with an operating history exceeding 85 years and is a leading custom manufacturer of premium overhead garage doors and hardware, serving the Western United States. Martin is recognized in the industry for high-quality and fully-customizable products to both commercial and residential end markets.

## **Sales and Marketing**

Our sales strategy primarily focuses on strengthening partnerships with our loyal distributors and dealers in the repair and remodel, and new construction markets by consistently providing exceptional customer service, industry-leading product designs and quality, valuable insight on building code requirements and industry trends, and technical expertise. We also market our products directly to national and regional homebuilders, who then purchase our products from our long-standing network of dealers and distributors. With our acquisition of NewSouth Window Solutions in February 2020, our sales strategy expanded to include a focus on direct-to-consumer sales to meet the growing demand from consumers looking for a manufacturer-to-home selling experience. Our 2021 acquisition of a controlling ownership stake in ECO has provided us with more product offerings and customer relationships in the commercial market, which we believe will be a high growth market in future periods. Most recently, our acquisition of Martin in October 2022, has expanded our product portfolio into a new market of commercial and residential garage doors.

Our marketing strategy is designed to promote the quality and benefits of our products and targets both coastal and inland markets across the U.S. We reach our customers through traditional and web-based

advertising; consumer promotions; and showrooms and selling materials. We also work with our dealers and distributors to educate architects, building officials, consumers, and homebuilders on the advantages of using impact-resistant and energy-efficient products. We market products from our house of brands to consumers based on performance and life-style benefits they value, as well as through the purchase channels they desire.

## **Our Customers**

We have a highly diversified base of nearly 4,000 window distributors, building supply distributors, window replacement dealers and enclosure contractors and garage door installation dealers. This number includes the distributor networks of Martin, acquired during 2022. We believe there is minimal overlap with our existing dealer network from the acquisition of Martin.

In 2022, our largest customer accounted for approximately 3% of net sales and our top ten customers accounted for approximately 19% of net sales. This compares to 4% and 20%, respectively, in 2021. Our sales are driven by residential new construction and home repair and remodel end markets, which represented approximately 42% and 58% of our sales, respectively, during 2022. This compares to 42% and 58%, respectively, in 2021. These percentages were consistent year-over-year.

We generally do not supply our products directly to homebuilders, but believe demand for our products is also a function of our strong relationships with certain national homebuilders for both our impact resistant products, and also for our products sold in the west. With the acquisition of NewSouth, we sell direct to the end customer.

## **Materials, Inventory and Supplier Relationships**

Our primary manufacturing materials include aluminum and vinyl extrusions, glass, ionoplast, and polyvinyl butyral. With the acquisition of Martin, steel is an additional primary material used in our manufacturing operations of garage doors. Although in many instances we have agreements with our suppliers, these agreements can be terminated by either party on limited notice. While most of our materials are typically available from other sources, transitioning to alternative sources would require us to complete testing and certifications related to impact-resistance and for the alternative source of supply to create the customized equipment and tooling necessary to provide the materials and components to us. Therefore, our goal is to develop and maintain lasting relationships with our material suppliers.

Glass, which includes sheet glass and finished glass, which we sourced from three major national suppliers in 2022, represented approximately 36% of our material purchases during 2022, compared with 40% in 2021. Aluminum and vinyl extrusions accounted for approximately 39% of our material purchases during 2022, compared with 36% in 2021. Polyvinyl butyral and ionoplast, which are both used as inner layer in laminated glass, typically accounts for approximately 5% of our material purchases. The remainder of our material purchases in 2022 and 2021 were primarily composed of hardware and other materials used in the manufacturing process.

Our inventory consists principally of raw materials purchased for the manufacture of our products and limited finished goods inventory as the majority of our products are custom, made-to-order products. Our inventory levels are more closely aligned with our number of product offerings rather than our level of sales. We have maintained our inventory level to have (i) raw materials required to support new product launches; (ii) a sufficient level of safety stock on certain items to ensure an adequate supply of material in the event of a sudden increase in demand and given our short lead-times; and (iii) adequate lead times for raw materials purchased from overseas suppliers in bulk supply.

As discussed below in the section titled “Backlog”, at the end of 2022, as compared to the end of 2021, our backlog of sales orders has decreased. We define backlog as orders that we have received and have accepted



from customers, but that have not yet shipped. The majority of this decrease is a result of an increase in production capacity in 2022, but also includes an increase relating to the acquisition of Martin in 2022. During 2021, our backlog increased as a result of growth in orders above our capacity to keep pace with the increased demand. As a result, during 2021, we opened an additional approximately 130,000 square foot manufacturing facility in Fort Myers, Florida to provide additional manufacturing capacity. We continue to have good relations with our glass supply chain partners, and we have gained additional control over our supply chain for glass with our acquisition of a 75% stake in Eco, whose vertically integrated operations includes a glass manufacturing division which supplies all of the impact-resistant glass used in Eco's window and door products, as well as providing an additional source for CGI. We believe that our investment in Eco has provided us with a secure, high-quality, dependable supply of glass for our operations. Prior to our acquisition of Eco, it was historically a significant source of our glass needs and continues to be such today.

### **Backlog**

Our backlog was \$228.8 million as of December 31, 2022, and \$355.9 million as of January 1, 2022. Our backlog consists of orders that we have received from customers that have not yet shipped. The majority of this decrease in backlog resulted from an increase in the Company's overall production capacity, with corresponding lower lead times, as the level of order entries during 2022, compared to 2021 remained relatively flat. For additional discussion of factors affecting our backlog of orders, see the section titled "Materials, Inventory and Supplier Relationships" above.

We expect that a significant portion of our current backlog will be recognized as sales in the first quarter of 2023, due in part to our lead times, which typically range from four to ten weeks for a majority of our products.

### **Intellectual Property**

We own and have registered trademarks in the U.S. In addition, we own several patents and patent applications concerning various aspects of window assembly and related processes. We are not aware of any circumstances that would have a material adverse effect on our ability to use our trademarks and patents. If we continue to renew our trade names when necessary, the trade-name protection provided by them is perpetual.

### **Manufacturing**

Our manufacturing facilities are in Florida, Arizona, California, and Utah. In Florida, we produce customized impact-resistant and non-impact products. In Arizona, we produce a combination of aluminum and vinyl, customized non-impact products for the custom channel of our WWS brand, and standard products for its volume channel. In California, we produce vinyl custom non-impact products which, combined with our products manufactured in Arizona, we believe gives us a complete array of aluminum and vinyl, custom and standard window and door products for what we believe is a high-growth western market. In Utah, we produce premium overhead garage doors and hardware, serving the Western United States.

The manufacturing process for our PGT Custom Windows & Doors products typically begins in our glass plant in North Venice, Florida, where we cut, temper, laminate, and insulate sheet glass to meet specific requirements of our customers, and then windows and doors are manufactured in our plants in North Venice, Florida, and our newly opened manufacturing facility in Fort Myers, Florida. Our Hialeah (CGI), and Tampa (NewSouth), Florida facilities and our Phoenix, Arizona (WWS) and Clovis, California (Anlin) facilities primarily source their glass needs from external suppliers. As discussed in the section titled "Materials, Inventory and Supplier Relationships" above, our acquisition of a controlling ownership interest in Eco, which has been one of our glass suppliers before the acquisition, provides us with a high-quality, dependable supply of glass for a portion of our operations in Florida.

Glass is transported to our window and door assembly lines in a make-to-order sequence where it is combined with an aluminum or vinyl frame. These frames are also fabricated to order. We start with a piece of

extruded material which is cut and shaped into a frame that fits the customers' specifications. Once complete, product is immediately staged for delivery and generally shipped on our trucking fleet or with contracted carriers within 48 hours of completion.

With the Martin Acquisition, we added premium overhead garage doors to our product portfolio. Doors are designed and uniquely built to customer specifications using a variety of materials including aluminum extrusion, steel coil, and glass. Fabrication of materials usually starts within 24 hours of a customer order being received, and production usually takes two to three days to complete. Once complete, the door is staged for will-call pick-up or delivery via a third-party contracted delivery method.

## **Competition**

The window and door industry is highly fragmented, and the competitive landscape is based on geography. The competition falls into the following categories.

*Local and Regional Window and Door Manufacturers:* This group of competitors consists of numerous local job shops and small manufacturing facilities that tend to focus on selling products to local or regional dealers and wholesalers. Competitors in this group typically lack marketing support and the service levels and quality controls demanded by larger customers, as well as the ability to offer a full complement of products.

*National Window and Door Manufacturers:* This group of competitors tends to focus on selling branded products nationally to dealers and wholesalers and has multiple locations.

*International Window and Door Manufacturers:* This group of competitors consists of non-U.S. companies that have created entities and established manufacturing operations within Florida and have an increasing presence in the South Florida region as suppliers of residential and commercial windows and doors.

*Active Protection:* This group of competitors consists of manufacturers that produce shutters and plywood, both of which are used to actively protect openings. Our impact-resistant windows and doors represent passive protection, meaning, once installed, no activity is required to protect a home from storm related hazards.

The principal methods of competition in the window and door industry are the development of long-term relationships with window and door dealers and distributors, and the retention of customers by delivering a full range of high-quality products in a timely manner, while offering competitive pricing and flexibility in transaction processing. Trade professionals such as contractors, homebuilders, architects and engineers also engage in direct interaction with manufacturers and look to the manufacturer for training and education related to products and codes. We believe our position as one of the leaders in the U.S. impact-resistant window and door market, and the innovative designs and quality of our products, position us well to meet the needs of our customers.

## **Environmental Considerations**

Although our business and facilities are subject to federal, state, and local environmental regulation, environmental regulation does not have a material impact on our operations, and we believe that our facilities are in material compliance with such laws and regulations.

## **Human Capital Management**

*Employees.* As of the end of 2022, we employed approximately 5,500 people, none of whom were represented by a collective bargaining unit. We believe we have good relations with our employees.

*Employee Safety.* The safety of our team members is our top priority, and we have taken significant steps in recent years to drive improvements in this area. Some of these safety initiatives we have taken, include:

- Increasing the size, experience and other qualifications of our environment, health and safety, or “E&HS”, staff;
- Adopting an incident management system that records workplace injuries based on type and other classifications to provide the data to drive targeted corrective and preventative actions to address and mitigate actual and potential causes of injuries;
- Implementing proactive safety practices such as regular floor leader-led safety inspections of their work areas;
- Implementing ergonomics-related safety improvements, using an experience and risk-based approach to prioritize those improvements;
- Partnering with vendors to obtain high quality personal protective equipment and related training on how to appropriately utilize that equipment;
- Increasing workplace and compliance related safety training through the use of both virtual and classroom courses as well as on-the-floor safety discussions;
- Training team members to identify, report and quickly address potentially unsafe activities and practices;
- Utilizing train the trainer programs to develop internal team members as trainers for safety compliance items such as Forklift operation and LOTO Authorized; and
- Increasing the frequency, number and types of internal workplace safety audits, inspections and walk-throughs conducted by the Company’s EH&S staff.
- In response to the impact that Hurricane Ian had on our community and employees during September of 2022, we took a number of actions to respond to those who were impacted by the storm, including:
  - Rescuing stranded team members and their families from flooded areas via kayaks, paddleboards and boats;
  - Hosting distribution events at the Company’s plant locations in Venice and Fort Myers on Friday, September 30, to provide essential relief supplies for team members. Items distributed included generators, chainsaws, water, batteries, tarps, first aid kits, and more;
  - Delivering essential relief supplies to team members not able to travel to the distribution sites;
  - Dispatching task force groups to assist with home repair and delivery of supplies;
  - Offering extra Volunteer Paid Time Off to team members who can help with recovery efforts;
  - Offering Family Fund loans for its team members who have significant damage to their homes or property;

*Labor Practices and Human Rights.* All of our employees earn more than the federal minimum wage and we believe our hourly wages are competitive with the local communities in which our facilities operate. The average hourly wage, excluding incentive compensation, of a full-time hourly employee of the Company was approximately \$19.12 as of December 31, 2022, as compared to \$17.74 as of January 1, 2022, with approximately one-half of those hourly employees earning an average hourly wage of \$18.00 or more. The average total compensation, including incentive compensation and benefits, for a full-time hourly employee of our Company in 2022 was approximately \$52,000.

We strive to help our employees maintain job stability, so they are encouraged to stay with the Company and positioned to grow their skills and knowledge on the job. The 2022 annualized voluntary turnover rate in our



workforce decreased slightly as compared to 2021. In an effort to reduce employee turnover, we engage in annual surveys with employees, we maintain an open-door policy that enables us to help identify any issues before they cause an employee to leave the Company, and we review exit interview data, hotline calls and root cause analysis to help deter turnover. We also assign dedicated Company human resources representatives to each department so that we can better monitor employee morale within each department.

*Workforce Diversity and Inclusion.* We believe in being an inclusive workplace for all of our employees and are committed to having a diverse workforce that is representative of the communities in which we operate and sell our products. A variety of perspectives enriches our culture, leads to innovative solutions for our business and enables us to better meet the needs of a diverse customer base and reflects the communities we serve. Our aim is to develop inclusive leaders and an inclusive culture, while also recruiting, developing, mentoring, training, and retaining a diverse workforce, including a diverse group of management-level employees.

- PGT Innovations Leading Ladies, a program designed to identify, develop and mentor female employees who have demonstrated potential for serving as leaders within our organization;
- Annual Diversity & Inclusion Training; and
- Dale Carnegie, a program that helps our managers understand how to appreciate, respect and value individual differences and behaviors.

Additionally, we have a gender- and ethnically-diverse Board of Directors.

*Benefits and Well-Being.* We believe in offering career opportunities, resources, programs, and tools to help employees grow and develop, as well as competitive wages and benefits to retain them. Our efforts in these areas include:

- Offering platforms, including on-line and in-person professional growth and development training, to help employees develop their skills and grow their careers at the Company;
- Providing management development training to all of our management-level employees, including compliance, ethics and leadership training;
- Providing employees with recurring training on critical issues such as safety and security, compliance, ethics and integrity and information security;
- Gathering engagement feedback from our employees on a regular basis and responding to that feedback in a variety of ways including personal, one-on-one interactions, team meetings, leadership communications, and town hall meetings with employees, led by senior executives;
- Offering a tuition reimbursement program that provides eligible employees up to \$50,000 lifetime for courses related to current or future roles at the Company;
- Offering health benefits for all eligible employees, including our eligible hourly employees;
- Providing confidential counseling for employees through our Employee Assistance Program;
- Providing paid time off to eligible employees;
- Matching employees' 401(k) plan contributions of up to 3% of eligible pay after 3 months of service;
- Offering an employee stock purchase program for eligible employees; and
- Providing a Company-subsidized childcare center for the employees of our Venice, Florida facility, which is our largest location.

#### **AVAILABLE INFORMATION**

Our Internet address is [www.pginnovations.com](http://www.pginnovations.com). Through our Internet website under “Financial Information” in the Investors section, we make available free of charge, as soon as reasonably practical after such

information has been filed with the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act. Also available through our Internet website under “Corporate Governance” in the Investors section is our Code of Business Conduct and Ethics. We are not including this or any other information on our website as a part of, nor incorporating it by reference into this, or any of our other SEC filings. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

#### **Item 1A. RISK FACTORS**

The risk factors included herein are grouped into risks related to:

- the COVID-19 pandemic;
- Our Business Operations;
- Demand for Our Products;
- Acquisitions;
- Our Indebtedness;
- Information Systems and Intellectual Property; and
- Warranty, Legal and Regulatory Matters

Moreover, other factors may adversely affect our results of operations, including potential liability under environmental and other laws and other unforeseen events, many of which are discussed elsewhere in the following risk factors. Any or all of these factors could materially adversely affect our results of operations.

##### **Risks Related to the COVID-19 pandemic**

*The ongoing COVID-19 pandemic has had, and may continue to have, among other risks, an adverse effect on our business, results of operations, and financial condition.*

During March 2020, a global pandemic (the “Pandemic”) was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (“COVID-19”). The Pandemic resulted in a significant number of infections, hospitalizations and deaths around the world, including in the United States, and in several of our key markets. COVID-19 and its effects will likely continue to impact market conditions and business operations across industries worldwide. Therefore, we remain cautious about how the economy might behave for the next few years and continue to monitor potential impact on our operations. The extent to which the circumstances of the aftermath of the Pandemic, including the continued existence of the many variants of COVID-19 in society, could affect our future business, operations and financial results will depend upon numerous factors that we are not able to accurately predict. As such, we are unable to accurately predict the future impacts of COVID-19 on the U.S. and global economies.

The extent of the impact of the Pandemic on our business, results of operations and financial condition, including any goodwill or additional trade name impairment or other asset impairments to our business segments as described in this Report, will depend largely on future developments, including the severity and duration of the outbreak in the U.S., whether there are additional or other meaningful increases in the number, variants or severity of COVID-19 cases in future periods, and the related impact on consumer confidence and spending and on our customers, suppliers and labor force, all of which are highly uncertain and cannot be predicted.

##### **Risks Related to Our Business Operations**

*We depend on hiring an adequate number of hourly employees to operate our business and are subject to government regulations concerning these and our other employees, including wage and hour regulations, and*

***we may be required to increase the wages we pay in order to attract, hire and retain hourly employees needed to manufacture our products and otherwise conduct our operations, and we may not be able to recover that increase in labor costs through increasing the prices we charge for our products or otherwise.***

Our workforce is comprised primarily of employees who work on an hourly basis. To grow our operations and meet the needs and expectations of our customers, we must attract, train, and retain a large number of hourly associates, while at the same time controlling labor costs. These positions have historically had high turnover rates, which can lead to increased training, retention and other costs. In certain areas where we operate, there is significant competition for employees. The lack of availability of an adequate number of hourly employees, or our inability to attract and retain them, including due to government stimulus payments or enhanced unemployment benefits enacted in response to the Pandemic, or us having to increase wages paid to new and/or to current employees to attract, hire and/or retain the labor resources necessary to conduct our operations, could adversely affect our business, results of operations, cash flows and financial condition. We are subject to applicable rules and regulations relating to our relationship with our employees, including wage and hour regulations, health benefits, unemployment and payroll taxes, overtime and working conditions and immigration status. Accordingly, federal, state or locally legislated increases in the minimum wage, such as the passage of Florida's "Amendment 2" minimum wage law in November 2020, as well as increases in additional labor cost components such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, would increase our labor costs, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

***A material portion of our business currently is geographically concentrated in Florida and that concentration increased with our acquisition of NewSouth and Eco.***

Many of our manufacturing facilities, except for our Arizona, California and Utah facilities, are located in Florida, where the substantial portion of our sales are made. We believe that focusing operations into manufacturing locations in Florida optimized manufacturing efficiencies and logistics, and we believe that a focused approach to growing our market share within our core wind-borne debris markets in Florida, from the Gulf Coast to the mid-Atlantic, and certain international markets, will maximize value and return. Our acquisitions of NewSouth and Eco increased our manufacturing and sales concentration in Florida. Our manufacturing facilities in Arizona, California and Utah and the markets served by those businesses in the Western United States may not provide adequate geographic diversification for our business, as we expect that the primary concentration of our business will continue to be in Florida, and another prolonged decline in the economy of the state of Florida or of certain coastal regions, a change in state and local building code requirements for hurricane protection, or any other adverse condition in the state or certain coastal regions, could cause a decline in the demand for our products, which could have an adverse impact on our sales and results of operations.

***We are subject to fluctuations in the prices of our raw materials which could have an adverse effect on our results of operations.***

We experience significant fluctuations in the cost of our raw materials, including glass, aluminum extrusion, vinyl extrusion, and polyvinyl butyral. During 2022, as inflationary conditions accelerated and persisted, we experienced increases in our costs of raw materials. In an attempt to offset these rising costs, we took action to increase prices and, as such, were largely successful in passing these increased costs onto our customers. However, we anticipate that these fluctuations will continue in the future. A variety of factors over which we have no control, including global demand for aluminum, fluctuations in oil prices, speculation in commodities futures, tariffs and the creation of new laminates or other products based on new technologies impact the cost of raw materials that we purchase for the manufacture of our products. These factors may also magnify the impact of economic cycles on our business. Although we endeavor from time to time to hedge the risks of fluctuations in the prices of our raw materials, or pass rising costs onto our customers by increasing the prices of our products, we cannot guarantee that we will always be able to successfully minimize our risk through such actions.



***We rely on a limited number of outside suppliers for certain key components and materials.***

We obtain a significant portion of our key raw materials, such as glass, aluminum and vinyl extrusion components, from a few key suppliers, and obtain the polyvinyl butyral interlayers used in certain of our products from a sole supplier. If any of these suppliers is unable to meet its obligations under present or any future supply agreements, or if those supply agreements are terminated, we may not be able to obtain certain raw materials on commercially reasonable terms, or at all, and may suffer a significant interruption in our ability to manufacture our products, including because it may be difficult to find substitute or alternate suppliers as the glass, interlayers and aluminum and vinyl extrusions we use are customized. A supplier may also choose, subject to existing contracts, to modify its relationship due to general economic concerns or concerns relating to the supplier or us, at any time. These modifications could include requirements from our suppliers that we provide them additional security in the form of prepayments or letters of credit.

In addition, while our business does not currently rely heavily on international suppliers or sales, significant disruptions in global economic conditions, travel or trade, including as a result of contagious disease events, such as the Pandemic, may have material adverse impacts on our supply chain. Furthermore, some of our direct and indirect suppliers have unionized work forces, and strikes, work stoppages, or slowdowns experienced by these suppliers could result in slowdowns or closures of their facilities, which may impact our ability to fulfil orders or increase our costs.

Any interruption of supply or any price increase of raw materials could have a material adverse effect on our business and results of operations. If we are required to obtain an alternate source for these materials or components, we may not be able to obtain pricing on as favorable terms or on terms comparable to our competitors. Additionally, we may be forced to pay additional transportation costs or to invest in capital projects or costly product redesigns and perform costly new product certification testing with respect to our impact-resistant products, in connection with moving to any alternate source of supply.

We could experience a delay between the increased cost to us to obtain these raw materials, and our ability to increase the price of our products. If we are unable to pass on significant cost increases to our customers, our results of operations between periods may be negatively impacted. Any significant change in the terms that we have with our key suppliers or any interruption of supply or any price increase of raw materials could materially adversely affect our financial condition and liquidity.

***Economic and credit market conditions impact our ability to collect receivables.***

Economic and credit conditions can negatively impact our bad debt expense, which can adversely impact our results of operations. Some of the markets we serve, which includes dealers whose customers are second and vacation home owners in the repair and remodeling sector, are more sensitive to changes in economic and credit conditions. If economic and credit conditions deteriorate, we may experience difficulties collecting on our accounts receivable, increasing our days sales outstanding and base debts owed to us, which could adversely impact our results of operations and business.

***The industry in which we compete is highly competitive and we have experienced increased competition in our core market of Florida.***

The window and door industry is highly competitive. We face significant competition from numerous small, regional producers, as well as certain national producers. Furthermore, the impact-resistant window and door market in our primary market of Florida has recently attracted domestic and foreign competitors. Any of these competitors may (i) foresee the course of market development more accurately than do we, (ii) develop products that are superior to our products, (iii) have the ability to produce similar products at a lower cost or compete more aggressively in pricing, or (iv) adapt more quickly to new technologies or evolving customer requirements than do we. Additionally, some of the competitors of our businesses are larger and have greater financial and

other resources and less debt than us. Accordingly, these competitors may be better able to withstand changes in conditions within the industries and markets in which we operate and may have significantly greater operating and financial flexibility than we have. Moreover, barriers to entry are low in most product lines and new competitors may enter our industry, especially if the market for impact-resistant windows and doors continues to expand. An increase in competition, including in the form of aggressive pricing by new market entrants and offerings of alternative building materials, could cause us to lose customers and lead to decreases in net sales and profitability if we are not able to respond adequately to such challenges. To the extent we lose customers in the renovation and remodeling markets, we would likely have to market more to the new home construction market, which historically has experienced more significant fluctuations in demand.

***We operate our own fleet of trucks, which we rely on to a great extent for distribution of our products. But we also rely, and expect to continue to rely on third-party transportation, which subjects us to risks and costs that we cannot control, and which risks and costs may materially adversely affect our profitability.***

Although we operate a fleet of trucks which we rely on to a great extent for the distribution of our products, we also rely, and expect to continue to rely on third party trucking companies to transport raw materials to the manufacturing facilities used by each of our businesses and to ship finished products to customers. These transport operations are subject to various hazards and risks, including extreme weather conditions, work stoppages and operating hazards, as well as interstate transportation regulations. In addition, the methods of transportation we utilize may be subject to additional, more stringent and more costly regulations in the future. If we are delayed or unable to ship finished products or unable to obtain raw materials as a result of any such new regulations or public policy changes related to transportation safety, or these transportation companies fail to operate properly, or if there were significant changes in the cost of these services due to new or additional regulations, or otherwise, we may not be able to arrange efficient alternatives and timely means to obtain raw materials or ship goods, which could result in a material adverse effect on our revenues and costs of operations. Transportation costs represent a significant part of our cost structure. If our transportation costs increased substantially, due to prolonged increases in fuel prices or otherwise, we may not be able to control them or pass the increased costs onto customers, which may materially adversely affect our profitability.

***Sales fluctuations to and changes in our relationships with key customers could have a material adverse effect on our financial condition, liquidity or results of operations.***

Some of our business lines and markets are dependent on a few key customers, including dealers. We generally do not enter into written or long-term agreements with our customers. The loss, reduction, or fluctuation of sales to one of these major customers, or any adverse change in our business relationship with any one or more of them, could have a material adverse effect on our financial condition, liquidity or results of operations.

Some of our key customers are companies that have experienced and may continue to experience consolidation in their ownership or expand through internal growth. Consolidation could decrease the number of potential customers for our products and increase our reliance on key customers. Further, any increase in the ownership concentration or size of our key customers could result in our key customers seeking more favorable terms, including pricing, for the products that they purchase from us. Accordingly, any increase in ownership concentration of our key customers or other increases in the size of our customers may further limit our ability to maintain or raise prices in the future. This could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to the credit risk of our customers, suppliers, and other counterparties.***

We are subject to the credit risk of our customers, because we provide credit to our customers in the normal course of business. All of our customers are sensitive to economic changes and to the cyclical nature of the building industry. Especially during protracted or severe economic declines and cyclical downturns in the

building industry, our customers may be unable to perform on their payment obligations, including their debts to us. Any failure by our customers to meet their obligations to us may have a material adverse effect on our business, financial condition, and results of operations. In addition, we may incur increased expenses related to collections in the future if we find it necessary to take legal action to enforce the contractual obligations of a significant number of our customers.

***We conduct all of our operations through our subsidiaries and rely on payments from our subsidiaries to meet all of our obligations.***

We are a holding company and derive all of our operating income from our subsidiaries. All of our assets are held by our subsidiaries, and we rely on the earnings and cash flows of our subsidiaries to meet our obligations. The ability of our subsidiaries to make payments to us will depend on their respective operating results and may be restricted by, among other things, the laws of their jurisdictions of organization, which may limit the amount of funds available for distributions to us, the terms of existing and future indebtedness and other agreements of our subsidiaries, including our credit facilities and indenture, and the covenants of any future outstanding indebtedness we or our subsidiaries incur.

### **Risks Related to Demand for Our Products**

***We are subject to regional and national economic conditions that may negatively impact demand for our products.***

The window and door industry is subject to many economic factors. Changes in macroeconomic conditions in our core markets including Florida, with respect to our impact-resistant products, and in the western U.S., including California, Texas, Arizona, Nevada, Colorado, Oregon, Washington and Hawaii, with respect to our WWS products designed to unify indoor and outdoor living spaces, as well as throughout the U.S. generally, could negatively impact demand for our products and macroeconomic forces, such as employment rates and the availability of credit could have an adverse effect on our sales and results of operations. In addition, the window and door industry is subject to the cyclical market pressures of the larger new construction and repair and remodeling markets. A decline in the economic environment or new home construction, as well as any other adverse changes in economic conditions, including demographic trends, employment levels, interest rates, and consumer confidence, could result in a decline in demand for, or adversely affect the pricing of, our products, which in turn could adversely affect our sales and results of operations.

***Changes in weather patterns, including as a result of global climate change, could significantly affect demand for our products, and thus, our sales and our financial results or financial condition.***

Weather patterns may affect our operating results and our ability to maintain our sales volume throughout the year. Because our customers depend on suitable weather to engage in new construction and repair and remodel projects, increased frequency or duration of extreme weather conditions could result in a decrease in the demand for our products for periods of inclement weather, and have a material adverse effect on our financial results or financial condition. For example, unseasonably cool weather or extraordinary amounts of rainfall may decrease construction activity, thereby decreasing demand for our products and our sales during that period of time. Alternatively, extreme weather, such as hurricanes, has historically increased the visibility of our brands and customers' demand for our impact-resistant products. Therefore, the lack of hurricane-related extreme weather conditions in a given year or over a period of time could result in a decrease of our sales and could have a material adverse effect on our financial results. Weather patterns are difficult to predict and may fluctuate as a result of numerous factors, including climate change, and we cannot guarantee that extreme weather conditions will or will not occur. Also, we cannot predict the effects that global climate change may have on our business. In addition to changes in weather patterns, climate change could, for example, reduce the demand for construction, and increase the cost and reduce the availability of construction materials, raw materials and energy. New laws and regulations related to global climate change may also increase our expenses or reduce our sales.



***Our operating results are substantially dependent on demand for our branded impact-resistant products, contemporary indoor/outdoor window and door systems and factory-direct, energy-efficient residential windows and doors.***

A majority of our net sales are derived from the sales of our branded impact-resistant products and on window and door systems for residential, commercial and multi-family markets. Accordingly, our future operating results will depend largely on the demand for our impact-resistant products by current and future customers, especially in the State of Florida, where the majority of our impact resistant products are made and sold. Our future operating results also will depend on demand for the contemporary indoor/outdoor window and door systems sold by our Western Window Systems business. Sales generated by our NewSouth business depend on a direct-to-consumer model and is supported by showrooms and in-home sales. Consequently, a portion of our future operating results are reliant on current and future customer demand for factory-direct, energy-efficient residential windows and doors. If our competitors release new products that are superior to our products in performance or price, or if we fail to update our impact-resistant products with any technological advances that are developed by us or our competitors or introduce new products in a timely manner, demand for our products may decline. In addition, the window and door industry can be subject to changing trends and consumer preferences. If we do not correctly gauge consumer trends for the various products and systems we offer and respond appropriately, customers may not purchase our products and our brand names may be impaired. Even if we react appropriately to changes in trends and consumer preferences, consumers may consider our brands or product designs to be outdated or associate our brands or product designs with styles that are no longer popular. Any of these outcomes could create significant excess inventories for some products and missed opportunities for other products, which would have a material adverse effect on our brands, our business, results of operations and financial condition. A decline in demand for our impact-resistant products, our contemporary indoor/outdoor window and door systems or our direct-to-consumer, energy-efficient residential windows and doors as a result of competition, technological change, changes in consumer preferences or other factors could have a material adverse effect on our ability to generate sales, which could materially negatively affect our results of operations.

***Our business is subject to seasonal industry patterns and demand for our products, and thus our revenue and profit, can vary significantly throughout the year, which may adversely impact the timing of our cash flows and limit our liquidity at certain times of the year.***

Our business is seasonal, and our net revenues and operating results vary significantly from quarter to quarter based upon the timing of the building season in our markets. Our sales typically follow seasonal new construction and the repair and remodel industry patterns. Additionally, events like preparation for hurricane season and rebuilding and repairs in the months following a hurricane in the majority of the geographies where we market and sell our products generally creates peak demand for our products and resulting sale volumes during the quarters in which those activities occur. Other quarterly sales volumes might be generally lower due to reduced repair and remodeling and new construction activity as a result of less favorable climate conditions in the majority of our geographic end markets. Failure to effectively manage our demand and production planning, inventory and overall operations in anticipation of or in response to seasonal fluctuations or changing seasonal fluctuations as a result of climate change, could negatively impact our liquidity profile during certain seasonal periods.

***Changes in building codes could reduce the demand for our impact-resistant windows and doors, which could have a material adverse effect on our financial condition, liquidity or results of operations.***

The market for our impact-resistant windows and doors depends in large part on our ability to satisfy state and local building codes that require protection from wind-borne debris. If the standards in such building codes become more stringent, we may not be able to meet their requirements, and demand for our products could decline. Conversely, if the standards in such building codes are lowered or are not enforced in certain areas because of industry lobbying or otherwise, demand for our impact-resistant products may decrease. In addition, if states and regions that are affected by hurricanes but do not currently have such building codes fail to adopt and

enforce hurricane protection building codes, our ability to expand our business in such markets may be limited. We are also subject to energy efficiency codes and performance standards in Colorado, California and other states where we operate, several of which are more stringent than those to which we have historically been subject. Any such changes in building codes or energy efficiency codes could lower the demand for our impact-resistant windows and doors, which could have a material adverse effect on our financial condition, liquidity or results of operations.

The homebuilding industry and the home repair and remodeling sector are subject to various local, state, and federal statutes, ordinances, rules, and regulations concerning zoning, building design and safety, construction, and similar matters, including regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area. Increased regulatory restrictions could limit demand for new homes and home repair and remodeling products and could negatively affect our sales and results of operations.

***We may be adversely impacted by the loss of sales or market share if we are unable to keep up with demand.***

We are currently experiencing growth through higher sales volume and growth in market share. To meet the increased demand, we have been hiring and training new employees for direct and indirect support and adding to our glass capacity. However, should we be unable to find and retain quality employees to meet demand, or should there be disruptions to the increase in capacity for the raw materials needed to produce our products, we may be unable to keep up with our higher sales demand. If our lag time on delivery falls behind, or we are unable to meet customer timing demands, we could lose market share to competitors.

#### **Risks Related to Acquisitions**

***Our recently completed acquisitions may result in, or involve activities that cause, distractions to our management team, increased expenses or unanticipated liabilities.***

As a result of our acquisitions of NewSouth, 75% ownership stake in Eco, CRi SoCal, Inc., Anlin, and Martin, we have significantly more sales, assets and employees than we did prior to the transactions, which may require our management to devote a significant amount of time, resources and attention to the new product offerings or novel challenges, and/or away from the operations of our historical windows and doors business. These potential diversions and distractions may result in, or involve activities that cause, increased expenses and unanticipated liabilities.

***After the Eco Acquisition, the Company is the majority shareholder of Eco, and our interest in Eco is subject to the risks normally associated with the conduct of businesses with a minority shareholder.***

Pursuant to the acquisition agreement pursuant to which we acquired a 75% ownership stake in Eco, principal Eco equity-holder prior to our acquisition continues to hold 25% of the outstanding equity interests of Eco. Conducting a business with a minority investor may lead to one or more of the following circumstances, which could have an adverse impact on our ability to realize a profit on our equity interest in the Eco businesses, which could have a material adverse impact on our future cash flows, earnings, results of operations and financial condition:

- our inability to control certain strategic, operational and financial decisions;
- our having economic or business interests or goals that are inconsistent with, or opposed to, those of the minority equity holder;
- the inability of the minority equity holder to meet his financial and other obligations to Eco or third parties; and

- litigation between the minority equity holder and us regarding management, funding or other decisions related to the acquisition agreement and/or the operating agreement we entered into with the minority equity holder, or the operations of Eco.

There can be no assurance that the Eco Acquisition will be beneficial to us, whether due to the above-described risks, unfavorable economic conditions, integration challenges or other factors.

***All of the Eco entities in which we acquired a controlling interest are designated as unrestricted subsidiaries under our existing senior secured credit facilities and indenture and are not subject to the restrictive covenants under such agreements.***

All of the Eco entities in which we acquired a controlling interest have been designated as unrestricted subsidiaries under our existing senior secured credit facilities and indenture. As a result, those entities are not subject to the restrictive covenants in the indenture and are able to engage in many of the activities that we and our restricted subsidiaries are prohibited or limited from undertaking under the terms of the indenture. These actions, if undertaken by Eco, could be detrimental to our ability to make payments of principal and interest under the 2021 Senior Notes due 2029.

***If we do not realize the expected benefits from our recent acquisitions, including synergies, from acquisitions, our business and results of operations will suffer.***

Acquisitions may cause an interruption of, or loss of momentum in, the activities of our other businesses. If our management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer and its liquidity, results of operations and financial condition may be materially adversely impacted. In addition, as we continue our integration activities, we may identify additional risks and uncertainties not yet known to us.

Even if we are able to successfully integrate and position the business operations of our recent acquisitions and our legacy businesses, it may not be possible to realize the full benefits of the increased sales volume and other benefits, including synergies, that we expected to result from recent acquisitions, or realize these benefits within the time frame that is expected. For example, the elimination of duplicative costs may not be possible or may take longer than anticipated, or the benefits from these recent acquisitions may be offset by costs incurred or delays in integrating the companies. In addition, even if such acquisitions are successfully integrated, we may become subject to unexpected costs, charges or liabilities arising from such businesses. Our expected cost savings, as well as any revenue or other strategic synergies, are subject to significant business, economic, regulatory and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. If we fail to realize the benefits, we anticipated from our recent acquisitions, our liquidity, results of operations or financial condition may be adversely effected.

***We may evaluate and engage in asset acquisitions, dispositions, joint ventures and other transactions that may impact our results of operations, and we may not achieve the expected results from these transactions.***

From time to time, and subject to the agreements governing our then existing debt or otherwise, we may enter into agreements to and engage in business combinations, purchases of assets or contractual arrangements or joint ventures, including in geographical areas outside the state of Florida, with which we do not have the level of familiarity that we have with the Florida market. In addition, some of those business acquisitions or combinations could involve a seller whose products may be different from the types of products we currently sell, and they could be products that are sold to different types of customers. Subject to the agreements governing our then existing debt or otherwise, some of these transactions may be financed with additional borrowings. The integration of any business we may acquire may be disruptive to us and may result in a significant diversion of management attention and operational resources. Additionally, we may suffer a loss of key employees, customers or suppliers, loss of revenues, increases in costs or other difficulties. If the expected revenue enhancement plans,



strategies, goals, efficiencies and synergies from any such transactions are not fully realized, our results of operations could be adversely affected, because of the costs associated with such transactions or otherwise. Other transactions may advance future cash flows from some of our businesses, thereby yielding increased short-term liquidity, but consequently resulting in lower cash flows from these operations over the longer term. In addition, if the goodwill, indefinite-lived intangible assets, or other intangible assets that we have acquired or may acquire in the future are determined to be impaired, we may be required to record a non-cash charge to earnings during the period in which the impairment is determined, which could be significant. The failure to realize the expected long-term benefits of any one or more of these transactions could have a material adverse effect on our financial condition or results of operations.

### **Risks Related to Our Indebtedness**

***Our substantial level of indebtedness could adversely affect our business and financial condition and prevent us from meeting our debt obligations.***

Our total gross indebtedness is \$651.4 million, including \$575.0 million aggregate principal amount of senior notes we issued on September 24, 2021, and \$76.4 million under our new \$250.0 million revolving credit facility entered into in October 2022 (the “New Revolving Credit Facility”), under which we had \$167.9 million available for borrowing at December 31, 2022.

Although our senior secured credit facilities and indenture contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial.

This high level of indebtedness could have important consequences, including:

- increasing our vulnerability to adverse economic, industry, or competitive developments;
- requiring a substantial portion of our cash flows from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flows to fund operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates to the extent of any future borrowings, including any borrowings under the senior secured credit facilities;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, including the senior secured credit facilities and the notes, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture governing the notes and the agreements governing such other indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product and service development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who, therefore, may be able to take advantage of opportunities that our leverage may prevent us from exploiting.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, and other factors beyond our control. We may not be able to maintain a level of cash

flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, including the senior secured credit facilities and the indentures governing our outstanding notes, may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

***Our debt agreements contain restrictions that limit our flexibility in operating our business.***

Our senior secured credit facilities and the indenture governing the senior notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- incur additional indebtedness or issue certain preferred equity;
- pay dividends on, repurchase, or make distributions in respect of our common stock, prepay, redeem, or repurchase certain debt or make other restricted payments;
- make certain investments including potential acquisitions;
- create certain liens;
- enter into agreements restricting our subsidiaries' ability to pay dividends to us;
- consolidate, merge, sell, or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

In addition, the restrictive covenants in our senior secured credit facilities require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests will depend on our ongoing financial and operating performance, which, in turn, will be subject to economic conditions and to financial, market, and competitive factors, many of which are beyond our control.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of the senior secured credit facilities, permit the lenders to cease making loans to us. Upon the occurrence of an event of default under the senior secured credit facilities, the lenders could elect to declare all amounts outstanding under senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. Such action by the lenders could cause cross defaults under the indenture governing the notes. For a description of our senior secured credit facilities, see Footnote 9 to our audited consolidated financial statements included herein.

If our operating performance declines, we may be required to seek to obtain waivers from the lenders under the senior secured credit facilities or from the holders of other obligations, to avoid defaults thereunder. If we are not able to obtain such waivers, the lenders could exercise their rights upon default, and we could be forced into bankruptcy or liquidation.

Furthermore, if we were unable to repay the amounts due and payable under our senior secured credit facilities, the lenders under our senior secured credit facilities could proceed against the collateral granted to them to secure our borrowings thereunder. We have pledged substantially all of our assets as collateral under our

senior secured credit facilities. If the lenders under senior secured credit facilities accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay our senior secured credit facilities and our other indebtedness, including the notes, or will have the ability to borrow sufficient funds to refinance such indebtedness. Even if we were able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to us.

***Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.***

Our borrowings under the existing senior secured credit facilities are at variable rates of interest and expose us to interest rate risk. For example, the Federal Reserve has increased its benchmark interest rate multiple times in 2022 in a bid to reduce rising inflation rates in the United States, and it is expected that additional rate hikes may be adopted in the future. As interest rates increase, our debt service obligations on the variable rate indebtedness increase even though the amount borrowed remained the same, and our net income decreases. The applicable margin with respect to the loans under the senior secured credit facilities is a percentage per annum equal to a reference rate plus the applicable margin.

From time to time in order to manage our exposure to interest rate risk, we may enter into derivative financial instruments, such as interest rate swaps and caps, involving the exchange of floating for fixed rate and fixed for floating rate interest payments. If we are unable to enter into interest rate swaps when necessary, it may adversely affect our cash flow and may impact our ability to make required principal and interest payments on our indebtedness.

***A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.***

Our debt currently has a non-investment grade rating, and there can be no assurance that any rating assigned by the rating agencies to our debt or our corporate rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital, which could have a materially adverse impact on our financial condition and results of operations.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, including the senior secured credit facilities and the indenture governing the notes, may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

## **Risks Related to Information Systems and Intellectual Property**

***We may be adversely affected by any disruption in our information technology systems or by unauthorized intrusions or “hacking” into those systems and theft of confidential and sensitive information from them, or other cybersecurity-related incidents.***

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. A disruption in our information technology systems for any prolonged period could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. Various third parties, including computer hackers, who are continually becoming more aggressive and sophisticated, may attempt to penetrate our network security and, if successful, misappropriate confidential and sensitive customer, employee and/or supplier information. Such attempts may include malware, ransomware, denial-of-service attacks, social engineering, unauthorized access, human error, theft or misconduct. For example, as previously disclosed on November 5, 2022, we detected a ransomware infection that impacted portions of our network and caused disruption to daily business operations. In addition, one of our employees, contractors or other third parties with whom we do business may attempt to circumvent our security measures in order to obtain such information, or inadvertently cause a breach involving such information. While we have implemented systems and processes to protect against unauthorized access to or use of secured data and to prevent data loss and theft, there is no guarantee that these procedures are adequate to safeguard against all data security breaches or misuse of the data. Security breaches could also harm our reputation with our customers and retail partners, potentially leading to decreased revenues, and with federal and state government agencies and bodies.

The regulatory environment related to cybersecurity, data collection and use, and privacy is increasingly rigorous, with new and frequently changing requirements, and compliance with those requirements could result in additional costs. Our business and results of operations may be directly and adversely affected by future legislative, regulatory, or judicial actions. A significant compromise of confidential and sensitive employee, customer or supplier information in our possession could result in legal damages and regulatory fines and penalties. The costs associated with cybersecurity, such as increased investment in technology, the costs of compliance with privacy laws, and costs incurred to prevent or remediate information security breaches and defend against any related actions, could be substantial and adversely impact our business.

***Operation on multiple Enterprise Resource Planning (“ERP”) information systems, and the conversion from multiple systems to a single system, may negatively impact our operations.***

We are highly dependent on our ERP information systems infrastructure in order to process orders, track inventory, ship products in a timely manner, prepare invoices to our customers, maintain regulatory compliance and otherwise carry on our business in the ordinary course. We currently operate on eight different ERP information systems. Since we must process and reconcile our information from multiple systems, the chance of errors is increased, and we may incur significant additional costs related thereto. Inconsistencies in the information from multiple ERP systems could adversely impact our ability to manage our business efficiently and may result in heightened risk to our ability to maintain our books and records and comply with regulatory requirements. Any of the foregoing could result in a material increase in information technology compliance or other related costs and could materially negatively impact our operations. In the future, we may transition all or a portion of our systems to one ERP system. The transition to a different ERP system involves numerous risks, including:

- diversion of management’s attention away from normal daily business operations;
- loss of, or delays in accessing data;
- increased demand on our operations support personnel;
- initial dependence on unfamiliar systems while training personnel to use new systems; and
- increased operating expenses resulting from training, conversion and transition support activities.



Any of the foregoing could result in a material increase in information technology compliance or other related costs and could materially negatively impact our operations.

***Other parties may infringe on our intellectual property rights or may allege that we have infringed on theirs.***

Competitors or other third parties may infringe on or otherwise make unauthorized use of our intellectual property rights, including product designs, manufacturing practices, registered intellectual property and other rights. We rely on a variety of measures to protect our intellectual property and proprietary information. However, these measures may not prevent misappropriation, infringement or other violations of our intellectual property or proprietary information and a resulting loss of competitive advantage. If we determine that such infringement or violation has occurred, legal action to enforce our rights may require us to spend significant amounts in legal costs, even if we ultimately prevail.

Conversely, given the nature of our business and product designs, competitors or other third parties may allege that we, or consultants or other third parties retained or indemnified by us, have infringed, misappropriated, or otherwise violated their intellectual property rights. Even though we believe such claims and allegations of intellectual property infringement or violations would be without merit, defending against such claims would be time consuming and expensive and could result in the diversion of time and attention of our management and employees. Given the rapidly changing and highly competitive business environment in which we operate, and the increasingly complex designs of our products and other companies' similar products, the outcome of any contemplated intellectual property-related litigation would be difficult to predict and could cause us to lose significant revenue, to be prohibited from using the relevant designs, systems, processes, technologies or other intellectual property, to cease offering certain products or services or to incur significant license, royalty or technology development expenses.

### **Risks Related to Warranty, Legal and Regulatory Matters**

***The nature of our business exposes us to product liability, warranty and other claims.***

We are, from time to time, involved in product liability, product warranty and other claims relating to the products we manufacture and distribute that, if adversely determined, could adversely affect our financial condition, results of operations, and cash flows. In addition, we may be exposed to potential claims arising from the conduct of homebuilders and home remodelers and their sub-contractors. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, we may not be able to maintain such insurance on acceptable terms or such insurance may not provide adequate protection against potential liabilities. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature could also have a negative impact on customer confidence in our products and our company.

***We are subject to potential exposure to environmental liabilities and are subject to environmental regulation.***

We are subject to various federal, state, and local environmental laws, ordinances, and regulations. Although we believe that our facilities are in material compliance with such laws, ordinances, and regulations, as owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances, without regard to whether we knew of or were responsible for such contamination. Remediation may be required in the future as a result of spills or releases of petroleum products or hazardous substances, the discovery of unknown environmental conditions, or more stringent standards regarding existing residual contamination. More burdensome environmental regulatory requirements may increase our general and administrative costs and may increase the risk that we may incur fines or penalties or be held liable for violations of such regulatory requirements.

***From time to time we are subject to legal and regulatory proceedings which seek material damages from us. These proceedings may be negatively perceived by the public and materially and adversely affect our business.***

We are subject to legal and regulatory proceedings from time to time which may result in material damages. Although we do not presently believe that any of our current legal or regulatory proceedings will ultimately have a material adverse impact on our financial performance or operations, we cannot assure you that we will not incur material damages or penalties in a lawsuit or other proceeding in the future and/or significant defense costs related to such lawsuits or regulatory proceedings. For example, many of our products are installed in large, multi-unit condominiums or apartments or similar developments, and we may face legal claims for breach of warranties or other claims alleging product defects on a large-scale in connection with such projects. Also, we operate a fleet of delivery trucks and, in addition to the significant compliance-related costs associated with operating such a fleet, we may incur significant adverse judgments, damages and penalties related to accidents that those trucks may be involved in from time to time. Significant adverse judgments, penalties, settlement amounts, amounts needed to post a bond pending an appeal or defense costs could materially and adversely affect our liquidity and capital resources. It is also possible that, as a result of a present or future governmental or other proceeding or settlement, significant restrictions will be placed upon, or significant changes made to, our business practices, operations or methods, including pricing or similar terms. Any such restrictions or changes may adversely affect our profitability or increase our compliance costs.

***Our Bylaws contain an exclusive forum provision that may discourage lawsuits against us and our directors and officers.***

Our Amended and Restated Bylaws (our “Bylaws”) provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation’s stockholders, (iii) an action asserting a claim arising pursuant to any provision of the DGCL or the Corporation’s Certificate of Incorporation or these By-laws (as either may be amended from time to time), or (iv) any action asserting a claim governed by the internal affairs doctrine. Our exclusive forum provision is not intended to apply to any actions brought under the Securities Act of 1933 (the “Securities Act”), as amended, or the Securities Exchange Act of 1934 (the “Exchange Act”). Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Accordingly, the exclusive forum provision in our Bylaws will not relieve us of our duties to comply with the federal securities laws and the rules and regulations thereunder, and our stockholders will not be deemed to have waived our compliance with these laws, rules and regulations.

This forum selection provision may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us. It is also possible that, notwithstanding the forum selection clause included in our certificate of incorporation, a court could rule that such a provision is inapplicable or unenforceable.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

We had the following properties as of December 31, 2022:

	<u>Manufacturing</u>	<u>Support</u>	<u>Storage</u>	<u>Storefront</u>
	(in square feet)			
<b>Owned:</b>				
Main plant and corporate office, N. Venice, FL	348,000	15,000	—	—
Glass tempering and laminating, N. Venice, FL	107,000	5,000	—	—
ILAB research and testing, N. Venice, FL	—	22,000	—	—
Assembly processing facility, N. Venice, FL	96,000	—	—	—
Manufacturing and storage (Triple D) facility, N. Venice, FL	102,000	—	15,000	—
Support facility, N. Venice, FL	—	7,000	—	—
Insulated glass building, N. Venice, FL	42,000	—	—	—
PGT Wellness Center, N. Venice, FL	—	3,600	—	—
<b>Leased:</b>				
Support facility (Endeavor Court), Nokomis, FL	—	12,000	—	—
Storage facility (Eco storage), Medley, FL	—	—	182,000	—
Storage facility (Technology Park), Nokomis, FL	—	—	10,500	—
Storage facility (Commerce Drive), Nokomis, FL	—	—	6,400	—
Storage facility (Riverview warehouse), Riverview, FL	—	—	75,300	—
Storage facility (Eagle Falls Place), Tampa, FL	—	—	4,600	—
Storage facility (Metro Parkway), Ft. Myers, FL	—	—	3,800	—
Storage facility (42nd St), Palm City, FL	—	—	2,300	—
Storage facility (Silver Star), Orlando, FL	—	—	3,200	—
Storage facility, Boynton Beach, FL	—	—	100	—
Storage facility, Denver, CO	—	—	17,500	—
Distribution centers (Eco), Medley, FL	—	112,000	—	—
Plant and administrative offices, Medley, FL (Eco)	350,000	—	—	—
Plant and administrative offices, Ft. Myers, FL	130,000	—	—	—
Plant and administrative offices, Irvine, CA (CRi)	28,000	1,400	—	—
Plant and administrative offices, Clovis, CA (Anlin)	92,000	11,400	—	—
Plant and administrative offices, Hialeah, FL (CGI)	305,000	20,000	—	—
Plant and administrative offices, Phoenix, AZ (WWS)	239,000	10,000	—	—
Plant and administrative offices, Tampa, FL (NewSouth)	230,000	9,000	—	—
Plant and administrative offices, Salt Lake City, UT (Martin)	195,000	10,000	—	—
SEBU showrooms located in FL, SC, GA and TX (NewSouth)	—	—	—	185,100
WEBU showrooms located in CA (WWS)	—	—	—	19,200
Total square feet	<u>2,264,000</u>	<u>238,400</u>	<u>320,700</u>	<u>204,300</u>

In addition to the above owned and leased properties, we also own three parcels of undeveloped land in North Venice, Florida, available for future construction needs we may have.

Our major property leases above expire between May 2023 and June 2035. Many of our property leases require us to pay taxes, insurance and common area maintenance expenses associated with the properties.

All of our owned properties secure borrowings under our credit agreement (dated February 16, 2016, as amended by the first amendment thereto, dated as of February 17, 2017, the second amendment thereto, dated as of March 16, 2018, the third amendment thereto, dated October 31, 2019, the fourth amendment thereto dated October 25, 2021, and the fifth amendment dated October 12, 2022, as otherwise amended, restated, modified or supplemented, the “2016 Credit Agreement due 2027”). We believe these operating facilities are adequate in capacity and condition to service existing customer needs.

**Item 3.   *LEGAL PROCEEDINGS***

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of claims and lawsuits. We do not expect that the ultimate resolution of these matters will have a material adverse impact on our financial position, cash flows or results of operations.

**Item 4.   *MINE SAFETY DISCLOSURES***

None



## PART II

### **Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Common Stock trades on the New York Stock Exchange under its symbol of "PGTI". On February 24, 2023, the closing price of our Common Stock was \$20.56 as reported on the New York Stock Exchange. The number of stockholders of record of our Common Stock on that date was approximately 3,200, although we believe that the number of beneficial owners of our Common Stock is substantially greater.

#### **Dividends**

We do not pay a regular dividend. Any determination relating to dividend policy will be made at the discretion of our Board of Directors. The terms of the agreements governing our outstanding borrowings restrict our ability to pay dividends.

#### **Securities Authorized for Issuance under Equity Compensation Plans**

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information," which information is incorporated herein by reference.

#### **Unregistered Sales of Equity Securities**

None.

#### **Issuer Purchases of Equity Securities**

On May 22, 2019, our Board of Directors authorized and approved a share repurchase program of up to \$30.0 million. The repurchases may be made in open-market or private transactions from time to time. Repurchases of shares may be made under a Rule 10b5-1 plan, which would permit repurchases when the Company might otherwise be precluded from doing so under applicable laws. The Company bases repurchase decisions, including the timing of repurchases, on factors such as the Company's stock price, general economic and market conditions, the potential impact on the Company's capital structure, the expected return on competing uses of capital such as strategic acquisitions and capital investments, and other corporate considerations, as determined by management. During the third quarter of 2019, we made repurchases of 393,819 shares of our common stock at a total cost of \$5.5 million under this program. We made no repurchases under this program during 2020 or 2021. During the fourth quarter of 2022, we made repurchases of 86,124 shares of our common stock at a total cost of \$1.6 million under this program. The repurchase program may be suspended or discontinued at any time.

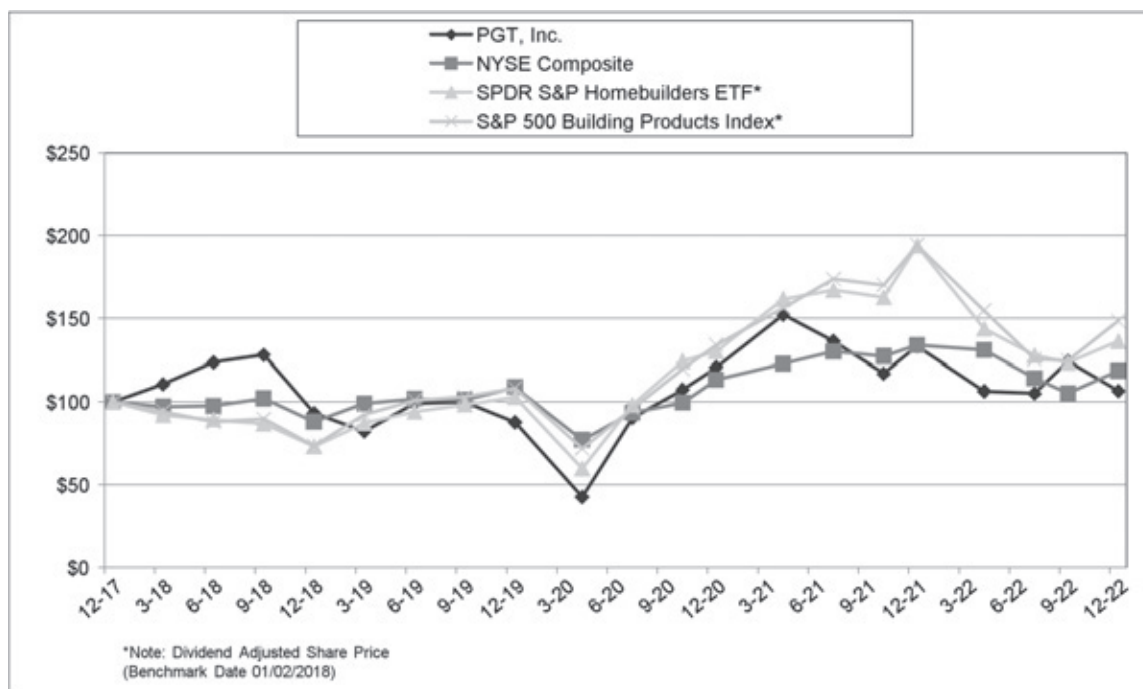
The following table presents information regarding the total number of shares repurchased, average price paid per share, the number of shares repurchased under the program, and maximum approximate dollar value of shares that may yet be purchased under the plan, by fiscal month for the three-month period ended December 31, 2022:

Period	Beginning and Ending Dates	Purchases of Equity Securities			
		(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs at End of Period (in millions)
October 2022	October 2 to October 29	—	—	—	\$24.46
November 2022	October 30 to November 26	—	—	—	\$24.46
December 2022	November 27 to December 31	86,124	\$18.1746	86,124	\$22.89
		<u>86,124</u>	<u>\$18.1746</u>	<u>86,124</u>	

### Performance Graph

The following graphs compare the percentage change in PGT Innovations, Inc.'s cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of the NYSE Composite Index, the SPDR S&P Homebuilders ETF, and the Standard & Poor's Building Products Index over the period from January 2, 2018 (the first trading day of our 2018 fiscal year), to December 30, 2022 (the last trading day of our 2022 fiscal year).

**COMPARISON OF 60 MONTH CUMULATIVE TOTAL RETURN  
AMONG PGT INNOVATIONS, INC., THE NYSE COMPOSITE INDEX, THE SPDR S&P  
HOMEBUILDERS ETF AND THE S&P 500 BUILDING PRODUCTS INDEX**



\* Graph shows returns generated as if \$100 were invested on January 2, 2018 (the first trading day of our 2018 fiscal year) for 60 months ended December 30, 2022 (the last trading day of our 2022 fiscal year), in

PGTI stock or in the SPDR S&P Homebuilders ETF Fund, which is an exchange-traded fund that seeks to replicate the performance of the S&P Homebuilders Select Industry Index, or in the S&P 500 Building Products index, which is a fund that seeks to replicate the performance of the building products manufacturers who are included in the Standard and Poors 500 index.

**Item 6. [RESERVED]**

**Item 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our Consolidated Financial Statements and related Notes included in Item 8. Management's Discussion and Analysis comparing the results for the year ended January 1, 2022, to the results for the year ended January 2, 2021 can be found in Item 7 of our Annual Report on Form 10-K/A (Amendment No. 1) for the year ended January 1, 2022, filed with the SEC on June 10, 2022, which is hereby incorporated by reference. In the comparisons which follow, the years ended December 31, 2022 and January 1, 2022 each consisted of 52 weeks.

Our MD&A is presented in the following sections:

- Executive Overview;
- Results of Operations;
- Liquidity and Capital Resources;
- Subsequent Event;
- Critical Accounting Estimates;
- Recently Issued Accounting Standards; and
- Forward Outlook

**EXECUTIVE OVERVIEW**

**Sales and Operations**

During 2022, we grew at both our Southeast and Western segments, as the momentum of growth we experienced last year continued in 2022. Additionally, we continued to make strategic marketing investments which have paid dividends through customer awareness during the 2022 repair and remodeling season. Our total net sales for 2022 were \$1,492.0 million, increased 28.5% compared to \$1,161.5 million in 2021, and included solid organic sales growth. Sales growth at our Southeast segment was entirely organic, while sales growth at our Western segment was both organic and from acquisitions.

Our Southeast segment's net sales were \$1,110.4 million in 2022, compared to \$968.7 million in 2021, an increase of \$141.7 million, or 14.6%. We believe this growth is primarily due to the realization of pricing actions taken to offset cost inflation and improvements in operations resulting increased capacity. Also, our NewSouth brand continued to perform well, and benefitted from organic growth in our main market of Florida, but also the expansion of our direct-to-consumer footprint in markets outside of Florida as we are in various stages of adding new retail locations to our existing list of stores.

Although Hurricane Ian negatively impacted our 2022 third quarter, and our 2022 fourth quarter by shifting sales into the 2023 fiscal year, one of the biggest events that occurred recently was the passage of Florida House Bill 7071, signed into law in May 2022. This bill provides two-year tax relief to Florida residences who choose to

“harden” their homes against the damaging effects of storms by investing in impact-resistant windows, doors, and other product categories. We’re excited about this great benefit for Florida homeowners which we believe will provide them with the incentive needed to improve the safety and value of their homes, and that their materials of choice will include impact-resistant windows and doors from our portfolio of Florida impact-resistant brands. We believe our Florida operations are benefitting from this home-hardening legislation, the main highlight of which includes a sales tax exemption for Floridians that harden their homes against natural disasters using impact-resistant products like those sold by us, which is available through June 2024.

Our Western segment’s net sales were \$381.6 million in 2022, compared to \$192.8 million in 2021, an increase of \$188.8 million, or 98.0%. While sales for 2022 of our Western segment includes acquisition growth from Anlin, CRi, and Martin, our existing business saw strong organic growth compared to last year. We believe the strength in our Western segment is due to our production builder business as this sector has performed well for several quarters, as we believe that demand for conversion to indoor/outdoor living continues to be strong. We believe we are also benefitting from our capacity expansion in the Phoenix, Arizona area and our new San Diego showroom in Southern California. We believe the organic growth we had in 2022 reflects the strength of our portfolio of brands across our entire geographic footprint.

Our gross profit increased to \$570.7 million in 2022, producing a gross margin of 38.2%, compared to \$403.5 million in 2021, which produced a gross margin of 34.7%, an improvement in gross margin of 350 basis points from 2021 to 2022. We were able to produce this operational improvement, despite headwinds of inflationary pressure being felt on material and labor costs. We also benefitted from price increases implemented earlier in the year to offset such inflationary headwinds. During 2022, we continued to focus on improving our manufacturing processes in order to reduce lead-times to meet the continued growing demand. Prior to Hurricane Ian, during the third quarter of 2022, we were able to reduce our average lead times by 40% to 50% in our primary brands compared to the third quarter of 2021. Recent investments in our team to help achieve higher talent levels have also helped generate improved operational efficiencies across our entire portfolio of brands. We believe the combination of improved operational performance we achieved prior to Hurricane Ian, reduced lead times and previously implemented price increases benefitted our gross margin in 2022.

Our backlog, which we define as customer orders that we have accepted but not yet shipped, has decreased significantly, to \$228.8 million as of December 31, 2022, from \$355.9 million as of January 2, 2021. The majority of this decrease in backlog resulted from an increase in the Company’s overall production capacity, with corresponding lower lead times, despite the disruption caused by hurricane Ian, as the level of order entries during 2022, compared to 2021 remained relatively flat.

## **Liquidity and Cash Flow**

During 2022, we generated \$196.4 million in cash flow from operations, an increase of \$132.7 million, or 208.3% compared to \$63.7 million in 2021. The significant increase in cash generated from operations in 2022 we believe is the result of the cash flow leverage provided by increased profitability in 2022 compared to 2021. As a result of this leverage, after drawing down \$160.0 million under the New Revolving Credit Facility on October 12, 2022, the proceeds from which were used to fund the cash portion of the Martin Acquisition of \$98.4 million, and \$61.6 million to paydown term loan borrowings under the then existing 2016 Credit Agreement due 2024 of \$60.0 million, plus \$1.6 million of accrued interest and fees, during the post-acquisition period from October 14, 2022 to the end of 2022, we were able to repay borrowings under the New Revolving Credit Facility totaling \$83.6 million.

We ended the 2022 fiscal year with \$66.5 million in cash, We have no scheduled debt repayment obligations until the maturity of our 2016 Credit Agreement due 2027, and had \$167.9 million in availability under the revolving credit facility under our 2016 Credit Agreement due 2027, which does not expire until October 2027. Additionally, during the early part of 2023 to the date of this report, we were able to make additional repayment of borrowings under the New Revolving Credit Facility totaling \$12.4 million, resulting in borrowings outstanding under the New Revolving Credit Facility of \$64.0 million as of the date of this report.



Cash generated from operations was generally used to fund operations and investing cash flows, which was primarily composed of capital expenditures in 2022 and, as discussed above, fund the Martin Acquisition and repay borrowings under the New Revolving Credit Facility. During 2022, our capital spending increased to \$45.4 million, compared to \$33.4 million in 2021, an increase of \$12.0 million in cash used.

## RESULTS OF OPERATIONS

### Analysis of Selected Items from our Consolidated Statements of Operations

	Year Ended		Percent Change 2022-2021
	December 31, 2022	January 1, 2022	
<i>(in thousands, except per share amounts)</i>			
Net sales	\$1,491,954	\$1,161,464	28.5%
Cost of sales	921,285	757,965	21.5%
Gross profit	570,669	403,499	41.4%
Gross margin	38.2%	34.7%	
SG&A expenses	402,886	303,043	32.9%
SG&A expenses as a percentage of net sales	27.0%	26.1%	
Impairment of trade name	7,423	—	
Income from operations	160,360	100,456	
Interest expense, net	28,879	30,029	(3.8)%
Debt extinguishment costs	410	25,472	
Income tax expense	32,666	9,759	234.7%
Net income	98,405	35,196	179.6%
Less: Net income attributable to redeemable non-controlling interest	(1,523)	(2,318)	
Net income attributable to the Company	<u>\$ 96,882</u>	<u>\$ 32,878</u>	194.7%
Calculation of net income per common share attributable to common shareholders:			
Net income attributable to the Company	\$ 96,882	\$ 32,878	
Change in redemption value of redeemable non-controlling interest	2,000	(6,081)	
Net income attributable to common shareholders	<u>\$ 98,882</u>	<u>\$ 26,797</u>	
Net income per common share attributable to common shareholders:			
Basic	<u>\$ 1.65</u>	<u>\$ 0.45</u>	
Diluted	<u>\$ 1.64</u>	<u>\$ 0.45</u>	
Weighted average number of common shares outstanding:			
Basic	<u>59,926</u>	<u>59,518</u>	
Diluted	<u>60,319</u>	<u>60,058</u>	

### **Full Year 2022 Compared with Full Year 2021**

#### **Net sales**

Net sales for 2022 were \$1,492.0 million, a \$330.5 million, or 28.5%, increase in sales, from \$1,161.5 million in the prior year.

The following table shows net sales by segment (in millions, except percentages):

	Year Ended				
	December 31, 2022		January 1, 2022		% change
	Sales	% of sales	Sales	% of sales	
Product category:					
Southeast segment	\$ 1,110.4	74.4%	\$ 968.7	83.4%	14.6%
Western segment	381.6	25.6%	192.8	16.6%	98.0%
Total net sales	\$ 1,492.0	100.0%	\$ 1,161.5	100.0%	28.5%

During 2022, we experienced solid growth at both our Southeast and Western segments, as the momentum of growth we experienced in 2021, continued in 2022. Additionally, we continue to make strategic marketing investments which are paying dividends through customer awareness during the repair and remodeling season. Of our total net sales for 2022 of \$1,492.0 million, which increased 28.5% compared to \$1,161.5 million in 2021, growth was both organic and from acquisitions. Net sales of our Southeast segment were \$1,110.4 million in 2022, compared with \$968.7 million in 2021, an increase of \$141.7 million, or 14.6%. This growth included strong organic growth, but we believe was adversely impacted by Hurricane Ian in late-September 2022. Hurricane Ian was a large and destructive Category 4 Atlantic hurricane that made landfall on the southwest Florida coastline at Cayo Costa on September 28, 2022, disrupting our ability to manufacture and distribute our products.

Net sales of our Western segment were \$381.6 million in 2022, compared with \$192.8 million in 2021, an increase of \$188.8 million, or 98.0%. While sales for 2022 of our Western segment includes acquisition growth, our existing business saw strong organic growth as well. We believe the strength in our Western segment is due to our production builder business as this sector has performed well for several quarters, as we believe that demand for conversion to indoor/outdoor living continues to be strong. We believe we are also benefitting from our capacity expansion in the Phoenix, Arizona area and our new San Diego showroom in Southern California.

### ***Gross profit and gross margin***

Gross profit was \$570.7 million in 2022, an increase of \$167.2 million, or 41.4%, from \$403.5 million in the prior year. Gross margin was 38.2% in 2022, compared to 34.7% in the prior year, a percentage-point increase of 3.5%. The increases in gross profit and gross margin include the effects of price increase actions we took to offset the impacts of labor and material cost headwinds we have experienced for several quarters. Also, during 2022, we maintained a high degree of focus on our supply chain to minimize disruptions, which helped us maintain a high level of operational efficiency which lead to reduced delivery lead-times. We also continued to invest in our labor talent which helped generate operational efficiencies across all our businesses in response to increasing demand and believe these actions will continue to benefit our gross margin as we try to offset the impacts of rising costs for materials and labor, and will continue to grow our company with high-quality talent.

### ***Selling, general and administrative expenses***

SG&A expenses for 2022 were \$402.9 million, an increase of \$99.8 million, or 32.9%, from \$303.0 million in 2021. As a percentage of net sales, SG&A was 27.0% in 2022, compared to 26.1% in 2021. The increase in SG&A is partially due to the inclusion of SG&A from our acquisitions in 2021 for the full year of 2022. However, the year-over-year increase in SG&A was also driven by increasing distribution and variable overhead costs due to the increase in sales, increased fuel costs, inflationary conditions, as well as costs related to disruptions and recovery efforts caused by Hurricane Ian.

### ***Impairment of trade name***

There was an impairment of our WinDoor trade name of \$7.4 million in 2022. Because of a recent decrease in sales of our WinDoor brand and given the narrow excess of fair value over carrying value of our WinDoor trade name in our prior quantitative test of the WinDoor trade name as a result of these events. The WinDoor impairment assessment was conducted as of the first day of our fourth quarter of 2022.

### ***Income from operations***

Income from operations was \$160.4 million in 2022, an increase of \$59.9 million, or 59.6%, from \$100.5 million in 2021. Income from operations in 2022 includes \$112.6 million from our Southeast segment and \$55.2 million from our Western segment, compared to \$74.8 million and \$25.6 million from our Southeast and Western segments, respectively, in 2021, all after allocation of corporate operating costs in both periods. Income from operations in 2022 was also impacted by an impairment charge of \$7.4 million in 2022. The increase in income from operations was related to the benefit from higher sales in 2022 compared to last year, as well as the benefits of the continued efficiency improvements at both our Southeast and Western segments, more than offsetting the rising costs due to inflationary conditions.

### ***Interest expense***

Interest expense was \$28.9 million in 2022, a decrease of \$1.1 million from \$30.0 million in 2021. The redemption of the \$425.0 million of higher rate 6.75% 2018 Senior Notes due 2026, with the \$575.0 million of lower rate 4.375% 2021 Senior Notes due 2029 in 2021 primarily resulted in a lower level of interest expense in 2022 compared to 2021.

### ***Debt extinguishment costs***

Debt extinguishment costs totaled \$0.4 in 2022, compared to \$25.5 million in 2021. In 2022, we repaid our term loan borrowings under the 2016 Credit Agreement, resulting in a write-off of its remaining deferred financing costs. In 2021, on September 24, 2021, we completed the issuance of \$575.0 million aggregate principal amount of 4.375% 2021 Senior Notes due 2029, issued at 100% of their principal amount. Redemption in-full of the \$425.0 million of 2018 Senior Notes due 2026 included a pre-payment call premium of 105.063% of face value, which totaled \$21.5 million and is classified as debt extinguishment costs in the accompanying consolidated statement of operations for the year ended January 1, 2022. The remainder of debt extinguishment costs of \$4.0 million is composed of \$9.4 million of unamortized third-party deferred costs and lender fees relating to the 2021 Senior Notes due 2026, including the First and Second Add-On Notes, offset by \$5.4 million of unamortized premiums we received from the First and Second Add-On Notes.

### ***Income tax expense***

Income tax expense was \$32.7 million for 2022, representing an effective tax rate of 24.9%. This compares to income tax expense of \$9.8 million for 2021, representing an effective tax rate of 21.7%. Our income tax expense for 2022 includes \$1.2 million relating to our 75% share of the pre-tax earnings of Eco, compared to \$1.7 million in 2021.

Income tax expense in both 2022 and 2021 includes components of income tax benefit relating to excess tax benefits from the lapses of restrictions on stock awards and from research and development tax credits true-up adjustments. Income tax expense in 2022 also includes a refund from the state of Florida, relating to excess taxes received by the state in 2021. The components of income tax benefitting income tax expense totaled \$1.1 million in 2022, and totaled \$1.3 million in 2021. Excluding discrete components of income tax, the effective tax rates for the years ended December 31, 2022, and January 1, 2022, would have been income tax expense rates of 25.8% and 24.6%, respectively. The increase primarily relates to the increase in Florida's state income tax rate in 2022, to 5.5%, from 3.535% in 2021.

### *Net income attributable to redeemable non-controlling interest*

Net income attributable to redeemable non-controlling interest for 2022 was \$1.5 million, compared to \$2.3 million for 2021, and represents the share of the net income of Eco for the periods, attributable to the 25% interest of Eco not acquired by the Company in February 2021.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our principal source of liquidity is cash flow generated by operations, supplemented by borrowing capacity under our New Revolving Credit Facility, if ever needed. We believe our cash generating capability will continue to provide us with financial flexibility in meeting operating and investing needs. Our primary capital requirements are to fund working capital needs, and to meet required debt payments, including debt service payments on borrowings and fund capital expenditures.

### *Consolidated Cash Flows*

The following table summarizes our cash flow results for 2022 and 2021:

<i>(in millions)</i>	<b>Components of Cash Flows</b>	
	<b>December 31, 2022</b>	<b>January 1, 2022</b>
Cash provided by operating activities	\$ 196.4	\$ 63.7
Cash used in investing activities	(233.9)	(253.9)
Cash provided by financing activities	7.9	186.1
Decrease in cash and cash equivalents	<u>\$ (29.6)</u>	<u>\$ (4.1)</u>

*Operating activities.* Cash provided by operating activities was \$196.4 million for 2022, compared to \$63.7 million for 2021.

The increase in cash flows from operations of \$132.7 million in 2022 compared to 2021 was primarily due to the changes in operating cash flows, including an increase of \$416.3 million in collections from customers in 2022 compared to 2021, as the result of increased sales, which was partially offset by an increase in payments to suppliers of \$210.4 million as the result of higher procurement of inventory, an increase in personnel related disbursements of \$71.4 million due to a larger number of employees during 2022, compared to 2021, and an increase in debt service costs of \$4.7 million in 2022, compared to 2021, primarily as a result of the issuance of the 2021 Senior Notes due 2029, and the higher level of notes outstanding thereunder as compared to the recently pre-paid 2018 Senior Notes due 2026. Also, net tax payments increased \$9.3 million in 2022, compared to 2021. Other collections of cash and other cash activity, net, increased by \$2.8 million. Other collections of cash primarily relate to sales of scrap aluminum.

Direct cash flows from operations for 2022 and 2021 are presented below:

<i>(in millions)</i>	<b>Direct Operating Cash Flows</b>	
	<b>December 31, 2022</b>	<b>January 1, 2022</b>
Collections from customers	\$1,536.9	\$1,120.6
Other collections of cash	15.1	12.3
Disbursements to suppliers	(931.1)	(720.7)
Personnel related disbursements	(375.2)	(303.8)
Debt service costs	(27.9)	(32.6)
Income tax payments, net	(21.5)	(12.2)
Other cash activity, net	0.1	0.1
Cash from operations	<u>\$ 196.4</u>	<u>\$ 63.7</u>



Inventory as of December 31, 2022, was \$112.7 million, an increase of \$21.2 million from January 1, 2022. The increase in inventory on had primarily relates to the Martin Acquisition.

Our inventory consists principally of raw materials purchased for the manufacture of our products and limited finished goods inventory as the majority of our products are custom, made-to-order products. Our inventory levels are more closely aligned with our number of product offerings rather than our level of sales. We have maintained our inventory level to have (i) raw materials required to support new product launches; (ii) a sufficient level of safety stock on certain items to ensure an adequate supply of material in the event of a sudden increase in demand and given our short lead-times; and (iii) adequate lead times for raw materials purchased from overseas suppliers in bulk supply. Inventory turns for the year ended December 31, 2022, was 9.0 times, on par with 10.0 times for the year ended January 1, 2022.

Management monitors and evaluates raw material inventory levels based on the need for each discrete item to fulfill short-term requirements calculated from current order patterns and to provide appropriate safety stock. Because the majority of our products are made-to-order, we have only a small amount of finished goods and work in progress inventory. Due to these factors, we believe our inventories are not excessive, and we expect the value of such inventories will be realized.

*Investing activities.* Cash used in investing activities was \$233.9 million in 2022, compared to \$253.9 million in 2021 a decrease in cash used of \$20.0 million. We used \$188.6 million of cash to acquire a business in 2022, compared with cash used for acquisitions in 2021 of \$220.7 million, a decrease in cash used for acquisitions of \$32.1 million. Also, in 2022, we used cash of \$45.4 million for capital expenditures, compared to \$33.4 million in 2021, an increase of \$12.0 million in cash used. Finally, in 2022, we received proceeds of \$37 thousand from the sales of property, plant and equipment, compared to \$187 thousand in 2021, a decrease of \$150 thousand in cash proceeds received from sales of property, plant and equipment.

*Financing activities.* Cash provided by financing activities was \$7.9 million in 2022, compared with cash provided of \$186.1 million in 2021, a decrease in cash provided of \$178.1 million. On October 13, 2022, the Company entered into an amendment of the 2016 Credit Agreement (the "Fifth Amendment"). The Fifth Amendment provides for, among other things, a new five-year revolving credit facility in an aggregate principal amount of \$250.0 million (the "New Revolving Credit Facility"). Contemporaneously with the Fifth Amendment, the Company drew down \$160.0 million of funds available under the New Revolving Credit Facility. Proceeds totaling \$61.6 million from the \$160.0 million drawdown were used to repay then existing term loan borrowings under the 2016 Credit Agreement totaling \$60.0 million, plus accrued interest and fees totaling \$1.6 million. The Company made repayments of borrowings under the New Revolving Credit Facility totaling \$83.6 million through December 31, 2022. We paid financing costs totaling \$1.5 million in 2022, including financing costs relating to bank fees relating to the New Revolving Credit Facility.

In 2022, we made payments of contingent consideration relating to our acquisition of Anlin totaling \$2.7 million, representing the first payment we were required to make under the Anlin purchase agreement based on their 2021 EBITDA, as defined in the agreement. Because these payments were not required to be made within a reasonably short period of time after the effective date of the acquisition, we classified the portion of these payments representing the fair value of the first payment, which was \$2.4 million, as a financing activity, with the difference classified within operating activities.

As further discussed below under Share Repurchase Program, during the fourth quarter of 2022, we made repurchases of 86,124 shares of our common stock at a total cost of \$1.6 million under this program. We made a distribution to the non-controlling interest relating to ECO of \$1.7 million in 2022.

In 2021, we issued \$575.0 million in 4.375% 2021 Senior Notes due 2029, as well as the \$60.0 million of Second Additional Senior Notes, including a premium of \$3.3 million with the Second Additional Notes, which provided proceeds from issuances of senior notes in 2021 totaling \$638.3 million. Proceeds from the 2021 Senior

Notes due 2029 were used, in part, to redeem in full the \$425.0 million of 2018 Senior Notes due 2026, plus a pre-payment call premium of 105.063% of face value, which totaled \$21.5 million, classified as debt extinguishment costs in the accompanying consolidated statement of operations for 2021. We also prepaid the outstanding term loan borrowings under the then existing 2016 Credit Agreement due 2024 of \$54.0 million, and subsequently reborrowed \$60.0 million in proceeds under the then existing 2016 Credit Agreement due 2024 used in the Anlin Acquisition. Proceeds of \$63.3 million from the issuance of the \$60.0 million in Second Additional Senior Notes, including a premium of \$3.3 million, were used to partially fund our acquisition of Eco.

We paid financing costs totaling \$10.7 million in 2021, including financing costs relating to bank fees and professional services costs relating to the offering and issuance of the 2021 Senior Notes due 2026 totaling \$8.7 million, which included a 1.25% lender spread on the total principal value of the 2021 Senior Notes due 2029, or \$7.2 million, and \$1.5 million of other costs. We also paid \$0.6 million in financing costs relating to the Fourth Amendment of the then existing 2016 Credit Agreement due 2024. We also paid \$1.4 million in 2021 related to the issuance of the Second Additional Senior Notes.

Taxes paid relating to common stock withheld from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards were \$1.9 million in 2022, versus \$1.6 million in 2021. Proceeds from the exercises of stock options for 2021 was \$0.1 million. There were proceeds from stock issued under our 2019 Employee Stock Purchase Plan of \$0.6 million during 2022, compared to \$0.5 million during 2021.

*2019 Share Repurchase Program.* On May 22, 2019, our Board of Directors authorized and approved a share repurchase program of up to \$30 million. The repurchases may be made in open-market or private transactions from time to time. Repurchases of shares may be made under a Rule 10b5-1 plan, which would permit repurchases when the Company might otherwise be precluded from doing so under applicable laws. The Company bases repurchase decisions, including the timing of repurchases, on factors such as the Company's stock price, general economic and market conditions, the potential impact on the Company's capital structure, the expected return on competing uses of capital such as strategic acquisitions and capital investments, and other corporate considerations, as determined by management. From the inception of the program on May 22, 2019, through December 28, 2019, we made repurchases of 393,819 shares of our common stock at a total cost of \$5.5 million. We made no repurchases under this program during 2020 or 2021. During the fourth quarter of 2022, we made repurchases of 86,124 shares of our common stock at a total cost of \$1.6 million under this program. The repurchase program may be suspended or discontinued at any time. We may make opportunistic purchases in the future.

*Capital Expenditures.* Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. In 2022, we spent \$45.4 million on capital expenditures, compared to \$33.4 million in 2021, an increase of \$12.0 million, primarily representing equipment purchases and facility improvements expected to support growth.

Management expects to spend between \$48 million and \$52 million for capital expenditures in 2023. Our capital expenditure program is geared towards making investments in capital assets targeted at increasing both gross sales and margins, but also includes capital expenditures for maintenance capital.

### ***Capital Resources and Debt Covenants***

#### 2021 Senior Notes due 2029

On September 24, 2021, we completed the issuance of \$575.0 million aggregate principal amount of 4.375% senior notes ("2021 Senior Notes due 2029"), issued at 100% of their principal amount. The 2021 Senior Notes due 2029 are jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of the Company's existing and future restricted subsidiaries, other than any restricted subsidiary of the Company

that does not guarantee the existing senior secured credit facilities or any permitted refinancing thereof. The 2021 Senior Notes due 2029 are senior unsecured obligations of the Company and the guarantors, respectively, and rank pari passu in right of payment with all existing and future senior debt and senior to all existing and future subordinated debt of the Company and the guarantors. The 2021 Senior Notes due 2029 were offered under Rule 144A of the Securities Act, and in transactions outside the United States under Regulation S of the Securities Act, and have not been, and will not be, registered under the Securities Act.

The 2021 Senior Notes due 2029 mature on October 1, 2029. Interest on the 2021 Senior Notes due 2029 is payable semi-annually, in arrears, beginning on April 1, 2022, with interest accruing at a rate of 4.375% per annum from September 24, 2021. We incurred financing costs relating to bank fees and professional services costs relating to the offering and issuance of the 2021 Senior Notes due 2029 totaling \$8.7 million, which included a 1.25% lender spread on the total principal value of the 2021 Senior Notes due 2029, or \$7.2 million, and \$1.5 million of other costs, all of which are being amortized under the effective interest method.

As of December 31, 2022, the face value of debt outstanding under the 2021 Senior Notes due 2029 was \$575.0 million, and accrued interest totaled \$6.4 million. Proceeds from the 2021 Senior Notes due 2029 were used, in part, to redeem in full the \$425.0 million of 2018 Senior Notes due 2026, including the related fees, costs and prepayment call premium of \$21.5 million, representing 5.063% of the \$425.0 million face value then outstanding, prepay the outstanding term loan borrowings under the then existing 2016 Credit Agreement due 2024 of \$54.0 million and the related fees and costs, and finance the Anlin Acquisition in the fourth quarter of 2021. See Note 5, Acquisitions, for a discussion of the Anlin Acquisition.

The indenture for the 2021 Senior Notes due 2029 gives us the option to redeem some or all of the 2021 Senior Notes due 2029 at the redemption prices and on the terms specified in the indenture governing the 2021 Senior Notes due 2029. The indenture governing the 2021 Senior Notes due 2029 does not require us to make any mandatory redemptions or sinking fund payments. However, upon the occurrence of a change of control, as defined in the indenture, the Company is required to offer to repurchase the notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. We also may make optional redemptions at various premiums including a make-whole call at the then current treasury rate plus 50 basis points prior to October 1, 2024, then 102.188% on or after August 1, 2024, 101.094% on or after August 2025, then at 100.000% on or after August 1, 2026.

The indenture for the 2021 Senior Notes due 2029 includes certain covenants limiting the ability of the Company and any guarantors to, (i) incur additional indebtedness; (ii) pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments; (iii) enter into agreements that restrict distributions from restricted subsidiaries; (iv) sell or otherwise dispose of assets; (v) enter into transactions with affiliates; (vi) create or incur liens; merge, consolidate or sell all or substantially all of the Company's assets; (vii) place restrictions on the ability of subsidiaries to pay dividends or make other payments to the Company; and (viii) designate the Company's subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications

#### 2016 Credit Agreement due 2027

On February 16, 2016, we entered into the 2016 Credit Agreement. From 2016 to 2022, we entered into various amendments to the 2016 Credit Agreement, including the amendment in October 2022, as described below.

On October 13, 2022, the Company entered into an amendment of the 2016 Credit Agreement (the "Fifth Amendment"). The Fifth Amendment provides for, among other things, a new five-year revolving credit facility in an aggregate principal amount of \$250.0 million (the "New Revolving Credit Facility"). The New Revolving Credit Facility refinances and replaces the previously existing \$80.0 million revolving credit facility under the 2016 Credit Agreement. The Company's obligations under the 2016 Credit Agreement continue to be secured by

substantially all of its direct and indirect subsidiaries' assets, and is senior in position to the 2021 Senior Notes due 2029.

Contemporaneously with the Fifth Amendment, the Company drew down \$160.0 million of funds available under the New Revolving Credit Facility. Proceeds totaling \$61.6 million from the \$160.0 million drawdown were used to repay then existing term loan borrowings under the 2016 Credit Agreement totaling \$60.0 million, plus accrued interest and fees totaling \$1.6 million. As discussed below, the remaining \$98.4 million of proceeds were used to fund the cash portion of the Martin Acquisition. The Company made repayments of borrowings under the New Revolving Credit Facility totaling \$83.6 million through December 31, 2022.

Interest on borrowings under the New Revolving Credit Facility is payable either quarterly or at the expiration of any Secured Overnight Financing Rate ("SOFR") interest period applicable thereto. Borrowings under the New Revolving Credit Facility accrue interest at a rate equal to, at our option, a base rate (with a floor of 100 basis points) plus a percentage spread (ranging from 0.75% to 1.75%) based on our first lien net leverage ratio or SOFR (with a floor of 0 basis points) plus a percentage spread (ranging from 1.75% to 2.75%) based on our first lien net leverage ratio. After giving effect to the Fifth Amendment, we will pay quarterly commitment fee on the unused portion of the New Revolving Credit Facility equal to a percentage spread (ranging from 0.25% to 0.35%) based on our first lien net leverage ratio. The Fifth Amendment also modifies the application of the financial covenant under the 2016 Credit Agreement such that testing will occur on a quarterly basis, commencing with the fiscal quarter ending December 31, 2022.

As of December 31, 2022, borrowings outstanding under the \$250.0 million New Revolving Credit Facility totaled \$76.4 million, and accrued interest was \$235 thousand. There were \$5.7 million in letters of credit outstanding. Availability under the New Revolving Credit Facility at December 31, 2022 totaled \$167.9 million. The weighted average all-in interest rate for borrowings under the existing revolving credit facility of the 2016 Credit Agreement due 2027 was 6.07% as of December 31, 2022, and for borrowings under the term loan facility of the then existing 2016 Credit Agreement due 2024 was 2.10% at January 1, 2022.

The Martin Acquisition was financed in part with the \$250.0 million available under the New Revolving Credit Facility provided by the Fifth Amendment of our 2016 Credit Agreement, under which we drew \$160.0 million on October 14, 2022, the proceeds of which were used to pay \$98.4 million of the \$187.8 million total fair value of consideration transferred, and \$61.6 million to prepay our \$60.0 million existing term loans under the Fourth Amendment of our 2016 Credit Agreement, plus \$1.6 million in fees, costs and accrued interest. The remainder of the total fair value of consideration transferred totaling \$89.4 million was funded with cash on hand previously generated through operations. We also paid buyer fees and costs relating to the Martin Acquisition totaling \$4.8 million in the year ended December 31, 2022, classified as selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended December 31, 2022.

#### Deferred Financing Costs

All debt-related fees, costs and original issue discount, including those related to the revolving credit portion of the facility, is classified as a reduction of the carrying value of long-term debt. The activity relating to third-party fees and costs, lender fees and discount for the year ended December 31, 2022, are as follows:

<i>(in thousands)</i>	<b>Total</b>
At beginning of year	\$ 9,345
Less: Write-off of deferred costs classified as debt extinguishment costs	(410)
Add: Deferred financing costs from the refinancing of the 2016 Credit Agreement	1,526
Less: Amortization expense	(1,242)
Other	(1)
At end of year	<u>\$ 9,218</u>



Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated, as of December 31, 2022, is as follows:

<i>(in thousands)</i>	<u><b>Total</b></u>
2023	\$1,320
2024	1,366
2025	1,442
2026	1,466
2027	1,440
Thereafter	<u>2,184</u>
Total	<u><u>\$9,218</u></u>

The contractual future maturities of long-term debt outstanding, as of December 31, 2022, are as follows (at face value):

<i>(in thousands)</i>	<u><b>Total</b></u>
2023	\$ —
2024	—
2025	—
2026	—
2027	76,352
Thereafter	<u>575,000</u>
Total	<u><u>\$ 651,352</u></u>

## Long-Term Debt

Long-term debt consists of the following:

	<u>December 31,</u> <u>2022</u>	<u>January 1,</u> <u>2022</u>
	<i>(in thousands)</i>	
<b>2021 Senior Notes Due 2029</b> —Senior notes issued on September 24, 2021, due October 1, 2029. Interest payable semi-annually, in arrears, beginning on April 1, 2022, accruing at a rate of 4.375% per annum beginning September 24, 2021. (1)	\$575,000	\$575,000
<b>2016 Credit Agreement Due 2027</b> —Revolving credit facility with no contractually scheduled amortization payments. Outstanding balance, if any, due on October 12, 2027. Interest payable at SOFR or the Base prime rate plus an applicable margin, due at the end of each SOFR term or Base loan term. At December 31, 2022, the average rate was 6.07%, including a SOFR rate of 4.32% and a margin of 1.75%. (2)	76,352	—
<b>2016 Credit Agreement Due 2024</b> —Term loan payable with no contractually scheduled amortization payments. Original lump-sum payment of \$60.0 million due on October 31, 2024. Interest payable quarterly at LIBOR or the Base prime rate plus an applicable margin. At January 1, 2022, the average rate was 2.10%. (3)	—	60,000
Long-term debt	651,352	635,000
Fees, costs, and discount (4)	(9,218)	(9,345)
Long-term debt, net, less current portion	<u>\$642,134</u>	<u>\$625,655</u>

- (1) Effective on September 24, 2021, the Company completed the issuance of \$575.0 million aggregate principal amount of 4.375% senior notes due October 1, 2029, issued at 100% of their principal amount. The proceeds from issuance of the new senior notes were used to finance the repayment of the then outstanding aggregate principal amount of \$425.0 million of 6.75% senior notes 2026, which required payment of a 5.063% call-premium totaling \$21.5 million, lender fees of 1.25% of the face value of the 2021 Senior Notes due 2029 totaling \$7.2 million, accrued interest on the then outstanding senior notes and term loan totaling \$4.5 million, and various costs of the senior note offering and the Anlin acquisition. The remainder of the proceeds of the new senior notes held as cash on hand, together with \$60.0 million of new borrowings under our then existing 2016 Credit Agreement due 2024, were subsequently used on October 25, 2021 for the Anlin Acquisition totaling \$114.2 million at closing. Any remaining unused proceeds from issuance of the \$575.0 million of senior notes were held as operating cash on hand.
- (2) On October 13, 2022, the Company entered into the Fifth Amendment. The Fifth Amendment provides for, among other things, the New Revolving Credit Facility, which is a five-year revolving credit facility in an aggregate principal amount of \$250.0 million. The New Revolving Credit Facility refinances and replaces the previously existing \$80.0 million revolving credit facility under the 2016 Credit Agreement. The Company's obligations under the 2016 Credit Agreement continue to be secured by substantially all of its and its direct and indirect subsidiaries' assets, and is senior in position to the 2021 Senior Notes due 2029. Contemporaneously with the Fifth Amendment, the Company drew down \$160.0 million of funds available under the New Revolving Credit Facility. Proceeds totaling \$61.6 million from the \$160.0 million drawdown were used to repay then existing term loan borrowings under the 2016 Credit Agreement totaling

\$60.0 million, plus accrued interest and fees totaling \$1.6 million. As discussed below, the remaining \$98.4 million of proceeds were used to fund the Martin Acquisition. The Company made repayments of borrowings under the New Revolving Credit Facility totaling \$83.6 million through December 31, 2022. Subsequent to December 31, 2022, the Company has paid an additional \$12.4 million of borrowings under the New Revolving Credit Facility, resulting in an outstanding balance as of the date of this report of \$64.0 million.

- (3) Effective on October 25, 2021, the Company entered into the fourth amendment of the then existing 2016 Credit Agreement due 2024. We borrowed a \$60.0 million incremental term loan in connection with this amendment, the proceeds from which were used in combination with proceeds remaining under the 2021 Senior Notes due 2029 for the Anlin Acquisition. See note (1) above for further discussion.
- (4) Fees, costs, and discount represents third-party fees, lender fees, other debt-related costs, and original issue premium and discount, recorded as a net reduction of the carrying value of the debt and are amortized over the lives of the debt instruments to which they relate under the effective interest method.

## **SUBSEQUENT EVENT**

*2023 Share Repurchase Program.* On February 7, 2023, the Company announced that its Board of Directors approved a new, share repurchase program which authorizes the Company to purchase up to \$250.0 million of its common stock. This program permits the Company to purchase shares of its common stock from time to time through open-market purchases, in privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, in accordance with applicable securities laws and other restrictions. The timing and total amount of stock repurchases will depend upon business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The share repurchase program will have a term of 3 years, through February 3, 2026, and may be suspended or discontinued at any time, and does not obligate the company to acquire any amount of common stock.

## **CRITICAL ACCOUNTING ESTIMATES**

In preparing our consolidated financial statements, we follow U.S. generally accepted accounting principles. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations.

On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such difference could be material. Our significant accounting policies are discussed in Item 8, Note 2. The following is a summary of our more significant accounting estimates that require the use of judgment in preparing the financial statements.

### ***Valuation of Trade Names and Customer Relationships in Business Combinations***

The assets and liabilities of acquired businesses are recorded under the acquisition method of accounting at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Intangible assets acquired in business combinations consist of trade names, developed technology, customer relationships, and other intangible assets. The fair value of the trade name intangible assets are determined utilizing the relief from royalty method (“RFRM”) which is a form of the income approach. Under the RFRM, a royalty rate based on observed market royalties is applied to projected revenue supporting the trade name and discounted to present value using an appropriate discount rate. The fair values of customer relationships are determined using the multi-period excess earnings method (“MPEEM”), which is also a form of the income approach. Under the MPEEM, the expected net cash flow an asset will generate, is discounted to present value using an appropriate discount rate.

We applied the RFRM to the valuation of trade names and MPEEM to customer relationships for acquisitions done during 2022, for which the most significant intangible assets identified were the Martin trade name and customer relationship. Specific to these intangible assets, our estimates of projected revenue included forecast revenue growth rates, estimated existing customer retention rates, operating expense estimates and other estimates regarding contributory asset charges that required judgment by management. Actual results can differ from our estimates, requiring adjustments to our assumptions. The estimated fair value of identifiable intangible assets acquired in connection with the Martin Acquisition was \$91.9 million, which included its trade name with an estimated fair value of \$24.0 million and total customer relationships of \$52.7 million.

### ***Indefinite-Lived Intangible Assets***

We disclosed the Company's accounting policy for Goodwill and Trade Names under Item 8, Note 2 – Summary of Significant Accounting Policies. We perform our annual goodwill and indefinite-lived intangible asset impairment testing on the first day of our fiscal fourth quarter of each year, and at interim periods if needed based on occurrence of triggering events.

Given the narrow excess of fair value over carrying value of our WinDoor trade name from the last time we performed a quantitative assessment of our WinDoor trade name, and recent decrease in sales of our WinDoor brand, we determined such conditions represented triggering events and that we should complete a quantitative impairment test of our WinDoor trade name. The WinDoor impairment test was conducted as of the first day of the fourth quarter of 2022. Based on our impairment test, which included our assumptions regarding future revenue, which we consider to be a Level 3 input, using the relief-from-royalty method, we concluded that the fair value of our WinDoor trade name was less than its carrying value, which resulted in an impairment of our WinDoor trade name of \$7.4 million in our fourth quarter of 2022. As of December 31, 2022, and January 1, 2022, the carrying value of our WinDoor tradename were \$11.0 million and \$18.4 million, respectively.

For our other indefinite-lived trade names, we completed qualitative assessments of these assets on the first day of our fourth quarter of 2022. These qualitative assessments included an evaluation of relevant events and circumstances that existed at the date of our assessment. Those events and circumstances included conditions specific to our other indefinite-lived trade names, such as the industry in which we use these other indefinite-lived trade names, our competitive environment, the availability and costs of raw materials and labor, the financial performance of our Company, and factors related to the markets in which our Company operates. We also considered that, for our other indefinite-lived trade names, no new impairment indicators were identified since the dates of our prior assessments, which were qualitative assessments all other indefinite-lived intangibles other than goodwill. Based on these assessments, we concluded that it is more likely than not that the fair values of our other indefinite-lived trade names exceed their carrying values. As of December 31, 2022, and January 1, 2022, excluding the WinDoor trade name, the carrying values of other indefinite-lived trade names was \$214.0 million and \$193.7 million, respectively.

## **RECENTLY ISSUED ACCOUNTING STANDARDS**

### ***Disclosure of Supplier Finance Program Obligations***

In September 2022, the FASB issued ASU 2022-04, "Supplier Finance Programs: Disclosure of Supplier Finance Program Obligations," to improve the disclosures of supplier finance programs. Specifically, the ASU requires disclosure of key terms of the supplier finance programs and a rollforward of the related obligations. The amendments in this ASU do not affect the recognition, measurement, or financial statement presentation of obligations covered by supplier finance programs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2022, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company does not engage in supplier finance programs and, therefore, does not expect to add any incremental disclosures required by ASU 2022-04.



## FORWARD OUTLOOK

### *Net sales*

Looking ahead into 2023, we believe there will be challenging macroeconomic factors that impact our business in all of our major markets. We have seen robust demand in our core geographies over the past two years that required maximum manufacturing capacity to satisfy. In 2023, having addressed our manufacturing constraints by adding manufacturing capacity in 2022, we believe that 2023 results will be more a function of demand than capacity constrictions. As such, we see possible declines in demand in both the repair and remodel and new construction channels. Our backlog of orders was \$228.8 million at December 31, 2022, decreasing from \$355.9 million at January 1, 2022. Because of increases in manufacturing capacity and operating efficiency achieved in 2022, we believe we are now in a fully demand-driven operating environment, with lead times between four and ten weeks for a majority of our products. In 2023, we expect to continue to invest in sales initiatives in our major markets, which we believe will result in increasing our market share. We also expect to expand our geographic footprint in our major markets through new product introductions, and brand cross-selling opportunities.

### *Gross profit and gross margin*

We believe the following factors, which are not all inclusive, may impact our gross profit and gross margin in 2023:

- Our gross margin percentages are influenced by total sales due to operating leverage of fixed costs. We believe that macroeconomic headwinds expected in 2023 could negatively impact our operating leverage as we expect these headwinds will impact demand in both our repair and remodel and new construction channels.
- During 2022, our gross profit and gross margin percentage were negatively impacted by inflationary pressure on our manufacturing inputs, including materials and labor. We took actions in 2022 to attempt to offset these factors, including increasing prices in 2022, which we believe successfully passed a substantial portion of the increased cost of inputs to our customers. Depending on the extent to which costs increase in 2023, we may take further pricing actions to offset them. However, we were also successful in improving our operating efficiencies in 2022, and will continue to focus on further improvements to operating efficiencies, primarily relating to direct labor, but the inflationary headwinds of 2022 are expected to continue to exist in 2023.
- Inflationary conditions impacted aluminum and Midwest Transaction Premium (“MTP”) delivery prices in 2022. Aluminum is one of our most significant raw materials. During April 2022, the price of aluminum, including the MTP delivery component, hit all-time high combined spot prices of nearly \$2.00 per pound. By the end of 2022, the combined spot prices of aluminum had decreased to approximately \$1.30 per pound. Early in 2023, we have seen an uptick in prices. However, we believe that aluminum pricing during 2023 will be slightly lower than during 2022, which may provide us with a slight cost tailwind in an otherwise highly inflationary environment expected during 2023. While we engage in a program of hedging our purchases of aluminum, as well as its delivery component known as the Midwest Transaction Premium, using cash flow derivative products to help us stabilize the cost of aluminum and MTP in our manufacturing process, by the end of 2022, we had no aluminum hedge coverage and insignificant MTP coverage, meaning our prices for aluminum and MTP costs will follow the changes in aluminum prices as set by the LME, as well as the MTP delivery component as set by the Platts MW US Transaction price per pound assessment.
- Our gross profit and gross margin are also influenced by labor costs. During 2022, we continued to invest in increasing our headcount to address manufacturing constraints which had caused our backlog of orders to increase significantly by the end of 2021. However, having added manufacturing capacity and reduced our backlog of orders to more normalized levels, our headcount additions have decreased. As such, we expect to focus on direct labor efficiencies during 2023. However, we expect there to

continue to be a strong jobs environment throughout the United States in 2023 which may continue to result in a limited labor pool. As such, we expect that in order to continue to attract adequate labor in a tight labor pool, we will experience increased labor costs due to this continuing to be an employee's job market.

### ***Selling, general and administrative expenses (SG&A)***

This expense category will be affected by the inclusion of the SG&A of Martin for the full year of 2023, including non-cash amortization based on the level of amortizable intangible assets we have acquired. We expect to leverage fixed SG&A in 2023, compared to 2022, and to continue to look for areas within SG&A to drive efficiencies. However, we expect to continue to invest in strategic marketing initiatives and advertising, especially at our NewSouth direct-to-consumer business which relies heavily on outreach to consumers. However, we plan on cost reductions in 2023 relating to a reduction in salaried headcount and cost control programs focusing on spending reductions across all major SG&A categories through reduced discretionary spending. As such, only those strategic programs which we believe will provide a favorable return on investment will be funded. We have also seen the effects of inflationary pressure on our distribution costs as fuel prices rose during 2022, which increased the cost of operating our fleet. While fuel prices have fluctuated recently, on average they have stabilized. However, if fuel prices increase significantly during 2023, this could negatively impact our SG&A spending.

### ***Depreciation and Amortization***

Including the impact on depreciation and amortization from our Martin Acquisition, depreciation and amortization is estimated to be approximately \$63 million in 2023.

### ***Interest expense***

During 2022, we refinanced our \$425.0 million of 6.75% 2018 Senior Notes due 2026 with our \$575.0 million of 4.375% 2021 Senior Notes due 2029. This increased our level of borrowings, which enabled us to acquire Anlin, while the reduction in senior note interest rate is providing some debt service savings. In October 2022, we refinanced our 2016 Credit Agreement in the Fifth Amendment, which resulted in the paydown of our then existing term loan borrowings of \$60.0 million, but provided the New Revolving Credit Facility of \$250.0 million, of which we drew down \$160.0 million, the additional proceeds from which were used to acquire Martin. Since drawing down \$160.0 million under the New Revolving Credit Facility, we have repaid a total of \$96.0 million in borrowings under the New Revolving Credit Facility as of the date of this report. Borrowings under the New Revolving Credit Facility is our only floating-rate debt. As such, our exposure of our debt to this increasing interest rate environment has been reduced due to our post-acquisition de-leveraging focus. As such, we believe interest expense on our long-term debt will be approximately \$30 million in 2023, including an estimated \$1 million of non-cash amortization of net deferred financing costs.

### ***Income tax expense***

We expect to continue to be profitable in 2023, and thus, we believe that we will incur income tax expense at a combined Federal and state effective rate of between approximately 25% to 26%. This rate is based on the corporate income tax rate of 21%, plus a blended statutory state rate, assuming the income tax rate in Florida remains at 5.5% through 2023.

### ***Liquidity and capital resources***

We had \$66.5 million of cash on hand as of December 31, 2022. During 2023, we expect to continue to generate sufficient cash from operations to service the interest requirements on our debt, cover our operating expenses, and spend between \$48 million and \$52 million for capital expenditures in 2023. As a result of the

Fifth Amendment, we have no further mandatory required payments remaining until the maturity in October 2027 of our 2016 Credit Agreement due 2027 but may continue to make voluntary prepayments in the future as our cash generation and other relevant factors permit. However, no assurances can be given that cash from operations will be sufficient for some or all these purposes. We currently have \$167.9 million of availability under the New Revolving Facility of the 2016 Credit Agreement due 2027.

**Item 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We utilize derivative financial instruments to hedge price movements in aluminum materials used in our manufacturing process and to hedge the delivery component of our aluminum needs, known as the Midwest Transaction Premium (“MTP”). However, as of December 31, 2022, we had no aluminum forward contracts, and one contract for MTP. Accordingly, as of the date of this report, we are substantially not hedged for any portions of our aluminum or delivery needs, and our price for aluminum and MTP costs will follow the changes in aluminum prices as set by the LME, as well as the MTP delivery component as set by the Platts MW US Transaction price per pound assessment.

We experience changes in interest expense when market interest rates change. Changes in our debt could also increase these risks. Based on debt outstanding with a variable rate as of the date of filing of this Annual Report on Form 10-K of \$76.4 million, a 100 basis-point increase in interest rate would result in approximately \$0.8 million of additional interest costs annually.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of PGT Innovations, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of PGT Innovations, Inc. (the Company) as of December 31, 2022, and January 1, 2022, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the two fiscal years in the period ended December 31, 2022, and the related notes and the financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and January 1, 2022, and the results of its operations and its cash flows for each of the two fiscal years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 27, 2023 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



## Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Valuation of Intangible Assets Acquired in the Martin Door Combination*

*Description of the Matter* On October 14, 2022, the Company completed its acquisition of Martin Door Holdings, Inc. (“Martin”) for fair value consideration of \$187.8 million as disclosed in Note 5 to the consolidated financial statements. The transaction was accounted for as a business combination and the assets acquired and liabilities assumed have been recorded at fair value.

Auditing the Company’s accounting for its acquisition of Martin was complex and judgmental due to the significant estimation required by management to determine the preliminary fair value of the acquisition’s identified intangible assets of \$91.9 million, which consisted primarily of the Martin trade name and customer relationships of \$24.0 million and \$52.7 million, respectively. The Company used the income approaches of the relief-from-royalty method and Multiperiod Excess Earnings Method (MPEEM) to measure the trade name and customer relationship intangible assets, respectively. The significant estimation was primarily due to the judgment involved and the sensitivity of the respective fair values to certain underlying assumptions used to calculate the preliminary fair values for the trade name and customer relationship intangibles, specifically the forecasted revenue growth rates in each model. This significant assumption is forward looking and could be affected by future operating, economic and market conditions.

*How We Addressed the Matter in Our Audit* We obtained an understanding, evaluated the design, and tested the Company’s controls over its accounting for the acquisition. Our tests included controls over the estimation process supporting the recognition and measurement of the identified intangible assets, including controls over management’s evaluation of the methodology and underlying assumptions used in determining the preliminary fair value.

To test the estimated fair value of the trade names and customer relationships, we performed, with the assistance of our valuation specialists, audit procedures that included, among others, evaluating the Company’s selection of the valuation methodologies and significant assumption identified above used by the Company in the valuation of the intangibles including evaluating the completeness and accuracy of the underlying data supporting the significant assumption. For example, we performed analyses to evaluate the sensitivity of changes in this assumption to the fair value of the trade name and customer relationship assets and compared this significant assumption to current industry, market and economic trends and to the historical results of the acquired businesses.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2020.

Tampa, Florida  
February 27, 2023

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
PGT Innovations, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows and the related notes (collectively, the consolidated financial statements) of PGT Innovations, Inc. and subsidiaries (the Company) for the fiscal year ended January 2, 2021. In our opinion, the consolidated financial statements present fairly, in all material respects, the results of its operations and its cash flows for the fiscal year ended January 2, 2021, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2014 to 2020.

Tampa, Florida  
March 2, 2021

**PGT INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(in thousands, except per share amounts)*

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
Net sales	\$1,491,954	\$1,161,464	\$882,621
Cost of sales	921,285	757,965	561,297
Gross profit	570,669	403,499	321,324
Selling, general and administrative expenses	402,886	303,043	224,386
Impairment of trade name	7,423	—	8,000
Restructuring costs and charges	—	—	4,227
Income from operations	160,360	100,456	84,711
Interest expense, net	28,879	30,029	27,719
Debt extinguishment costs	410	25,472	—
Income before income taxes	131,071	44,955	56,992
Income tax expense	32,666	9,759	11,884
Net income	98,405	35,196	45,108
Less: Net income attributable to redeemable non-controlling interest	(1,523)	(2,318)	—
Net income attributable to the Company	<u>\$ 96,882</u>	<u>\$ 32,878</u>	<u>\$ 45,108</u>
Calculation of net income per common share attributable to common shareholders:			
Net income attributable to the Company	\$ 96,882	\$ 32,878	\$ 45,108
Change in redemption value of redeemable non-controlling interest	2,000	(6,081)	—
Net income attributable to common shareholders	<u>\$ 98,882</u>	<u>\$ 26,797</u>	<u>\$ 45,108</u>
Net income per common share attributable to common shareholders:			
Basic	<u>\$ 1.65</u>	<u>\$ 0.45</u>	<u>\$ 0.77</u>
Diluted	<u>\$ 1.64</u>	<u>\$ 0.45</u>	<u>\$ 0.76</u>
Weighted average number of common shares outstanding:			
Basic	<u>59,926</u>	<u>59,518</u>	<u>58,887</u>
Diluted	<u>60,319</u>	<u>60,058</u>	<u>59,360</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PGT INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(in thousands)*

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
Net income	\$98,405	\$ 35,196	\$45,108
<b>Other comprehensive income (loss) before tax:</b>			
Increase (decrease) in fair value of derivatives	(7,690)	24,455	1,569
Reclassification to earnings	(1,438)	(18,638)	2,359
Other comprehensive income (loss) before tax	(9,128)	5,817	3,928
Income tax expense (benefit) related to other comprehensive income (loss)	(2,345)	1,531	970
Other comprehensive income (loss), net of tax	(6,783)	4,286	2,958
Comprehensive income	91,622	39,482	48,066
Less: Comprehensive income attributable to redeemable non-controlling interest	(1,523)	(2,318)	—
Comprehensive income attributable to the Company	<u>\$90,099</u>	<u>\$ 37,164</u>	<u>\$48,066</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PGT INNOVATIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except per share amounts)*

	<u>December 31,</u> <u>2022</u>	<u>January 1,</u> <u>2022</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 66,548	\$ 96,146
Accounts receivable, net	160,107	141,221
Inventories	112,672	91,440
Contract assets, net	47,919	55,239
Prepaid expenses	11,763	8,727
Other current assets	16,532	28,985
Total current assets	<u>415,541</u>	<u>421,758</u>
Property, plant and equipment, net	208,354	185,266
Operating lease right-of-use asset, net	104,121	91,162
Intangible assets, net	447,052	394,525
Goodwill	460,415	364,598
Other assets, net	4,766	3,301
Total assets	<u><u>\$1,640,249</u></u>	<u><u>\$1,460,610</u></u>
<b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST, AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 43,727	\$ 40,021
Accrued liabilities	125,234	82,660
Current portion of operating lease liability	16,393	13,180
Total current liabilities	<u>185,354</u>	<u>135,861</u>
Long-term debt	642,134	625,655
Operating lease liability, less current portion	95,159	83,903
Deferred income taxes	47,407	37,489
Other liabilities	7,459	11,742
Total liabilities	<u>977,513</u>	<u>894,650</u>
Commitments and contingencies		
Redeemable non-controlling interest	<u>34,721</u>	<u>36,863</u>
Shareholders' equity:		
Preferred stock; par value \$.01 per share; 10,000 shares authorized; none outstanding	—	—
Common stock; par value \$.01 per share; 200,000 shares authorized; 63,940 and 63,516 shares issued and 59,912 and 59,696 shares outstanding at December 31, 2022 and January 1, 2022, respectively	639	635
Additional paid-in-capital	442,116	433,347
Accumulated other comprehensive income	223	7,006
Retained earnings	204,891	106,398
Treasury stock at cost	(19,854)	(18,289)
Total shareholders' equity	<u>628,015</u>	<u>529,097</u>
Total liabilities, redeemable non-controlling interest, and shareholders' equity	<u><u>\$1,640,249</u></u>	<u><u>\$1,460,610</u></u>

The accompanying notes are an integral part of these consolidated financial statements.



**PGT INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
<b>Cash flows from operating activities:</b>			
Net income	\$ 98,405	\$ 35,196	\$ 45,108
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	34,048	30,487	24,014
Amortization	26,150	21,082	18,825
Impairment of trade name	7,423	—	8,000
Other asset impairments	2,131	—	—
Non-cash portion of restructuring costs and charges	—	—	2,442
Provision for allowance for credit losses	10,979	3,834	996
Stock-based compensation	9,670	7,819	5,458
Amortization and write-offs of deferred financing costs	1,242	978	1,206
Debt extinguishment costs	410	25,472	—
Deferred income taxes	(11,340)	7,632	(593)
(Gain) loss on sales of assets	(240)	261	(291)
Change in operating assets and liabilities (net of acquisition effects):			
Accounts receivable, net	(20,622)	(34,390)	(13,775)
Inventories	(12,017)	(15,984)	(14,793)
Contract assets, net, prepaid expenses, other current and other assets	12,826	(5,958)	(11,342)
Accounts payable, accrued and other liabilities	37,309	(12,750)	10,240
Net cash provided by operating activities	<u>196,374</u>	<u>63,679</u>	<u>75,495</u>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(45,377)	(33,424)	(24,800)
Business acquisitions	(188,580)	(220,676)	(90,368)
Proceeds from disposals of assets	37	187	766
Net cash used in investing activities	<u>(233,920)</u>	<u>(253,913)</u>	<u>(114,402)</u>
<b>Cash flows from financing activities:</b>			
Payment of fair value of contingent consideration in Anlin Acquisition	(2,362)	—	—
Proceeds of amounts drawn from revolving credit facility	160,000	—	—
Payments of borrowing under revolving credit facility	(83,648)	—	—
Proceeds from issuance of senior notes	—	638,300	53,188
Payments of senior notes	—	(425,000)	—
Payment of call-premium on redemption of senior notes	—	(21,518)	—
Proceeds from issuance of term loan debt	—	60,000	—
Payments of term loan debt	(60,000)	(54,000)	(10,000)
Payments of financing costs	(1,526)	(10,675)	(1,266)
Purchases of treasury stock under repurchase program	(1,565)	—	—
Purchases of treasury stock relating to tax withholdings on employee equity awards	(1,888)	(1,648)	(815)
Proceeds from exercise of stock options	—	138	572
Distribution to redeemable non-controlling interest	(1,665)	—	—
Proceeds from issuance of common stock under ESPP	602	463	305
Net cash provided by financing activities	<u>7,948</u>	<u>186,060</u>	<u>41,984</u>
Net (decrease) increase in cash and cash equivalents	(29,598)	(4,174)	3,077
Cash and cash equivalents at beginning of year	96,146	100,320	97,243
Cash and cash equivalents at end of year	<u>\$ 66,548</u>	<u>\$ 96,146</u>	<u>\$ 100,320</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PGT INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
*(in thousands except share amounts)*

	Common stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
	Shares Outstanding	Amount					
Balance at December 28, 2019	58,504,734	\$619	\$414,688	\$ (238)	\$ 34,788	\$(18,309)	\$431,548
Grants of restricted stock	—	7	(7)	—	—	—	—
Vesting of restricted stock	219,977	—	—	—	—	—	—
Forfeitures of restricted stock	—	(3)	3	—	—	—	—
Purchases of treasury stock	(51,479)	—	—	—	—	(815)	(815)
Retirement of treasury stock	—	(1)	(814)	—	—	815	—
Stock-based compensation	—	—	5,458	—	—	—	5,458
Exercise of stock options	284,353	3	569	—	—	—	572
Common stock issued under ESPP	41,126	—	305	—	—	—	305
Net income	—	—	—	—	45,108	—	45,108
Other comprehensive income, net of tax expense of \$970	—	—	—	2,958	—	—	2,958
Balance at January 2, 2021	58,998,711	\$625	\$420,202	\$ 2,720	\$ 79,896	\$(18,309)	\$485,134
Grants of restricted stock	—	7	(7)	—	—	—	—
Vesting of restricted stock	312,982	—	—	—	—	—	—
Forfeitures of restricted stock	—	(1)	1	—	—	—	—
Issuance of treasury stock	4,600	—	—	—	(20)	20	—
Purchases of treasury stock	(73,105)	—	—	—	—	(1,648)	(1,648)
Retirement of treasury stock	—	(1)	(1,372)	—	(275)	1,648	—
Stock-based compensation	—	—	7,819	—	—	—	7,819
Exercise of stock options	67,797	1	137	—	—	—	138
Common stock issued under ESPP	27,335	—	463	—	—	—	463
Issuance in acquisition of Eco	357,797	4	6,104	—	—	—	6,108
Other comprehensive income, net of tax expense of \$1,531	—	—	—	4,286	—	—	4,286
Net income	—	—	—	—	32,878	—	32,878
Change in redemption value of redeemable non-controlling interest	—	—	—	—	(6,081)	—	(6,081)
Balance at January 1, 2022	59,696,117	\$635	\$433,347	\$ 7,006	\$106,398	\$(18,289)	\$529,097
Grants of restricted stock	—	6	(6)	—	—	—	—
Vesting of restricted stock	359,360	—	—	—	—	—	—
Forfeitures of restricted stock	—	(1)	1	—	—	—	—
Purchases of treasury stock	(181,125)	—	—	—	—	(3,453)	(3,453)
Retirement of treasury stock	—	(1)	(1,498)	—	(389)	1,888	—
Stock-based compensation	—	—	9,670	—	—	—	9,670
Common stock issued under ESPP	37,204	—	602	—	—	—	602
Other comprehensive income, net of tax benefit of \$2,345	—	—	—	(6,783)	—	—	(6,783)
Net income	—	—	—	—	96,882	—	96,882
Change in redemption value of redeemable non-controlling interest	—	—	—	—	2,000	—	2,000
Balance at December 31, 2022	59,911,556	\$639	\$442,116	\$ 223	\$204,891	\$(19,854)	\$628,015

The accompanying notes are an integral part of these consolidated financial statements.

**PGT INNOVATIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

PGT Innovations, Inc. (“PGTI”, “we,” or the “Company”), formerly named PGT, Inc., is a leading manufacturer of impact-resistant aluminum and vinyl-framed windows and doors and offers a broad range of fully customizable window and door products. The majority of our sales are to customers in the state of Florida; however, we also sell products in many other states, the Caribbean, Canada, and in South and Central America. Our acquisition of Eco Enterprises (“Eco Acquisition”) in February 2021 expands our range of product offerings in our major market of southeast Florida. We also have sales of products that are designed to unify indoor and outdoor living spaces, through our Western Windows Systems’ (“WWS”) division, and most of its sales are in the western United States. Our acquisitions of Anlin Windows and Doors in October 2021 and Martin Door Holdings, Inc. (“Martin”) in October 2022 expanded our presence in the west. The acquisition of Martin, which produces residential and commercial garage doors, expands the Company into building products adjacent to its portfolio of window and door brands. Products are sold primarily through an authorized dealer and distributor network. We began selling window products in the direct-to-consumer channel, a “factory-direct” sales model, through our acquisition of NewSouth Windows Solutions in February 2020.

We were incorporated in the state of Delaware on December 16, 2003, as JLL Window Holdings, Inc., with primary operations in North Venice, Florida. On February 15, 2006, our Company was renamed PGT, Inc. On December 14, 2016, we announced that we changed our name to PGT Innovations, Inc. and, effective on December 28, 2016, the listing of our common stock was transferred to the New York Stock Exchange (“NYSE”) from the NASDAQ Global Market, and began trading on the NYSE under its existing ticker symbol of “PGTI”. As of December 31, 2022, we had major manufacturing operations in Florida, in North Venice, Ft. Myers, Tampa, and in the greater Miami area. We also have manufacturing operations in Arizona, California and, with the Martin Acquisition, Utah. Additionally, we have two glass tempering and laminating plants and one insulation glass plant located in North Venice.

All references to PGTI or our Company apply to the consolidated financial statements of PGT Innovations, Inc. unless otherwise noted.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

***Fiscal period***

Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest December 31 of the related year. The years ended December 31, 2022, and January 1, 2022, consisted of 52 weeks. The year ended January 2, 2021 consisted of 53 weeks.

***Principles of consolidation***

The consolidated financial statements present the results of the operations, financial position and cash flows of PGTI, and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. We are consolidating all wholly owned subsidiaries, as well as Eco, based on the 75% majority ownership. We refer to Note 20 for our accounting policies relating to the non-redeemable minority interest.

***Segment information***

We operate as two segments based on geography: the Southeast segment and the Western segment. See Note 19 for more information.

### *Use of estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

### *Revenue recognition*

Revenue is recognized when our performance obligations are satisfied. Generally, our performance obligations are satisfied over time when control of our products is transferred, and revenue is recognized at a single point in time, when title transfers to our customer for product shipped or when services are provided. Revenues are recorded net of any sales incentives. See Note 4, “Revenue Recognition and Contracts with Customers.”

### *Cost of sales*

Cost of sales represents costs directly related to the production of our products. Primary costs include raw materials, direct labor, and manufacturing overhead, which consist of salaries, wages, employee benefits, utilities, maintenance, lease costs and depreciation.

### *Shipping and handling costs*

Shipping and handling costs incurred in the purchase of materials used in the manufacturing process are included in cost of sales. Costs relating to shipping, handling and distribution of finished products to our customers are included in selling, general and administrative expenses and totaled \$75.1 million, \$62.4 million and \$39.3 million for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively.

### *Advertising*

We expense advertising costs as incurred. Advertising expense, which is included in selling, general and administrative expenses, was \$22.7 million, \$15.8 million and \$11.6 million for the years ended December 31, 2022, January 1, 2022 and January 2, 2021, respectively. NewSouth, acquired on February 1, 2020, relies heavily on advertising, consistent with its sales-direct-to-homeowner business model.

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand or highly liquid investments with an original maturity date of three months or less when purchased.

### *Accounts receivable, net*

In the ordinary course of business, we extend credit to qualified dealers and distributors, generally on a non-collateralized basis. The Company maintains an allowance for credit losses which is based on management’s assessments of the amount which may become uncollectible in the future and is determined through consideration of our write-off history, specific identification of uncollectible accounts based in part on the customer’s past due balance (based on contractual terms), and consideration of prevailing economic and industry conditions. Uncollectible accounts are written off after repeated attempts to collect from the customer have been unsuccessful.

	<b>December 31, 2022</b>	<b>January 1, 2022</b>
	<i>(in thousands)</i>	
Accounts receivable	\$173,763	\$145,923
Less: Allowance for credit losses	(13,656)	(4,702)
Accounts receivable, net	<u>\$160,107</u>	<u>\$141,221</u>

### ***Self-insurance reserves***

We are primarily self-insured for employee health benefits and workers' compensation claims prior to 2010 and after 2017. Provisions for losses under these programs are recorded based on the Company's estimates of the aggregate liabilities for the claims incurred. Accruals for healthcare claims and workers' compensation are included in accrued liabilities in the accompanying consolidated balance sheets.

### ***Warranty expense***

We have warranty obligations with respect to most of our manufactured products. Warranty periods, which vary by product components, generally range from 1 to 10 years, although the warranty period for a limited number of specifically identified components in certain applications is a lifetime. However, the majority of the products sold have warranties on components which range from 1 to 3 years. The Company has recorded a reserve for estimated warranty and related costs based on historical experience and periodically adjusts these provisions to reflect actual experience.

During 2022, we recorded warranty expense at an average rate of 2.1% of sales. This rate approximates the average rate of 2.0% of sales recorded in 2021. The average rate of 2.0% of sales in 2021 compares to an average rate of 1.7% of sales recorded in 2020. The increase in our warranty expense rate in 2021, compared to 2020 was a result of costs associated with higher levels of warranty repair experience on larger commercial projects than experienced in 2020, which resulted in warranty costs incremental to those we would incur in the normal course of business. The increase in our warranty expense in 2021, compared to 2020, was also affected by costs associated with the wind-down of the commercial business of NewSouth in the first quarter of 2021, which resulted in warranty costs incremental to those we would incur in the normal course of business.

We assess the adequacy of our warranty accrual on a quarterly basis, and adjust the previous amounts recorded, if necessary, to reflect the change in estimate of the future costs of claims yet to be serviced. The following provides information with respect to our warranty accrual.

<u>Accrued Warranty</u>	<u>Beginning of Period</u>	<u>Acquired (Acquisition Adjustment)</u>	<u>Charged to Expense</u>	<u>Adjustments</u>	<u>Settlements</u>	<u>End of Period</u>
				(in thousands)		
Year ended December 31, 2022	\$13,504	\$(2,537)	\$31,223	\$ 698	\$(27,500)	\$15,388
Year ended January 1, 2022	\$ 8,001	\$ 4,150	\$23,637	\$(1,440)	\$(20,844)	\$13,504
Year ended January 2, 2021	\$ 6,244	\$ 3,515	\$15,256	\$ 266	\$(17,280)	\$ 8,001

During the third quarter of 2022, we finalized our calculation of the reserve for warranty obligations assumed in the Anlin Acquisition. As a result, we recorded an acquisition adjustment to decrease Anlin's warranty reserve by \$2.5 million from its initial estimate in our then preliminary allocation of the fair value of assets acquired and liabilities assumed, resulting in an equal decrease in goodwill.

The accrual for warranty is included in accrued liabilities and other liabilities, depending on estimated settlement date, in the consolidated balance sheets as of December 31, 2022 and January 1, 2022. The portion of warranty expense related to the issuance of product of \$3.9 million, \$3.0 million and \$3.8 million is included in cost of sales in the consolidated statements of operations for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively. The portion related to servicing warranty claims including costs of the service department personnel is included in selling, general and administrative expenses in the consolidated statements of operations, and is \$28.1 million, \$19.2 million and \$11.7 million, respectively, for the years ended December 31, 2022, January 1, 2022, and January 2, 2021.

### ***Inventories***

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited work-in-progress and finished goods inventory as most products are custom, made-to-order products manufactured under noncancelable purchase orders and therefore are recognized as costs of sales relating to



revenue recognized over time during the manufacturing process. All inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. The reserve for obsolescence, which was immaterial at December 31, 2022 and January 1, 2022, is based on management’s assessment of the amount of inventory that may become obsolete in the future and is determined through Company history, specific identification and consideration of prevailing economic and industry conditions. Inventories consist of the following:

	<u>December 31,</u> <u>2022</u>	<u>January 1,</u> <u>2022</u>
	<i>(in thousands)</i>	
Raw materials	\$109,679	\$87,164
Work in progress	916	3,248
Finished goods	<u>2,077</u>	<u>1,028</u>
Inventories	<u>\$112,672</u>	<u>\$91,440</u>

### ***Property, plant and equipment***

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Depreciable assets are assigned estimated lives as follows:

Building and improvements	5 to 40 years
Leasehold improvements	Shorter of lease term or estimated useful life
Furniture and equipment	3 to 10 years
Vehicles	5 to 10 years
Computer software	3 years

Maintenance and repair expenditures are charged to expense as incurred.

### ***Leases***

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current portion of operating lease liability, and operating lease liability, less current portion, on our consolidated balance sheets. The Company currently does not have any finance leases.

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease right-of-use asset also includes any up-front lease payments made and initial direct costs incurred, less lease incentives received. Our lease terms may include options to extend or terminate the lease. Lease expense is recognized on a straight-line basis over the lease term. We elected the practical expedient to not separate lease and non-lease components for all classes of underlying assets.

### ***Long-lived assets***

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell, and depreciation is no longer recorded.

### ***Computer software***

We capitalize costs associated with software developed or obtained for internal use when both the preliminary project stage is complete, and it is probable that computer software being developed will be completed and placed in service. Capitalized costs include:

- (i) external direct costs of materials and services consumed in developing or obtaining computer software,
- (ii) payroll and other related costs for employees who are directly associated with and who devote time to the software project, and
- (iii) interest costs incurred, when material, while developing internal-use software.

Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

Capitalized software as of December 31, 2022, and January 1, 2022, was \$31.7 million and \$31.8 million, respectively. Accumulated depreciation of capitalized software was \$30.3 million and \$29.0 million as of December 31, 2022, and January 1, 2022, respectively.

Amortization expense for capitalized software was \$3.0 million, \$3.7 million, and \$4.1 million for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively.

We review the carrying value of capitalized software and development costs for impairment in accordance with our policy pertaining to the impairment of long-lived assets.

### ***Goodwill***

Goodwill is calculated as the excess of the consideration paid in a business combination over the fair value of the identifiable net assets acquired. We test goodwill for impairment at the reporting unit level at least annually or whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable. Our annual test for impairment is done on the first date of our fiscal fourth quarter. We consider various qualitative factors, including macroeconomic and industry conditions, financial performance of the Company and changes in the stock price of the Company to determine whether it is necessary to perform a quantitative test for goodwill impairment. If we believe, as a result of our qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Under the quantitative test, goodwill is tested under a one-step method for impairment at a level of reporting referred to as a reporting unit. This quantitative analysis involves identifying potential impairment by comparing the fair value of each reporting unit with its carrying amount and, if the carrying amount of a reporting unit exceeds its fair value, then a charge for goodwill impairment will be recognized in the amount by which a reporting unit's carrying value exceeds its fair value.

For our Southeast and Western reporting units, based on qualitative assessments, we concluded that quantitative assessments were not required to be performed. See Note 7 for further discussion of the goodwill of our reporting units.

### ***Trade names***

The Company has indefinite-lived intangible assets in the form of certain trade names. The impairment evaluation of the carrying amount of our indefinite-lived trade names is conducted annually, or more frequently, if events or changes in circumstances indicate that they might be impaired. We have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. If we elect to bypass the qualitative assessment or if we determine, based on qualitative factors, that it is more likely than not that the fair value of our indefinite-lived trade names is less than the carrying amount, an evaluation is performed by comparing their carrying amount to their estimated fair values. If the estimated fair value is less than the carrying amount of the indefinite-lived trade name, then an impairment charge is recorded

to reduce the carrying value to its estimated fair value. The estimated fair value is determined using the relief from royalty method that is based upon the discounted projected cost savings (value) attributable to ownership of our trade names, our only indefinite-lived intangible assets. Other than the WinDoor trade name, based on qualitative assessments for 2022, the Company concluded it was more likely than not the fair value of the indefinite-lived intangible assets exceeded their carrying values. For the WinDoor trade name, we concluded that a quantitative assessment was required, given the recent decrease in sales of the brand and given the narrow excess of the fair value over the carrying value of our WinDoor trade name in our prior quantitative assessment, which resulted in an impairment charge of \$7.4 million in the year ended December 31, 2022.

We review the carrying value of our finite-lived trade name in accordance with our policy for long-lived assets. See Note 7 for further discussion of our trade name.

### ***Derivative financial instruments***

We utilize certain derivative instruments, from time to time, including forward contracts to manage variability in cash flow associated with commodity market price risk exposure in the aluminum market. We do not enter into derivatives for speculative purposes.

### ***Concentrations of credit risk***

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash and cash equivalents, trade accounts receivable and contract assets. Accounts receivable and contract assets are due primarily from dealers and distributors of building materials, and other companies in the construction industry, primarily located in Florida, California, Texas, Arizona and, with the Martin Acquisition in October 2022, Utah. Credit is extended based on an evaluation of the customer's financial condition and credit history, and generally collateral is not required. The Company maintains an allowance for potential credit losses on trade receivables and contract assets.

We maintain our cash with several financial institutions, the balance of which exceeds federally insured limits. At December 31, 2022 and January 1, 2022, our cash balance exceeded the insured limit by \$61.4 million and \$89.0 million, respectively.

### ***Comprehensive income (loss)***

The Company reports comprehensive income (loss), defined as the total of net income and other comprehensive income (loss), which is composed of all other non-owner changes in equity, and the components thereof, in its consolidated statements of comprehensive income.

The components of other comprehensive income (loss) relate to gains and losses on cash flow hedges. Reclassification adjustments reflecting such gains and losses are recorded as income in the same period as the hedged items affect earnings.

### ***Stock-based compensation***

We use a fair-value based approach for measuring stock-based compensation and record compensation expense over an award's vesting period based on the award's fair value at the date of grant. Our Company's awards vest based on service conditions and certain performance conditions and compensation expense is recognized generally on a straight-line basis for each separately vesting portion of an award. Stock-based compensation expense is recognized only for those awards that ultimately vest.

### ***Income and Sales Taxes***

We account for income taxes utilizing the liability method. Deferred income taxes are recorded to reflect consequences on future years of differences between financial reporting and the tax basis of assets and liabilities

measured using the enacted statutory tax rates and tax laws applicable to the periods in which differences are expected to affect taxable earnings. We have no liability for unrecognized tax benefits. However, should we accrue for such liabilities, when and if they arise in the future, we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision. Income taxes relating to gains and losses on our cash flow hedges are released at the same time as the underlying transactions are realized. Interest and penalties on income taxes, if any, are recorded as income taxes. Refer to Note 12 for additional information regarding the Company's income taxes.

Sales taxes collected from customers have been recorded on a net basis.

### *Net income per common share*

Basic earnings per share ("EPS") available to PGT Innovations, Inc. common stockholders is computed using the two-class method by dividing net income attributable to common shareholders, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding during the period. Diluted EPS available to PGT Innovations, Inc. common stockholders is computed using the two-class method by dividing net income attributable to common shareholders, after deducting the redemption adjustment related to the redeemable noncontrolling interest, by the average number of common shares outstanding, including the dilutive effect of common stock equivalents computed using the treasury stock method and the average share price during the period. Forfeiture of unvested equity are recognized on an actual basis, at the same time as the equity is forfeited.

There were no anti-dilutive shares outstanding for the years ended December 31, 2022 and January 1, 2022. Our weighted average number of diluted shares outstanding excludes underlying securities of 23 thousand for the year ended January 2, 2021, because their effects were anti-dilutive.

The table below presents the calculation of basic and diluted earnings per share, including a reconciliation of weighted average common shares:

	<u>Year Ended</u>		
	<u>December 31, 2022</u>	<u>January 1, 2022</u>	<u>January 2, 2021</u>
	<i>(in thousands, except per share amounts)</i>		
Net income	\$98,405	\$35,196	\$45,108
Less: Net income attributable to redeemable non-controlling interest	<u>(1,523)</u>	<u>(2,318)</u>	<u>—</u>
Net income attributable to the Company	96,882	32,878	45,108
Change in redemption value of redeemable non-controlling interest	<u>2,000</u>	<u>(6,081)</u>	<u>—</u>
Net income attributable to common shareholders	<u>\$98,882</u>	<u>\$26,797</u>	<u>\$45,108</u>
Weighted-average common shares - Basic	59,926	59,518	58,887
Add: Dilutive shares from equity plans	<u>393</u>	<u>540</u>	<u>473</u>
Weighted-average common shares - Diluted	<u>60,319</u>	<u>60,058</u>	<u>59,360</u>
Weighted average number of common shares outstanding:			
Basic	<u>\$ 1.65</u>	<u>\$ 0.45</u>	<u>\$ 0.77</u>
Diluted	<u>\$ 1.64</u>	<u>\$ 0.45</u>	<u>\$ 0.76</u>

### ***Supplemental cash flow information and non-cash activity***

The table below presents supplemental cash flow information and non-cash activity for the years ended December 31, 2022, January 1, 2022, and January 2, 2021:

<i>(in thousands)</i>	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 27,948	\$ 32,636	\$ 25,156
Income tax payments, net of refunds	\$ 21,499	\$ 12,166	\$ 9,242
<b>Non-cash activity:</b>			
Establish right-of-use asset	\$ 29,031	\$ 65,678	\$ 19,185
Establish operating lease liability	\$(29,031)	\$(65,678)	\$(19,185)
Reclassification of accounts receivable to notes receivable	\$ 4,225	\$ —	\$ 1,437
Property, plant and equipment additions in accounts payable	\$ 565	\$ 772	\$ 61

### **3. Recent Accounting Pronouncements**

#### ***Accounting Pronouncements Recently Adopted***

##### Business Combinations - Contracts Assets and Liabilities

On October 28, 2021, the FASB issued ASU 2021-08,1 which amends ASC 805-20 to “require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination.” Under current GAAP, an acquirer generally recognizes such items at fair value on the acquisition date. This standard was effective beginning December 31, 2022. Early adoption was permitted. The Company adopted this standard for the year ended January 1, 2022. The adoption of this standard did not have any impact on our consolidated financial statements.

##### Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting” and in January 2021, subsequent amendment to the initial guidance, ASU 2021-01, “Reference Rate Reform (Topic 848): Scope” (collectively, “Topic 848”). In December 2022, the FASB issued ASU 2022-06, “Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848,” which defers its sunset date to June 2023 as a result of the UK Financial Conduct Authority’s extension of the LIBOR cessation date to June 30, 2023. Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance generally can be applied currently, through June 30, 2023. Topic 848 has had and will have no impact on the reference rates in our financing agreements.

#### ***Accounting Pronouncements Recently Issued, Not Yet Adopted***

##### Disclosure of Supplier Finance Program Obligations

In September 2022, the FASB issued ASU 2022-04, “Supplier Finance Programs: Disclosure of Supplier Finance Program Obligations,” to improve the disclosures of supplier finance programs. Specifically, the ASU requires disclosure of key terms of the supplier finance programs and a rollforward of the related obligations. The amendments in this ASU do not affect the recognition, measurement, or financial statement presentation of



obligations covered by supplier finance programs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2022, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company does not engage in supplier finance programs and, therefore, does not expect to add any incremental disclosures required by ASU 2022-04.

#### 4. Revenue

##### *Disaggregation of Revenue from Contracts with Customers*

As discussed in Note 1, we have two reportable segments: our Southeast segment and our Western segment. See Note 19 for more information. The following table provides information about our net sales by reporting segment, product category and market for the years ended December 31, 2022, January 1, 2022, and January 2, 2021 (in millions):

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
<b>Disaggregation of revenue:</b>			
Reporting segment:			
Southeast	\$1,110.4	\$ 968.7	\$752.4
Western	381.6	192.8	130.2
Total net sales	<u>\$1,492.0</u>	<u>\$1,161.5</u>	<u>\$882.6</u>
Product category:			
Impact-resistant window and door products	\$ 878.8	\$ 787.2	\$630.2
Non-impact window and door products	613.2	374.3	252.4
Total net sales	<u>\$1,492.0</u>	<u>\$1,161.5</u>	<u>\$882.6</u>
Market:			
New construction	\$ 625.1	\$ 489.9	\$402.5
Repair and remodel	866.9	671.6	480.1
Total net sales	<u>\$1,492.0</u>	<u>\$1,161.5</u>	<u>\$882.6</u>

The Company's Western segment includes both custom and volume products. This segment's volume products are not made-to-order and are of standardized sizes and design specifications. Therefore, the Company's assessment is that the Western segment's volume products have alternative uses, and that control of these products passes to the customer at a point in time, which is typically when the product has been delivered to the customer. For the years ended December 31, 2022, January 1, 2022, and January 2, 2021, the Western segment's net sales of its volume products were \$111.5 million, \$83.0 million and \$53.2 million, respectively.

##### *Contract Balances*

Contract assets represent sales recognized in excess of billings related to finished goods not yet shipped and certain unused glass components not yet placed into the production process for which revenue is recognized over time as noted above. Contract liabilities relate to customer deposits at the end of reporting periods. At December 31, 2022 and January 1, 2022, those contract liabilities totaled \$39.1 million and \$45.2 million, respectively, of which \$33.4 million and \$37.0 million, respectively, are classified within accrued liabilities, and \$5.7 million and \$8.2 million, respectively, are classified within contract assets, net, in the accompanying consolidated balance sheets at December 31, 2022 and January 1, 2022.

Because of the short-term nature of our performance obligations, as discussed below, substantially all of our performance obligations are satisfied within the quarter following the end of a reporting period. As such, substantially all of the contract liabilities at January 1, 2022 were satisfied in the first quarter of 2022, and contract assets at January 1, 2022 were transferred to accounts receivable in the first quarter of 2022. Also,

substantially all of the contract liabilities at December 31, 2022 will be satisfied in the first quarter of 2023, and contract assets at December 31, 2022 will be transferred to accounts receivable in the first quarter of 2023. Contract liabilities at December 31, 2022 represents cash received during the three-month period ended December 31, 2022, excluding amounts recognized as revenue during that period. Contract assets at December 31, 2022 represents revenue recognized during the three-month period ended December 31, 2022, excluding amounts transferred to accounts receivable during that period. Contract liabilities at January 1, 2022 represents cash received during the three-month period ended January 1, 2022, excluding amounts recognized as revenue during that period. Contract assets at January 1, 2022 represents revenue recognized during the three-month period ended January 1, 2022, excluding amounts transferred to accounts receivable during that period.

## 5. Acquisitions

### *Martin Doors*

On October 14, 2022, we completed the acquisition of the Martin Doors brand. The acquisition was done by WWS Acquisition, LLC, a Missouri limited liability company, indirectly wholly-owned by PGT Innovations, Inc., which acquired all of the shares of stock of Martin Door Holdings, Inc., a Utah corporation, headquartered in Salt Lake City, Utah, a custom manufacturer of overhead garage doors and hardware serving the Western U.S. (the “Martin Acquisition”), pursuant to that certain Share Purchase Agreement dated as of October 14, 2022 (the “Martin Purchase Agreement”). The fair value of consideration transferred in the Martin Acquisition was \$187.8 million, composed entirely of cash, including \$185.0 million for purchase price and \$2.8 million in estimated working capital adjustments paid at closing.

The cash portion of the Martin Acquisition of \$98.4 million was financed with borrowings under the fifth amendment of our 2016 Credit Agreement due 2027, with the remaining \$89.4 million fund with cash on hand. Generally, cash on hand for the Martin Acquisition was provided by cash generated through operations.

### Purchase Price Allocation

The preliminary estimated fair value of assets acquired, and liabilities assumed as of the closing date, are as follows:

	<b><u>Preliminary Allocation</u></b>
Accounts receivable	\$ 6,653
Inventories	9,543
Contract assets, net	5,242
Prepaid expenses and other assets	90
Property and equipment	11,422
Operating lease right-of-use asset	12,259
Intangible assets	91,900
Total assets acquired	<u>137,109</u>
Accounts payable	(2,482)
Accrued and other liabilities	(1,270)
Deferred tax liabilities	(23,604)
Operating lease liability	(12,259)
Total liabilities assumed	<u>(39,615)</u>
Net assets acquired	97,494
Goodwill	90,300
Fair value of consideration transferred	<u>\$187,794</u>
Consideration:	
Cash	\$187,794
Fair value of consideration transferred	<u>\$187,794</u>

The fair value of certain working capital related items, including Martin’s accounts receivable, prepaid expenses and other assets, and accounts payable and accrued and other liabilities, approximated their book values at the date of the Martin Acquisition. The fair value of inventory was estimated by major category, at net realizable value, which we believe approximates the price a market participant could achieve in a current sale. The substantial majority of inventories at the acquisition date was comprised of raw materials. The fair value of property and equipment and remaining useful lives were estimated by management, with the assistance of a third-party valuation firm, using the cost approach. Valuations of the intangible assets were done using income and royalty relief approaches based on projections provided by management, which we consider to be Level 3 inputs, with the assistance of a third-party valuations firm. Certain aspects of our intangible valuations, as well as the amount of deferred tax liabilities acquired in the Martin Acquisition are still being finalized and subject to change.

We incurred acquisition costs totaling \$4.8 million relating to legal expenses, representations and warranties insurance, diligence, accounting and other services in the Martin Acquisition, classified as selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended December 31, 2022.

Because the Martin Acquisition was an acquisition of stock, Martin’s assets and liabilities retain their tax bases at the time of the acquisition. Therefore, none of the identifiable intangible assets or goodwill acquired in the Martin Acquisition are deductible for tax purposes. As of December 31, 2022, goodwill is estimated to be \$90.3 million. Martin’s goodwill is included as part of the Western reporting unit. We believe Martin’s goodwill relates to the expansion of our footprint in a key, strategic market we have identified as a geographic area of growth for our Company, as well as being a key component of our strategy to expand into adjacent building material products, other than windows and doors.

Pro forma results of operations as well as net sales and income attributable to the Martin Acquisition are not presented as it did not have a material impact on our results of operations,

#### Valuation of Identified Intangible Assets

The valuation of the identifiable intangible assets acquired in the Martin Acquisition and our estimate of their respective useful lives are as follows:

<i>(in thousands)</i>	<u>Preliminary Valuation</u>	<u>Initial Useful Life (in years)</u>
Trade name	\$24,000	indefinite
Customer relationships	52,700	15
Customer-related backlog (amortized in 2022)	400	<1
Developed technology	14,600	3 - 14
Non-compete-related intangible	<u>200</u>	5
Intangible assets, net	<u>\$91,900</u>	

#### ***Anlin Windows & Doors***

On October 25, 2021, we completed the acquisition of Anlin Windows & Doors. The acquisition was done by Western Window Holding LLC, a Delaware limited liability company, indirectly wholly-owned by PGT Innovations, Inc., which acquired substantially all of the assets, properties and rights owned, used or held for use in the business, as operated by Anlin Industries, a California corporation, of manufacturing vinyl windows and doors for the replacement market and the new construction market, and all activities conducted in connection therewith (the “Anlin Acquisition”), pursuant to that certain Asset Purchase Agreement dated as of September 1, 2021 (the “Anlin Purchase Agreement”), by and among the Company, and Anlin Industries. The fair value of consideration transferred in the Anlin Acquisition was \$121.7 million, composed of \$115.0 million in cash, including \$113.5 million for purchase price and \$1.5 million in working capital adjustments, including

\$0.8 million paid during the three months ended October 1, 2022, and fair value of contingent consideration of \$6.7 million, discussed in greater detail below.

The Anlin Purchase Agreement provides for the potential for earn-out contingency payments to sellers should Anlin achieve a certain level of earnings before interest, taxes, depreciation and amortization, (“Anlin EBITDA”), as defined in the Anlin Purchase Agreement, for its fiscal years of 2021 and 2022, of up to \$3.2 million to be paid out by March 31, 2022, and of up to \$9.5 million to be paid out by March 31, 2023, respectively. We had recorded a preliminary earn-out contingent liability of \$5.9 million as of our year ended January 1, 2022, which represented its then estimated fair value based on probability adjusted levels of estimated Anlin EBITDA. Estimated Anlin EBITDA is a significant input that is not observable in the market, which ASC 820 considers to be a Level 3 input. In the first quarter of 2022, we finalized the fair value of the earn-out contingency, which we adjusted by an additional \$0.8 million, to a total of \$6.7 million of estimated fair value of contingent consideration as of the effective date of the Anlin Acquisition. This amount included \$2.4 million for the contingent consideration relating to 2021 Anlin EBITDA and \$4.3 million for the contingent consideration relating to the 2022 Anlin EBITDA.

The first contingent consideration payment was agreed to be \$2.7 million, which exceeded its estimated fair value by \$0.3 million. This excess is classified as selling, general and administrative expenses in the accompanying consolidated statement of operations for year ended December 31, 2022. The payment was made during the second quarter of 2022 after both parties agreed to extend the deadline for the first payment past the March 31, 2022 due date stated in the Anlin Purchase Agreement.

As of the end of 2022, we updated our estimate of the fair value of the contingent consideration relating to 2022 Anlin EBITDA, which was estimated to be \$9.5 million, the maximum potential payout for fiscal year 2022 under the Anlin Purchase Agreement, which we expect to pay-out in the first quarter of 2023. As such, we recognized an expense of approximately \$5.1 million, representing the difference between this updated estimated fair value, and the fair value estimated in our purchase price allocation, classified as selling, general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2022.

For tax purposes, contingent consideration does not become part of tax goodwill until paid. As such, the amount of goodwill deductible for tax purposes will not be finalized until the payment of the contingent consideration for 2022 is known. As of December 31, 2022, the estimated fair value of the contingent consideration in the allocation relating to this remaining payment was \$4.3 million, and goodwill according to the current allocation of consideration is \$9.6 million. As such, as of December 31, 2022, the amount of goodwill estimated to be tax deductible is the difference of \$5.3 million. Anlin’s goodwill is included as part of the Western reporting. We believe Anlin’s goodwill relates to the expansion of our footprint in a key, strategic market we have identified as a geographic area of growth for our Company. Our estimate of the amount of tax deductible goodwill may change as the amounts of the payments of contingent consideration are finalized.

## 6. Property, Plant and Equipment

The following table presents the composition of property, plant and equipment as of:

	<b>December 31, 2022</b>	<b>January 1, 2022</b>
	<i>(in thousands)</i>	
Land	\$ 10,563	\$ 10,063
Buildings and improvements	108,629	103,812
Machinery and equipment	185,229	159,822
Vehicles	24,975	21,633
Software	31,729	31,813
Construction in progress	33,628	12,565
Property, plant and equipment	394,753	339,708
Less: Accumulated depreciation	(186,399)	(154,442)
Property, plant and equipment, net	<u>\$ 208,354</u>	<u>\$ 185,266</u>

The Company recognized depreciation expense of \$34.0 million, \$30.5 million, and \$24.0 million related to property, plant and equipment during the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively, of which \$22.3 million, \$19.3 million, and \$12.7 million, respectively, are classified within cost of sales in the accompanying consolidated statements of operations of those years, with the remainder classified within selling, general and administrative expenses.

## 7. Goodwill and Intangible Assets

Goodwill and intangible assets are as follows as of:

	<u>December 31, 2022</u>	<u>January 1, 2022</u>	<u>Initial Useful Life (in years)</u>
	<i>(in thousands)</i>		
Goodwill	<u>\$ 460,415</u>	<u>\$ 364,598</u>	indefinite
<b>Other intangible assets:</b>			
Trade names (indefinite-lived)	<u>\$ 225,018</u>	<u>\$ 212,141</u>	indefinite
Customer relationships and customer-related assets	340,047	289,047	<1-15
Trade name (amortizable)	22,200	22,200	15
Developed technology	20,500	5,900	3-14
Non-compete agreement	3,538	3,338	2-5
Software license	590	590	2
Less: Accumulated amortization	<u>(164,841)</u>	<u>(138,691)</u>	
Subtotal	<u>222,034</u>	<u>182,384</u>	
Other intangible assets, net	<u>\$ 447,052</u>	<u>\$ 394,525</u>	
Goodwill at January 1, 2022	\$ 364,598		
Increase relating to Martin Acquisition	90,300		
Increase in Anlin Acquisition contingent consideration	789		
Decrease in Anlin Acquisition trade name	3,700		
Decrease in Anlin Acquisition customer relationships	4,300		
Increase in Anlin Acquisition customer-related backlog asset	(2,200)		
Final net working capital payment in Anlin Acquisition	786		
Estimated contingent consideration in Eco Acquisition	1,500		
Decrease in estimated warranty reserve in Anlin Acquisition	(2,537)		
Net other measurement period changes in Anlin Acquisition	(821)		
Goodwill at December 31, 2022	<u>\$ 460,415</u>		
Trade names (indefinite-lived) at January 1, 2022	\$ 212,141		
Decrease due to impairment of WinDoor trade name	(7,423)		
Increase in trade names from Martin Acquisition	24,000		
Decrease in Anlin Acquisition trade name	(3,700)		
Trade names (indefinite-lived) at December 31, 2022	<u>\$ 225,018</u>		

### Amortizable Intangible Assets

We test amortizable intangible assets for impairment when indicators of impairment exist. No impairment was recorded for any period presented.



Estimated amortization of our amortizable intangible assets is as follows for future fiscal years:

<i>(in thousands)</i>	<b>Total</b>
2023	\$ 26,307
2024	25,971
2025	25,640
2026	21,241
2027	20,987
Thereafter	101,888
Total	<u>\$222,034</u>

#### Amortization Expense

Amortization expense relating to amortizable intangible assets for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively, was \$26.2 million, \$21.1 million, and \$18.8 million, respectively, classified within selling, general and administrative expenses in the accompanying consolidated statements of operations for the years ended December 31, 2022, January 1, 2022 and January 2, 2021.

#### Goodwill

We perform our annual goodwill impairment testing on the first day of our fiscal fourth quarter of each year, and at interim periods if needed based on occurrence of triggering events. The Company performed a qualitative assessment for each reporting unit. The qualitative assessments indicated that it was more likely than not that the fair value of each reporting unit exceeded its respective carrying value. As of December 31, 2022, and January 1, 2022, the carrying value of our Southeast reporting unit goodwill is \$228.3 million and \$226.8 million, respectively. As of December 31, 2022, and January 1, 2022, the carrying value of our Western reporting unit goodwill is \$232.1 million and \$137.8 million, respectively.

#### Indefinite-Lived Intangible Assets

We perform our annual indefinite-lived intangible asset impairment testing on the first day of our fiscal fourth quarter of each year, and at interim periods if needed based on occurrence of triggering events. Given the narrow excess of fair value over carrying value of our WinDoor trade name in the first quarter of 2020, the last time we performed a quantitative assessment of our WinDoor trade name, and recent decrease in sales of our WinDoor brand, we determined such conditions represented triggering events and that we should complete a quantitative impairment test of our WinDoor trade name as of our annual impairment test date of the first day of our fourth quarter of 2022. Based on our revised modeling, which included our assumptions regarding future revenue, which we consider to be a Level 3 input, using the relief-from-royalty method, we concluded that the fair value of our WinDoor trade name was less than its carrying value, which resulted in an impairment of our WinDoor trade name of \$7.4 million in our fourth quarter of 2022. As of December 31, 2022, and January 1, 2022, the carrying value of our WinDoor tradename was \$11.0 million and \$18.4 million, respectively.

For our other indefinite-lived trade names, we completed qualitative assessments of these assets on the first day of our fourth quarter of 2022. These qualitative assessments included an evaluation of relevant events and circumstances that existed at the date of our assessment. Those events and circumstances included conditions specific to our other indefinite-lived trade names, such as the industry in which we use these other indefinite-lived trade names, our competitive environment, the availability and costs of raw materials and labor, the financial performance of our Company, and factors related to the markets in which our Company operates. We also considered that, for our other indefinite-lived trade names, no new impairment indicators were identified since the dates of our prior assessments, which were qualitative assessments all other indefinite-lived intangibles other than goodwill. Based on these assessments, we concluded that it is more likely than not that the fair values of our other indefinite-lived trade names exceed their carrying values. As of December 31, 2022, and January 1, 2022, excluding the WinDoor trade name, the carrying values of other indefinite-lived trade names were \$214.0 million and \$193.7 million, respectively.

## 8. Accrued Liabilities

Accrued liabilities consisted of the following as of:

	December 31, 2022	January 1, 2022
<i>(in thousands)</i>		
<i>Accrued liabilities</i>		
Accrued payroll and benefits	\$ 34,741	\$15,765
Customer deposits, net of those classified within contract assets	33,387	36,982
Accrued federal and state income taxes	16,375	—
Accrued warranty	12,379	11,783
Contingent consideration, current	9,455	2,921
Accrued interest	6,594	6,857
Advance supplier consideration	2,808	2,808
Accrued health claims insurance payable	2,068	2,283
Other	7,427	3,261
Accrued liabilities	<u>\$125,234</u>	<u>\$82,660</u>

See Note 5 for a discussion of the estimated fair value of contingent consideration related to the Anlin Acquisition. Other accrued liabilities are comprised primarily of state sales taxes, property taxes and customer rebates.

## 9. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2022	January 1, 2022
<i>(in thousands)</i>		
<b>2021 Senior Notes Due 2029</b> —Senior notes issued on September 24, 2021, due October 1, 2029. Interest payable semi-annually, in arrears, beginning on April 1, 2022, accruing at a rate of 4.375% per annum beginning September 24, 2021.	\$575,000	\$575,000
<b>2016 Credit Agreement Due 2027</b> —Revolving credit facility with no contractually scheduled amortization payments. Outstanding balance, if any, due on October 12, 2027. Interest payable at SOFR or the Base prime rate plus an applicable margin, due at the end of each SOFR term or Base loan term plus an applicable margin. At December 31, 2022, the average rate was 6.07%, including a SOFR rate of 4.32% and an applicable margin of 1.75%.	76,352	—
<b>2016 Credit Agreement Due 2024</b> —Term loan payable with no contractually scheduled amortization payments. Original lump-sum payment of \$60.0 million due on October 31, 2024. Interest payable quarterly at LIBOR or the Base prime rate plus an applicable margin. At January 1, 2022, the average rate was 2.10%.	—	60,000
Long-term debt	651,352	635,000
Fees, costs, and discount (1)	(9,218)	(9,345)
Long-term debt, net	642,134	625,655
Less current portion of long-term debt	—	—
Long-term debt, net, less current portion	<u>\$642,134</u>	<u>\$625,655</u>

- (1) Fees, costs, and discount represents third-party fees, lender fees, other debt-related costs, and original issue premium and discount, recorded as a net reduction of the carrying value of debt and are amortized over the lives of the debt instruments to which they relate under the effective interest method.

### ***2021 Senior Notes due 2029***

On September 24, 2021, we completed the issuance of \$575.0 million aggregate principal amount of 4.375% senior notes (“2021 Senior Notes due 2029”), issued at 100% of their principal amount. The 2021 Senior Notes due 2029 are jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of the Company’s existing and future restricted subsidiaries, other than any restricted subsidiary of the Company that does not guarantee the existing senior secured credit facilities or any permitted refinancing thereof. The 2021 Senior Notes due 2029 are senior unsecured obligations of the Company and the guarantors, respectively, and rank pari passu in right of payment with all existing and future senior debt and senior to all existing and future subordinated debt of the Company and the guarantors. The 2021 Senior Notes due 2029 were offered under Rule 144A of the Securities Act, and in transactions outside the United States under Regulation S of the Securities Act, and have not been, and will not be, registered under the Securities Act.

The 2021 Senior Notes due 2029 mature on October 1, 2029. Interest on the 2021 Senior Notes due 2029 is payable semi-annually, in arrears, beginning on April 1, 2022, with interest accruing at a rate of 4.375% per annum from September 24, 2021. We incurred financing costs relating to bank fees and professional services costs relating to the offering and issuance of the 2021 Senior Notes due 2029 totaling \$8.7 million, which included a 1.25% lender spread on the total principal value of the 2021 Senior Notes due 2029, or \$7.2 million, and \$1.5 million of other costs, all of which are being amortized under the effective interest method.

As of December 31, 2022, the face value of debt outstanding under the 2021 Senior Notes due 2029 was \$575.0 million, and accrued interest totaled \$6.4 million. Proceeds from the 2021 Senior Notes due 2029 were used, in part, to redeem in full the \$425.0 million of 2018 Senior Notes due 2026, including the related fees, costs and prepayment call premium of \$21.5 million, representing 5.063% of the \$425.0 million face value then outstanding, prepay the outstanding term loan borrowings under the then existing 2016 Credit Agreement due 2024 of \$54.0 million and the related fees and costs, and finance the Anlin Acquisition in the fourth quarter of 2021. See Note 5, Acquisitions, for a discussion of the Anlin Acquisition.

The indenture for the 2021 Senior Notes due 2029 gives us the option to redeem some or all of the 2021 Senior Notes due 2029 at the redemption prices and on the terms specified in the indenture governing the 2021 Senior Notes due 2029. The indenture governing the 2021 Senior Notes due 2029 does not require us to make any mandatory redemptions or sinking fund payments. However, upon the occurrence of a change of control, as defined in the indenture, the Company is required to offer to repurchase the notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. We also may make optional redemptions at various premiums including a make-whole call at the then current treasury rate plus 50 basis points prior to October 1, 2024, then 102.188% on or after August 1, 2024, 101.094% on or after August 2025, then at 100.000% on or after August 1, 2026.

The indenture for the 2021 Senior Notes due 2029 includes certain covenants limiting the ability of the Company and any guarantors to, (i) incur additional indebtedness; (ii) pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments; (iii) enter into agreements that restrict distributions from restricted subsidiaries; (iv) sell or otherwise dispose of assets; (v) enter into transactions with affiliates; (vi) create or incur liens; merge, consolidate or sell all or substantially all of the Company’s assets; (vii) place restrictions on the ability of subsidiaries to pay dividends or make other payments to the Company; and (viii) designate the Company’s subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications.

### ***2016 Credit Agreement due 2027***

On February 16, 2016, we entered into the 2016 Credit Agreement. From 2016 to 2022, we entered into various amendments to the 2016 Credit Agreement, including the amendment in October 2022, as described below.

On October 13, 2022, the Company entered into an amendment of the 2016 Credit Agreement (the “Fifth Amendment”). The Fifth Amendment provides for, among other things, a new five-year revolving credit facility in an aggregate principal amount of \$250.0 million (the “New Revolving Credit Facility”). The New Revolving Credit Facility refinances and replaces the previously existing \$80.0 million revolving credit facility under the 2016 Credit Agreement. The Company’s obligations under the 2016 Credit Agreement continue to be secured by substantially all of its and its direct and indirect subsidiaries’ assets, and is senior in position to the 2021 Senior Notes due 2029.

Contemporaneously with the Fifth Amendment, the Company drew down \$160.0 million of funds available under the New Revolving Credit Facility. Proceeds totaling \$61.6 million from the \$160.0 million drawdown were used to repay then existing term loan borrowings under the 2016 Credit Agreement totaling \$60.0 million, plus accrued interest and fees totaling \$1.6 million. As discussed below, the remaining \$98.4 million of proceeds were used to fund the cash portion of the Martin Acquisition. The Company made repayments of borrowings under the New Revolving Credit Facility totaling \$83.6 million through December 31, 2022.

Interest on borrowings under the New Revolving Credit Facility is payable either quarterly or at the expiration of any Secured Overnight Financing Rate (“SOFR”) interest period applicable thereto. Borrowings under the New Revolving Credit Facility accrue interest at a rate equal to, at our option, a base rate (with a floor of 100 basis points) plus a percentage spread (ranging from 0.75% to 1.75%) based on our first lien net leverage ratio or SOFR (with a floor of 0 basis points) plus a percentage spread (ranging from 1.75% to 2.75%) based on our first lien net leverage ratio. After giving effect to the Fifth Amendment, we will pay quarterly commitment fee on the unused portion of the New Revolving Credit Facility equal to a percentage spread (ranging from 0.25% to 0.35%) based on our first lien net leverage ratio. The Fifth Amendment also modifies the application of the financial covenant under the 2016 Credit Agreement such that testing will occur on a quarterly basis, commencing with the fiscal quarter ending December 31, 2022.

As of December 31, 2022, borrowings outstanding under the \$250.0 million New Revolving Credit Facility totaled \$76.4 million, and accrued interest was \$235 thousand. There were \$5.7 million in letters of credit outstanding. Availability under the New Revolving Credit Facility at December 31, 2022 totaled \$167.9 million. The weighted average all-in interest rate for borrowings under the existing revolving credit facility of the 2016 Credit Agreement due 2027 was 6.07% as of December 31, 2022, and for borrowings under the term loan facility of the then existing 2016 Credit Agreement due 2024 was 2.10% at January 1, 2022.

The Martin Acquisition was financed in part with the \$250.0 million available under the New Revolving Credit Facility provided by the Fifth Amendment of our 2016 Credit Agreement, under which we drew \$160.0 million on October 14, 2022, the proceeds of which were used to pay \$98.4 million of the \$187.8 million total fair value of consideration transferred, and \$61.6 million to prepay our \$60.0 million existing term loans under the Fourth Amendment of our 2016 Credit Agreement, plus \$1.6 million in fees, costs and accrued interest. The remainder of the total fair value of consideration transferred totaling \$89.4 million was funded with cash on hand previously generated through operations. We also paid buyer fees and costs relating to the Martin Acquisition totaling \$4.8 million in the year ended December 31, 2022, classified as selling, general and administrative expenses in the accompanying consolidated statements of operations for the year ended December 31, 2022.

### ***Deferred Financing Costs***

All debt-related fees, costs and original issue discount, including those related to the revolving credit portion of the facility, is classified as a reduction of the carrying value of long-term debt. The activity relating to third-party fees and costs, lender fees and discount for the year ended December 31, 2022, are as follows:

<i>(in thousands)</i>	<b>Total</b>
At beginning of year	\$ 9,345
Less: Write-off of deferred costs classified as debt extinguishment costs	(410)
Add: Deferred financing costs from the refinancing of the 2016 Credit Agreement	1,526
Less: Amortization expense	(1,242)
Other	(1)
At end of year	<u>\$ 9,218</u>

Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated, as of December 31, 2022, is as follows:

<i>(in thousands)</i>	<b>Total</b>
2023	\$1,320
2024	1,366
2025	1,442
2026	1,466
2027	1,440
Thereafter	2,184
Total	<u>\$9,218</u>

The following represents future maturities of long-term debt as of December 31, 2022 (at face value):

<i>(in thousands)</i>	<b>Total</b>
2023	\$ —
2024	—
2025	—
2026	—
2027	76,352
Thereafter	575,000
Total	<u>\$651,352</u>

### ***Interest Expense, Net***

Interest expense, net consisted of the following:

	<b>Year Ended</b>		
	<b>December 31, 2022</b>	<b>January 1, 2022</b>	<b>January 2, 2021</b>
<i>(in thousands)</i>			
Long-term debt	\$27,866	\$28,625	\$26,339
Debt fees	433	474	327
Amortization and write-offs of deferred financing costs and debt discount	1,242	978	1,206
Interest income	(620)	(27)	(120)
Interest expense	28,921	30,050	27,752
Capitalized interest	(42)	(21)	(33)
Interest expense, net	<u>\$28,879</u>	<u>\$30,029</u>	<u>\$27,719</u>

## 10. Derivatives

### *Aluminum Contracts and Midwest Transaction Premium*

We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. We also enter into forward contracts to hedge the fluctuations in the price of the delivery component of our aluminum extrusion purchases, known as the Midwest Transaction Premium, or MTP. Our contracts are designated as cash flow hedges since they are highly effective in offsetting changes in the cash flows attributable to forecasted purchases of aluminum and the related MTP.

We record our aluminum hedge contracts at fair value, based on trading values for aluminum forward contracts. Aluminum forward contracts identical to those held by us trade on the London Metal Exchange (“LME”). The LME provides a transparent forum and is the world’s largest center for the trading of futures contracts for non-ferrous metals. The prices are used by the metals industry worldwide as the basis for contracts for the movement of physical material throughout the production cycle. Based on this high degree of volume and liquidity in the LME, we believe the valuation price at any measurement date for contracts with identical terms as to prompt date, trade date and trade price as those we hold at any time represents a contract’s exit price to be used for purposes of determining fair value.

We record our MTP hedge contracts at fair value, based on the Platts MW US Transaction price per pound assessment, which has been a benchmark for decades in the North American aluminum industry. Platts surveys the North American market daily to capture trades, bids and offers on a delivered Midwest basis. Data is normalized to reflect the typical price per pound between the largest number of market participants, for delivery within 7 to 30 days from date of publication, net-30-day payment terms, for typical order quantities, chemistries and freight allowances. The survey is extensive and encompasses both domestic and offshore producers, traders and brokers that are varied in scope. Based on the extensive nature of this pricing mechanism, we believe the Platts MW US Transaction price at any time represents a contract’s exit price to be used for purposes of determining fair value.

Guidance under the Financial Instruments Topic 825 of the Codification requires us to record our hedge contracts at fair value and consider our credit risk for contracts in a liability position, and our counter-party’s credit risk for contracts in an asset position, in determining fair value. We assess our counter-party’s risk of non-performance when measuring the fair value of financial instruments in an asset position by evaluating their financial position, including cash on hand, as well as their credit ratings. We assess our risk of non-performance when measuring the fair value of our financial instruments in a liability position by evaluating our credit ratings, our current liquidity including cash on hand and availability under our New Revolving Credit Facility as compared to the maturities of the financial liabilities. Management makes an accounting policy election not to offset the estimated fair value amounts recognized for derivatives executed with the same counterparty under the same master netting arrangement. Our counterparties to our derivative contracts do not require the Company to post collateral against hedge contracts in a liability position, if any.

At December 31, 2022, we had no outstanding aluminum forward contracts. At December 31, 2022, the fair value of our MTP hedge contracts was in an asset position of \$0.3 million. We had one outstanding MTP contract to hedge the Platt US MW Transaction price per pound for the delivery of 7.5 million pounds of aluminum through December 2023, at an average price of \$0.21 per pound, with a maturity date in twelve months. We assessed the risk of non-performance of the Company and our counterparty, as applicable, and determined it was immaterial and, therefore, did not record any adjustment to the fair value as of December 31, 2022.

We assess the effectiveness of our cash flow hedges by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. The gain or loss on our hedging contracts is reported as a component of accumulated other comprehensive income (loss) and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. The amount of income, net, recognized in the “accumulated other comprehensive income (loss)” line item in the accompanying consolidated balance sheet as of December 31, 2022, that we expect will be reclassified to earnings within the next twelve months, is \$0.3 million.



The fair values of our aluminum hedges and MTP contracts are classified in the accompanying consolidated balance sheets at December 31, 2022, and January 1, 2022, as follows (in thousands):

	Derivative Assets		Derivative (Liabilities)	
	December 31, 2022		December 31, 2022	
<u>Derivatives designated as hedging instruments under Subtopic 815-20:</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivative instruments:				
Aluminum forward contracts	Other current assets	\$—	Accrued liabilities	\$—
MTP contracts	Other current assets	300	Accrued liabilities	—
Aluminum forward contracts	Other assets	—	Other liabilities	—
MTP contracts	Other assets	—	Other liabilities	—
Total derivative instruments	Total derivative assets	<u>\$300</u>	Total derivative liabilities	<u>\$—</u>
	Derivative Assets		Derivative (Liabilities)	
	January 1, 2022		January 1, 2022	
<u>Derivatives designated as hedging instruments under Subtopic 815-20:</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivative instruments:				
Aluminum forward contracts	Other current assets	\$4,829	Accrued liabilities	\$—
MTP contracts	Other current assets	4,599	Accrued liabilities	—
Aluminum forward contracts	Other assets	—	Other liabilities	—
MTP contracts	Other assets	—	Other liabilities	—
Total derivative instruments	Total derivative assets	<u>\$9,428</u>	Total derivative liabilities	<u>\$—</u>

The ending accumulated balance for the aluminum forward and MTP contracts included in accumulated other comprehensive income, net of tax, was \$0.2 million as of December 31, 2022, and \$7.0 million as of January 1, 2022.

The following represents the gains (losses) on derivative financial instruments, and their classifications within the accompanying consolidated financial statements for the three years ended December 31, 2022 (in thousands):

	Derivatives in Cash Flow Hedging Relationships		
	Amount of Gain or (Loss) Recognized in OCI(L) on Derivatives	Location of Gain or (Loss) Reclassified from Accumulated OCI(L) into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI(L) into Income
	Year Ended		Year Ended
	January 2, 2021		January 2, 2021
Aluminum contracts	\$ 1,037	Cost of sales	\$ (2,470)
MTP contracts	\$ 532	Cost of sales	\$ 111
	January 1, 2022		January 1, 2022
Aluminum contracts	\$14,012	Cost of sales	\$12,373
MTP contracts	\$10,443	Cost of sales	\$ 6,265
	December 31, 2022		December 31, 2022
Aluminum contracts	\$ (7,732)	Cost of sales	\$ (2,903)
MTP contracts	\$ 42	Cost of sales	\$ 4,341

We classify cash flows related to derivative instruments as operating activities in the accompanying consolidated statements of cash flows.

## **11. Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A three-tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The accounting guidance concerning fair value allows us to elect to measure financial instruments at fair value and report the changes in fair value through earnings. This election can only be made at certain specified dates and is irrevocable once made. We do not have a policy regarding specific assets or liabilities to elect to measure at fair value, but rather we make the election on an instrument-by-instrument basis as they are acquired or incurred.

During 2022, 2021, or 2020, we did not make any transfers between Level 1, Level 2 or Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

### ***Fair Value of Financial Instruments***

Our financial instruments include cash equivalents, accounts and notes receivable, accounts payable, and accrued liabilities, whose carrying amounts approximate their fair values due to their short-term nature. Our financial instruments also include borrowings under our 2016 Credit Agreement due 2027, as well as the 2021 Senior Notes due 2029 at December 31, 2022 and January 1, 2022, all classified as long-term debt. The fair value of borrowings under the 2016 Credit Agreement due 2027 approximates its carrying value due to its variable interest rate nature, and was approximately \$76.4 million as of December 31, 2022, compared to a principal outstanding value of \$76.4 million, and \$60.0 million as of January 1, 2022, compared to a principal outstanding value of \$60.0 million. The fair value of the 2021 Senior Notes due 2029 is also based on debt with similar terms and characteristics and was approximately \$480.8 million as of December 31, 2022, compared to a principal outstanding value of \$575.0 million, and \$578.2 million as of January 1, 2022, compared to a principal outstanding value of \$575.0 million. Fair values were determined based on observed trading prices of our debt between domestic financial institutions, which we consider to be Level 2 inputs.

The carrying amounts for financial instruments measured at fair value are as follows:

	Fair Value Measurements Assets (Liabilities)			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2022</b>				
<b>Description</b>				
Aluminum forward contracts	\$ —	\$ —	\$ —	\$ —
MTP contracts	300	—	300	—
	<u>\$ 300</u>	<u>\$ —</u>	<u>\$ 300</u>	<u>\$ —</u>
<b>January 1, 2022</b>				
<b>Description</b>				
Aluminum forward contracts, net	\$4,829	\$ —	\$4,829	\$ —
MTP contracts, net	4,599	—	4,599	—
	<u>\$9,428</u>	<u>\$ —</u>	<u>\$9,428</u>	<u>\$ —</u>

## 12. Income Taxes

### *Income Tax Expense*

The components of income tax expense are as follows (in thousands):

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
Current:			
Federal	\$ 34,411	\$ 790	\$ 9,906
State	9,595	1,337	2,571
	<u>44,006</u>	<u>2,127</u>	<u>12,477</u>
Deferred:			
Federal	(8,661)	7,142	528
State	(2,679)	490	(1,121)
	<u>(11,340)</u>	<u>7,632</u>	<u>(593)</u>
Income tax expense	<u>\$ 32,666</u>	<u>\$9,759</u>	<u>\$11,884</u>

The aggregate amount of income taxes included in the consolidated statements of operations and consolidated statements of shareholders' equity are as follows (in thousands):

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
<b>Consolidated statements of operations:</b>			
Income tax expense relating to continuing operations	\$32,666	\$ 9,759	\$11,884
<b>Consolidated statements of shareholders' equity:</b>			
Income tax benefit (expense) relating to derivatives	\$ 2,345	\$(1,531)	\$ (970)

### ***Reconciliation of the Statutory Rate to the Effective Rate***

A reconciliation of the statutory federal income tax rate to our effective rate is provided below:

	<b>Year Ended</b>		
	<b>December 31, 2022</b>	<b>January 1, 2022</b>	<b>January 2, 2021</b>
Statutory federal income tax rate	21.0%	21.0%	21.0%
State income taxes, net of federal income tax benefit	4.7%	3.2%	3.7%
Non-deductible expenses	1.3%	1.3%	1.0%
Research activities credits	(1.2)%	(0.8)%	(2.3)%
Florida excess tax refund relating to the Tax Cuts and Jobs Act	(0.4)%	—	(1.0)%
Eco partnership income attributable to non-controlling interest	(0.3)%	(1.2)%	—
Excess stock-based compensation tax benefits	(0.1)%	(2.0)%	(1.4)%
Other	(0.1)%	0.2%	(0.1)%
Consolidated effective tax rate	<u>24.9%</u>	<u>21.7%</u>	<u>20.9%</u>

### ***Deferred Income Taxes***

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our net deferred tax liability are as follows:

	<b>December 31, 2022</b>	<b>January 1, 2022</b>
	<i>(in thousands)</i>	
Deferred tax assets:		
Operating lease liability	\$ 21,496	\$ 16,949
Other deferrals and accruals, net	10,039	1,848
Deferrals and accruals relating to ASC 606, net	5,707	6,580
Obsolete inventory and UNICAP adjustment	4,054	1,666
State bonus depreciation and tax credits	3,926	3,748
Allowance for credit losses	3,885	1,048
Accrued warranty	3,564	2,380
Stock-based compensation expense	2,926	2,527
Acquisition costs	2,236	2,158
Advance supplier consideration	1,388	2,109
Total deferred tax assets	<u>59,221</u>	<u>41,013</u>
Deferred tax liabilities:		
Trade names and other intangible assets, net	(39,193)	(18,162)
Goodwill	(21,303)	(17,102)
Property, plant and equipment	(21,257)	(20,958)
Operating lease right-of-use asset	(19,655)	(15,371)
Eco partnership basis difference	(2,921)	(3,110)
Prepaid expenses	(2,222)	(1,378)
Derivative financial instruments	(77)	(2,421)
Total deferred tax liabilities	<u>(106,628)</u>	<u>(78,502)</u>
Total deferred tax liabilities, net	<u>\$ (47,407)</u>	<u>\$(37,489)</u>

### ***Tax Basis in Goodwill***

We have goodwill deductible for tax purposes in certain of our acquisitions as the transactions were acquisitions of stock treated as step-up acquisitions of assets and assumption of liabilities pursuant to elections under section 338(h)(10) or 743(b) of the Internal Revenue Code, or the transactions were structured as acquisitions of assets and assumptions of liabilities. The unamortized amount of this goodwill for tax purposes, including the goodwill as a result of the Anlin Acquisition discussed below, was \$169.4 million and \$185.7 million at December 31, 2022, and January 1, 2022, respectively. These amounts exclude the tax basis of goodwill of Eco, which we may benefit from based on our 75% ownership stake in Eco Enterprises LLC.

For tax purposes, contingent consideration does not become part of tax goodwill until paid. As such, the amount of goodwill deductible for tax purposes in the Anlin Acquisition will not be finalized until the payment of the contingent consideration for 2022 is paid. As of December 31, 2022, the estimated fair value of the contingent consideration in the allocation relating to this remaining payment was \$4.3 million, and goodwill according to the current allocation of consideration is \$9.6 million. As such, as of December 31, 2022, the amount of goodwill estimated to be tax deductible is the difference of \$5.3 million. See Note 5 for further discussion of the contingent consideration in the Anlin Acquisition.

In the Martin Acquisition, we acquired goodwill totaling \$90.3 million. Because the Martin Acquisition was structured as an acquisition of the stock of a C corporation, a step-up election is not available. Therefore, we do not believe any of the goodwill as a result of the Martin Acquisition is deductible for tax purposes.

### ***Excess Tax Benefits***

Excess tax benefits resulting from the exercise of stock options and lapse of restriction on stock awards are recognized as a component of tax expense. Income tax expense in the years ended December 31, 2022, January 1, 2022, and January 2, 2021, includes excess tax benefits totaling \$0.2 million, \$0.9 million, and \$0.8 million, respectively.

### ***Income Taxes Payable***

Accrued liabilities on December 31, 2022 includes income taxes currently payable of \$16.4 million. Other current assets on January 1, 2022 included income taxes receivable of \$6.7 million.

### ***Open Tax Years***

The tax years 2014 to 2021 remain open for examination by the IRS and Florida due to the statute of limitations and net operating losses utilized in prior tax years.

## **13. Leases, Commitments and Contingencies**

### ***Leases***

We lease certain of our manufacturing facilities under operating leases. We also lease production equipment, vehicles, computer equipment, storage units and office equipment under operating leases. Our leases have remaining lease terms of 1 year to 12 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. All of our leases are operating leases. We did not recognize right-of-use assets or lease liabilities for certain short-term leases that are month-to-month leases. As of December 31, 2022, we had no additional operating or finance leases that have not yet commenced. Our operating leases expire at various times through 2035. Lease expense for the years ended December 31, 2022, and January 1, 2022, totaled \$30.7 million and \$25.1 million, respectively, and includes \$15.6 million and \$10.6 million, respectively, classified in cost of sales in the accompanying consolidated statement of operations, with the remainder as selling, general and administrative expenses.

The components of lease expense for the years ended December 31, 2022 and January 1, 2022 are as follows (in thousands):

	Year Ended	
	December 31, 2022	January 1, 2022
Operating lease cost	\$20,490	\$15,254
Short-term lease cost	10,175	9,872
Total lease cost	<u>\$30,665</u>	<u>\$25,126</u>

Other information relating to leases for the years ended December 31, 2022 and January 1, 2022, are as follows (in thousands, except years and percentages):

	Year Ended	
	December 31, 2022	January 1, 2022
<b>Supplemental cash flows information</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows relating to operating leases	<u>\$(19,635)</u>	<u>\$(13,750)</u>
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	<u>\$ 29,031</u>	<u>\$ 65,678</u>
<b>Weighted average remaining lease term in years</b>		
Operating leases	<u>7.12</u>	<u>7.04</u>
<b>Weighted average discount rate</b>		
Operating leases	<u>5.2%</u>	<u>5.5%</u>

Future minimum lease commitments for operating leases are as follows (in thousands):

	December 31, 2022	January 1, 2022
2022	\$ —	\$ 17,929
2023	21,498	17,577
2024	20,941	16,990
2025	19,842	15,987
2026	18,612	15,025
2027	17,572	14,358
Thereafter	<u>33,224</u>	<u>17,891</u>
Total future minimum lease payments	131,689	115,757
Less: Imputed interest	<u>(20,137)</u>	<u>(18,674)</u>
Operating lease liability—total	<u>\$111,552</u>	<u>\$ 97,083</u>
<b>Reported as of December 31, 2022 and January 1, 2022:</b>		
Current portion of operating lease liability	\$ 16,393	\$ 13,180
Operating lease liability, less current portion	<u>95,159</u>	<u>83,903</u>
Operating lease liability—total	<u>\$111,552</u>	<u>\$ 97,083</u>



### ***Purchase Commitments***

We are obligated to purchase certain raw materials used in the production of our products from certain suppliers pursuant to stocking programs. If these programs were cancelled by us, as of December 31, 2022, and January 1, 2022, we would be required to pay \$26.1 million and \$21.6 million, respectively, for various materials. During the years ended December 31, 2022, January 1, 2022, and January 2, 2021, we made purchases under these programs totaling \$454.6 million, \$262.4 million and \$227.4 million, respectively. The Company expects to utilize its purchase commitments in its normal ongoing operations.

At December 31, 2022, we had \$5.7 million in standby letters of credit related to our workers' compensation insurance coverage.

### ***Legal Proceedings***

We are a party to various legal proceedings in the ordinary course of business. Although the ultimate disposition of those proceedings cannot be predicted with certainty, management believes the outcome of any claim that is pending or threatened, either individually or on a combined basis, will not have a materially adverse effect on our operations, financial position or cash flows.

## **14. Employee Benefit Plans**

### ***Defined Contribution Plan***

We have a 401(k) plan covering substantially all employees 18 years of age or older who have at least three months of service. Employees may contribute up to 80% of their annual compensation subject to Internal Revenue Code maximum limitations. We currently make matching contributions based on our operating results. During the years ended December 31, 2022, January 1, 2022, and January 2, 2021, there was a matching contribution of up to 3%, in each year made at various times during the year. Company contributions and earnings thereon vest at the rate of 20% per year of service with us when at least 1,000 hours are worked within the Plan year. We recognized expenses for such employer matching of \$6.5 million, \$4.5 million and \$3.3 million for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively.

### ***2019 Employee Stock Purchase Plan***

On May 22, 2019, our shareholders approved, and we adopted the 2019 Employee Stock Purchase Plan (the "2019 ESPP") whereby eligible employees may purchase the Company's common stock at a discount from fair market value represented by the trading price of the Company's common stock on the NYSE. Eligible employees may purchase the Company's common stock at a price which is determined by the Compensation Committee of the Board of Directors of the Company, but which will be no less than 85% of fair market value, as defined in the 2019 ESPP. There is a maximum of 700,000 shares issuable under the 2019 ESPP. Since its approval by our shareholders, there have been 107,618 shares issued under the 2019 ESPP.

## **15. Related Parties**

In the ordinary course of business, we sell windows to Builders FirstSource, Inc. One of our directors, Brett Milgrim, is currently a director of Builders FirstSource, Inc., and Floyd Sherman, another of our directors, is a former director and the former Chief Executive Officer of Builders FirstSource, Inc. Our total net sales to Builders FirstSource, Inc. were \$54.0 million, \$25.9 million and \$21.4 million for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively. As of December 31, 2022, and January 1, 2022, there was \$5.6 million and \$3.7 million due from Builders FirstSource, Inc. included in accounts receivable in the accompanying consolidated balance sheets.

## **16. Shareholders' Equity**

### ***2019 Share Repurchase Program***

On May 22, 2019, our Board of Directors authorized and approved a share repurchase program of up to \$30.0 million. The repurchases may be made in open-market or private transactions from time to time. Repurchases of shares may be made under a Rule 10b5-1 plan, which would permit repurchases when the Company might otherwise be precluded from doing so under applicable laws. The Company bases repurchase decisions, including the timing of repurchases, on factors such as the Company's stock price, general economic and market conditions, the potential impact on the Company's capital structure, the expected return on competing uses of capital such as strategic acquisitions and capital investments, and other corporate considerations, as determined by management. From the inception of the program on May 22, 2019, through January 2, 2021, we made repurchases of 393,819 shares of our common stock at a total cost of \$5.5 million under this program. We made no repurchases under this program during 2020 or 2021. During the fourth quarter of 2022, we made repurchases of 86,124 shares of our common stock at a total cost of \$1.6 million under this program. The repurchase program may be suspended or discontinued at any time.

### ***Repurchases of Company Common Stock***

In addition to the repurchases of our common stock in the open market during 2022 discussed above, during 2022 and 2021, we repurchased 95,001 shares and 73,105 shares, respectively, of our common stock at a total cost of \$1.9 million and \$1.6 million, respectively, all relating to purchases from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards. Those shares were immediately retired.

### ***2021 Equity Issuance in Eco Acquisition***

On February 1, 2021, we completed the Eco Acquisition, which represented a 75% stake in the newly created entity Eco Enterprises. The fair value consideration we transferred for Eco was \$102.0 million, including \$94.4 million in cash and \$1.5 million in fair value of contingent consideration. The fair value of consideration also included PGT Innovations, Inc. common stock with a then estimated fair value of \$6.1 million.

The common stock portion of the purchase price was represented by the issuance of 357,797 shares of PGT Innovations, Inc. common stock on February 1, 2021, with a closing price value of \$21.34 per share on that date, or approximately \$7.6 million based on that price. However, the seller of Eco, who is also the holder of the 25% redeemable non-controlling interest in Eco Enterprises, is restricted from selling these shares for a three-year period from the date of the acquisition. As such, we estimated that there was an approximately 20% discount for the lack of marketability of the shares.

## **17. Stock-Based Compensation**

### ***2019 Equity Plan***

On May 22, 2019, our shareholders approved, and we adopted the 2019 Equity and Incentive Compensation Plan (the "2019 Equity Plan") whereby equity-based awards of up to a total of 1,550,000 shares may be granted by the Board to eligible non-employee directors, selected officers and other employees, advisors and consultants of ours. A summary of certain key features and terms of the 2019 Equity Plan is set forth below. A more complete discussion about the 2019 Equity Plan is set forth in the Company's proxy statement for its 2019 annual meeting of stockholders, which was filed with the SEC on April 23, 2019.

On June 10, 2022, our shareholders approved, and we adopted, the Amended and Restated 2019 Equity and Incentive Compensation Plan (the "Amended and Restated 2019 Equity Plan") which, among other things, increase the total number of shares of common stock available for grant by 3,000,000 shares. A more complete discussion about the 2019 Equity Plan is set forth in the Company's proxy statement for its 2019 annual meeting of stockholders, which was filed with the SEC on June April 29, 2022.

### *Amended and Restated 2019 Equity and Incentive Compensation Plan*

- sets forth the total number of shares of common stock available for grant thereunder, at 4,550,000 shares,
- sets forth the types of awards eligible under the plan, including issuances of options, share appreciation rights, restricted shares, restricted share units, share bonuses, other share-based awards and cash awards, and
- sets forth the maximum number of shares that may be made subject to awards in any calendar year to any “covered employee” (within the meaning of Section 162(m) of the Internal Revenue Code).
- shares previously granted under predecessor plans, including the 2014 Equity Plan and the 2006 Equity Plan, may be available for issuance under the 2019 Equity Plan under certain circumstances described below.

There were 3,066,540 shares available for grant under the Amended and Restated 2019 Equity Plan at December 31, 2022.

### ***Recent Issuances***

On February 14, 2022, we issued 468,518 shares of restricted stock to certain executive and non-executive employees of the Company, under the Company’s 2022 long-term incentive plan (“2022 LTIP”). The final number of half of the shares awarded under the 2022 LTIP, or 234,259 shares, is subject to adjustment based on the performance of the Company for the 2022 fiscal year and was not final as of December 31, 2022. Additionally, a portion of the 234,259 performance shares issued under the 2022 LTIP are subject to a total shareholder return (“TSR”) component, which will not be finalized until the third anniversary of the February 14, 2022 grant date. Specifically, 37.5% of the one-half of the restricted stock awarded in the 2022 LTIP are performance restricted shares which will not be earned unless certain financial performance metrics are met by the Company for the 2022 fiscal year. The performance criteria, as defined in the share awards, provide for a graded awarding of shares based on the percentage by which the Company meets earnings before interest, taxes, depreciation and amortization (“EBITDA”) as defined in our 2022 business plan. The percentages, ranging from less than 80% to greater than or equal to 120% of the target amount of that EBITDA metric, provide for the awarding of shares ranging from 0% to 200% of the target amount of shares with respect to 37.5% of half of the 468,518 shares, or 87,847 shares. The remaining 62.5% of the one-half of the restricted stock awarded in the 2022 LTIP, or 146,412 shares, are subject to the same EBITDA metric, but are also subject to a TSR component which stratifies the performance of the Company’s common stock price compared to a defined peer group of companies over the three-year period subsequent to February 14, 2022, such that if the Company’s TSR falls at the 75th percentile or higher compared to the peer group, grantees will receive an additional 25% of performance shares. If the Company’s TSR falls at the 25th percentile or lower compared to the peer group, grantees will forfeit 25% of performance shares. If the Company’s TSR falls within the 75th and 25th percentiles, there will be no additional adjustment and grantees will receive their performance shares as per the EBITDA metric previously discussed. The final award is also affected by forfeitures upon the termination of a grantee’s employment with the Company. The remaining 234,259 shares from the 2022 LTIP are not subject to adjustment based on any performance or other criteria, but rather, vest in three equal installments on each of the first, second and third anniversaries of the grant date, assuming the grantee is employed by the Company on those vesting dates. The grant date fair value of the 2021 LTIP was \$18.27 per share for those shares not subject to adjustment based on any performance or other criteria except the passage of time, and the 37.5% of shares subject only to the EBITDA criteria of Company performance. For the 62.5% of performance shares subject to both the EBITDA criteria of Company performance and the TSR component, the grant date fair value was \$20.79 per share as determined by a third-party valuation specialist engaged by the Company, which used Monte Carlo simulation techniques to determine the fair value of such shares, which we consider to be a Level 3 input.

On June 10, 2022, we issued a total of 35,588 shares of restricted stock awards to seven non-employee board members of the Company, and 10,168 restricted stock units to two non-employee board members of the Company who elected to defer receipt of their stock awards, as the non-cash portion of their annual

compensation for participation on the Company's Board of Directors. The restrictions on these awards lapse one year after the grant date. The awards have a weighted average fair value on date of grant of \$19.67 based on the New York Stock Exchange market price of the common stock.

We record stock compensation expense over an equity award's vesting period using the award's fair value at the date of grant. We recorded compensation expense for stock-based awards of \$9.7 million, \$7.8 million and \$5.5 million for the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively.

Of the \$9.7 million, \$7.8 million and \$5.5 million in stock-based compensation expense in the years ended December 31, 2022, January 1, 2022, and January 2, 2021, respectively, \$8.2 million, \$6.4 million and \$4.8 million, respectively, are classified within selling, general and administrative expense in the accompanying consolidated statements of operations for those years, with the remainder classified within cost of sales.

### ***Restricted Share Awards***

A summary of the status of restricted share awards as of December 31, 2022, and changes during the year then ended, are presented below:

	<u>Number of Shares</u>	<u>Weighted Average Fair Value</u>
Outstanding at January 1, 2022	1,146,106	\$18.25
Granted	566,906	\$19.15
Vested	(359,360)	\$19.83
Forfeited/Performance adjustment	(85,394)	\$20.82
Outstanding at December 31, 2022	<u>1,268,258</u>	\$18.75

As of December 31, 2022, the remaining compensation cost related to non-vested share awards was \$9.6 million which is expected to be recognized in earnings using an accelerated method resulting in higher levels of compensation costs occurring in earlier periods over a weighted average period of 1.6 years.

## 18. Accumulated Other Comprehensive Income (Loss)

The following table shows the components of accumulated other comprehensive income (loss) for the years ended December 31, 2022, January 1, 2022, and January 2, 2021:

<i>(in thousands)</i>	<u>Aluminum Forward Contracts</u>	<u>MTP Contracts</u>	<u>Total</u>
Accumulated other comprehensive loss at December 28, 2019	\$ (238)	\$ —	\$ (238)
Change in fair value of derivatives	1,037	532	1,569
Amounts reclassified from accumulated other comprehensive earnings	2,470	(111)	2,359
Tax effect	(866)	(104)	(970)
Net current-period other comprehensive income	<u>2,641</u>	<u>317</u>	<u>2,958</u>
Accumulated other comprehensive income at January 2, 2021	<u>\$ 2,403</u>	<u>\$ 317</u>	<u>\$ 2,720</u>
Accumulated other comprehensive income at January 2, 2021	<u>\$ 2,403</u>	<u>\$ 317</u>	<u>\$ 2,720</u>
Change in fair value of derivatives	14,012	10,443	24,455
Amounts reclassified from accumulated other comprehensive earnings	(12,373)	(6,265)	(18,638)
Tax effect	(432)	(1,099)	(1,531)
Net current-period other comprehensive income	<u>1,207</u>	<u>3,079</u>	<u>4,286</u>
Accumulated other comprehensive income at January 1, 2022	<u>\$ 3,610</u>	<u>\$ 3,396</u>	<u>\$ 7,006</u>
Accumulated other comprehensive income at January 1, 2022	<u>\$ 3,610</u>	<u>\$ 3,396</u>	<u>\$ 7,006</u>
Change in fair value of derivatives	(7,732)	42	(7,690)
Amounts reclassified from accumulated other comprehensive earnings	2,903	(4,341)	(1,438)
Tax effect	1,219	1,126	2,345
Net current-period other comprehensive loss	<u>(3,610)</u>	<u>(3,173)</u>	<u>(6,783)</u>
Accumulated other comprehensive income at December 31, 2022	<u>\$ —</u>	<u>\$ 223</u>	<u>\$ 223</u>

## 19. Segments

We have two reportable segments: the Southeast segment, and the Western segment.

The Southeast reporting segment, which is also an operating segment, is composed of sales from our manufacturing facilities in Florida. The Western reporting segment, also an operating segment, is composed of sales from our manufacturing facilities in Arizona, California and, with the Martin Acquisition, Utah.

Centralized financial and operational oversight, including resource allocation and assessment of performance on an income (loss) from operations basis, is performed by our CEO, whom we have determined to be our chief operating decision maker (“CODM”), with oversight by the Board of Directors.

The following table represents summary financial data attributable to our operating segments for the years ended December 31, 2022, January 1, 2022, and January 2, 2021. Results of the Southeast segment for the year

ended January 1, 2022 includes the results of Eco for its post-acquisition period from February 1, 2021. Results of the Southeast segment for the year ended January 2, 2021 includes the results of NewSouth for its post-acquisition period from February 1, 2020. Results of the Western segment for the year ended December 31, 2022 includes the results of Martin for its post-acquisition period from October 14, 2022, and for the year ended January 1, 2022, includes the results of Anlin for its post-acquisition period from October 25, 2021. Corporate overhead has been allocated to each segment using an allocation method we believe is reasonable (in thousands):

	Year Ended		
	December 31, 2022	January 1, 2022	January 2, 2021
Net sales:			
Southeast segment	\$1,110,355	\$ 968,693	\$752,432
Western segment	381,599	192,771	130,189
Total net sales	<u>\$1,491,954</u>	<u>\$1,161,464</u>	<u>\$882,621</u>
Income from operations:			
Southeast segment	\$ 112,593	\$ 74,815	\$ 85,794
Western segment	55,190	25,641	11,144
Impairment of trade name	(7,423)	—	(8,000)
Restructuring costs and charges	—	—	(4,227)
Total income from operations	160,360	100,456	84,711
Interest expense, net	28,879	30,029	27,719
Debt extinguishment costs	410	25,472	—
Total income before income taxes	<u>\$ 131,071</u>	<u>\$ 44,955</u>	<u>\$ 56,992</u>

Depreciation expense for the years ended December 31, 2022, January 1, 2022 and January 2, 2021, was \$27.4 million, \$26.5 million, and \$20.9 million for our Southeast segment, respectively, and \$6.7 million, \$4.0 million, and \$3.1 million for our Western segment, respectively. Amortization expense for the years ended December 31, 2022, January 1, 2022 and January 2, 2021, was \$10.1 million, \$10.7 million, and \$9.2 million for our Southeast segment, respectively, and \$16.0 million, \$10.4 million, and \$9.6 million for our Western segment, respectively.

Total assets of our Southeast segment as of December 31, 2022 and January 1, 2022 were \$909.6 million and \$911.3 million, respectively. Total assets of our Western segment as of December 31, 2022 and January 1, 2022 were \$730.6 million and \$549.3 million, respectively.

## 20. Redeemable Non-Controlling Interest

On February 1, 2021, we completed an acquisition of a 75% ownership stake in Eco. The seller of Eco obtained the remaining equity interest in the newly formed company, Eco Enterprises. The seller's redeemable non-controlling interest was initially established at fair value.

The agreement between PGT Innovations, Inc. and the seller provides the Company with a call right for seller's equity interest in the third year following the acquisition date. If the Company does not exercise its right to call by the third anniversary, the agreement provides the seller with a put right which can be exercised during the 15-day period following the third anniversary. Upon exercise of the put or call right, the purchase price is calculated based on a future agreed performance metric. The put option makes the non-controlling interest redeemable and, therefore, the redeemable non-controlling interest is classified as temporary equity outside of shareholders' equity.

The Company calculates the estimated future redemption value of the non-controlling interest on a quarterly basis and is adjusted to accreted value using the effective interest method. Any accretion adjustment in the



current reporting period of the redeemable non-controlling interest is offset against retained earnings and impacts earnings used in the calculation of earnings per share attributable to common shareholders in the reporting period.

Based on the formula in the operating agreement governing this transaction, the future redemption value of the redeemable non-controlling interest was estimated to be \$37.3 million, which we accreted to \$34.7 million as of December 31, 2022.

The following table presents the changes in the Company's redeemable non-controlling interest for the period presented:

	<b>Year Ended</b>	
	<b>December 31, 2022</b>	<b>January 1, 2022</b>
<i>(in thousands)</i>		
Balance at beginning of year	\$36,863	\$ —
Redeemable non-controlling interest in Eco at initially estimated fair value	—	28,464
Net income attributable to redeemable non-controlling interest	1,523	2,318
Change in value of redeemable non-controlling interest	(2,000)	6,081
Distribution to non-controlling interest	(1,665)	—
Balance at end of year	<u>\$34,721</u>	<u>\$36,863</u>

## **21. Subsequent Event**

### ***2023 Share Repurchase Program***

On February 7, 2023, the Company announced that its Board of Directors approved a new, share repurchase program which authorizes the Company to purchase up to \$250.0 million of its common stock. This program permits the Company to purchase shares of its common stock from time to time through open-market purchases, in privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, in accordance with applicable securities laws and other restrictions. The timing and total amount of stock repurchases will depend upon business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The share repurchase program will have a term of 3 years, through February 3, 2026, and may be suspended or discontinued at any time, and does not obligate the company to acquire any amount of common stock.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(c) of the Securities and Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2022. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms of the SEC. These disclosure controls and procedures include, among other things, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, management is required to apply its judgment in evaluating the benefits of possible disclosure controls and procedures relative to their costs to implement and maintain.

Based on management's evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2022, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**Management's Report on Our Internal Control over Financial Reporting**

Management's annual report on internal control over financial reporting

Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over our financial reporting.

We have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2022. The evaluation was performed based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management concluded that, as of such date, our internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2022, has been audited by Ernst & Young LLP, an independent registered public accounting firm, which also audited the Company's Consolidated Financial Statements for the year ended December 31, 2022. Ernst & Young LLP's report on internal control over financial reporting is set forth below.

## Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting for the quarter ended December 31, 2022, identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, during the year ended December 31, 2022, we acquired Martin. We are currently integrating Martin into our operations, compliance programs and internal control processes. As such, Martin has not been included in our assessment of internal control over financial reporting as of December 31, 2022. We will include Martin into our assessment of internal controls as of December 30, 2023, the end of our 2023 fiscal year. Martin is included in the 2022 consolidated financial statements of the Company and constitutes 14.0% of total assets as of December 31, 2022 and 0.6% of revenues for the fiscal year then ended.

Attestation report of the registered public accounting firm

### **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of PGT Innovations, Inc.

#### **Opinion on Internal Control Over Financial Reporting**

We have audited PGT Innovations, Inc.'s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PGT Innovations, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

As indicated in the accompanying Management's Report on our Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Martin Garage Door, which is included in the 2022 consolidated financial statements of the Company and constitute 14.0% of total assets as of December 31, 2022 and 0.6% of revenues for the fiscal year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Eco Enterprises and Anlin Industries.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2022, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the fiscal period ended December 31, 2022, and the related notes and the financial statement schedule listed in the Index at Item 15(a) and our report dated February 27, 2023 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on our Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tampa, Florida  
February 27, 2023

**Item 9B. OTHER INFORMATION**

None.

**Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

## PART III

### **Item 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

#### **Executive Officers**

The information required by this item with respect to our executive officers will be set forth in Proxy Statement for our 2023 Annual Meeting of Stockholders (our “2023 Proxy Statement”), under the caption “Governance of the Company” and is incorporated herein by reference.

#### **Directors**

The information required by this item with respect to our board of directors and committees thereof will be set forth in our 2023 Proxy Statement under the caption “Governance of the Company” and is incorporated herein by reference.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance will be set forth in our 2023 Proxy Statement under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934” and is incorporated herein by reference.

### **Item 11. *EXECUTIVE COMPENSATION***

The information required by this item will be set forth in our 2023 Proxy Statement under the captions “Executive Compensation,” “Employment Agreements,” and “Change in Control Agreements,” “Information Regarding the Board and its Committees — Information on the Compensation of Directors,” “Compensation Committee Report,” and “Compensation Committee Interlocks and Insider Participation,” which information is incorporated herein by reference.

### **Item 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by this item will be set forth in our 2023 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information,” which information is incorporated herein by reference.

### **Item 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item will be set forth in our 2023 Proxy Statement under the caption “Certain Relationships and Related Transactions,” which information is incorporated herein by reference.

### **Item 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The information required by this item will be set forth in our 2023 Proxy Statement under the caption “Audit Committee Report — Fees Paid to the Principal Accountant,” which information is incorporated herein by reference.

## PART IV

### Item 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

(a)(1) See the index to consolidated financial statements and schedule provided in Item 8 for a list of the financial statements filed as part of this report.

#### (2) Schedule II – Valuation and Qualifying Accounts

<u>Allowance for Doubtful Accounts</u>	<u>Balance at Beginning of Period</u>	<u>Costs and expenses</u>	<u>Deductions*</u>	<u>Balance at End of Period</u>
			<i>(in thousands)</i>	
Year ended December 31, 2022	\$4,702	\$10,979	\$(2,025)	\$13,656
Year ended January 1, 2022	\$3,716	\$ 3,834	\$(2,848)	\$ 4,702
Year ended January 2, 2021	\$3,320	\$ 996	\$ (600)	\$ 3,716

\* Represents uncollectible accounts charged against the allowance for doubtful accounts, net of recoveries.

(3) The following documents are filed, furnished or incorporated by reference as exhibits to this report as required by Item 601 of Regulation S-K

<u>Exhibit Number</u>	<u>Description</u>
2.2	Membership Interest Purchase Agreement, dated as of December 10, 2019, among the Company, NewSouth Window Solutions, LLC, NewSouth Window Solutions of Orlando, LLC, NSWS Holdings, Inc., NSWS Orlando Holdings, Inc., the current members of NewSouth Window Solutions, LLC and NSWS Rep, LLC, as representative of the Sellers (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on December 10, 2019)
2.3	Purchase Agreement, dated as of January 7, 2021, among the Company, Eco Window Systems, LLC, Eco Glass Production Inc., Unity Windows Inc., Frank Mata, an individual, Luis Arrieta, an individual, New Eco Windows Holding, LLC, a newly formed Delaware limited liability company, and three newly formed entities (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2021)
2.4	Asset Purchase Agreement, dated as of September 1, 2021, by and among Anlin Industries, Western Window Holding LLC and the Company (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 3, 2021)*
2.5	Share Purchase Agreement dated as of October 14, 2022 among WWS Acquisition, LLC, Martin Door Holdings, Inc., Martin Door Sellers' Representative, LLC and the shareholders and warrant holders parties thereto (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2022)
3.1	Amended and Restated Certificate of Incorporation of PGT, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010)
3.2	Second Amended and Restated By-Laws of PGT Innovations, Inc.(incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated February 17, 2023, filed with the Securities and Exchange Commission on February 24, 2023)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of PGT, Inc. (incorporated herein by reference to Exhibit 3.1 to Current Report on Form 8-K dated December 14, 2016, filed with the Securities and Exchange Commission on December 19, 2016)



<u>Exhibit Number</u>	<u>Description</u>
4.1	Form of Specimen Certificate (incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on December 24, 2009, Registration No. 333-132365)
4.2	Indenture, dated as of August 10, 2018, between PGT Escrow Issuer, Inc. and U.S. Bank National Association, as Trustee, governing the 6.75% Senior Notes due 2026 (incorporated herein by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on August 13, 2018)
4.3	Form of 6.75% Senior Note due 2026 (incorporated herein by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on August 13, 2018)
4.4	First Supplemental Indenture, dated as of August 13, 2018, by and between U.S. Bank National Association and the Guarantors party thereto (incorporated herein by reference to Exhibit 4.3 to Current Report on Form 8-K filed with the Securities and Exchange Commission on August 13, 2018)
4.5	Second Supplemental Indenture, dated as of January 24, 2020, by and between the Company, U.S. Bank National Association, as Trustee, and the Guarantors party thereto (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 24, 2020)
4.6	Third Supplemental Indenture, dated as of February 1, 2020, by and between the Company, U.S. Bank National Association, as Trustee, and the Guarantors party thereto (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on February 3, 2020)
4.7	Fourth Supplemental Indenture, dated as of January 26, 2021, by and between the Company, U.S. Bank National Association, as Trustee, and the Guarantors party thereto (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2021)
4.8	Indenture, dated as of September 24, 2021, by and among the Company, the Guarantors party thereto and U.S. Bank National Association, as Trustee, governing the 4.375% Senior Notes due 2029 (incorporated herein by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 28, 2021)
4.9	Form of 4.375% Senior Note due 2029 (incorporated herein by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 28, 2021)
10.1	Credit Agreement dated February 16, 2016, among PGT Innovations, Inc., the lending institutions from time to time party thereto, and Deutsche Bank AG New York Branch, as Administrative Agent, Collateral Agent, Swing Line Lender and Letter of Credit Issuer. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 16, 2016, filed with the Securities and Exchange Commission on February 17, 2016)
10.2	Product Supply and Sales Agreement dated February 7, 2020, by and between PGT Innovations, Inc. and Kuraray America, Inc. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 7, 2020, filed with the Securities and Exchange Commission on February 14, 2020)
10.3	Third Amendment to the Credit Agreement, dated as of October 31, 2019, by and among the Company, the other Credit Parties thereto, SunTrust Bank, as Initial Term A Lender, the Initial Revolving Credit Lenders, each LC Issuer, and SunTrust Bank, as Administrative Agent, Collateral Agent and Swing Line Lender (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on November 6, 2019)

<u>Exhibit Number</u>	<u>Description</u>
10.4†	Form of PGT Innovations, Inc. Director Indemnification Agreement (incorporated herein by reference to Exhibit 10.9 to Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 10, 2017)
10.5†	PGT Innovations, Inc. 2014 Omnibus Equity Incentive Plan (incorporated herein by reference to Appendix A to Definitive Proxy Statement on Form DEF 14A dated March 28, 2014, filed with the Securities and Exchange Commission on April 2, 2014)
10.6	First Amendment to Credit Agreement, dated as of February 17, 2017, among PGT Innovations, Inc., the lending institutions from time-to-time party thereto, and Deutsche Bank AG New York Branch, as Administrative Agent, Collateral Agent, Swing Line Lender and Letter of Credit Issuer. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 17, 2017, filed with the Securities and Exchange Commission on February 22, 2017)
10.7	Supply Agreement dated September 22, 2017, by and between PGT Industries, Inc. and Cardinal LG Company (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated September 22, 2017, filed with the Securities and Exchange Commission on September 22, 2017)
10.8	Second Amendment to Credit Agreement, dated March 16, 2018 by and among PGT Innovations, Inc., a Delaware corporation, the other Credit Parties (as defined in the Credit Agreement) party hereto, the Lenders party hereto, SunTrust Bank, as Administrative Agent, Collateral Agent, Swing Line Lender and an LC Issuer and Deutsche Bank AG New York Branch, as resigning Administrative Agent, resigning Collateral Agent, resigning Swing Line Lender and a resigning LC Issuer (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2018)
10.9	Supply Agreement, effective as of January 1, 2019, by and between PGT Industries, Inc. and Vitro Flat Glass LLC. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on December 28, 2018)
10.10†	PGT Innovations, Inc. 2019 Employee Stock Purchase Plan dated as of April 12, 2019 (incorporated herein by reference to Appendix B to DEF 14A filed with the Securities and Exchange Commission on February 26, 2020)
10.11†	Amended and Restated PGT Innovations, Inc. 2019 Equity and Incentive Compensation Plan dated as of June 10, 2022 (incorporated by reference to Appendix A to DEF 14A filed with the Securities and Exchange Commission on April 29, 2022)
10.12	Fourth Amendment to the Credit Agreement, dated as of October 25, 2021, by and among PGT Innovations, Inc., the other Credit Parties party thereto, Truist Bank (as successor by merger to SunTrust Bank), as Incremental Term A Lender, Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2021)
10.13†	Amended and Restated Employment Agreement between PGT Innovations, Inc. and Jeffrey T. Jackson, dated April 8, 2022**
10.14†	Employment Agreement between PGT Innovations, Inc. and Eric Kowalewski dated April 8, 2022**
10.15†	Employment Agreement between PGT Innovations, Inc. and John Kunz, dated April 8, 2022**
10.16†	Amended and Restated Employment Agreement between PGT Innovations, Inc. and Robert Keller, dated April 8, 2022**
10.17†	Amended and Restated Employment Agreement between PGT Innovations, Inc. and Michael Wothe, dated April 8, 2022**

<u>Exhibit Number</u>	<u>Description</u>
10.18†	Amended and Restated Employment Agreement between PGT Innovations, Inc. and Brad West, dated April 8, 2022**
10.19†	Form of PGT Innovations, Inc. Restricted Share Award Agreement (Time Vesting)**
10.20†	Form of PGT Innovations, Inc. Restricted Share Award Agreement (Performance Vesting)**
10.21	Fifth Amendment to Credit Agreement, dated as of October 13, 2022, by and among PGT Innovations, Inc., the other Credit Parties party thereto, the financial institutions party thereto and Truist Bank, as Administrative Agent, Collateral Agent and Swing Line Lender (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2022)
21.1	List of subsidiaries**
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm**
23.2	Consent of KPMG LLP, Independent Registered Public Accounting Firm**
24.1	Power of Attorney (included on the signature page of this Annual Report on Form 10-K)**
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
32.1	Certification of chief executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	Inline XBRL Instance Document – The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema**
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase**
101.DEF	Inline XBRL Taxonomy Extension Definition**
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase**
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase**
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)**

\* Certain exhibits and schedules have been omitted, and the Company agrees to furnish supplementally to the Commission a copy of any omitted exhibits or schedules upon request. Portions of this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K because they (i) are not material and (ii) would likely cause competitive harm to the Company if publicly disclosed. The Company agrees to furnish supplementally to the Commission an unredacted copy of this exhibit upon request.

† Constitutes a management contract or compensatory plan or arrangement.

\*\* Filed herewith.

#### **Item 16. Form 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### PGT INNOVATIONS, INC. (Registrant)

Date: February 27, 2023

/s/ Jeffrey Jackson

Jeffrey Jackson  
President and Chief Executive Officer

Date: February 27, 2023

/s/ John Kunz

John Kunz  
Senior Vice President and Chief Financial Officer

The undersigned hereby constitute and appoint Ryan Quinn and his substitutes our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorney-in-fact or his substitutes shall lawfully do or cause to be done by virtue thereof. Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Rodney Hershberger</u> Rodney Hershberger	Chairman of the Board of Directors	February 27, 2023
<u>/s/ Jeffrey T. Jackson</u> Jeffrey T. Jackson	President and Chief Executive Officer (Principal Executive Officer) and Director	February 27, 2023
<u>/s/ John Kunz</u> John Kunz	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2023
<u>/s/ Sheree L. Bargabos</u> Sheree L. Bargabos	Director	February 27, 2023
<u>/s/ Xavier Boza</u> Xavier Boza	Director	February 27, 2023
<u>/s/ Alexander R. Castaldi</u> Alexander R. Castaldi	Director	February 27, 2023
<u>/s/ Richard D. Feintuch</u> Richard D. Feintuch	Director	February 27, 2023
<u>/s/ Frances Powell Hawes</u> Frances Powell Hawes	Director	February 27, 2023

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> /s/ Brett N. Milgrim Brett N. Milgrim	Director	February 27, 2023
<hr/> /s/ William J. Morgan William J. Morgan	Director	February 27, 2023
<hr/> /s/ Floyd F. Sherman Floyd F. Sherman	Director	February 27, 2023

**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO THEIR GAAP EQUIVALENTS**  
(unaudited - in thousands, except percentages and footnotes)

	For the Fiscal Year of				
	2022	2021	2020	2019	2018
<b>Reconciliation of Net Income to Adjusted EBITDA (1):</b>					
Net income	\$ 98,405	\$ 35,196	\$ 45,108	\$ 43,688	\$ 53,933
Reconciling items:					
Asset impairment charges (2)	2,131	—	—	—	—
Impairment of trade name (3)	7,423	—	8,000	—	—
Cyberattack recovery costs (4)	415	—	—	—	—
Adjustments to contingent consideration (5)	5,432	—	—	—	—
Hurricane Ian-related costs (6)	1,868	—	—	—	—
Tax gross-up payment (7)	368	—	—	—	—
Acquisition- and transaction-related costs and effects (8)	4,773	2,443	1,989	2,150	4,144
Debt extinguishment costs (9)	410	25,472	—	1,512	3,375
Business wind-down costs (10)	—	4,197	—	—	—
CGI Commercial relocation costs (11)	277	602	—	—	—
Pandemic-related costs (12)	—	1,041	2,356	—	—
Restructuring costs and charges (13)	—	—	4,227	—	—
Facility, equipment and product line relocation and termination costs (14)	682	1,300	382	1,133	833
Management reorganization and other corporate costs (15)	—	—	—	1,928	1,560
Write-offs of deferred lenders fees and discount relating to debt prepayments (16)	—	—	—	—	5,557
Gains on transfers of assets under Cardinal purchase agreement (17)	—	—	—	—	(2,551)
Adjustment to tax effect of TCJA (18)	—	—	—	—	231
Tax effect of reconciling items	(6,194)	(8,482)	(4,240)	(1,681)	(3,271)
Adjusted net income	<u>\$115,990</u>	<u>\$ 61,769</u>	<u>\$ 57,822</u>	<u>\$ 48,730</u>	<u>\$ 63,811</u>
<i>Weighted-average diluted shares</i>	<u>60,319</u>	<u>60,058</u>	<u>59,360</u>	<u>59,150</u>	<u>54,106</u>
<i>Adjusted net income per share - diluted</i>	<u>\$ 1.92</u>	<u>\$ 1.03</u>	<u>\$ 0.97</u>	<u>\$ 0.82</u>	<u>\$ 1.18</u>
Depreciation and amortization expense	60,198	51,569	42,839	34,732	24,450
Interest expense, net	28,879	30,029	27,719	26,417	26,529
Income tax expense	32,666	9,759	11,884	12,439	11,272
Tax effect of reconciling items	6,194	8,482	4,240	1,681	3,271
Write-offs of deferred lenders fees and discount relating to debt prepayments (16)	—	—	—	—	(5,557)
Adjustment to tax effect of TCJA (18)	—	—	—	—	(231)
Stock-based compensation	9,670	7,819	5,458	3,923	3,383
Adjusted EBITDA	<u>\$253,597</u>	<u>\$169,427</u>	<u>\$149,962</u>	<u>\$127,922</u>	<u>\$126,928</u>
Adjusted EBITDA as percentage of net sales	<u>17.0%</u>	<u>14.6%</u>	<u>17.0%</u>	<u>17.2%</u>	<u>18.2%</u>

- (1) This Appendix above includes financial measures and terms not calculated in accordance with U.S. generally accepted accounting principles (GAAP). We believe that presentation of non-GAAP measures such as adjusted net income and adjusted EBITDA provides investors and analysts with an alternative method for assessing our operating results in a manner that enables investors and analysts to more



thoroughly evaluate our current performance compared to past performance. We also believe these non-GAAP measures provide investors with a better baseline for assessing our future earnings potential. The non-GAAP measures included in this appendix are provided to give investors access to types of measures that we use in analyzing our results. Adjusted net income consists of GAAP net income adjusted for the items included in the accompanying reconciliation.

Adjusted EBITDA consists of adjusted net income, adjusted for the items included in the accompanying reconciliation. We believe that adjusted net income and adjusted EBITDA provide useful information to investors and analysts about the Company's performance because they eliminate the effects of period to period changes in taxes, costs associated with capital investments and interest expense. Adjusted net income and adjusted EBITDA do not give effect to the cash the company must use to service its debt or pay its income taxes and thus do not reflect the funds generated from operations or actually available for capital investments.

Our calculations of Adjusted net income and adjusted EBITDA are not necessarily comparable to calculations performed by other companies and reported as similarly titled measures. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP measures.

- (2) Represents write-offs of property, equipment and other impaired assets, classified as selling, general and administrative expense in fiscal year 2022.
- (3) In fiscal year 2022, represents impairment charge relating to our WinDoor trade name classified as impairment of trade name. In fiscal year 2020, represents impairment charge relating to our Western Window Systems trade name.
- (4) Represents cyberattack recovery costs, classified as selling, general and administrative expense in fiscal year 2022.
- (5) Represents non-cash adjustments to contingent consideration associated with our Anlin Acquisition, classified as selling, general and administrative expenses in fiscal year 2022.
- (6) Represents disruption and recovery costs caused by Hurricane Ian in late-September 2022, of which \$1.1 million is classified within cost of sales, and \$747 thousand is classified within selling, general and administrative expenses in fiscal year 2022.
- (7) Represents tax gross-up payment required to be made to the non-controlling interest relating to our acquisition of Eco, which we initially estimated to be \$1.5 million, but which was ultimately determined to be \$1.8 million, a difference of \$368 thousand, which is classified within selling, general and administrative expenses in fiscal year 2022.
- (8) In fiscal year 2022, represents costs relating to the Martin acquisition. In fiscal year 2021, \$672 thousand represents costs relating to our acquisition of Eco, and \$1.8 million represents costs relating to our acquisition of Anlin. In fiscal year 2020, \$1.1 million represents costs relating to our acquisition of ECO, in the fourth quarter of 2020, and \$922 thousand relates to the acquisition of NewSouth. In fiscal year 2019, includes \$1.5 million relating to our acquisition of NewSouth, which closed on January 31, 2020, and \$650 thousand relates to additional costs relating to our acquisition of Western Window Systems. In fiscal year 2018, represents costs and other effects relating to our acquisition of Western Window Systems. All acquisition-related costs in all years are classified within selling, general and administrative expenses except for fiscal year 2018, which includes \$392 thousand relating to an opening balance sheet inventory valuation adjustment which is classified within cost of sales.
- (9) In fiscal year 2022, represents debt extinguishment costs relating to the refinancing of our 2016 Credit Agreement and repayment, in full, of the then existing term loan. In fiscal year 2021, represents debt extinguishment costs relating to the prepayment of our \$425 million of 6.750% senior notes due 2026, and the prepayment of our \$54 million term loan A facility, which was due in 2022. Of the \$25.5 million of debt extinguishment costs, \$21.5 million represents a 5.063% call premium paid for prepaying the \$425 million of 6.750% senior notes, and

\$4.0 million represents the net write-offs of deferred financing premiums, costs, fees and original issue discounts that existed at the time of these events. In fiscal year 2019, represents debt extinguishment costs relating to the Company's third refinancing and third amendment of the 2016 Credit Agreement on October 31, 2019. In fiscal year 2018, represents debt extinguishment costs of \$3.1 million recognized in the first quarter of 2018 relating to the Company's second refinancing and second amendment of the 2016 Credit Agreement on March 16, 2018, and \$296 thousand in the third quarter relating to changes in lender positions under the revolving credit portion of the 2016 Credit Agreement. Costs in all years are classified as debt extinguishment costs in the consolidated statements of operations of the year to which they relate.

- (10) Represents incremental costs related to the wind-down of our commercial business acquired in the New South acquisition. Of the \$4.2 million of these costs, \$2.7 million are classified as cost of sales, and \$1.5 million are classified as selling, general and administrative expenses in fiscal year 2022. A portion of these costs are being recovered through insurance.
- (11) Represents additional costs relating to the relocation of our CGI Commercial business to a new location in the Miami, FL area, being shared with our Eco Enterprises entity, classified as cost of sales in fiscal years 2022 and 2021.
- (12) Represents incremental costs incurred relating to the coronavirus pandemic and resurgence of its Delta and Omicron variants in 2021, including cleaning and sanitizing costs for the protection of the health of our employees and safety of our facilities, as well as costs of lost productivity from employee quarantines and testing, classified as selling, general and administrative expenses in fiscal years 2021 and 2020.
- (13) Represents restructuring costs and charges relating to our 2020 Florida facilities consolidation, which totaled \$4.2 million, as classified within the line item described as restructuring costs and charges in fiscal year 2020.
- (14) In fiscal years 2022, 2021, 2020 and 2019, represents costs relating to product line rationalizations and transitions. In fiscal year 2018, represents costs associated with planned relocations of certain equipment and product lines, including the manufacturing operations of CGI Windows & Doors into its new facility in Hialeah, FL, costs associated with machinery and equipment relocations within our glass plant operations in North Venice, FL, and relocation of our Eze-Breeze porch enclosures product line to our Orlando manufacturing facility. All such costs are classified within cost of sales in the years to which they relate, except in 2018, which of the \$833 thousand, \$814 thousand is classified within cost of sales, with the remainder classified within selling, general and administrative expenses.
- (15) In fiscal year 2019, represents executive-level recruiting costs, and other infrequent corporate costs classified within selling, general and administrative expenses, including \$219 thousand in severance costs in the fourth quarter of 2019. In fiscal year 2018, represents certain costs incurred relating to a fourth quarter legal settlement and regulatory actions, as well as costs relating to a unique warranty issue.
- (16) In 2018, represents non-cash charges from write-offs of deferred lenders fees and discount relating to prepayments of borrowings outstanding under the term loan portion of the 2016 Credit Agreement totaling \$160.0 million, of which \$152.0 million was in the 2018 third quarter using proceeds from the issuance of 7 million shares of Company common stock, and \$8.0 million was in the 2018 fourth quarter using cash on hand. In 2017, represents non-cash charges relating to write-offs of deferred lenders fees and discount relating to voluntary prepayments of borrowings outstanding under the term loan portion of the 2016 Credit Agreement totaling \$40.0 million. All such costs are included in interest expense, net, in the year to which they relate.
- (17) Represents gains on sales of assets under a purchase agreement, the terms of which required us to transfer assets in phases. During the second quarter of 2018, we made transfers of asset which had a net book value totaling \$3.2 million and fair value totaling \$5.8 million, resulting in the recognition of gains totaling \$2.6 million, classified as gains on sales of assets in fiscal year 2018.
- (18) Represents an adjustment in fiscal year 2018 to reduce the gain recorded in fiscal year 2017 relating to accounting for the decrease in our net deferred tax liability due to the reduction in the Federal corporate income tax rate under the Tax Cuts and Jobs Act ("TCJA") legislation enacted on December 22, 2017.

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# CORPORATE INFORMATION

## DIRECTORS

**RODNEY HERSHBERGER<sup>4</sup>**  
CHAIRMAN OF THE BOARD

**SHEREE L. BARGABOS<sup>7</sup>**  
**XAVIER F. BOZA<sup>5</sup>**  
**ALEXANDER R. CASTALDI<sup>2</sup>**  
**RICHARD D. FEINTUCH<sup>3, 5</sup>**  
**JEFFREY T. JACKSON**  
**BRETT N. MILGRIM<sup>8</sup>**  
**WILLIAM J. MORGAN<sup>1, 7</sup>**  
**FRANCES POWELL HAWES<sup>5</sup>**  
**FLOYD F. SHERMAN<sup>6, 8</sup>**

1. CHAIR OF THE AUDIT COMMITTEE
2. CHAIR OF THE COMPENSATION COMMITTEE
3. CHAIR OF THE GOVERNANCE COMMITTEE
4. CHAIR OF THE FINANCE AND TRANSACTION COMMITTEE
5. MEMBER OF THE AUDIT COMMITTEE
6. MEMBER OF THE COMPENSATION COMMITTEE
7. MEMBER OF THE GOVERNANCE COMMITTEE
8. MEMBER OF THE FINANCE AND TRANSACTION COMMITTEE

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**ERNST & YOUNG LLP**  
201 N. FRANKLIN STREET, SUITE 2400  
TAMPA, FL 33602

## TRANSFER AGENT

**AMERICAN STOCK TRANSFER  
& TRUST COMPANY, LLC**  
OPERATIONS CENTER  
6201 15TH AVENUE  
BROOKLYN, NY 11219  
800.937.5449

## PGT INNOVATIONS EXECUTIVE LEADERSHIP

**JEFFREY T. JACKSON**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

**RYAN QUINN**  
GENERAL COUNSEL AND CORPORATE SECRETARY

**MIKE WOTHE**  
EXECUTIVE VICE PRESIDENT, OPERATIONS

**ERIC KOWALEWSKI**  
PRESIDENT OF OPERATIONS  
SOUTHEAST DIVISION

**BOB KELLER**  
SENIOR VICE PRESIDENT  
RESEARCH & DEVELOPMENT, PRODUCT INNOVATION,  
AND TECHNOLOGY

**DEBORAH L. LAPINSKA**  
SENIOR VICE PRESIDENT AND CHIEF CUSTOMER OFFICER

**BRAD WEST**  
SENIOR VICE PRESIDENT,  
CORPORATE DEVELOPMENT AND TREASURER

**AMY RAHN**  
PRESIDENT, NEWSOUTH WINDOW SOLUTIONS

**DAVID McCUTCHEON**  
SENIOR VICE PRESIDENT, BUSINESS INTEGRATION

**CHRISTY SACKETT**  
VICE PRESIDENT, MARKETING

## INVESTOR RELATIONS INQUIRIES

**CRAIG HENDERSON**  
INTERIM CHIEF FINANCIAL OFFICER  
941.486.0100

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