

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2023

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: 001-40714

EUROPEAN WAX CENTER, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

5830 Granite Parkway, 3rd Floor

Plano, Texas

(Address of principal executive offices)

86-3150064

(I.R.S. Employer
Identification No.)

75024

(Zip Code)

Registrant's telephone number, including area code: (469) 264-8123

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.00001 per share	EWCZ	The Nasdaq Stock Market LLC

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

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

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

As of May 8, 2023, the registrant had 50,373,648 and 12,379,791 shares of Class A and Class B common stock, respectively, \$0.00001 par value per share, outstanding.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

EUROPEAN WAX CENTER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share amounts)
(Unaudited)

	April 1, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,912	\$ 44,219
Restricted cash	6,568	6,575
Accounts receivable, net	7,300	6,932
Inventory	25,247	23,017
Prepaid expenses and other current assets	7,454	5,574
Total current assets	92,481	86,317
Property and equipment, net	2,878	2,747
Operating lease right-of-use assets	4,920	4,899
Intangible assets, net	178,290	183,030
Goodwill	328,551	328,551
Deferred income taxes	138,890	106,187
Other non-current assets	4,036	4,301
Total assets	\$ 750,046	\$ 716,032
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,469	\$ 18,547
Long-term debt, current portion	4,000	4,000
Tax receivable agreement liability, current portion	4,615	4,867
Deferred revenue, current portion	4,017	4,084
Operating lease liabilities, current portion	1,314	1,312
Total current liabilities	31,415	32,810
Long-term debt, net	371,166	370,935
Tax receivable agreement liability, net of current portion	203,029	167,293
Deferred revenue, net of current portion	6,898	6,901
Operating lease liabilities, net of current portion	4,255	4,227
Other long-term liabilities	2,022	3,562
Total liabilities	618,785	585,728
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock (\$0.00001 par value, 100,000,000 shares authorized, none issued and outstanding as of April 1, 2023 and December 31, 2022.)	—	—
Class A common stock (\$0.00001 par value, 600,000,000 shares authorized, 50,433,514 and 45,277,325 shares issued and 49,717,874 and 44,561,685 shares outstanding as of April 1, 2023 and December 31, 2022, respectively)	—	—
Class B common stock (\$0.00001 par value, 60,000,000 shares authorized, 13,046,301 and 18,175,652 shares issued and outstanding as of April 1, 2023 and December 31, 2022, respectively)	—	—
Treasury stock, at cost 715,640 shares of Class A common stock as of April 1, 2023 and December 31, 2022	(10,080)	(10,080)
Additional paid-in capital	222,460	207,517
Accumulated deficit	(118,945)	(118,437)
Total stockholders' equity attributable to European Wax Center, Inc.	93,435	79,000
Noncontrolling interests	37,826	51,304
Total stockholders' equity	131,261	130,304
Total liabilities and stockholders' equity	\$ 750,046	\$ 716,032

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

EUROPEAN WAX CENTER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share amounts)
(Unaudited)

	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
REVENUE		
Product sales	\$ 27,842	\$ 24,778
Royalty fees	12,351	11,385
Marketing fees	6,902	6,450
Other revenue	2,797	2,813
Total revenue	49,892	45,426
OPERATING EXPENSES		
Cost of revenue	14,457	11,991
Selling, general and administrative	17,263	15,474
Advertising	7,809	6,556
Depreciation and amortization	5,063	5,060
Total operating expenses	44,592	39,081
Income from operations	5,300	6,345
Interest expense	6,862	1,507
Other expense	—	785
Income (loss) before income taxes	(1,562)	4,053
Income tax expense (benefit)	(509)	27
NET INCOME (LOSS)	\$ (1,053)	\$ 4,026
Less: net income (loss) attributable to noncontrolling interests	(545)	2,141
NET INCOME (LOSS) ATTRIBUTABLE TO EUROPEAN WAX CENTER, INC.	\$ (508)	\$ 1,885
Net income (loss) per share		
Basic - Class A Common Stock	\$ (0.02)	\$ 0.06
Diluted - Class A Common Stock	\$ (0.02)	\$ 0.05
Weighted average shares outstanding		
Basic - Class A Common Stock	47,988,681	36,953,534
Diluted - Class A Common Stock	62,683,724	37,168,517

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

EUROPEAN WAX CENTER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
Cash flows from operating activities:		
Net income (loss)	\$ (1,053)	\$ 4,026
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,063	5,060
Amortization of deferred financing costs	1,318	120
Gain on interest rate cap	—	(196)
Provision for inventory obsolescence	—	(39)
Provision for bad debts	19	—
Deferred income taxes	(486)	—
Remeasurement of tax receivable agreement liability	—	785
Equity compensation	5,931	3,335
Changes in assets and liabilities:		
Accounts receivable	(639)	(1,273)
Inventory	(2,230)	(1,546)
Prepaid expenses and other assets	(1,391)	(76)
Accounts payable and accrued liabilities	(2,267)	(4,508)
Deferred revenue	(70)	(100)
Other long-term liabilities	(14)	(115)
Net cash provided by operating activities	4,181	5,473
Cash flows from investing activities:		
Purchases of property and equipment	(358)	(303)
Net cash used in investing activities	(358)	(303)
Cash flows from financing activities:		
Principal payments on long-term debt	(1,000)	(1,125)
Distributions to EWC Ventures LLC members	(276)	(2,272)
Payment of Class A common stock offering costs	—	(870)
Taxes on vested restricted stock units paid by withholding shares	(126)	—
Dividend equivalents to holders of EWC Ventures units	(735)	—
Net cash used in financing activities	(2,137)	(4,267)
Net increase in cash	1,686	903
Cash, cash equivalents and restricted cash, beginning of period	50,794	43,301
Cash, cash equivalents and restricted cash, end of period	\$ 52,480	\$ 44,204
Supplemental cash flow information:		
Cash paid for interest	\$ 5,560	\$ 1,481
Cash paid for income taxes	\$ 245	\$ 7
Non-cash investing activities:		
Property purchases included in accounts payable and accrued liabilities	\$ 122	\$ 75
Right-of-use assets obtained in exchange for operating lease obligations	\$ 368	\$ —

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

EUROPEAN WAX CENTER, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands, except share and per share amounts)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional paid-in capital	Accumulated deficit	Treasury Stock	Noncontrolling interest	Total equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2022	44,561,685	\$—	18,175,652	\$—	\$207,517	\$(118,437)	\$(10,080)	\$51,304	\$130,304
Exchange of Class B Common Stock and EWC Ventures Units for Class A Common Stock	5,129,351	—	(5,129,351)	—	—	—	—	—	—
Vesting of restricted stock units	33,546	—	—	—	—	—	—	—	—
Shares withheld for taxes on vested restricted stock units	(6,708)	—	—	—	(126)	—	—	—	(126)
Equity compensation	—	—	—	—	5,931	—	—	—	5,931
Distributions to members of EWC Ventures	—	—	—	—	—	—	—	(276)	(276)
Tax receivable liability and deferred taxes arising from share exchanges	—	—	—	—	(3,519)	—	—	—	(3,519)
Allocation of equity to noncontrolling interests	—	—	—	—	12,657	—	—	(12,657)	—
Net loss	—	—	—	—	—	(508)	—	(545)	(1,053)
Balance at April 1, 2023	49,717,874	\$—	13,046,301	\$—	\$222,460	\$(118,945)	\$(10,080)	\$37,826	\$131,261

	Class A Common Stock		Class B Common Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
	Shares	Amount	Shares	Amount					
Balance at December 25, 2021	36,932,423	\$—	26,700,477	\$—	\$ 182,919	\$(3,487)	\$(45)	\$ 161,854	\$ 341,241
Exchange of Class B Common Stock and EWC Ventures Units for Class A Common Stock	100,000	—	(100,000)	—	—	—	—	—	—
Vesting of restricted stock units	6,042	—	—	—	—	—	—	—	—
Forfeiture of unvested incentive units	—	—	(166,841)	—	—	—	—	—	—
Equity compensation	—	—	—	—	3,335	—	—	—	3,335
Distributions to members of EWC Ventures	—	—	—	—	—	—	—	(2,272)	(2,272)
Establish tax receivable agreement liability	—	—	—	—	(347)	—	—	—	(347)
Reclassification of loss on cash flow hedge to earnings	—	—	—	—	—	—	45	—	45
Allocation of equity to noncontrolling interests	—	—	—	—	(1,149)	—	—	1,149	—
Net income	—	—	—	—	—	1,885	—	2,141	4,026
Balance at March 26, 2022	37,038,465	\$—	26,433,636	\$—	\$ 184,758	\$(1,602)	\$—	\$ 162,872	\$ 346,028

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

EUROPEAN WAX CENTER, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share/unit and per share/unit amounts)
(Unaudited)

1. Nature of business and organization

European Wax Center, Inc. was formed as a Delaware corporation on April 1, 2021. European Wax Center, Inc. and subsidiaries (“the Company”) was formed for the purpose of completing a public offering and related transactions in order to carry on the business of EWC Ventures, LLC (“EWC Ventures”) and its subsidiaries. Through its subsidiaries, the Company is engaged in selling franchises of European Wax Center, distributing unique facial and body waxing products to franchisees which are used to perform waxing services and providing branded facial and body waxing products directly to consumers at various locations throughout the United States.

The Company operates on a fiscal calendar which, in a given year, consists of a 52 or 53 week period ending on the Saturday closest to December 31st. The quarters ended April 1, 2023 and March 26, 2022 both consisted of 13 weeks.

2. Summary of significant accounting policies

(a) Basis of presentation and consolidation

The accompanying unaudited condensed consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and pursuant to the rules and regulations of the SEC and includes the operations of the Company and EWC Ventures and its wholly owned subsidiaries. EWC Ventures is considered a variable interest entity. The Company is the primary beneficiary of EWC Ventures. As a result, the Company consolidates EWC Ventures.

The condensed consolidated balance sheet as of December 31, 2022 is derived from the audited consolidated financial statements of the Company but does not include all disclosures required by GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2022 included in our annual report on Form 10-K.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair statement of the Company’s financial position, results of operations, and cash flows for the periods presented. All intercompany accounts and transactions have been eliminated in consolidation.

Accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2022 included in our annual report on Form 10-K, except as described below relating to our adoption of Accounting Standards Codification (“ASC”) Topic 326, *Measurement of Credit Losses on Financial Instruments*.

(b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management’s knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. Significant areas where estimates and judgments are relied upon by management in the preparation of the financial statements include revenue recognition, inventory reserves, the expected life of franchise agreements, the useful life of reacquired rights, valuation of equity-based compensation awards, and the evaluation of the recoverability of goodwill and long-lived assets, including indefinite-lived intangible assets. Actual results could differ from those estimates.

(c) Implications of being an Emerging Growth Company

The Company is an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”) and may take advantage of reduced reporting requirements that are otherwise applicable to public companies. Section 107 of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with those standards. The Company has elected to use the extended transition period for complying with new or revised accounting standards. We also intend to take advantage of some of the reduced regulatory and reporting requirements of emerging growth companies pursuant to the JOBS Act so long as we qualify as an emerging growth company, including, but not

limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

(d) Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity (net assets) of a business entity during a period from transactions and other events and circumstances from nonowner sources. Comprehensive income (loss) is equal to net income (loss) for all periods presented.

(e) Recently adopted accounting pronouncements

In June 2017, the FASB issued ASU 2016-13, *Financial Instruments (Topic 326)—Measurement of Credit Losses on Financial Instruments*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. The standard replaced the previous incurred loss impairment model with an expected loss methodology, which results in more timely recognition of credit losses. We adopted this guidance on January 1, 2023 (the beginning of fiscal year 2023). The adoption of this guidance did not have a significant impact on our financial statements.

3. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following:

	April 1, 2023	December 31, 2022
Prepaid insurance	\$ 997	\$ 1,966
Prepaid rent	194	192
Prepaid technology	2,721	1,656
Prepaid marketing	2,401	844
Prepaid commissions	403	410
Prepaid other & other current assets	738	506
Total	\$ 7,454	\$ 5,574

The prepaid other & other current assets amounts are primarily composed of prepaid maintenance contracts and sales taxes.

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following:

	April 1, 2023	December 31, 2022
Accounts payable	\$ 6,099	\$ 5,874
Accrued inventory	2,344	2,259
Accrued compensation	2,123	4,283
Accrued taxes and penalties	1,129	1,181
Accrued technology and subscription fees	193	26
Accrued interest	992	933
Accrued professional fees	448	890
Accrued marketing fees	601	310
Accrued dividend equivalents	2,876	1,777
Other accrued liabilities	664	1,014
Total accounts payable and accrued liabilities	\$ 17,469	\$ 18,547

5. Long-term debt

Long-term debt consists of the following:

	April 1, 2023	December 31, 2022
Class A-2 Notes	\$ 397,000	\$ 398,000
Less: current portion	(4,000)	(4,000)
Total long-term debt	393,000	394,000
Less: unamortized debt discount and deferred financing costs	(21,834)	(23,065)
Total long-term debt, net	\$ 371,166	\$ 370,935

On April 6, 2022 (the “Closing Date”), EWC Master Issuer LLC, a limited-purpose, bankruptcy remote, indirect subsidiary of the Company (the “Master Issuer”), completed a securitization transaction pursuant to which it issued \$400,000 in aggregate principal amount of Series 2022-1 5.50% Fixed Rate Senior Secured Notes, Class A-2 (the “Class A-2 Notes”).

In connection with the issuance of the Class A-2 Notes, the Master Issuer also entered into (i) a revolving financing facility that allows for the issuance of up to \$40,000 in Variable Funding Notes (“Variable Funding Notes”), and certain letters of credit and (2) an advance funding facility with Bank of America, N.A. (“BofA”), whereby BofA and any other advance funding provider thereunder would, in certain specified circumstances, make certain debt service advances and collateral protection advances (not to exceed \$5,000 in the aggregate). The Variable Funding Notes were undrawn at closing and as of April 1, 2023.

The Class A-2 Notes and the Variable Funding Notes are referred to collectively as the “Notes.” The Notes were issued in a securitization transaction pursuant to which substantially all of the Company’s revenue-generating assets in the United States are held by the Master Issuer and certain other limited-purpose, bankruptcy remote, wholly-owned direct and indirect subsidiaries of EWC Holding Guarantor (including the Master Issuer) (collectively, the “Securitization Entities”) that have pledged substantially all of their assets to secure the Notes and, with respect to the Securitization Entities other than the Master Issuer, act as guarantors of the Notes.

While the Class A-2 Notes are outstanding, payments of principal and interest are required to be made on the Class A-2 Notes on a quarterly basis. The quarterly payments of principal on the Class A-2 Notes may be suspended in the event that the leverage ratio for the Company and its subsidiaries, including the securitization entities, is, in each case, less than or equal to 5.00x.

The legal final maturity date of the Class A-2 Notes is in March of 2052, but it is anticipated that, unless earlier prepaid to the extent permitted under the Base Indenture, dated April 6, 2022 (the “Indenture”), the Class A-2 Notes will be repaid in March of 2027 (the “Anticipated Repayment Date”). If the Master Issuer has not repaid or refinanced the Class A-2 Notes prior to their Anticipated Repayment Date, additional interest will accrue on the Class A-2 Notes equal to the greater of (A) 5.00% per annum and (B) a per annum interest rate equal to the excess, if any, by which the sum of (i) the yield to maturity (adjusted to a quarterly bond equivalent basis) on such anticipated repayment date of the United States Treasury Security having a term closest to ten (10) years plus (ii) 5.00%, plus (iii) 3.87%, exceeds the original interest rate. The Class A-2 Notes rank pari passu with the Variable Funding Notes.

Interest on the Variable Funding Notes will be payable at per annum rates based on term SOFR (plus a credit adjustment spread) or the lenders’ commercial paper funding rate plus 212.5 basis points. There is a commitment fee on the unused portion of the Variable Funding Notes facility, equal to 50 basis points per annum. It is anticipated that the principal and interest on the Variable Funding Notes will be repaid in full on or prior to March 2025, subject to two additional one-year extensions at the option of the Company. Following the anticipated date of repayment (and any extensions thereof), additional interest will accrue on the Variable Funding Notes equal to 5.00% per annum.

The Notes are secured by a security interest in substantially all of the assets of the Securitization Entities. The assets of the Securitization Entities include substantially all of the Company’s revenue-generating assets in the United States, which principally consist of franchise-related agreements, certain supply, distribution and logistics services agreements, intellectual property and license agreements for the use of intellectual property.

The Notes are subject to a series of financial and non-financial covenants and restrictions customary for transactions of this type, including (i) that the Master Issuer maintains specified reserve accounts to be used to make required payments in respect of the Notes, (ii) provisions relating to optional and mandatory prepayments and the related payment of specified amounts, including specified make-whole payments in the case of the Class A-2 Notes under certain circumstances, (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The Notes are also subject to customary rapid

amortization events provided for in the Indenture, including events tied to failure to maintain a stated debt service coverage ratio, the sum of system-wide sales being below certain levels on certain measurement dates, certain manager termination events (including in certain cases a change of control of EWC Ventures), an event of default and the failure to repay or refinance the Notes on the applicable anticipated repayment date. The Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective and certain judgments.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments. Our outstanding Class A-2 Notes had an approximate fair value of \$365,359 as of April 1, 2023.

6. Equity Based Compensation

Restricted Stock Units

During the 13 weeks ended April 1, 2023, we granted 270,055 restricted stock units (“RSUs”) to certain employees under the 2021 Omnibus Incentive Plan (the “2021 Incentive Plan”) that will vest in three equal installments of 33.33% on each of the first three anniversaries of the date of grant, subject in all cases to continued employment on the applicable vesting date. The total grant date fair value of the RSUs will be recognized as equity-based compensation expense over the vesting period. The weighted average grant date fair value of the RSUs granted during the 13 weeks ended April 1, 2023 was \$16.27 and was equal to the closing price of the underlying Class A common stock on the date of grant.

Class A Common Stock Options

During the 13 weeks ended April 1, 2023 we granted 267,640 options with a weighted average exercise price of \$19.60 per share to certain employees under the 2021 Incentive Plan. The stock options granted have a ten-year contractual term and will cliff vest on the third anniversary of the date of grant, subject in all cases to continued employment on the applicable vesting date. The weighted average grant date fair value of the stock options was \$9.81. The total grant date fair value of the stock options will be recognized as equity-based compensation expense over the vesting period. The Company previously used the Black Scholes model to estimate the fair value of stock option grants. However, as these options were granted with exercise prices 20% higher than the closing price, it was determined that the options contained an implicit market condition. As such, the Company estimated the fair value of the options using a binomial lattice model. The following table presents the weighted average assumptions used in the lattice model to determine the fair value of the stock options granted during the 13 weeks ended April 1, 2023:

Expected dividend yield	0.0%
Expected volatility	62.3%
Risk-free rate	3.6%
Suboptimal exercise factor	2.5x

A description of each of the inputs to the lattice model is as follows:

- Expected dividend yield - The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. An increase in the expected dividend yield would decrease compensation expense.
- Expected volatility - This is a measure of the amount by which the price of the equity instrument has fluctuated or is expected to fluctuate. The expected volatility was based on the historical volatility of the Company as well as that of a group of guideline companies. An increase in expected volatility would increase compensation expense.
- Risk-free interest rate - This is the U.S. Treasury rate as of the measurement date having a term approximating the contractual term of the award. An increase in the risk-free interest rate would increase compensation expense.
- Suboptimal exercise factor - The multiple of the exercise price at which an option exercise would be expected to occur. An increase in the suboptimal exercise factor would increase compensation expense.

Modification of 3.0x Units

During the 13 weeks ended April 1, 2023 we modified the vesting conditions of 533,707 incentive units (the “3.0x Units”) granted under the Management Holdco, LLC Equity Incentive Plan to nine employees. Under their original terms, the 3.0x Units would have vested under the following conditions: (i) the achievement of a 3.0x multiple on invested capital (“MOIC”), (ii) the achievement of a 2.0x MOIC at such time as General Atlantic’s investment in the Company is no less than 35% of the fully diluted units of the Company or

(iii) the first of December 31, 2022, March 31, 2023, June 30, 2023, September 30, 2023 or December 31, 2023 on which a specific volume weighted average trading price ("VWAP") of our Class A common stock is achieved.

Our board of directors modified the award to adjust the specified VWAP target described above. The Company's VWAP exceeded the modified target as of March 31, 2023. As such, all of the 3.0x Units vested on that date. During the 13 weeks ended April 1, 2023 we recognized \$5,931 in equity-based compensation expense. Of this amount, \$3,888 was incremental equity-based compensation expense related to the modification of the 3.0x Units. The incremental expense recognized in connection with the modification of the 3.0x Units was calculated as the difference between the fair value of the modified award and the fair value of the original award on the modification date. The fair value of the modified award was equal to the closing price of the underlying Class A common stock on the modification date. The Company used a Monte Carlo simulation to determine the fair value of the original award on the modification date. The following table presents the weighted average assumptions used in the simulation to determine the fair value of the original award on the modification date:

Expected dividend yield	0.0%
Expected volatility	50.0%
Risk-free rate	4.7%

A description of each of the inputs to the simulation model is as follows:

- Expected dividend yield - The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. An increase in the expected dividend yield would decrease compensation expense.
- Expected volatility - This is a measure of the amount by which the price of the equity instrument has fluctuated or is expected to fluctuate. The expected volatility was based on the historical volatility of the Company. An increase in expected volatility would increase compensation expense.
- Risk-free interest rate - This is the U.S. Treasury rate as of the measurement date having a term approximating the measurement period of the award. An increase in the risk-free interest rate would increase compensation expense.

7. Commitments and contingencies

Litigation

The Company is exposed to various asserted and unasserted potential claims encountered in the normal course of business. Although the outcomes of potential legal proceedings are inherently difficult to predict, the Company does not expect the resolution of these occasional legal proceedings to have a material effect on its financial position, results of operations, or cash flow.

8. Revenue from contracts with customers

Contract liabilities consist of deferred revenue resulting from franchise fees, which are generally recognized on a straight-line basis over the term of the underlying franchise agreement. Also included are service revenues from corporate-owned centers, including customer prepayments in connection with the Wax Pass program. Contract liabilities are classified as deferred revenue on the condensed consolidated balance sheets.

Deferred franchise fees are reduced as fees are recognized in revenue over the term of the franchise license for the respective center. Deferred service revenues are recognized over time as the services are performed. The following table reflects the change in contract liabilities for the periods indicated:

	Contract liabilities
Balance at December 31, 2022	\$ 10,985
Revenue recognized that was included in the contract liability at the beginning of the year	(950)
Increase, excluding amounts recognized as revenue during the period	880
Balance at April 1, 2023	\$ 10,915

The weighted average remaining amortization period for deferred revenue is 3.6 years.

The following table illustrates estimated revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of April 1, 2023. The Company has elected to exclude short term contracts, sales-based royalties and any other variable consideration recognized on an “as invoiced” basis.

Contract liabilities to be recognized in:	Amount
2023 (from April 2, 2023)	\$ 3,703
2024	1,234
2025	1,164
2026	1,054
2027	991
Thereafter	2,769
Total	\$ 10,915

The summary set forth below represents the balances in deferred revenue as of April 1, 2023 and December 31, 2022:

	April 1, 2023	December 31, 2022
Franchise fees	\$ 8,182	\$ 8,167
Service revenue	2,733	2,818
Total deferred revenue	10,915	10,985
Long-term portion of deferred revenue	6,898	6,901
Current portion of deferred revenue	\$ 4,017	\$ 4,084

9. Income Taxes

The Company is subject to U.S. federal income taxes, in addition to state and local income taxes, with respect to its allocable share of any taxable income or loss of EWC Ventures. The remaining share of EWC Ventures income or loss is non-taxable to the Company and is not reflected in current or deferred income taxes.

EWC Ventures is a limited liability company that is treated as a partnership for U.S. federal income tax purposes and for most applicable state and local income tax purposes. As a partnership, EWC Ventures is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by EWC Ventures is passed through to and included in the taxable income or loss of its members on a pro rata basis, subject to applicable tax regulations.

We recorded \$509 of income tax benefit and \$27 in income tax expense for the 13 weeks ended April 1, 2023 and March 26, 2022, respectively. The effective tax rate was 32.6% and 0.7% for the 13 weeks ended April 1, 2023 and March 26, 2022, respectively. The effective tax rate for the 13 weeks ended April 1, 2023 differs from the U.S. federal statutory rate primarily due to non-taxable income attributable to noncontrolling interest, state taxes and the tax effects of stock compensation. The effective tax rate for the 13 weeks ended March 26, 2022 differs from the U.S. federal statutory rate primarily as a result of the full valuation allowance against its net federal and state deferred taxes during that period. The valuation allowance was fully released as of December 31, 2022.

Tax Receivable Agreement

As of April 1, 2023, future payments under the Tax Receivable Agreement (“TRA”) are expected to be \$207,644. Payments made under the TRA represent payments that otherwise would have been made to taxing authorities in the absence of attributes obtained by us as a result of exchanges by our pre-IPO members. Such amounts will be paid only when a cash tax savings is realized as a result of attributes subject to the TRA. That is, payments under the TRA are only expected to be made in periods following the filing of a tax return in which we are able to utilize certain tax benefits to reduce our cash taxes paid to a taxing authority. The impact of any changes in the projected obligations under the TRA as a result of changes in the geographic mix of the Company’s earnings, changes in tax legislation and tax rates or other factors that may impact the Company’s tax savings will be reflected in other expense on the condensed consolidated statement of operations in the period in which the change occurs.

10. Noncontrolling interest

We are the sole managing member of EWC Ventures and, as a result of this control, and because we have a substantial financial interest in EWC Ventures, we consolidate the financial results of EWC Ventures. We report noncontrolling interests representing the economic interests in EWC Ventures held by the other members of EWC Ventures. Income or loss is attributed to the noncontrolling interests

based on their contractual distribution rights, and the relative percentages of EWC Ventures non-voting common units ("EWC Ventures Units") by us and the other holders of EWC Ventures Units during the period.

The EWC Ventures LLC Agreement permits the members of EWC Ventures to exchange EWC Ventures Units, together with related shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis or, at the election of the Company, for cash at the current fair value on the date of the exchange. Changes in the Company's ownership interest in EWC Ventures while retaining control of EWC Ventures will be accounted for as equity transactions. As such, future redemptions or direct exchanges of EWC Ventures Units by the other members will result in a change in ownership and reduce the amount recorded as noncontrolling interest and increase additional paid-in capital. Additionally, certain members of EWC Ventures hold unvested EWC Ventures Units that are subject to service, performance, and/or market conditions. The vesting of EWC Ventures Units will result in a change in ownership and increase the amount recorded as noncontrolling interest and decrease additional paid-in capital.

The following table summarizes the ownership of EWC Ventures as of April 1, 2023:

	April 1, 2023	
	Units Owned	Ownership Percentage
European Wax Center, Inc.	49,717,874	79.7%
Noncontrolling interest	12,700,376	20.3%
Total	62,418,250	100.0%

The following table presents the effect of changes in the Company's ownership interest in EWC Ventures on the Company's equity for the 13 weeks ended April 1, 2023 and March 26, 2022:

	13 Weeks Ended April 1, 2023	13 Weeks Ended March 26, 2022
Net income (loss) attributable to European Wax Center, Inc.	\$ (508)	\$ 1,885
Transfers from noncontrolling interests:		
Increase (decrease) in additional-paid-in-capital as a result of equity allocations to the noncontrolling interest	12,657	(1,149)
Net increase in equity of European Wax Center, Inc. due to equity interest transactions with noncontrolling interests	<u>\$ 12,149</u>	<u>\$ 736</u>

11. Net income (loss) per share

Basic net income (loss) per share of Class A common stock is computed by dividing net income (loss) attributable to Class A common shareholders for the period by the weighted average number of shares of Class A common stock outstanding for the same period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period in which the shares were outstanding. Diluted net income (loss) per share of Class A common stock is computed by dividing net income (loss) attributable to Class A common shareholders by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities using the more dilutive of either the treasury stock method or the if-converted method.

The following table sets forth the computation of basic net income (loss) per share of Class A common stock for the 13 weeks ended April 1, 2023 and March 26, 2022:

(in thousands, except for share and per share amounts)	13 Weeks Ended April 1, 2023	13 Weeks Ended March 26, 2022
Net income (loss)	\$ (1,053)	\$ 4,026
Less: net income (loss) attributable to noncontrolling interests	(322)	1,940
Net income (loss) applicable to Class A common shareholders	\$ (731)	\$ 2,086
Basic weighted average outstanding shares		
Class A Common Stock	47,988,681	36,953,534
Basic net income (loss) per share applicable to common shareholders:		
Class A Common Stock	\$ (0.02)	\$ 0.06

The following table sets forth the computation of diluted net income (loss) per share of Class A common stock for the 13 weeks ended April 1, 2023 and March 26, 2022:

(in thousands, except for share and per share amounts)	13 Weeks Ended April 1, 2023	13 Weeks Ended March 26, 2022
Net income (loss)	\$ (1,053)	\$ 4,026
Less: net income (loss) attributable to noncontrolling interests	—	2,040
Net income (loss) applicable to Class A common shareholders	\$ (1,053)	\$ 1,986
Diluted weighted average outstanding shares		
Basic weighted average outstanding shares - Class A Common Stock	47,988,681	36,953,534
Effect of dilutive securities:		
Class B Common Stock	14,629,907	—
RSUs	65,136	186,039
Options	—	28,944
Diluted weighted average outstanding shares - Class A Common Stock	62,683,724	37,168,517
Diluted net income (loss) per share applicable to common shareholders:		
Class A Common Stock	\$ (0.02)	\$ 0.05

Shares of Class B common stock do not share in the earnings or losses attributable to the Company and are therefore not participating securities. As such, separate presentation of basic and diluted net income (loss) per share of Class B common stock under the two-class method has not been presented. Shares of Class B common stock are, however, considered potentially dilutive shares of Class A common stock because shares of Class B common stock, together with the related EWC Ventures Units, are exchangeable into shares of Class A common stock on a one-for-one basis. There were 26,433,636 shares of Class B common stock outstanding as of March 26, 2022 which were determined to be antidilutive and have therefore been excluded from the computation of diluted net income per share of Class A common stock for the 13 weeks ended March 26, 2022. In addition, 480,818 options and 270,055 RSUs were excluded from the computation of diluted net loss per share of Class A common stock for the 13 weeks ended April 1, 2023 as they were determined to be antidilutive.

12. Stockholders' equity

Share Exchange Transactions

During the 13 weeks ended April 1, 2023 certain members of EWC Ventures after our initial public offering (the "EWC Ventures Post-IPO Members") exercised their exchange rights and exchanged 5,129,351 EWC Ventures Units and the corresponding shares of Class B common stock for 5,129,351 newly issued shares of Class A common stock. These exchange transactions increased the Company's ownership interest in EWC Ventures.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our historical performance, financial condition and future prospects in conjunction with the management’s discussion and analysis of financial conditions and results of operations and the audited consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2022. The following discussion and analysis should also be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this quarterly report on Form 10-Q. This discussion contains forward-looking statements that are based on the views and beliefs of our management, as well as assumptions and estimates made by our management. Actual results could differ materially from such forward-looking statements as a result of various risk factors, including those that may not be in the control of management. For further information on items that could impact our future operating performance or financial condition, see Part I, “Item 1A. Risk Factors” included in our annual report on Form 10-K for the fiscal year ended December 31, 2022.

We conduct substantially all of our activities through our subsidiary, EWC Ventures, LLC and its subsidiaries. We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. Our fiscal quarters are composed of 13 weeks each, except for 53-week fiscal years for which the fourth quarter will be composed of 14 weeks.

Overview

We are the largest and fastest-growing franchisor and operator of out-of-home (“OOH”) waxing services in the United States by number of centers and system-wide sales. We delivered over 22 million waxing services in 2022 and over 20 million waxing services in 2021 generating \$899 million and \$797 million of system-wide sales, respectively, across our highly-franchised network. We have a leading portfolio of centers operating in 978 locations across 45 states as of April 1, 2023. Of these locations, 972 are franchised centers operated by franchisees and six are corporate-owned centers.

The European Wax Center brand is trusted, efficacious and accessible. Our culture is obsessed with our guest experience and we deliver a superior guest experience relative to smaller chains and independent salons. We offer guests high-quality, hygienic waxing services administered by our licensed, EWC-trained estheticians (our “wax specialists”), at our accessible and welcoming locations (our “centers”). Our technology-enabled guest interface simplifies and streamlines the guest experience with automated appointment scheduling and remote check-in capabilities, ensuring guest visits are convenient, hassle-free, and consistent across our network of centers. Our well-known, pre-paid Wax Pass program makes payment easy and convenient, fostering loyalty and return visits. Guests view us as a non-discretionary part of their personal-care and beauty regimens, providing us with a highly predictable and growing recurring revenue model.

Our asset-light franchise platform delivers capital-efficient growth, significant cash flow generation, and resilience through economic cycles. Our centers are 99% owned and operated by our franchisees who benefit from superior unit-level economics, with mature centers generating annual cash-on-cash returns in excess of 60%.

In partnership with our franchisees, we fiercely protect our points of differentiation that attract new guests, build meaningful relationships and promote lasting retention. We are so confident in our ability to delight that we have always offered all of our guests their first wax free.

Hair removal solutions are consistently in demand, given the recurring nature of hair growth. The OOH waxing market is the fastest-growing hair removal solution in the United States, defined by a total addressable market of \$18 billion with annualized growth that is more than double other hair removal alternatives. European Wax Center has become the category-defining brand within this rapidly growing market and became so by professionalizing a highly fragmented sector where service consistency, hygiene, and customer trust were not historically offered. We are approximately six times larger than the next largest waxing-focused competitor by center count and approximately 11 times larger by system-wide sales. Our unmatched scale enables us to drive broader brand awareness, ensures our licensed wax specialists are universally trained at the highest standards and drive consistent financial performance across each center.

Under the stewardship of our CEO, David Berg, and the other management team members, we have prioritized building a culture of performance, success, and inclusivity. Additionally, we have intensified our focus on enhancing the guest experience and have invested significantly in our corporate infrastructure and marketing capabilities to continue our track record of sustainable growth. The foundation for our next chapter of growth is firmly in place.

Growth Strategy and Outlook

We plan to grow our business primarily by opening new franchised centers and then additionally increasing our system-wide sales and leveraging our corporate infrastructure to expand our profit margins and generate robust free cash flow.

We believe our franchisees' track record of successfully opening new centers and consistently generating attractive unit-level economics validates our strategy to expand our footprint and grow our capacity to serve more guests. Our center count grew 11% and 7% during fiscal year 2022 and fiscal year 2021, respectively, and has grown each year since 2010. Our thoughtful approach to growth ensures each center is appropriately staffed with the high-quality team and licensed, highly-trained wax specialists that our brand has been known for since our initial opening. We believe that none of our existing markets are fully penetrated, and that we have a significant whitespace opportunity of more than 3,000 locations for our standard center format across the United States. Our centers have a long track record of sustained growth delivering consistent positive same-store sales growth with resilient performance through economic cycles.

Our straightforward, asset-light franchise platform and our proven track record of increasing profitability is expected to continue to drive EBITDA margin accretion and free cash flow generation as we expand our national footprint. We have invested in building our scalable support infrastructure, and we currently have the capabilities and systems in place to drive revenue growth and profitability across our existing and planned franchise centers.

Key Business Metrics

We track the following key business metrics to evaluate our performance, identify trends, formulate financial projections, and make strategic decisions. Accordingly, we believe that these key business metrics provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management team. These key business metrics are presented for supplemental information purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly titled metrics or measures presented by other companies.

Number of Centers. Number of centers reflects the number of franchised and corporate-owned centers open at the end of the reporting period. We review the number of new center openings, the number of closed centers and the number of relocations of centers to assess net new center growth, and drivers of trends in system-wide sales, royalty and franchise fee revenue and corporate-owned center sales.

System-Wide Sales. System-wide sales represent sales from same day services, retail sales and cash collected from wax passes for all centers in our network, including both franchisee-owned and corporate-owned centers. While we do not record franchised center sales as revenue, our royalty revenue is calculated based on a percentage of franchised center sales, which are 6.0% of sales, net of retail product sales, as defined in the franchise agreement. This measure allows us to better assess changes in our royalty revenue, our overall center performance, the health of our brand and the strength of our market position relative to competitors. Our system-wide sales growth is driven by net new center openings as well as increases in same-store sales.

Same-Store Sales. Same-store sales reflect the change in year-over-year sales from services performed and retail sales for the same-store base. We define the same-store base to include those centers open for at least 52 full weeks. If a center is closed for greater than six consecutive days, the center is deemed a closed center and is excluded from the calculation of same-store sales until it has been reopened for a continuous 52 full weeks. This measure highlights the performance of existing centers, while excluding the impact of new center openings and closures. We review same-store sales for corporate-owned centers as well as franchisee-owned centers. Same-store sales growth is driven by increases in the number of transactions and average transaction size.

New Center Openings. The number of new center openings reflects centers opened during a particular reporting period for both franchisee-owned and corporate-owned centers, less centers closed during the same period. Opening new centers is an integral part of our growth strategy, and we expect the majority of our future new centers to be franchisee-owned. Before we obtain the certificate of occupancy or report any revenue from new corporate-owned centers, we incur pre-opening costs, such as rent expense, labor expense and other operating expenses. Some of our centers open with an initial start-up period of higher-than-normal marketing and operating expenses, particularly as a percentage of monthly revenue.

Average Unit Volume ("AUV"). AUV consists of the average annual system-wide sales of all centers that have been open for a trailing 52-week period or longer. This measure is calculated by dividing system-wide sales during the applicable period for all centers being measured by the number of centers being measured. AUV allows management to assess our franchisee-owned and corporate-owned center economics. Our AUV growth is primarily driven by increases in services and retail product sales as centers fill their books of reservations, which we refer to as maturation of centers.

Wax Pass Utilization. We define Wax Pass utilization as the adoption of our Wax Pass program by guests, measured as a percentage of total transactions conducted using a Wax Pass. Wax Pass utilization allows management to better assess the recurring nature of our business model because it is an indication of the magnitude of transactions by guests who have made a longer-term commitment to our brand by purchasing a Wax Pass.

(in thousands, except operating data and percentages)	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
Number of system-wide centers (at period end)	978	874
System-wide sales	\$ 218,441	\$ 206,969
Same-store sales	4.5 %	29.0 %
New center openings	34	21

The table below presents changes in the number of system-wide centers for the periods indicated:

System-wide Centers	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
Beginning of Period	944	853
Openings	35	21
Closures	(1)	—
End of Period	978	874

Significant Factors Impacting Our Financial Results

We believe there are several important factors that have impacted, and that we expect will continue to impact, our business and results of operations. These factors include:

New Center Openings. We expect that new centers will be a key driver of growth in our future revenue and operating profit results. Opening new centers is an important part of our growth strategy, and we expect the majority of our future new centers will be franchisee-owned. Our results of operations have been and will continue to be materially affected by the timing and number of new center openings each period. As centers mature, center revenue and profitability increase significantly. The performance of new centers may vary depending on various factors such as the effective management and cooperation of our franchisee partners, whether the franchise is part of a multi-unit development agreement, the center opening date, the time of year of a particular opening, the number of licensed wax specialists recruited, and the location of the new center, including whether it is located in a new or existing market. Our planned center expansion will place increased demands on our operational, managerial, administrative, financial, and other resources.

System-Wide Sales Growth. System-wide sales growth is a key driver of our business. Various factors affect system-wide sales, including:

- consumer preferences and overall economic trends;
- the recurring, non-discretionary nature of personal-care services and purchases;
- our ability to identify and respond effectively to guest preferences and trends;
- our ability to provide a variety of service offerings that generate new and repeat visits to our centers;
- the guest experience we provide in our centers;
- the availability of experienced wax specialists;
- our ability to source and deliver products accurately and timely;
- changes in service or product pricing, including promotional activities;
- the number of services or items purchased per center visit;
- center closures in response to state or local regulations or health concerns

Overall Economic Trends. Macroeconomic factors that may affect guest spending patterns, and thereby our results of operations, include employment rates, the rate of inflation, business conditions, changes in the housing market, the availability of credit, interest rates, tax rates and fuel and energy costs. However, we believe that our guests see our services as largely non-discretionary in nature.

Therefore, we believe that overall economic trends and related changes in consumer behavior have less of an impact on our business than they may have for other industries subject to fluctuations in discretionary consumer spending.

Guest Preferences and Demands. Our ability to maintain our appeal to existing guests and attract new guests depends on our ability to develop and offer a compelling assortment of services responsive to guest preferences and trends. We also believe that OOH waxing is a recurring need that brings guests back for services on a highly recurring basis which is reflected in the predictability of our financial performance over time. Our guests' routine personal-care need for OOH waxing is further demonstrated by the top 20% of guests who visit us, on average, approximately every four to five weeks.

Our Ability to Source and Distribute Products Effectively. Our revenue and operating income are affected by our ability to purchase our products and supplies in sufficient quantities at competitive prices. While we believe our vendors have adequate capacity to meet our current and anticipated demand, our level of revenue could be adversely affected in the event we face constraints in our supply chain, including the inability of our vendors to produce sufficient quantities of some products or supplies in a manner that matches market demand from our guests, leading to lost revenue. We depend on two key suppliers to source our Comfort Wax and one key supplier to source our branded retail products and we are thus exposed to concentration of supplier risk.

Our Ability to Recruit and Retain Qualified Licensed Wax Specialists for our Centers. Our ability to operate our centers is largely dependent upon our ability to attract and retain qualified, licensed wax specialists. Our unmatched scale enables us to ensure that we universally train our wax specialists at the highest standards, ensuring that our guests experience consistent level of quality, regardless of the specific center they visit. The combination of consistent service delivery, across our trained base of wax specialists, along with the payment ease and convenience of our well-known, pre-paid Wax Pass program fosters loyalty and return visits across our guest base. Over time, our ability to build and maintain a strong pipeline of licensed wax specialists is important to preserving our current brand position.

Seasonality. Our results are subject to seasonality fluctuations in that services are typically in higher demand in periods leading up to holidays and the summer season. The resulting demand trend has historically yielded higher system-wide sales in the second and fourth quarter of our fiscal year. In addition, our quarterly results may fluctuate significantly, because of several factors, including the timing of center openings, price increases and promotions, and general economic conditions.

Components of Results of Operations

Revenue

Product Sales: Product sales consist of revenue earned from sales of Comfort Wax, other products consumed in administering our wax services and retail merchandise to franchisees, as well as retail merchandise sold in corporate-owned centers. Revenue on product sales is recognized upon transfer of control. Our product sales revenue comprised 55.8% and 54.5% of our total revenue for the 13 weeks ended April 1, 2023 and March 26, 2022, respectively.

Royalty Fees: Royalty fees are earned based on a percentage of the franchisees' gross sales, net of retail product sales, as defined in the applicable franchise agreement, and recognized in the period the franchisees' sales occur. The royalty fee is 6.0% of the franchisees' gross sales for such period and is paid weekly. Our royalty fees revenue comprised 24.8% and 25.1% of our total revenue for the 13 weeks ended April 1, 2023 and March 26, 2022, respectively.

Marketing Fees: Marketing fees are earned based on 3.0% of the franchisees' gross sales, net of retail product sales, as defined in the applicable franchise agreement, and recognized in the period the franchisees' sales occur. Additionally, the Company charges a fixed monthly fee to franchisees for search engine optimization and search engine marketing services, which is due on a monthly basis and recognized in the period when services are provided. Our marketing fees revenue comprised 13.8% and 14.2% of our total revenue for the 13 weeks ended April 1, 2023 and March 26, 2022, respectively.

Other Revenue: Other revenue primarily consists of service revenues from our corporate-owned centers and franchise fees, as well as technology fees, annual brand conference revenues and training, which together represent 5.6% and 6.2% of our total revenue for the 13 weeks ended April 1, 2023 and March 26, 2022, respectively. Service revenues from our corporate-owned centers are recognized at the time services are provided. Amounts collected in advance of the period in which service is rendered are recorded as deferred revenue. Franchise fees are paid upon commencement of the franchise agreement and are deferred and recognized on a straight-line basis commencing at contract inception through the end of the franchise license term. Franchise agreements generally have terms of 10 years beginning on the date the center is opened and the initial franchise fees are amortized over a period approximating the term of the agreement. Deferred franchise fees expected to be recognized in periods greater than 12 months from the reporting date are classified as long-term on the condensed consolidated balance sheets. Technology fees, annual brand conference revenues and training are recognized as the related services are delivered and are not material to the overall business.

Costs and Expenses

Cost of Revenue: Cost of revenue primarily consists of the direct costs associated with wholesale product and retail merchandise sold, including distribution and outbound freight costs and inventory obsolescence charges, as well as the cost of materials and labor for services rendered in our corporate-owned centers.

Selling, General and Administrative Expenses: Selling, general and administrative expenses primarily consist of wages, benefits and other compensation-related costs, rent, software, and other administrative expenses incurred to support our existing franchise and corporate-owned centers, as well as expenses attributable to growth and development activities. Also included in selling, general and administrative expenses are accounting, legal, marketing, operations, and other professional fees.

Advertising Expenses: Advertising expenses consist of advertising, public relations, and administrative expenses incurred to increase sales and further enhance the public reputation of the European Wax Center brand.

Depreciation and Amortization: Depreciation and amortization includes depreciation of property and equipment and capitalized leasehold improvements, as well as amortization of intangible assets, including franchisee relationships and reacquired area representative rights. Area representative rights represent an agreement with area representatives to sell franchise licenses and provide support to franchisees in a geographic region. From time to time, the Company enters into agreements to reacquire certain area representative rights.

Interest Expense: Interest expense consists of interest on our long-term debt, including amounts outstanding under our revolving credit facility, amortization of debt discount and deferred financing costs and gain and losses on debt extinguishment.

Other Expense: Other expense consists of non-cash gains and losses related to the remeasurement of our tax receivable agreement liability.

Income Tax Expense: We are subject to U.S. federal, state and local income taxes with respect to our allocable share of any taxable income of EWC Ventures and are taxed at the prevailing corporate tax rates. Income tax expense includes both current and deferred income tax expense.

Noncontrolling Interest: We are the sole managing member of EWC Ventures. Because we manage and operate the business and control the strategic decisions and day-to-day operations of EWC Ventures and also have a substantial financial interest in EWC Ventures, we consolidate the financial results of EWC Ventures, and a portion of our net income (loss) is allocated to the noncontrolling interest to reflect the entitlement of the EWC Ventures Post-IPO Members to a portion of EWC Ventures' net income (loss).

Results of Operations

The following tables presents our condensed consolidated statements of operations for each of the periods indicated (amounts in thousands, except percentages):

	For the Thirteen Weeks Ended		\$ Change	% Change
	April 1, 2023	March 26, 2022		
Revenue:				
Product sales	\$ 27,842	\$ 24,778	\$ 3,064	12.4 %
Royalty fees	12,351	11,385	966	8.5 %
Marketing fees	6,902	6,450	452	7.0 %
Other revenue	2,797	2,813	(16)	(0.6)%
Total revenue	49,892	45,426	4,466	9.8 %
Operating expenses:				
Cost of revenue	14,457	11,991	2,466	20.6 %
Selling, general and administrative	17,263	15,474	1,789	11.6 %
Advertising	7,809	6,556	1,253	19.1 %
Depreciation and amortization	5,063	5,060	3	0.1 %
Total operating expenses	44,592	39,081	5,511	14.1 %
Income from operations	5,300	6,345	(1,045)	(16.5)%
Interest expense	6,862	1,507	5,355	355.3 %
Other expense	—	785	(785)	(100.0)%
Income (loss) before income taxes	(1,562)	4,053	(5,615)	(138.5)%
Income tax expense (benefit)	(509)	27	(536)	(1,985.2)%
Net income (loss)	\$ (1,053)	\$ 4,026	\$ (5,079)	(126.2)%
Less: net income (loss) attributable to noncontrolling interests	(545)	2,141	(2,686)	(125.5)%
Net income (loss) attributable to European Wax Center, Inc.	\$ (508)	\$ 1,885	\$ (2,393)	(126.9)%

The following table presents the components of our condensed consolidated statements of operations for each of the periods indicated, as a percentage of revenue:

	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
Revenue:		
Product sales	55.8%	54.5%
Royalty fees	24.8%	25.1%
Marketing fees	13.8%	14.2%
Other revenue	5.6%	6.2%
Total revenue	100.0%	100.0%
Costs and expenses:		
Cost of revenue	29.0%	26.4%
Selling, general and administrative	34.6%	34.1%
Advertising	15.7%	14.5%
Depreciation and amortization	10.1%	11.1%
Total operating expenses	89.4%	86.1%
Income from operations	10.6%	13.9%
Interest expense	13.7%	3.3%
Other expense	—	1.7%
Income (loss) before income taxes	(3.1)%	8.9%
Income tax expense (benefit)	(1.0)%	0.1%
Net income (loss)	(2.1)%	8.8%
Less: net income (loss) attributable to noncontrolling interests	(1.1)%	4.7%
Net income (loss) attributable to European Wax Center, Inc.	(1.0)%	4.1%

Comparison of the Thirteen Weeks Ended April 1, 2023 and March 26, 2022

Revenue

Total revenue increased \$4.5 million, or 9.8%, to \$49.9 million during the 13 weeks ended April 1, 2023, compared to \$45.4 million for the 13 weeks ended March 26, 2022. The increase in total revenue was largely due to 104 new center openings which became operational during the period from March 27, 2022 through April 1, 2023. In addition, total revenue increased due to a 4.5% increase in same-store sales in the 13 weeks ended April 1, 2023 compared to the 13 weeks ended March 26, 2022 and an additional offering of medical products to our centers for use in administering wax services.

Product Sales

Product sales increased \$3.0 million, or 12.4%, to \$27.8 million during the 13 weeks ended April 1, 2023, compared to \$24.8 million for the 13 weeks ended March 26, 2022. The increase in product sales was primarily due to new center openings which became operational during the period from March 27, 2022 to April 1, 2023. In addition, product sales increased due to the increase in same-store sales in the 13 weeks ended April 1, 2023 compared to the 13 weeks ended March 26, 2022 and an additional offering of medical products to our centers for use in administering wax services.

Royalty Fees

Royalty fees increased \$1.0 million, or 8.5%, to \$12.4 million during the 13 weeks ended April 1, 2023, compared to \$11.4 million for the 13 weeks ended March 26, 2022. The increase in royalty fees during the 13 weeks ended April 1, 2023 was the result of the increase in system-wide sales driven by new center openings which became operational during the period from March 27, 2022 to April 1, 2023 as well as the increase in same-store sales in the 13 weeks ended April 1, 2023 compared to the 13 weeks ended March 26, 2022.

Marketing Fees

Marketing fees increased \$0.4 million, or 7.0%, to \$6.9 million during the 13 weeks ended April 1, 2023, compared to \$6.5 million for the 13 weeks ended March 26, 2022. Marketing fees increased as a result of the increase in system-wide sales driven by new center openings which became operational during the period from March 27, 2022 to April 1, 2023 as well as the increase in same-store sales in the 13 weeks ended April 1, 2023 compared to the 13 weeks ended March 26, 2022.

Other Revenue

Other revenue for the 13 weeks ended April 1, 2023 was consistent with the 13 weeks ended March 26, 2022, decreasing \$16 thousand, or 0.6%, to \$2.8 million for the 13 weeks ended April 1, 2023.

Costs and Expenses

Cost of Revenue

Cost of revenue increased \$2.5 million, or 20.6%, to \$14.5 million during the 13 weeks ended April 1, 2023, compared to \$12.0 million for the 13 weeks ended March 26, 2022. The increase in cost of revenue was primarily due to higher product sales in the current year period driven by new center openings which became operational during the period from March 27, 2022 to April 1, 2023. In addition, cost of revenue increased due to the increase in same-store sales in the 13 weeks ended April 1, 2023 compared to the same period in 2022 and an additional offering of medical products to our centers for use in administering wax services.

Selling, General and Administrative

Selling, general and administrative expenses increased \$1.8 million, or 11.6%, to \$17.3 million during the 13 weeks ended April 1, 2023, compared to \$15.5 million for the 13 weeks ended March 26, 2022. The increase in selling, general and administrative expenses was primarily due to increases in payroll and benefits and slightly offset by a decrease in professional fee expenses. The increase in payroll and benefits expense was largely due to additional expense incurred during the 13 weeks ended April 1, 2023 resulting from the modification of certain equity awards during the period. The decrease in professional fees was attributable to costs incurred in the prior year period relating to being a newly public company.

Advertising

Advertising expenses increased \$1.2 million, or 19.1%, to \$7.8 million during the 13 weeks ended April 1, 2023, compared to \$6.6 million for the 13 weeks ended March 26, 2022. The increase in advertising expense was attributable to the increase in marketing fee revenues as well as the timing of expenses associated with new marketing campaigns.

Depreciation and Amortization

Depreciation and amortization for the 13 weeks ended April 1, 2023 was largely consistent with the 13 weeks ended March 26, 2022, increasing \$3 thousand, or 0.1%, to \$5.1 million for the 13 weeks ended April 1, 2023.

Interest Expense

Interest expense increased \$5.4 million, or 355.3%, to \$6.9 million during the 13 weeks ended April 1, 2023, compared to \$1.5 million for the 13 weeks ended March 26, 2022. The increase in interest expense was attributable to the effect of higher average principal balances and interest rates on outstanding debt during the 13 weeks ended April 1, 2023.

Income Tax Expense

We recorded \$0.5 million in income tax benefit for the 13 weeks ended April 1, 2023, compared to \$27 thousand in income tax expense for the thirteen weeks ended March 26, 2022. The income tax benefit recognized in the first 13 weeks of 2023 differs from the federal statutory income tax rate primarily as a result of non-taxable income attributable to noncontrolling interest, state taxes and the tax effects of stock compensation. Income tax expense recognized in the first 13 weeks of 2022 differs the federal statutory income tax rate primarily as a result of the full valuation allowance against its net federal and state deferred taxes during that period. The valuation allowance was fully released as of December 31, 2022.

We estimate that in future annual periods, our blended statutory tax rate will be approximately 20% of EWC Ventures income or loss before income taxes. This estimated blended statutory tax rate is based on the current capital structure, excludes discrete or other rate impacting adjustments which may impact the company's income tax provision in the future and is based on our blended federal and state statutory tax rates reduced to exclude our non-taxable noncontrolling interest percentage. We expect this estimated blended statutory tax rate to increase as EWC Ventures Units and the corresponding shares of Class B common stock are exchanged for shares of Class A common stock because our nontaxable noncontrolling interest earnings will decrease.

Non-GAAP Financial Measures

In addition to our GAAP financial results, we believe the non-GAAP financial measures EBITDA and Adjusted EBITDA are useful in evaluating our performance. Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. These non-GAAP financial measures are presented for supplemental information purposes only and may be different from similarly titled metrics or measures presented by other companies. A reconciliation of the

non-GAAP financial measures to the most directly comparable financial measure stated in accordance with GAAP and a further discussion of how we use non-GAAP financial measures is provided below.

EBITDA and Adjusted EBITDA. We define EBITDA as net income (loss) before interest, taxes, depreciation and amortization. We believe that EBITDA, which eliminates the impact of certain expenses that we do not believe reflect our underlying business performance, provides useful information to investors to assess the performance of our business. We define Adjusted EBITDA as net income (loss) before interest, taxes, depreciation and amortization, adjusted for the impact of certain additional non-cash and other items that we do not consider in our evaluation of ongoing performance of our core operations. These items include exit costs related to leases of abandoned space, IPO-related costs, non-cash equity-based compensation expense, corporate headquarters office relocation, non-cash gains and losses on remeasurement of our tax receivable agreement liability, transaction costs and other one-time expenses. We believe that Adjusted EBITDA is an appropriate measure of operating performance in addition to EBITDA because it eliminates the impact of other items that we believe reduce the comparability of our underlying core business performance from period to period and is therefore useful to our investors in comparing the core performance of our business from period to period. EBITDA and Adjusted EBITDA may not be comparable to other similarly titled captions of other companies due to differences in methods of calculation.

A reconciliation of net income to EBITDA and Adjusted EBITDA is set forth below for the periods indicated:

	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
(in thousands)		
Net income (loss)	\$ (1,053)	\$ 4,026
Interest expense	6,862	1,507
Income tax expense (benefit)	(509)	27
Depreciation and amortization	5,063	5,060
EBITDA	\$ 10,363	\$ 10,620
Share-based compensation ⁽¹⁾	5,931	3,335
Remeasurement of tax receivable agreement liability ⁽²⁾	—	785
Other ⁽³⁾	—	417
Adjusted EBITDA	\$ 16,294	\$ 15,157

(1) Represents non-cash equity-based compensation expense.

(2) Represents non-cash expense related to the remeasurement of our tax receivable agreement liability.

(3) Represents non-core operating expenses identified by management. For fiscal year 2022 these costs relate to executive severance.

Liquidity and Capital Resources

We measure liquidity in terms of our ability to fund the cash requirements of our business operations, including working capital needs, capital expenditures, contractual obligations and debt service with cash flows from operations and other sources of funding. Our primary sources of liquidity and capital resources are cash provided from operating activities, cash and cash equivalents on hand, proceeds from our Class A-2 Notes and Variable Funding Notes and proceeds from the issuance of equity to our members. We had cash and cash equivalents of \$45.9 million as of April 1, 2023.

Future payments under the TRA with respect to the purchase of EWC Ventures Units which occurred as part of the IPO and through April 1, 2023 are currently expected to be \$207.6 million. Such amounts will be paid when such deferred tax assets are realized as a reduction to income taxes due or payable. That is, payments under the TRA are only expected to be made in periods following the filing of a tax return in which we are able to utilize certain tax benefits to reduce our cash taxes paid to a taxing authority. The impact of any changes in the projected obligations under the TRA as a result of changes in the geographic mix of the Company's earnings, changes in tax legislation and tax rates or other factors that may impact the Company's tax savings will be reflected in other expense on the condensed consolidated statements of operations in the period in which the change occurs. During the 13 weeks ended April 1, 2023 there were no material changes in our contractual obligations from those described in our annual report on Form 10-K for the fiscal year ended December 31, 2022.

We believe that our sources of liquidity and capital will be sufficient to finance our continued operations and growth strategy for at least the next twelve months. Our primary requirements for liquidity and capital are working capital, capital expenditures to grow our network

of centers, debt servicing costs, and general corporate needs. We have in the past, and may in the future, refinance our existing indebtedness with new debt arrangements and utilize a portion of borrowings to return capital to our stockholders.

Our assessment of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. Our actual results and our future capital requirements could vary because of many factors, including our growth rate, the timing and extent of spending to acquire new centers and expand into new markets, and the expansion of sales and marketing activities. We may, in the future, enter into arrangements to acquire or invest in complementary businesses, services and technologies. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, results of operations and financial condition would be adversely affected.

Securitized Financing Facility

On April 6, 2022, the Master Issuer completed a securitization transaction pursuant to which it issued \$400.0 million in aggregate principal amount of Class A-2 Notes. The net proceeds from the issuance of the Class A-2 Notes were used to repay the 2026 Term Loan, fund certain reserve amounts under the securitized financing facility, pay the transaction costs associated with the securitized financing facility, and fund a one-time special dividend to stockholders.

In connection with the issuance of the Class A-2 Notes, the Master Issuer also entered into (i) a revolving financing facility that allows for the issuance of up to \$40.0 million in Variable Funding Notes, and certain letters of credit and (2) an advance funding facility with BofA, whereby BofA and any other advance funding provider thereunder will, in certain specified circumstances, make certain debt service advances and collateral protection advances. The Variable Funding Notes were undrawn at closing and as of April 1, 2023. The Class A-2 Notes and the Variable Funding Notes are referred to collectively as the “Notes.”

The Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) that the Master Issuer maintains specified reserve accounts to be used to make required payments in respect of the Notes, (ii) provisions relating to optional and mandatory prepayments and the related payment of specified amounts, including specified make-whole payments in the case of the Class A-2 Notes under certain circumstances, (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The Notes are also subject to customary rapid amortization events provided for in the Base Indenture, dated April 6, 2022 (the “Indenture”), including events tied to failure to maintain a stated debt service coverage ratio, the sum of system-wide sales being below certain levels on certain measurement dates, certain manager termination events (including in certain cases a change of control of EWC Ventures, LLC), an event of default and the failure to repay or refinance the Notes on the applicable anticipated repayment date. The Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective and certain judgments.

For additional information regarding our long-term debt activity, see the notes to the condensed consolidated financial statements (Note 5—Long-term debt) contained elsewhere in this quarterly report on Form 10-Q.

Tax Receivable Agreement

Generally, we are required under the TRA, which is described more fully in Part 1 “Item 1A. Risk Factors” in our annual report on Form 10-K for the fiscal year ended December 31, 2022 in the section entitled “Risks Related to Our Organization and Structure—We are required to pay the EWC Ventures’ pre-IPO members for certain tax benefits we may claim, and the amounts we may pay could be significant” to make payments to the EWC Ventures pre-IPO members that are generally equal to 85% of the applicable cash tax savings, if any, that we actually realize (or are deemed to realize, calculated using certain assumptions) as a result of (i) increases in our allocable share of certain existing tax basis of the tangible and intangible assets of the Company and adjustments to the tax basis of the tangible and intangible assets of the Company, in each case as a result of (a) the purchases of EWC Ventures Units (along with the corresponding shares of our Class B common stock) from certain of the EWC Ventures Post-IPO Members using a portion of the net proceeds from the initial and secondary public offerings or in any future offering or (b) Share Exchanges and Cash Exchanges by the EWC Ventures pre-IPO members (or their transferees or other assignees) in connection with or after the initial public offering, (ii) our utilization of certain tax attributes of certain affiliates of General Atlantic (the “Blocker Companies”) (including the Blocker Companies’ allocable share of certain existing tax basis of EWC Ventures’ assets) and (iii) certain other tax benefits related to entering into the TRA, including tax benefits attributable to payments under the TRA.

Subject to the discussion in the following paragraph below, payments under the TRA will occur only after we have filed our U.S. federal and state income tax returns and realized the cash tax savings from the favorable tax attributes. Future payments under the TRA in respect of future purchases of EWC Ventures Units, Share Exchanges and Cash Exchanges would be in addition to these amounts. Payments under the TRA are computed by reference to realized tax benefits from attributes subject to the TRA and are expected to be funded by tax distributions made to us by our subsidiaries similar to how cash taxes would be funded to the extent these attributes did not exist. To the extent we are unable to make payments under the TRA for any reason (including because the Company's securitized financing facility restricts the ability of our subsidiaries to make distributions to us), under the terms of the TRA such payments will be deferred and accrue interest until paid. If we are unable to make payments due to insufficient funds, such payments may be deferred indefinitely while accruing interest until paid, which could negatively impact our results of operations and could also affect our liquidity in future periods in which such deferred payments are made.

Under the TRA, as a result of certain types of transactions and other factors, including a transaction resulting in a change of control, we may also be required to make payments to the EWC Ventures pre-IPO members in amounts equal to the present value of future payments we are obligated to make under the TRA. If the payments under the TRA are accelerated, we may be required to raise additional debt or equity to fund such payments. To the extent that we are unable to make payments under the TRA for any reason (including because the Company's securitized financing facility restricts the ability of our subsidiaries to make distributions to us), under the terms of the TRA Agreement such payments will be deferred and will accrue interest until paid. If we are unable to make payments due to insufficient funds to make such payments, such payments may be deferred indefinitely while accruing interest until paid, which could negatively impact our results of operations and could also affect our liquidity in future periods in which such deferred payments are made.

Summary Statements of Cash Flows

The following table sets forth the major components of our condensed consolidated statements of cash flows for the periods presented (amounts in thousands):

	For the Thirteen Weeks Ended	
	April 1, 2023	March 26, 2022
Net cash provided by (used in):		
Operating activities	\$ 4,181	\$ 5,473
Investing activities	(358)	(303)
Financing activities	(2,137)	(4,267)
Net increase in cash	<u>\$ 1,686</u>	<u>\$ 903</u>

Operating Activities

During the 13 weeks ended April 1, 2023 and March 26, 2022, net cash provided by operating activities was \$4.2 million and \$5.5 million, respectively, a decrease of \$1.3 million. This decrease was largely attributable to the increase in cash interest paid resulting from higher average principal balances and interest rates on outstanding debt in the first 13 weeks of 2023 compared to the first 13 weeks of 2022. However, the decrease in cash flows from operations was partially offset by a lower working capital increase in the current year compared to the prior year as well as an improvement in cash flows generated by our operations.

The increase in working capital in 2023 was primarily attributable to an increase of \$2.2 million in inventory and \$1.4 million in prepaid expenses and other assets and a decrease of \$2.3 million in accounts payable and accrued liabilities. The increase in inventory was primarily due to increased purchases from suppliers to support increased system-wide sales and new center openings. The increase in prepaid expenses and other assets was largely driven by the timing of vendor payments. The decrease in accounts payable and accrued liabilities was largely driven by the payment of accrued bonuses.

Investing Activities

During the 13 weeks ended April 1, 2023 and March 26, 2022, we used \$0.4 million and \$0.3 million of cash for capital expenditures, respectively.

Financing Activities

Cash used in financing activities was \$2.1 million and \$4.3 million during the 13 weeks ended April 1, 2023 and March 26, 2022, respectively. Financing activities during the first 13 weeks of 2023 were the result of a \$1.0 million repayment on the Class A-2 Notes, \$0.7 million in dividend equivalents paid, \$0.3 million in tax distribution payments to EWC Ventures members, and \$0.1 million in taxes on vested RSUs paid by withholding shares. In the first 13 weeks of 2022 we made \$2.3 million in net tax distribution payments

to EWC Ventures members other than the Company, repaid \$1.1 million in principal on our previous term loan and paid the remaining \$0.9 million in costs relating to our secondary offering of Class A common stock which occurred in November 2021.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. There have been no changes to our critical accounting policies and use of estimates from those described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

JOBS Act

The Company is an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”) and may take advantage of reduced reporting requirements that are otherwise applicable to public companies. Section 107 of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with those standards. We have elected to use the extended transition period for complying with new or revised accounting standards. This may make it difficult to compare our financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of the extended transition period exemptions because of the potential differences in accounting standards used.

Recent Accounting Pronouncements

See Note 2 to the condensed consolidated financial statements included in this quarterly report on Form 10-Q for more information about recent accounting pronouncements, the timing of their adoption and our assessment, to the extent we have made one, of the potential impact of the pronouncements on our financial condition and results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our Variable Funding Notes bear interest at a variable rate.

Our Class A-2 Notes bear interest at a fixed rate of 5.50%, and therefore our interest expense related to these notes would not be affected by an increase in market interest rates. Our Variable Funding Notes bear interest at a variable index rate plus an applicable margin. Accordingly, increases in the variable index rate could increase our interest payments under the Variable Funding Notes. However, as the Variable Funding Notes were undrawn as of April 1, 2023 an increase in the variable index rate would not impact on our financial position or results of operations.

Foreign Currency Risk

We are not currently exposed to significant market risk related to changes in foreign currency exchange rates; however, we have contracted with and may continue to contract with foreign vendors. Our operations may be subject to fluctuations in foreign currency exchange rates in the future.

Commodity Price Risk

We are exposed to market risk related to changes in commodity prices. Our primary exposure to commodity price risk is the pricing of our wax purchased from our significant suppliers, which may be adjusted upwards or downwards based on changes in prices of certain raw materials used in the production process.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report on Form 10-Q.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Based on that evaluation, our CEO and CFO concluded that as of April 1, 2023, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended April 1, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

We may be the defendant from time to time in litigation arising during the ordinary course of business, including, without limitation, employment-related claims, claims based on theories of joint employer liability, data privacy claims, claims involving anti-poaching allegations and claims made by former or existing franchisees or the government. In the ordinary course of business, we are also subject to regulatory and governmental examinations, information requests and subpoenas, inquiries, investigations, and threatened legal actions and proceedings. Although the outcomes of potential legal proceedings are inherently difficult to predict, the Company does not expect the resolution of these occasional legal proceedings to have a material effect on its financial position, results of operations, or cash flow.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, “Item 1A. Risk Factors“ in our annual report on Form 10-K for the year ended December 31, 2022. You should carefully consider the risk factors set forth in our 10-K and the other information set forth in this quarterly report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	<u>Second Amended and Restated By-Laws of European Wax Center, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 24, 2023).</u>
10.1+	<u>European Wax Center, Inc. Change in Control and Severance Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 24, 2023).</u>
10.2+	<u>European Wax Center, Inc. Form of Severance Waiver and Employment Agreement Amendment (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 24, 2023).</u>
10.3*+	<u>Offer Letter by and between EWC Corporate, LLC and Stacie Shirley, dated as of March 3, 2023.</u>
10.4*+	<u>Severance Plan Agreement by and between the Registrant and Stacie Shirley, dated as of March 3, 2023.</u>
31.1*	<u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** European Wax Center, Inc. is furnishing, but not filing, the written statement pursuant to Title 18 United States

Code 1350, as added by Section 906 of the Sarbanes Oxley Act of 2002, of David P. Berg, our Chief Executive Officer and Stacie Shirley, our Chief Financial Officer.

+ Indicates management contract or compensatory plan.

March 3, 2023

Stacie Shirley

Dear Stacie,

EWC Corporate, LLC and its affiliates (collectively, “EWC”, “we”, “us” or “our”), operate and support the European Wax Center franchise system. We are very pleased to offer you the position of “Chief Financial Officer” on the following terms and subject to the conditions outlined in this letter:

1. Position. You will have duties, responsibilities and authorities commensurate with this role and as may reasonably be assigned from time to time. ***We may provide a more detailed job description on or after your start date.*** You will initially report to David Berg, Chief Executive Officer, and we anticipate your employment will begin on or around March 27, 2023. This full-time position requires you to devote your full business time to EWC business and therefore, you shall not engage in any activity which conflicts or interferes with the performance of your obligations without our express written consent.

While you will initially be designated as an employee of EWC Corporate, LLC, you will provide services for the benefit of various EWC entities. From time to time, we may require you to submit reports to us to allow us to track work performed and amount of time spent on work for our affiliates. Please also understand that as a franchise system, we support franchise locations and area representatives that are individually owned and operated businesses and therefore, while we do provide training and support, we do not control franchisees, area representatives or their personnel.

2. Compensation and Bonus. Your annual base pay will initially be \$425,000, which amount will be reviewed from time to time by us. As a full-time exempt associate, you are not eligible for overtime pay. Your salary shall be payable in accordance with our standard payroll policies in effect from time to time and will be subject to all applicable withholdings. You will also be eligible for an annual target performance bonus of 50% of your annual salary. The amount of your actual bonus is based upon criteria established by and approvals from EWC’s governing board, your direct and indirect supervisors and as applicable, our compensation committee. Bonuses are typically provided on a calendar year basis and paid in February or March for the preceding year, subject to all applicable withholdings. Bonuses are not earned until the date of payment. Therefore, you must be employed on the date your bonus is awarded and actually paid to be eligible to receive a bonus. For those associates that are bonus eligible, associates that start prior to October 1st are eligible to receive their target bonus for their first calendar year of employment however their bonus potential is pro-rated based on their start date; associates that start with us on or after October 1st are not bonus eligible until the next calendar year that follows their start date.

3. Equity. As soon as reasonably practicable after your start date, you will be granted Restricted Stock Units (the “RSUs”) and Nonqualified Stock Options (the “Options”) valued at \$600,000. The grant value will be equally divided between RSUs and Options. The exact number of units will be determined by the closing price on the first date of employment (the “Date of Grant”). The RSUs shall vest equally over 36 months from the Date of Grant, and the Options shall vest and become exercisable on the third anniversary of the Date of Grant, subject to the Participant’s continued employment or service with the Company through each such date (each such date, a “Vesting Date”). RSUs and Options shall be granted pursuant to, and in accordance with, the terms and conditions of (i) an

incentive equity plan and (ii) a grant agreement, we will provide you copies of each of these governing documents separately after your start date.

4. **Benefits.** While employed with us, you will be eligible to participate in certain benefit plans in accordance with our policies in effect during your employment.

5. **Location.** While EWC does have a Remote-First posture at this point, there is an expectation that direct reports to the CEO will be physically in the office when and as-needed, and for a variety of company purposes including, without limitation, in-person Town Hall meetings, earnings calls, meetings with analysts and investors, and the like. You may also be required to travel from time to time for seminars, business meetings or for other business purposes.

6. **Paid Time Off; Expenses.** You are also eligible for 216 hours of Paid Time Off (“***PTO***”) pursuant to our PTO policies in effect from time to time. PTO is pro-rated based on your start date. We will also reimburse you for reasonable business and related expenses incurred or paid by you in the performance of your duties and responsibilities, subject to the presentation of receipts or other appropriate documentation and in accordance with policies we establish from time to time.

7. **At-Will Employment; Introductory Period; Change in Control and Severance Policy.** *Your employment with us will be at-will, which means that your employment is for an indefinite period of time and both you and EWC are free to terminate the employment relationship at any time for any or no reason and for any lawful reason with or without notice.*

While we understand that you will be learning a lot about your new position, you are still expected to perform satisfactorily at all times and your performance will be reviewed on an ongoing basis. Even during the introductory employment period, you may be terminated at any time, for any or no reason and for any lawful reason with or without notice. Also, please understand that completion of the introductory employment period does not guarantee continued employment and does not change the at-will nature of the employment relationship.

You will be eligible under our recently adopted Change In Control and Severance Policy, which provides certain benefits upon separation of your employment without cause, for good reason, and under other circumstances. This information will be provided to you in a separate document.

8. **EWC Policies.** You will be required to comply with all applicable EWC rules, policies and procedures, as may be set forth in our employment handbooks, policies and procedures made available to you from time to time. Copies of our employment handbooks and these other policies and procedures will be provided separately on or around your start date and are also available upon request. In addition, your employment is contingent upon your execution of our current Confidentiality, Non-Interference and Proprietary Rights Agreement.

9. **No Other Agreements.** This offer letter is not meant to constitute a contract of employment for a specific duration or term, it merely sets forth the initial terms of your employment and compensation with us which may change over time, and supersedes any prior representations or agreements, whether written or oral.

10. **Conditions of Employment.** In addition to the execution of our current Confidentiality, Non-Interference and Proprietary Rights Agreement, please understand that this offer of employment is specifically also contingent upon (i) verification of your employment eligibility to work in the United States and (ii) completion of a background check and credit check. Our Talent team will provide you with a copy of the “Lists of Acceptable Documents” for the USCIS Form I-9. Please make sure to

bring appropriate documentation when you arrive on your first day. The Talent team will contact you separately about our requirements to conduct a background check and credit check and will provide you with all required notices and authorization forms.

Upon your acceptance, subject to the completion of our pre-employment screening requirements, as applicable, we will confirm your actual start date. If you wish to accept this offer of employment, please sign below and return this offer letter to the Talent team by e-mail at aura.debiase@myewc.com. Unless otherwise withdrawn, this offer is open for you to accept until March 6, 2023, at which time it will be deemed to be withdrawn. If you have any questions about the above details, please don't hesitate to call me.

We look forward to having you join the European Wax Center team.

Sincerely,

EWC Corporate, LLC

By: _____
Gavin O'Connor, Chief Legal Officer, Chief Human Resources Officer and Corporate Secretary

By signing below, I accept employment with EWC upon the terms and conditions set forth above and agree that I am not relying on any prior statements or representations not contained within this offer letter. I also represent, warrant and covenant to EWC that I have read this offer letter and the form of Confidentiality, Non-Interference and Proprietary Rights Agreement in their entirety, that I fully understand all of their terms and their significance, that I have signed voluntarily and of my own free will, and that I am not bound, nor will I become bound, by any covenant, contract, agreement or other obligation that conflicts with, or may or does prevent me in any manner from performing my duties while employed with EWC.

In accepting this offer of employment, I also certify my understanding that my employment with EWC will be on an at-will basis; that this letter is not a contract, express or implied; and that this letter does guarantee employment for any specific duration.

Print Name: Stacie Shirley_____

Date: March 3, 2023

Signature: /s/ STACIE SHIRLEY

SEVERANCE PLAN AGREEMENT

WHEREAS, the European Wax Center, Inc. (the “Company”) has adopted the European Wax Center, Inc. Change in Control and Severance Plan, effective February 22, 2023 (the “Severance Plan”), pursuant to which Stacie Shirley (the “Executive”) is entitled to certain severance payments and benefits upon termination of the Executive’s employment by the Company without Cause or by the Executive for Good Reason, as set forth in the Severance Plan and as such terms are defined in the Severance Plan; and

WHEREAS, in consideration of the Executive commencing her employment with the Company on the condition set forth herein and in further consideration of the severance payments and benefits provided pursuant to the terms of the Severance Plan.

NOW, THEREFORE, in consideration of other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Executive and Company agree as follows:

1.The Company agrees that it shall not reduce the amount of severance payments or benefits under the Severance Plan or adversely alter the terms of such plan, in each case as it relates to the Executive, without the Executive’s prior written consent.

2.The Executive acknowledges and agrees that in no event will the Executive be entitled to a duplication of amounts or benefits under the Severance Plan and any other policy, plan, agreement or arrangement of the Company or any of its affiliates.

3.This Severance Plan Agreement shall not relieve the Executive of her obligations to the Company under any other agreement between the Executive and the Company or any of its affiliates that includes non-competition, non-solicitation and/or confidentiality restrictions.

IN WITNESS HEREOF, the Executive has executed this Waiver as of the date written below.

EXECUTIVE

/s/ STACIE SHIRLEY

Stacie Shirley

Date: March 3, 2023

EUROPEAN WAX CENTER, INC.

By: _____

Title: _____

Date: _____
