

**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 October 30, 2021

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: 001-40204

**JOANN Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**46-1095540**

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

**5555 Darrow Road, Hudson, Ohio**

(Address of principal executive offices)

**44236**

(Zip Code)

**Registrant's telephone number, including area code: (330) 656-2600**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	JOAN	The Nasdaq Global Market

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 24, 2021, the registrant had 41,180,969 shares of common stock, par value \$0.01 per share, outstanding.

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). You can generally identify forward-looking statements by our use of forward-looking terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “seek,” “vision,” or “should,” or the negative thereof or other variations thereon or comparable terminology. Forward-looking statements include those we make regarding the following matters:

- inflationary pressures, and their impact on our ability to control costs and on our customers level of discretionary income to spend on Creative Products;
- our ability to anticipate and effectively respond to disruptions or inefficiencies in our distribution network, e-commerce fulfillment function and transportation system, including availability and cost of import and domestic freight;
- the effects of potential changes to U.S. trade regulations and policies, including tariffs, on our business;
- developments involving our competitors and our industry;
- potential future impacts of the COVID-19 pandemic, including effects on supply chain costs and capacity;
- our ability to timely identify or effectively respond to consumer trends, and the potential effects of that ability on our relationship with our customers, the demand for our products and our market share;
- our expectations regarding the seasonality of our business;
- our ability to manage the distinct risks facing our e-commerce business and maintain a relevant omni-channel experience for our customers;
- our ability to maintain or negotiate favorable lease terms;
- our ability to execute on our growth strategy to renovate and improve the performance of our existing locations;
- our ability to attract and retain a qualified management team and other team members while controlling our labor costs;
- the impact of our debt and lease obligations on our ability to raise additional capital to fund our operations and maintain flexibility in operating our business;
- our reliance on and relationships with third party service providers;
- our reliance on and relationships with foreign suppliers and their ability to supply us with adequate, timely, and cost-effective product supplies;
- our ability, and our third party service providers’ ability, to maintain security and prevent unauthorized access to electronic and other confidential information;
- the impacts of potential disruptions to our information systems, including our websites and mobile applications;
- our ability to respond to risks associated with existing and future payment options;
- our ability to maintain and enhance a strong brand image;
- our ability to maintain adequate insurance coverage;
- our status as a “controlled company” and control of us as a public company by affiliates of Leonard Green & Partners, L.P.;
- the impact of evolving governmental laws and regulations and the outcomes of legal proceedings; and
- the amount and timing of repurchases of our common stock, if any.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. Furthermore, the potential impact of the COVID-19 pandemic on our business operations and financial results and on the world economy as a whole may heighten the risks and uncertainties that affect our forward-looking statements. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included elsewhere in this Quarterly Report on Form 10-Q are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements included elsewhere in this Quarterly Report on Form 10-Q. In addition, even if our results of operations, financial condition and liquidity, and events in the industry in which we operate, are consistent with the forward-looking statements included elsewhere in this Quarterly Report on Form 10-Q, they may not be predictive of results or developments in future periods. Any forward-looking statement that we make in this Quarterly Report on Form 10-Q speaks only as of the date of such statement. Except as required by law, we do not undertake any obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report on Form 10-Q.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

JOANN Inc.  
Consolidated Balance Sheets

	(Unaudited)		January 30, 2021
	October 30, 2021	October 31, 2020	
(Dollars in millions)			
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 30.9	\$ 33.2	\$ 27.4
Inventories	744.3	697.7	555.9
Prepaid expenses and other current assets	82.6	68.7	71.5
Total current assets	857.8	799.6	654.8
Property, equipment and leasehold improvements, net	261.1	296.0	280.5
Operating lease assets	842.1	864.4	837.0
Goodwill, net	162.0	162.0	162.0
Intangible assets, net	372.1	378.9	377.2
Other assets	26.8	18.7	25.8
Total assets	<u>\$ 2,521.9</u>	<u>\$ 2,519.6</u>	<u>\$ 2,337.3</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$ 311.3	\$ 328.9	\$ 250.1
Accrued expenses	128.6	138.3	171.3
Current portion of operating lease liabilities	176.7	184.2	187.2
Current portion of long-term debt	6.8	—	—
Total current liabilities	623.4	651.4	608.6
Long-term debt, net	853.8	921.6	786.3
Long-term operating lease liabilities	758.2	800.8	766.4
Long-term deferred income taxes	91.2	91.6	87.3
Other long-term liabilities	48.7	50.7	46.3
Shareholders' equity:			
Common stock, stated value \$0.01 per share; 200,000,000 authorized; issued 44,080,177 shares at October 30, 2021 and 36,822,658 shares at October 31, 2020 and January 30, 2021	0.4	0.3	0.3
Additional paid-in capital	203.6	124.3	124.7
Retained deficit	(34.4)	(107.3)	(69.0)
Accumulated other comprehensive income (loss)	1.1	(0.5)	(0.3)
Treasury stock at cost; 2,899,208 shares at October 30, 2021 and 1,920,278 at October 31, 2020 and January 30, 2021	(24.1)	(13.3)	(13.3)
Total shareholders' equity	146.6	3.5	42.4
Total liabilities and shareholders' equity	<u>\$ 2,521.9</u>	<u>\$ 2,519.6</u>	<u>\$ 2,337.3</u>

See notes to unaudited consolidated financial statements.

**JOANN Inc.**  
**Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
	(Dollars in millions except per share data)			
Net sales	\$ 611.0	\$ 714.1	\$ 1,682.3	\$ 1,921.5
Cost of sales	292.2	339.6	794.0	949.8
Selling, general and administrative expenses	257.6	292.5	754.5	818.2
Depreciation and amortization	19.6	20.3	60.1	59.8
Operating profit	41.6	61.7	73.7	93.7
Interest expense, net	11.8	14.0	39.8	55.0
Debt related (gain) loss	—	(3.0)	3.0	(152.9)
Gain on sale leaseback	—	—	(24.5)	—
Income before income taxes	29.8	50.7	55.4	191.6
Income tax provision	7.0	3.0	12.3	17.6
Net income	\$ 22.8	\$ 47.7	\$ 43.1	\$ 174.0
Other comprehensive income:				
Cash flow hedges	1.4	0.1	1.8	0.5
Income tax provision on cash flow hedges	(0.3)	—	(0.4)	(0.1)
Other comprehensive income	1.1	0.1	1.4	0.4
Comprehensive income	\$ 23.9	\$ 47.8	\$ 44.5	\$ 174.4
Earnings per common share:				
Basic	\$ 0.55	\$ 1.37	\$ 1.06	\$ 4.99
Diluted	\$ 0.53	\$ 1.32	\$ 1.02	\$ 4.88
Weighted-average common shares outstanding:				
Basic	41,744,842	34,902,380	40,763,153	34,902,380
Diluted	43,080,708	36,263,172	42,142,550	35,666,429

*See notes to unaudited consolidated financial statements.*

**JOANN Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020
(Dollars in millions)		
Net cash (used for) provided by operating activities:		
Net income	\$ 43.1	\$ 174.0
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Non-cash operating lease expense	120.8	113.2
Depreciation and amortization	60.1	59.8
Deferred income taxes	3.4	0.5
Stock-based compensation expense	2.1	1.1
Amortization of deferred financing costs and original issue discount	2.0	2.9
Debt related loss (gain)	3.0	(152.9)
Gain on sale leaseback	(24.5)	—
(Gain) loss on disposal and impairment of fixed and operating lease assets	(0.1)	2.1
Changes in operating assets and liabilities:		
Increase in inventories	(188.4)	(48.0)
Increase in prepaid expenses and other current assets	(11.0)	(21.6)
Increase in accounts payable	61.2	101.8
(Decrease) increase in accrued expenses	(45.4)	26.5
Decrease in operating lease liabilities	(144.6)	(87.7)
(Decrease) increase in other long-term liabilities	(6.0)	13.1
Other, net	0.7	1.0
Net cash (used for) provided by operating activities	(123.6)	185.8
Net cash provided by (used for) investing activities:		
Capital expenditures	(42.9)	(28.7)
Proceeds from sale leaseback	48.1	—
Proceeds from sales of other fixed assets	—	0.5
Other investing activities	(0.2)	—
Net cash provided by (used for) investing activities	5.0	(28.2)
Net cash provided by (used for) financing activities:		
Term loan proceeds, net of original issue discount	671.6	—
Term loan payments	(708.0)	(2.3)
Borrowings on revolving credit facility	429.9	464.5
Payments on revolving credit facility	(318.9)	(421.0)
Purchase and retirement of debt	(0.9)	(188.4)
Principal payments on finance lease obligations	(5.4)	(1.7)
Issuance of common stock, net of underwriting commissions and offering costs	76.9	—
Purchase of common stock	(10.8)	—
Dividends paid	(8.4)	—
Financing fees paid	(3.9)	—
Other, net	—	0.1
Net cash provided by (used for) financing activities	122.1	(148.8)
Net increase in cash and cash equivalents	3.5	8.8
Cash and cash equivalents at beginning of period	27.4	24.4
Cash and cash equivalents at end of period	\$ 30.9	\$ 33.2
Cash paid during the period for:		
Interest	\$ 38.6	\$ 48.7
Income taxes, net of refunds	17.2	41.7

*See notes to unaudited consolidated financial statements.*

**JOANN Inc.**  
**Consolidated Statements of Shareholders' Equity (Deficit)**  
**(Unaudited)**

	Thirteen Weeks Ended							
	Net Common Shares	Treasury Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
	(Shares in thousands)		(Dollars in millions)					
Balance, August 1, 2020	34,902.4	1,920.3	\$ 0.3	\$ 124.0	\$ (13.3)	\$ (155.0)	\$ (0.6)	\$ (44.6)
Net income	—	—	—	—	—	47.7	—	47.7
Other comprehensive income	—	—	—	—	—	—	0.1	0.1
Stock-based compensation	—	—	—	0.3	—	—	—	0.3
Balance, October 31, 2020	<u>34,902.4</u>	<u>1,920.3</u>	<u>\$ 0.3</u>	<u>\$ 124.3</u>	<u>\$ (13.3)</u>	<u>\$ (107.3)</u>	<u>\$ (0.5)</u>	<u>\$ 3.5</u>
Balance, July 31, 2021	42,159.9	1,920.3	\$ 0.4	\$ 202.8	\$ (13.3)	\$ (52.9)	\$ —	\$ 137.0
Net income	—	—	—	—	—	22.8	—	22.8
Other comprehensive income	—	—	—	—	—	—	1.1	1.1
Dividends – \$0.10 per share	—	—	—	—	—	(4.3)	—	(4.3)
Purchase of common stock	(978.9)	978.9	—	—	(10.8)	—	—	(10.8)
Stock-based compensation	—	—	—	0.8	—	—	—	0.8
Balance, October 30, 2021	<u>41,181.0</u>	<u>2,899.2</u>	<u>\$ 0.4</u>	<u>\$ 203.6</u>	<u>\$ (24.1)</u>	<u>\$ (34.4)</u>	<u>\$ 1.1</u>	<u>\$ 146.6</u>

	Thirty-Nine Weeks Ended							
	Net Common Shares	Treasury Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
	(Shares in thousands)		(Dollars in millions)					
Balance, February 1, 2020	34,902.4	1,920.3	\$ 0.3	\$ 123.2	\$ (13.3)	\$ (281.3)	\$ (0.9)	\$ (172.0)
Net income	—	—	—	—	—	174.0	—	174.0
Other comprehensive income	—	—	—	—	—	—	0.4	0.4
Stock-based compensation	—	—	—	1.1	—	—	—	1.1
Balance, October 31, 2020	<u>34,902.4</u>	<u>1,920.3</u>	<u>\$ 0.3</u>	<u>\$ 124.3</u>	<u>\$ (13.3)</u>	<u>\$ (107.3)</u>	<u>\$ (0.5)</u>	<u>\$ 3.5</u>
Balance, January 30, 2021	34,902.4	1,920.3	\$ 0.3	\$ 124.7	\$ (13.3)	\$ (69.0)	\$ (0.3)	\$ 42.4
Net income	—	—	—	—	—	43.1	—	43.1
Other comprehensive income	—	—	—	—	—	—	1.4	1.4
Issuance of common stock, net	7,109.4	—	0.1	76.8	—	—	—	76.9
Dividends – \$0.20 per share	—	—	—	—	—	(8.5)	—	(8.5)
Purchase of common stock	(978.9)	978.9	—	—	(10.8)	—	—	(10.8)
Stock-based compensation	—	—	—	2.1	—	—	—	2.1
Exercise of stock options	148.1	—	—	—	—	—	—	—
Balance, October 30, 2021	<u>41,181.0</u>	<u>2,899.2</u>	<u>\$ 0.4</u>	<u>\$ 203.6</u>	<u>\$ (24.1)</u>	<u>\$ (34.4)</u>	<u>\$ 1.1</u>	<u>\$ 146.6</u>

*See notes to unaudited consolidated financial statements.*

**JOANN Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**Note 1—Significant Accounting Policies**

***Nature of Operations***

JOANN (as defined below) is the nation’s category leader in sewing and fabrics (collectively, “Sewing”) and one of the fastest growing competitors in the arts and crafts category. The Company is well-positioned in the marketplace and has multiple competitive advantages, including a broad assortment, established omni-channel platform, multi-faceted digital interface with customers and skilled and knowledgeable team members. As a well-established and trusted brand for over 75 years, the Company believes it has a deep understanding of its customers, what inspires their creativity and what fuels their incredibly diverse projects. Since 2016, the Company has embarked on a strategy to transform JOANN, which has helped it pivot from a traditional retailer to a fully-integrated, digitally-connected provider of Creative Products. As of October 30, 2021, the Company operated 852 retail stores in 49 states.

***Basis of Presentation***

The accompanying Consolidated Financial Statements and these notes are unaudited and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. The Consolidated Financial Statements reflect all normal recurring adjustments which management believes are necessary to present fairly the Company’s financial condition, results of operations, and cash flows for all periods presented. The Consolidated Financial Statements, however, do not include all information necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying Consolidated Financial Statements and these notes should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

***Consolidation***

The Consolidated Financial Statements include the accounts of JOANN Inc. (formerly known as Jo-Ann Stores Holdings Inc.) (the “Holding Company”), Needle Holdings LLC (“Needle Holdings”) and Jo-Ann Stores, LLC and its wholly-owned subsidiaries (collectively, “JOANN”). Effective February 9, 2021, Jo-Ann Stores Holdings Inc. amended its certificate of incorporation to change its corporate name to “JOANN Inc.” All of the entities referenced in the prior sentence hereinafter will be referred to collectively as the “Company” and are all controlled by affiliates of Leonard Green & Partners, L.P. (“LGP”). All intercompany accounts and transactions have been eliminated upon consolidation.

The Holding Company has no operating activities and is limited to the issuance of shares of common stock and stock-based awards, the repurchase of common shares, the issuance and repurchase of debt, the receipt and payment of dividends or distributions and the payment of interest expense. The authorized, issued and outstanding common shares and treasury shares shown on the Consolidated Balance Sheets are of the Holding Company. Likewise, Needle Holdings has no operating activities and is limited to the issuance of initial shares of common stock and stock-based awards and the payment of dividends or distributions.

***Fiscal Periods***

The Company’s fiscal year ends on the Saturday closest to January 31 and refers to the year in which the period ends (e.g., fiscal 2022 refers to the fiscal year ending January 29, 2022). Fiscal years consist of 52 weeks, unless noted otherwise. The fiscal quarters ended October 30, 2021 and October 31, 2020 were both comprised of 13 weeks. The year-to-date periods ended October 30, 2021 and October 31, 2020 were both comprised of 39 weeks.

***Seasonality***

Typical of most retail companies, the Company’s business is seasonal, with the majority of revenues and operating profits generated in the second half of the fiscal year. Accordingly, earnings or losses for a particular interim period are not necessarily indicative of full-year results. In addition, due to demand volatility the Company has experienced during the COVID-19 pandemic, the seasonality of its fiscal 2022 results may differ from its historical experience.



## ***Initial Public Offering***

On March 11, 2021, the Company's registration statement on Form S-1 (File No. 333-253121) relating to its initial public offering was declared effective by the SEC. The Company's shares of common stock began trading on the Nasdaq Global Market on March 12, 2021. The public offering price of the shares sold in the initial public offering was \$12.00 per share. The initial public offering closed on March 11, 2021 and included 5,468,750 shares of common stock. As part of the Company's initial public offering, the underwriters were provided with an option to purchase 1,640,625 additional shares at the initial public offering price. This option was exercised on April 13, 2021. In aggregate, the shares issued in the offering, including the exercise of the underwriters' option, generated \$76.9 million in net proceeds, which amount is net of \$5.7 million in underwriters' discount and commissions and \$2.7 million in offering costs incurred.

On March 19, 2021, in connection with the closing of the initial public offering, the Company used all net proceeds received from the initial public offering and borrowings from the Revolving Credit Facility (as defined below) to repay all of the outstanding borrowings and accrued interest under the Term Loan due 2024 (as defined below) totaling \$72.7 million. Following such repayment, all obligations under the Term Loan due 2024 have been terminated.

## ***Stock Split***

On March 3, 2021, the Company's Board of Directors approved and effected an 85.8808880756715-for-1.0 unit split of its common stock. All share and per share data included in these Consolidated Financial Statements give effect to the stock split and have been retroactively adjusted for all periods.

## ***Use of Estimates***

In the opinion of management, the accompanying interim Consolidated Balance Sheets and related interim Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

## ***Recently Adopted Accounting Guidance***

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). The amendments in ASU 2019-12 remove certain exceptions to the general principles in Accounting Standards Codification Topic 740. The amendments also clarify and amend existing guidance to improve consistent application. The amendments became effective for the Company's interim and annual reporting periods beginning after December 15, 2020. The transition method (retrospective, modified retrospective, or prospective basis) related to the amendments depends on the applicable guidance, and all amendments for which there is no transition guidance specified are to be applied on a prospective basis. The Company adopted ASU 2019-12 on January 31, 2021, and the adoption did not have a material impact on its Consolidated Financial Statements.

## ***Future Adoption of Recently Issued Accounting Guidance***

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company intends to apply this guidance when modifications of contracts that include LIBOR occur, which is not expected to have a material impact on its Consolidated Financial Statements.

## ***Related Party Transactions***

Prior to the completion of the Company's initial public offering, the Company paid a monthly management fee to LGP, which is included in selling, general and administrative ("SG&A") expenses on the accompanying Consolidated Statements of Comprehensive Income. Starting in April 2020, the management fee payable to LGP was forgiven until the end of calendar year 2020 due to the impact

of the COVID-19 pandemic. Payment of the monthly management fee was discontinued upon the completion of the Company's initial public offering in March 2021, as LGP no longer provides managerial services to the Company in any form.

The Company paid no management fee for the thirteen weeks ended October 30, 2021 and October 31, 2020. The Company paid a management fee to LGP of \$0.4 million and \$0.8 million for the thirty-nine weeks ended October 30, 2021 and October 31, 2020, respectively.

During the thirteen and thirty-nine weeks ended October 30, 2021, the Company paid dividends of \$2.8 million and \$5.6 million, respectively, to LGP as part of the Company's quarterly dividend payments.

## Note 2—Financing

Long-term debt consisted of the following:

	October 30, 2021	October 31, 2020	January 30, 2021
	(Dollars in millions)		
Revolving Credit Facility	\$ 196.5	\$ 217.0	\$ 85.5
Term Loan due 2023	—	635.4	635.4
Term Loan due 2024	—	77.3	72.8
Term Loan due 2028	673.4	—	—
<b>Total debt</b>	<b>869.9</b>	<b>929.7</b>	<b>793.7</b>
Less unamortized discount and debt costs	(9.3)	(8.1)	(7.4)
<b>Total debt, net</b>	<b>860.6</b>	<b>921.6</b>	<b>786.3</b>
Less current portion of debt	(6.8)	—	—
<b>Long-term debt, net</b>	<b>\$ 853.8</b>	<b>\$ 921.6</b>	<b>\$ 786.3</b>

### *Revolving Credit Facility*

On October 21, 2016, the Company entered into an asset-based revolving credit facility agreement, which originally provided for senior secured financing of up to \$400.0 million, subject to a borrowing base, maturing on October 20, 2021. On November 25, 2020, the Company entered into an agreement to amend various terms of the asset-based revolving credit facility agreement (as amended, the "Revolving Credit Facility"), which provides for senior secured financing of up to \$500.0 million, subject to a borrowing base, maturing on November 25, 2025.

As of October 30, 2021, there were \$196.5 million of borrowings on the Revolving Credit Facility and the Company's outstanding letters of credit obligation was \$20.5 million. As of October 30, 2021, the Company's excess availability on the Revolving Credit Facility was \$270.0 million. During the third quarter of fiscal 2022, the weighted average interest rate for borrowings under the Revolving Credit Facility was 2.86 percent, compared to 1.52 percent for the third quarter of fiscal 2021. As of October 31, 2020, the Company had \$217.0 million of borrowings on the Revolving Credit Facility and the Company's outstanding letters of credit obligation was \$23.6 million. As of October 31, 2020, the Company's excess availability on the Revolving Credit Facility was \$159.4 million.

### *Term Loan Due 2023*

On October 21, 2016, the Company entered into a \$725.0 million senior secured term loan facility (the "Term Loan due 2023") which was issued at 98.0 percent of face value. The Term Loan due 2023 facility was with a syndicate of lenders and was secured by substantially all the assets of JOANN, excluding the Revolving Credit Facility collateral, and had a second priority security interest in the Revolving Credit Facility collateral. It was guaranteed by existing and future wholly-owned subsidiaries of JOANN, subject to certain exceptions. The Term Loan due 2023 was refinanced on July 7, 2021 with the Amendment No. 2 to the Company's Credit Agreement (see Term Loan Due 2028 below). A write-off of the deferred charges and original issue discount, totaling \$3.1 million, associated with the original debt issuance was recognized in debt related (gain) loss within the accompanying Consolidated Statements of Comprehensive Income and the accompanying Consolidated Statements of Cash Flows as a result of the refinancing. The weighted average interest rate for borrowings under the Term Loan due 2023 was 6.08 percent for the third quarter of fiscal 2021.

### ***Term Loan Due 2024***

On May 21, 2018, the Company entered into a \$225.0 million term loan facility (the “Term Loan due 2024”), which was issued at 98.5 percent of face value. The Term Loan due 2024 was with a syndicate of lenders. The Term Loan due 2024 was secured by a second priority security interest in all the assets of JOANN, excluding the Revolving Credit Facility collateral, and had a third priority security interest in the Revolving Credit Facility collateral. It was guaranteed by existing and future wholly-owned subsidiaries of JOANN, subject to certain exceptions. During the third quarter of fiscal 2021, the weighted average interest rate for borrowings under the Term Loan due 2024 was 10.39 percent.

On March 19, 2021, in connection with the closing of the initial public offering, the Company used all net proceeds received from the initial public offering and borrowings from the Revolving Credit Facility to repay all of the outstanding borrowings and accrued interest under the Term Loan due 2024 totaling \$72.7 million. Following such repayment, all obligations under the Term Loan due 2024 were terminated in the first quarter of fiscal 2022. A write-off of the deferred charges and original issue discount, totaling \$0.9 million, associated with the original debt issuance was recognized in debt related (gain) loss within the accompanying Consolidated Statements of Comprehensive Income and the accompanying Consolidated Statements of Cash Flows as a result of the repayment.

### ***Term Loan Due 2028***

On July 7, 2021, the Company entered into the Amendment No. 2 (“Second Amendment”) to the Credit Agreement, dated as of October 21, 2016. The Second Amendment, among other things, provided for a new \$675 million incremental first-lien term loan credit facility with a maturity date of July 7, 2028 (the “Term Loan due 2028” and, together with the Term Loan due 2023 and Term Loan due 2024, the “Term Loans”). The Term Loan due 2028 was issued at 99.5 percent of face value and was used to refinance the Company’s outstanding Term Loan due 2023, as well as to reduce amounts borrowed under the Revolving Credit Facility, and pay related fees and expenses. The Second Amendment reduced the applicable interest rates for Eurodollar rate loans and base rate loans from 5.00% and 4.00% to 4.75% and 3.75%, respectively, and reduced the LIBOR floor from 1.00% to 0.75%. Other than the changes described above, all other material provisions of the Credit Agreement remain unchanged. During the third quarter of fiscal 2022, the weighted average interest rate for borrowings under the Term Loan due 2028 was 5.58 percent.

The Term Loan due 2028 was issued at a \$3.4 million discount. A portion of the discount in the amount of \$3.1 million was recorded as a reduction of debt and set up to amortize over the life of the Term Loan due 2028 and \$0.3 million of the discount was charged to earnings. The total fees and expenses associated with the Term Loan due 2028 were \$6.8 million, which fees represent banking, legal and other professional services. The Company capitalized \$3.8 million of these fees as a reduction of debt and the remaining fees were charged to earnings.

### ***Covenants***

The covenants contained in the credit agreements restrict JOANN’s ability to pay dividends or make other distributions; accordingly, any dividends may only be made in accordance with such covenants. Among other restrictions, the credit agreements permit the public parent company to pay dividends on its common stock in amounts not to exceed the greater of 6% per annum of the net proceeds received by, or contributed to Jo-Ann Stores, LLC from any such public offering of common stock of Jo-Ann Stores, LLC or its direct or indirect parent company, or 7% of Market Capitalization (as defined in the credit agreements). So long as there is no event of default, the credit agreements also allow dividends in amounts not less than \$35 million, which amount can increase if certain other conditions are satisfied, including if JOANN’s leverage does not exceed certain thresholds. Additionally, the Revolving Credit Facility allows for unlimited dividends, so long as there is no event of default and the Company’s excess availability is greater than 20% of the maximum credit, calculated on a pro forma basis for 60 days. At October 30, 2021, the Company was in compliance with all covenants under its credit agreements.

For further details on the Company’s debt, see Note 2 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended January 30, 2021.

### **Note 3—Derivative Instruments**

The Company is exposed to certain market risks during the normal course of its business arising from adverse changes in interest rates. The Company’s exposure to interest rate risk results primarily from its variable-rate borrowings. The Company may selectively use derivative financial instruments to manage the risks from fluctuations in interest rates. The Company does not purchase or hold derivatives for trading or speculative purposes. Fluctuations in interest rates can be volatile, and the Company’s risk management activities do not totally eliminate these risks. Consequently, these fluctuations could have a significant effect on the Company’s financial results.

### Interest Rate Swap

In August 2021, the Company entered into an interest rate swap agreement with U.S. Bank N.A., which has a \$200 million notional value with an effective date of October 26, 2023 and a maturity date of October 26, 2025. Beginning in January 2024, the Company receives 1-month, 3-month or 6-month LIBOR, at the Company's election, subject to a 0.75 percent floor, and pays a fixed rate of interest of 1.43 percent per annum on a quarterly basis. In connection with the execution of the interest rate swap agreement, no cash was exchanged between the Company and the counterparty. The fair value of the interest rate swap as of October 30, 2021 was \$1.4 million and is presented within other assets in the accompanying Consolidated Balance Sheet.

The Company designated its interest rate swap as a cash flow hedge and structured it to be highly effective. Unrealized gains and losses related to the fair value of the interest rate swap are recorded to accumulated other comprehensive income (loss), net of tax. In the event of early termination of the interest rate swap, the Company will receive from or pay to the counterparty the fair value of the interest rate swap agreement, and the unrealized gain or loss outstanding will be recognized in earnings.

### Interest Rate Cap

In July 2018, the Company purchased, for \$2.2 million, a forward starting interest rate cap based on 3-month LIBOR effective October 23, 2018 through October 23, 2021. The objective of the hedging instrument was to offset the variability of cash flows in term loan debt interest payments attributable to fluctuations in LIBOR beyond 3.5 percent.

The interest rate cap expired in October 2021. As of October 31, 2020, the interest rate cap had an amortized notional amount of \$682.9 million and a fair value of zero. The time value of the interest rate cap was excluded from the assessment of effectiveness and was amortized to interest expense over the life of the hedge.

The impacts of the Company's derivative instruments on the accompanying Consolidated Statements of Comprehensive Income for the thirteen and thirty-nine weeks ended October 30, 2021 and October 31, 2020 are presented in the table below:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
	(Dollars in millions)			
Gain recognized in other comprehensive income on derivatives, gross of income taxes	\$ 1.4	\$ —	\$ 1.4	\$ —
Amount reclassified from accumulated other comprehensive income (loss) into earnings	—	—	—	—
Amortization of excluded component to interest expense	—	0.1	0.4	0.5

### Note 4—Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and

Level 3 – Unobservable inputs in which there is little or no market data which require the reporting entity to develop its own assumptions.

The valuations of the Company's interest rate derivatives are measured as the present value of all expected future cash flows based on LIBOR-based yield curves. The present value calculation uses discount rates that have been adjusted to reflect the credit quality of

the Company and its counterparty which is a Level 2 fair value measurement. The carrying and fair value of the Company's interest rate derivatives were as follows:

Instrument	Balance Sheet Location	October 30, 2021		October 31, 2020	
		(Dollars in millions)			
Interest rate swap	Other assets	\$	1.4	\$	—
Interest rate cap	Other assets	\$	—	\$	—

The fair values of cash and cash equivalents, accounts payable and borrowings on the Company's Revolving Credit Facility approximated their carrying values because of the short-term nature of these instruments. If these instruments were measured at fair value in the financial statements, they would be classified as Level 1 in the fair value hierarchy.

Long-term debt is presented at carrying value in the Company's Consolidated Balance Sheets. The fair value of the Company's Term Loans was determined based on quoted market prices or recent trades of these debt instruments in less active markets. If the Company's long-term debt was recorded at fair value, it would be classified as Level 2 in the fair value hierarchy. The following provides the carrying and fair values of the Company's Term Loans as of October 30, 2021 and October 31, 2020:

	October 30, 2021		October 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(Dollars in millions)				
Term Loan due 2023 (a)	\$ —	\$ —	\$ 628.4	\$ 553.1
Term Loan due 2024 (a)	—	—	76.2	34.3
Term Loan due 2028 (a)	664.1	652.5	—	—

(a) Net of deferred financing costs and original issue discount.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). The fair values are determined based on either a market approach, an income approach, in which the Company utilizes internal cash flow projections over the life of the underlying assets discounted using a discount rate that is considered to be commensurate with the risk inherent in the Company's current business model, or a combination of both. These measures of fair value, and related inputs, are considered a Level 3 approach under the fair value hierarchy.

The Company uses the end of the period when determining the timing of transfers between levels. There were no transfers between levels during the periods presented.

#### Note 5—Accrued Expenses and Other Long-Term Liabilities

In the first quarter of fiscal 2022, the Company paid \$35.0 million for incentive compensation to salaried store support center and distribution center team members as well as store and district managers based on favorable financial performance during fiscal 2021. As of January 30, 2021, the Company had fully accrued for the incentive compensation payment in accrued expenses on the accompanying Consolidated Balance Sheet.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law by the President on March 27, 2020, allows companies to defer the payment of the employer portion of the Social Security Tax. The deferral period lasted until December 31, 2020 with half of the deferred amount due at December 31, 2021 and the other half due at December 31, 2022. The Company elected to defer payment of its portion of the Social Security Tax as permitted by the CARES Act, and as a result, has accrued for the full amount of these deferred payments in the amount of \$10.7 million within accrued expenses and \$10.7 million within other long-term liabilities on the accompanying Consolidated Balance Sheet as of October 30, 2021. As of October 31, 2020, the Company had accrued \$16.4 million within other long-term liabilities for deferred Social Security Tax payments.

## Note 6—Goodwill and Other Intangible Assets

The carrying amount of goodwill at October 30, 2021 and October 31, 2020, was as follows:

	October 30, 2021	October 31, 2020
	(Dollars in millions)	
Goodwill, gross	\$ 643.8	\$ 643.8
Accumulated impairment	(481.8)	(481.8)
Goodwill, net	<u>\$ 162.0</u>	<u>\$ 162.0</u>

The carrying amount and accumulated amortization of identifiable intangible assets at October 30, 2021 and October 31, 2020 was as follows:

	Estimated Life in Years	October 30, 2021		October 31, 2020	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(Dollars in millions)			
Indefinite-lived intangible assets:					
JOANN trade name	—	\$ 325.0	\$ —	\$ 325.0	\$ —
Joann.com domain name	—	10.0	—	10.0	—
Intangible assets subject to amortization:					
Creativebug trade name	10	0.1	—	0.1	—
Technology	3	—	—	0.9	(0.9)
Customer relationships	16	110.0	(73.0)	110.0	(66.2)
Total intangible assets		<u>\$ 445.1</u>	<u>\$ (73.0)</u>	<u>\$ 446.0</u>	<u>\$ (67.1)</u>

The Company recognized intangible asset amortization of \$1.7 million and \$5.1 million for the thirteen and thirty-nine weeks ended October 30, 2021, respectively. The Company recognized intangible asset amortization of \$1.7 million and \$5.2 million for the thirteen and thirty-nine weeks ended October 31, 2020, respectively. The weighted average amortization period of amortizable intangible assets as of October 30, 2021 approximated 5.4 years.

## Note 7—Income Taxes

### Coronavirus Tax Relief

The CARES Act was signed into law by the President on March 27, 2020. Among other things, it provides economic relief to individuals and businesses. Tax law changes in the CARES Act impacted the Company in a number of different ways, including enhanced interest expense deductibility for fiscal 2020 and fiscal 2021 resulting from changes to the computation of the related limitation, the ability to carry back net operating losses for fiscal 2020 and fiscal 2021 to the five prior years, including tax years with a 35 percent corporate income tax rate, and a technical correction to the Tax Cuts and Jobs Act of 2017 allowing qualified improvement property to be fully depreciated in the year the property is placed in service.

### Effective Tax Rate

The effective income tax rate for the third quarter of fiscal 2022 was 23.5 percent, compared to 5.9 percent for the third quarter of fiscal 2021. The effective income tax rate for the first thirty-nine weeks of fiscal 2022 was 22.2 percent, compared to 9.2 percent for the first thirty-nine weeks of fiscal 2021. The change in the effective tax rate primarily relates to the recording of the favorable impact of the enactment of the CARES Act, including the release of a valuation allowance for the interest deduction limitation, during the first thirty-nine weeks of fiscal 2021.

The effective tax rate is subject to change based on the mix of income from different state jurisdictions, which tax at different rates, as well as the change in status or outcome of uncertain tax positions. The Company evaluates its effective tax rate on a quarterly basis and updates its estimate of the full-year effective rate as necessary.

## Reserves for Uncertain Tax Positions

At the end of the third quarter of fiscal 2022, unrecognized tax benefits were \$1.0 million, of which \$0.8 million would affect the effective tax rate, if recognized. The Company records interest and penalties on uncertain tax positions as a component of the income tax provision. The total amount of interest and penalties accrued at the end of the third quarter of fiscal 2022 was \$0.1 million compared to \$0.3 million of interest and penalties accrued as of the end of the third quarter of fiscal 2021. Within the next 12 months, it is reasonably possible that uncertain tax positions could be reduced by approximately \$0.3 million resulting from resolution or closure of tax examinations. Any increase in the amount of uncertain tax positions within the next 12 months is expected to be insignificant.

## Note 8—Earnings Per Share

Basic earnings per share is computed based upon the weighted-average number of common shares outstanding. Diluted earnings per share is computed based upon the weighted-average number of common shares outstanding plus the dilutive effect of common share equivalents calculated using the treasury stock method. Treasury stock is excluded from the denominator in calculating both basic and diluted earnings per share.

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings per share and the stock-based awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive for the thirteen and thirty-nine weeks ended October 30, 2021 and October 31, 2020:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
	(Dollars in millions except per share data)			
Net income	\$ 22.8	\$ 47.7	\$ 43.1	\$ 174.0
Weighted-average common shares outstanding – Basic	41,744,842	34,902,380	40,763,153	34,902,380
Effect of dilutive stock-based awards	1,335,866	1,360,792	1,379,397	764,049
Weighted-average common shares outstanding – Diluted	43,080,708	36,263,172	42,142,550	35,666,429
Basic earnings per common share	\$ 0.55	\$ 1.37	\$ 1.06	\$ 4.99
Diluted earnings per common share	\$ 0.53	\$ 1.32	\$ 1.02	\$ 4.88
Antidilutive stock-based awards excluded from diluted calculation	1,563,527	890,580	1,431,726	1,683,258

## Note 9—Segments and Disaggregated Revenue

The Company conducts its business activities and reports financial results as one operating segment and one reportable segment, which includes the Company's retail locations and integrated omni-channel operations. Due to its integrated omni-channel strategy, the Company views omni-channel sales as an extension of its physical locations. The presentation of financial results as one reportable segment is consistent with the way the Company operates its business and is consistent with the manner in which the Chief Operating Decision Maker ("CODM") makes decisions about allocating resources and assessing performance. Furthermore, the Company notes that monitoring financial results as one reportable segment helps the CODM manage costs on a consolidated basis, consistent with the integrated nature of its operations.

The following table shows revenue by product category:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
	(Dollars in millions)			
Sewing	275.2	\$ 342.5	\$ 760.2	\$ 989.1
Arts and Crafts and Home Décor	329.5	359.8	897.1	895.4
Other	6.3	11.8	25.0	37.0
Total	\$ 611.0	\$ 714.1	\$ 1,682.3	\$ 1,921.5

**Note 10—Commitments and Contingencies**

The Company is involved in various litigation matters in the ordinary course of its business. The Company is not currently involved in any litigation that it expects, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

**Note 11—Gain on Sale Leaseback of Distribution Center**

During the second quarter of fiscal 2022, the Company completed a sale and leaseback transaction for its distribution center located in Opelika, Alabama for a sale price of \$48.1 million. The transaction qualifies for sales recognition under the sale leaseback accounting requirements and the Company recorded a gain of \$24.5 million. Net after tax proceeds from the sale were primarily used to repay borrowings under the Term Loan due 2023 and Revolving Credit Facility.

The lease related to this transaction has an initial term of 20 years and two 10-year extension options. At commencement of the lease, the Company recorded operating lease liabilities of \$37.5 million and operating lease assets of \$37.5 million. The discount rate for the lease was 6.28%.



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

This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited Consolidated Financial Statements and the related notes thereto and the Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021. Some of the information included in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the “Cautionary Note Regarding Forward-Looking Statements” section in this Quarterly Report and the “Summary Risk Factors” and “Risk Factors” sections of our Annual Report on Form 10-K for the fiscal year ended January 30, 2021 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Our fiscal year ends on the Saturday closest to January 31 and refers to the year in which the period ends (e.g., fiscal 2022 refers to the year ending January 29, 2022). Fiscal years consist of 52 weeks, unless noted otherwise. The fiscal quarters ended October 30, 2021 and October 31, 2020 were both comprised of 13 weeks. The year-to-date periods ended October 30, 2021 and October 31, 2020 were both comprised of 39 weeks.

### JOANN Overview

JOANN is the nation’s category leader in Sewing and one of the fastest growing competitors in the arts and crafts category. We are well-positioned in the marketplace and have multiple competitive advantages, including a broad assortment, established omni-channel platform, multi-faceted digital interface with customers and skilled and knowledgeable team members. As a well-established and trusted brand for over 75 years, we believe we have a deep understanding of our customers, what inspires their creativity and what fuels their incredibly diverse projects. Since 2016, we have embarked on a strategy to transform JOANN, which has helped us pivot from a traditional retailer to a fully-integrated, digitally-connected provider of Creative Products.

### Highlights for the Thirteen Weeks Ended October 30, 2021

- Net sales decreased 14.4% compared to the third quarter of fiscal 2021, to \$611.0 million with total comparable sales decreasing 14.2% compared with a total comparable sales increase of 25.2% in the same period in fiscal 2021.
- Gross profit decreased 14.9% compared to the same period in the prior fiscal year, to \$318.8 million, at a rate to net sales of 52.2% which was a 20 basis point decrease over the prior fiscal year.
- Net income was \$22.8 million in the third quarter of fiscal 2022, compared to \$47.7 million in the same period in the prior fiscal year.
- We repurchased 978,930 shares of common stock at an average price of \$11.07, for a total of \$10.8 million during the third quarter of fiscal 2022.
- We declared and paid a quarterly cash dividend of \$4.2 million.

### Effects of COVID-19 on Our Business

We continue to closely monitor the impact of the COVID-19 pandemic on all facets of our business. We have taken actions to protect the safety of our team members and customers and to manage the business through the resulting fluid and challenging environment. Our steps to manage operation of our supply chain and locations during the pandemic have added costs to our business, some of which are non-recurring in nature, including incremental labor hours and supplies to maintain sanitation and social distancing protocols. These precautions may change from time to time as local conditions and applicable health mandates change, and therefore, it is possible we may be required to temporarily close locations or limit our operations. As of October 30, 2021, we operated 852 locations in 49 states and all locations were open and fully operational.

As the circumstances around the COVID-19 pandemic remain fluid, we continue to actively monitor the pandemic's impact on the Company, including our financial position, liquidity, results of operations and cash flows, while managing our response to the crisis through collaboration with team members, customers, suppliers, government authorities, health officials and other business partners. Please see Part 1, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021 for further information regarding the risks associated with the impact of the COVID-19 pandemic on our business.

## **Total Comparable Sales**

Total comparable sales are an important measure throughout the retail industry. This measure allows us to evaluate how our location base and e-commerce business are performing by measuring the change in period-over-period net sales in locations that have been open for the applicable period. We define total comparable sales as net sales for locations that have been open for at least 13 months and have not been relocated, expanded or downsized in the last 13 months. In addition, total comparable sales include our e-commerce sales generated via joann.com (online sales for all products) and creativebug.com (online sales of digital videos for crafting projects). There may be variations in the way in which some of our competitors and other retailers calculate comparable sales. As a result, data in this Quarterly Report on Form 10-Q regarding our total comparable sales may not be comparable to similar data made available by other retailers.

## **Non-GAAP Financial Measures**

### ***Adjusted EBITDA***

We present Adjusted EBITDA, which is not a recognized financial measure under GAAP, because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. Management believes Adjusted EBITDA is helpful in highlighting trends in our core operating performance compared to other measures, which can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We also use Adjusted EBITDA in connection with establishing discretionary annual incentive compensation; supplementing GAAP measures of performance in the evaluation of the effectiveness of our business strategies; making budgeting decisions; comparing our performance against that of other peer companies using similar measures; and because our credit facilities use measures similar to Adjusted EBITDA to measure our compliance with certain covenants.

We define Adjusted EBITDA as net income plus income tax provision, interest expense, net, debt related (gain) loss, sale leaseback gains and depreciation and amortization, as further adjusted to eliminate the impact of certain non-cash items and other items that we do not consider indicative of our ongoing operating performance, including costs related to strategic initiatives, COVID-19 costs, excess import freight costs, technology development expense, stock-based compensation expense, loss on disposal and impairment of fixed and operating lease assets, sponsor management fees and other one-time costs. The further adjustments are itemized in the table below.

Adjusted EBITDA has its limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in our cash requirements for our working capital needs;
- Adjusted EBITDA does not reflect the interest expense and the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect cash requirements for replacement of assets that are being depreciated and amortized;
- Adjusted EBITDA does not reflect non-cash compensation, which is a key element of our overall long-term compensation;
- Adjusted EBITDA does not reflect the impact of certain cash charges or cash receipts resulting from matters we do not find indicative of our ongoing operations; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as supplemental information.

The following is a reconciliation of our net income to Adjusted EBITDA for the periods presented:

(In millions)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net income	\$ 22.8	\$ 47.7	\$ 43.1	\$ 174.0
Income tax provision	7.0	3.0	12.3	17.6
Interest expense, net	11.8	14.0	39.8	55.0
Debt related (gain) loss (1)	—	(3.0)	3.0	(152.9)
Gain on sale leaseback (2)	—	—	(24.5)	—
Depreciation and amortization (3)	19.8	20.6	60.6	60.2
Strategic initiatives (4)	0.6	1.7	1.4	4.1
Excess import freight costs (5)	11.3	—	11.3	—
COVID-19 costs (6)	—	16.6	1.3	48.4
Technology development expense (7)	2.6	1.2	6.2	3.6
Stock-based compensation expense	0.8	0.3	2.1	1.1
(Gain) loss on disposal and impairment of fixed and operating lease assets	(0.1)	(0.2)	(0.1)	3.6
Sponsor management fee (8)	—	—	0.4	0.8
Other (9)	(4.0)	0.5	(3.3)	1.7
Adjusted EBITDA	\$ 72.6	\$ 102.4	\$ 153.6	\$ 217.2

- (1) "Debt related (gain) loss" represents losses and gains associated with debt repurchases below par and the write off of unamortized fees and original issue discount associated with debt refinancings.
- (2) "Gain on sale leaseback" represents the gain attributable to the sale leaseback of our distribution center in Opelika, Alabama.
- (3) "Depreciation and amortization" represents depreciation, amortization of intangible assets and amortization of content costs.
- (4) "Strategic initiatives" represents non-recurring costs, such as third-party consulting costs and one-time start-up costs, that are not part of our ongoing operations and are incurred to execute differentiated, project-based strategic initiatives, including costs (i) to design a new prototype and assortment optimization process for locations, (ii) related to our efforts to initially evaluate and implement opportunities to offset the significant costs incurred due to the new U.S. tariffs on merchandise produced in China, (iii) to start up a new technology product that would traditionally be incurred by our vendors, (iv) to evaluate our opportunity in new potential lines of business and (v) to analyze improved supply chain capabilities.
- (5) "Excess import freight costs" represents excess inbound freight costs due to increasing freight rates, in particular the significant transitory impact of constrained ocean freight capacity and incremental domestic transportation costs incurred due to unprecedented congestion in U.S. ports.
- (6) "COVID-19 costs" represents premium pay for location team members, cleaning and location capacity management labor, one-time supply chain disruption costs, incremental seasonal clearance associated with location closures, donations for our mask making initiative and additional location cleaning supplies.
- (7) "Technology development expense" represents one-time IT project management and implementation expenses, such as temporary labor costs, third-party consulting fees and user fees incurred during the development period of a new software application, that are not part of our ongoing operations and are typically redundant during the initial implementation of software applications or other technology systems across different functional operations of our business before they are in productive use.
- (8) "Sponsor management fee" represents management fees paid to our sponsor, LGP (or advisory affiliates thereof), in accordance with our management services agreement. The management fee was discontinued upon the completion of our initial public offering in March 2021, as LGP no longer provides managerial services to us in any form.
- (9) "Other" represents one-time impact of severance, certain legal matters, executive leadership transition and business transition activities.

## Results of Operations

The following tables summarize key components of our results of operations for the periods indicated. The following discussion should be read in conjunction with our Consolidated Financial Statements and related notes.

### Statement of Consolidated Income Data:

(In millions)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net sales	\$ 611.0	\$ 714.1	\$ 1,682.3	\$ 1,921.5
Gross profit	318.8	374.5	888.3	971.7
SG&A expenses	257.6	292.5	754.5	818.2
Depreciation and amortization	19.6	20.3	60.1	59.8
Operating profit	41.6	61.7	73.7	93.7
Net income	22.8	47.7	43.1	174.0

### Other Operational Data:

(Dollars in millions)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Total (decrease) increase in comparable sales vs. prior year	(14.2)%	25.2%	(12.4)%	24.6%
Gross margin	52.2%	52.4%	52.8%	50.6%
SG&A expenses as a % of net sales	42.2%	41.0%	44.8%	42.6%
Operating profit as a % of net sales	6.8%	8.6%	4.4%	4.9%
Adjusted EBITDA (1)	\$ 72.6	\$ 102.4	\$ 153.6	\$ 217.2
Pre-opening and closing costs excluding loss on disposal of fixed assets	2.0	1.2	6.6	5.0
Adjusted EBITDA as a % of net sales	11.9%	14.3%	9.1%	11.3%
Total retail location count at end of period	852	857	852	857

(1) See “Non-GAAP Financial Measures” for a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income.

### Comparison of the Thirteen Weeks ended October 30, 2021 and October 31, 2020

#### Net Sales

Net sales were \$611.0 million for the thirteen weeks ended October 30, 2021, a decrease of \$103.1 million or 14.4% compared to the same period in fiscal 2021. Total comparable sales for the thirteen weeks ended October 30, 2021 decreased 14.2% compared with a total comparable sales increase of 25.2% in the same period in fiscal 2021. The total comparable sales decrease resulted primarily from a decrease in transaction volume partially offset by an increase in average ticket. We saw declines in our Sewing category due to the reduction in demand for supplies to produce personal protective equipment compared to the prior year. We also saw a decrease in sales in our Arts and Crafts and Home Décor category as a result of increased traffic in the prior year, which was in part pandemic-driven.

#### Gross Profit

Gross profit was \$318.8 million for the thirteen weeks ended October 30, 2021, a decrease of \$55.7 million or 14.9% compared to the same period in fiscal 2021. Gross margin was 52.2% for the thirteen weeks ended October 30, 2021, a decrease of 20 basis points compared to the thirteen weeks ended October 31, 2020. The decrease in gross profit was driven by our decline in total comparable sales along with additional freight costs, both domestic and import, primarily due to increasing freight rates. The increase in freight rates was primarily driven by the significant transitory impact of constrained ocean freight capacity and incremental domestic transportation costs incurred due to unprecedented congestion in U.S. ports. These negative factors were partially offset by reduced product costs due to our strategic sourcing efforts, improved optimization of our promotional discounts, favorable shrink results driven by various initiatives implemented last year to better control inventory theft, and reduced clearance expense due to improved sell-through on our seasonal merchandise and lower levels of overall clearance to total inventory.

### ***Selling, General and Administrative Expenses***

SG&A expenses were \$257.6 million for the thirteen weeks ended October 30, 2021, a decrease of \$34.9 million or 11.9% compared to the same period in fiscal 2021. The decrease was primarily driven by lower store labor expenses as additional labor hours for intensified cleaning to ensure a safe environment for our customers and team members and additional labor costs associated with premium pay incurred in fiscal 2021 did not recur in fiscal 2022. In addition, SG&A expenses were favorably impacted by lower incentive compensation accruals in fiscal 2022 compared to the prior fiscal year. As a percentage of net sales, SG&A expenses for the thirteen weeks ended October 30, 2021 were 42.2%, an increase of 120 basis points compared to the same period in fiscal 2021. The increase as a percentage of sales was driven by the 14.4% decrease in net sales in the third quarter of fiscal 2022 compared to the third quarter of fiscal 2021.

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

Depreciation and amortization expense was \$19.6 million in the thirteen weeks ended October 30, 2021, a decrease of \$0.7 million compared to the same period in fiscal 2021. This decrease was driven by lower depreciation after the sale and leaseback of our distribution center in Opelika, Alabama in the second quarter of fiscal 2022 partially offset by investments in location refresh and technology projects in fiscal 2021.

### ***Interest Expense***

Interest expense for the thirteen weeks ended October 30, 2021 was \$11.8 million, a decrease of \$2.2 million compared to the same period in fiscal 2021. This decrease in interest expense was primarily due to lower average borrowings. The decrease was also partially due to lower interest rates as a result of the repayment of the Term Loan due 2024 during the first quarter of fiscal 2022 and our term loan refinancing in the second quarter of fiscal 2022. The average debt level in the thirteen weeks ended October 30, 2021 was \$841.6 million compared to \$918.5 million in the thirteen weeks ended October 31, 2020. The weighted average interest rate was 5.04 percent and 5.46 percent for the thirteen weeks ended October 30, 2021 and October 31, 2020, respectively.

We had \$869.9 million of debt outstanding (face value) as of October 30, 2021 versus \$929.7 million as of October 31, 2020.

### ***Debt Related (Gain) Loss***

During the third quarter of fiscal 2021, we repurchased \$8.2 million in face value of the Term Loan due 2023 and the Term Loan due 2024 at an average of 64 percent of par, resulting in a \$3.0 million gain, which is included in debt related (gain) loss within the accompanying Consolidated Statements of Comprehensive Income and the accompanying Consolidated Statements of Cash Flows. A write-off of the deferred charges and original issue discount, totaling \$0.1 million, associated with the original debt issuance was recognized as an offset to the gain recognized in debt related (gain) loss.

### ***Income Taxes***

The effective income tax rate for the third quarter of fiscal 2022 was 23.5 percent compared to 5.9 percent for the third quarter of fiscal 2021. The change in the effective tax rate primarily relates to the release of valuation allowances resulting from the enactment of the CARES Act during the third quarter of fiscal 2021.

### ***Net Income***

Net income was \$22.8 million for the thirteen weeks ended October 30, 2021, a decrease of \$24.9 million compared to the same period in fiscal 2021. The decrease was driven by the factors described above.

### ***Adjusted EBITDA***

Adjusted EBITDA (as defined above) decreased 29.1% to \$72.6 million or 11.9% of net sales for the thirteen weeks ended October 30, 2021 compared to \$102.4 million or 14.3% of net sales for the same period in fiscal 2021. Our decrease in Adjusted EBITDA of \$29.8 million and lower Adjusted EBITDA as a percentage of net sales of 240 basis points was driven primarily by declines in total comparable sales and lower gross margin partially offset by reductions in our SG&A expenses.

## Comparison of the Thirty-Nine Weeks ended October 30, 2021 and October 31, 2020

### **Net Sales**

Net sales were \$1,682.3 million for the thirty-nine weeks ended October 30, 2021, a decrease of \$239.2 million or 12.4% compared to the same period in fiscal 2021. Total comparable sales for the thirty-nine weeks ended October 30, 2021 decreased 12.4% compared with a total comparable sales increase of 24.6% in the same period in fiscal 2021. The total comparable sales decrease resulted primarily from a decrease in transaction volume. We saw a decline in our Sewing category due to the reduction in demand for supplies to produce personal protective equipment as well as the benefit of competitor store closures in the prior year.

### **Gross Profit**

Gross profit was \$888.3 million for the thirty-nine weeks ended October 30, 2021, a decrease of \$83.4 million or 8.6% compared to the same period in fiscal 2021. That decrease was driven by lower net sales and partially offset by an increase in our gross margin. Gross margin was 52.8% for the thirty-nine weeks ended October 30, 2021, an increase of 220 basis points compared to the thirty-nine weeks ended October 31, 2020. Improvement in our gross margin was driven by reduced product costs due to our strategic sourcing efforts along with optimization of our promotional discounts. In addition, we experienced favorable shrink results driven by various initiatives implemented last year to better control inventory theft, along with reduced outbound freight costs associated with a lower penetration to total sales of ship-from-store online orders compared to the first thirty-nine weeks of fiscal 2021, which were in part pandemic driven. These savings were offset in part by additional freight costs, both domestic and import, primarily due to increasing freight rates. The increase in freight rates was primarily driven by the significant transitory impact of constrained ocean freight capacity and incremental domestic transportation costs incurred due to unprecedented congestion in U.S. ports.

### **Selling, General and Administrative Expenses**

SG&A expenses were \$754.5 million for the thirty-nine weeks ended October 30, 2021, a decrease of \$63.7 million or 7.8% compared to the same period in fiscal 2021. This decrease was primarily driven by additional store labor expense in fiscal 2021 due to premium pay and additional labor needed to support the significant increase in ship-from-store orders along with support needed for the excess cleaning and facilities management in our stores that did not reoccur in fiscal 2022. In addition, SG&A expenses were favorably impacted by lower incentive compensation accruals in fiscal 2022 compared to the prior fiscal year.

As a percentage of net sales, SG&A expenses for the thirty-nine weeks ended October 30, 2021, were 44.8%, an increase of 220 basis points compared to the same period in fiscal 2021. This increase was primarily due to our 12.4% total comparable sales decline in the first thirty-nine weeks of fiscal 2022.

### **Depreciation and Amortization**

Depreciation and amortization expense was \$60.1 million in the thirty-nine weeks ended October 30, 2021, an increase of \$0.3 million compared to the same period in fiscal 2021. This increase was driven primarily by investments in location refresh and technology projects in fiscal 2021 partially offset by lower depreciation after the sale and leaseback of our distribution center in Opelika, Alabama in the second quarter of fiscal 2022.

### **Interest Expense**

Interest expense for the thirty-nine weeks ended October 30, 2021 was \$39.8 million, a decrease of \$15.2 million compared to the same period in fiscal 2021. This decrease in interest expense was primarily due to lower average borrowings. The decrease was also partially due to lower interest rates as a result of the repayment of the Term Loan due 2024 and our term loan refinancing during the first thirty-nine weeks of fiscal 2022. Partially offsetting these decreases, we recorded \$2.9 million of financing costs related to our term loan refinancing in July of this year. The average debt level in the thirty-nine weeks ended October 30, 2021 was \$808.1 million compared to \$1,122.2 million in the thirty-nine weeks ended October 31, 2020. The weighted average interest rate was 5.39 percent and 6.01 percent for the thirty-nine weeks ended October 30, 2021 and October 31, 2020, respectively.

We had \$869.9 million of debt outstanding (face value) as of October 30, 2021 versus \$929.7 million as of October 31, 2020.

### **Debt Related (Gain) Loss**

During the second quarter of fiscal 2022, we refinanced our Term Loan due 2023. A write-off of the deferred charges and original issue discount, totaling \$3.1 million associated with the original debt issuance was recognized as a debt related loss. During the first quarter of fiscal 2022, we repurchased \$1.9 million in face value of the Term Loan due 2024 at an average of 53 percent of par, resulting

in a \$1.0 million gain, which is included in debt related (gain) loss within the accompanying Consolidated Statements of Comprehensive Income and the accompanying Consolidated Statements of Cash Flows. A write-off of the deferred charges and original issue discount, totaling less than \$0.1 million, associated with the original debt issuance was recognized as an offset to debt related gain. Also offsetting the gain was a \$0.9 million write-off of the original issue discount and deferred issuance costs related to the payoff of the Term Loan due 2024. The Term Loan due 2024 was retired at face value.

During the thirty-nine weeks ended October 31, 2020, we repurchased \$347.1 million in face value of the term loans provided pursuant to our Term Loan Facilities, at an average of 54% of par, resulting in a \$152.9 million gain, which is included in debt related (gain) loss within the accompanying Consolidated Statements of Comprehensive Income and the accompanying Consolidated Statements of Cash Flows. The term loan repurchases were executed, following a competitive market bidding process, through several open market purchases on arm's length terms and in compliance with the terms of the underlying credit agreements. A write-off of the deferred charges and original issue discount, totaling \$5.9 million, associated with the original debt issuance was recognized as an offset to the gain recognized.

### ***Gain on Sale Leaseback***

We recognized a gain on the sale of fixed assets of \$24.5 million during the thirty-nine weeks ended October 30, 2021. The gain was attributable to the sale and leaseback of our distribution center in Opelika, Alabama.

### ***Income Taxes***

The effective income tax rate for the first thirty-nine weeks of fiscal 2022 was 22.2 percent compared to 9.2 percent for the first thirty-nine weeks of fiscal 2021. The change in the effective tax rate primarily relates to the recording of the favorable impact of the enactment of the CARES Act, including the release of a valuation allowance for the interest deduction limitation, during the first thirty-nine weeks of fiscal 2021.

### ***Net Income***

Net income was \$43.1 million for the thirty-nine weeks ended October 30, 2021, a decrease of \$130.9 million compared to the same period in fiscal 2021. The decrease was driven by the factors described above.

### ***Adjusted EBITDA***

Adjusted EBITDA (as defined above) decreased 29.3% to \$153.6 million or 9.1% of net sales for the thirty-nine weeks ended October 30, 2021 compared to \$217.2 million or 11.3% of net sales for the same period in fiscal 2021. Our decrease in Adjusted EBITDA of \$63.6 million and decline of Adjusted EBITDA as a percentage of net sales of 220 basis points was driven primarily by lower total comparable sales partially offset by improvements in our gross margin and reductions in our SG&A expenses.

### ***Liquidity and Capital Resources***

We have three principal sources of liquidity: cash and cash equivalents on hand, cash from operations and available borrowings under our Revolving Credit Facility. We believe that our cash and cash equivalents on hand, cash from operations and availability under our Revolving Credit Facility will be sufficient to cover our working capital, capital expenditure and debt service requirement needs as well as dividend payments and share repurchases for the foreseeable future. As of October 30, 2021, we were in compliance with all covenants under our debt facilities and notes. For the four quarters ended October 30, 2021, our net cash provided by operating activities was \$17.7 million and our Credit Facility Adjusted EBITDA was \$266.8 million.

We define "Credit Facility Adjusted EBITDA" as Adjusted EBITDA (as defined above) plus pre-opening and closing costs excluding loss on disposal of fixed assets, which is calculated consistently with our calculation of Adjusted EBITDA under our Revolving Credit Facility and Term Loan due 2028 (collectively "Credit Facilities"). We reference Credit Facility Adjusted EBITDA because it is a measure that is calculated in accordance with our Credit Facilities and used to determine our compliance with certain ratios in our Credit Facilities, tested each quarter on the basis of the preceding four quarters. For example, we are permitted to prepay debt and make distributions on account of equity up to a certain amount under our Term Loan due 2028 if our ratio of consolidated net debt to Credit Facility Adjusted EBITDA for the prior four quarters as of the quarterly test is not greater than 4.90 to 1.0 and our ratio of consolidated senior secured net debt to Credit Facility Adjusted EBITDA for such period is not greater than 3.60 to 1.0. As of October 30, 2021, our ratio of consolidated net debt to Credit Facility Adjusted EBITDA was 3.2 to 1.0, and of consolidated senior secured net debt to Credit Facility Adjusted EBITDA was 3.2 to 1.0. Other provisions in our Credit Facilities utilize ratios including Credit Facility Adjusted EBITDA for calculating permitted limits for us to incur additional debt and make certain investments. Additionally, our ratio of consolidated senior secured net debt to Credit Facility Adjusted EBITDA is measured once per year following the completion of our

annual Consolidated Financial Statements and determines what percentage of our excess cash flow (as defined in our Term Loan due 2028) we are required to apply for the repayment of principal on our Term Loan due 2028, ranging from 50% of excess cash flow for ratios in excess of 2.50x to 0% of excess cash flow for ratios of less than 2.00x. For fiscal 2021, no excess cash flow payment was required. Accordingly, we believe that Credit Facility Adjusted EBITDA is material to an investor's understanding of our financial condition and liquidity.

(In millions)	Four Quarters Ended October 30, 2021	
Net cash provided by operating activities	\$	17.7
Non-cash operating lease expense		(160.0)
Depreciation and amortization excluding content cost amortization		(80.4)
Deferred income taxes		1.0
Stock-based compensation expense		(2.5)
Amortization of deferred financing costs and original issue discount		(2.8)
Debt related loss		(0.8)
Gain on sale leaseback		24.5
Loss on disposal and impairment of other fixed assets		(1.2)
Change in operating assets and liabilities		285.9
Net income	\$	81.4
Income tax provision		22.7
Interest expense, net		53.8
Debt related loss		0.8
Gain on sale leaseback		(24.5)
Depreciation and amortization		81.0
Strategic initiatives		3.5
Excess import freight costs		11.3
COVID-19 costs		17.9
Technology development expense		8.4
Stock-based compensation expense		2.5
Loss on disposal and impairment of fixed and operating lease assets		1.9
Sponsor management fee		0.9
Other		(1.9)
Adjusted EBITDA	\$	259.7
Pre-opening and closing costs excluding loss on disposal of fixed assets		7.1
Credit Facility Adjusted EBITDA	\$	266.8

Our capital requirements are primarily for capital expenditures in connection with new location openings, location remodels, investments in information technology, investments in distribution centers and working capital requirements for seasonal inventory build. These requirements fluctuate during the year and reach their highest levels during the second and third fiscal quarters as we increase our inventory in preparation for our peak selling season during the months of September through December and complete most of our capital spending projects.

The following table provides a summary of our cash provided by operating, investing and financing activities for the thirty-nine weeks ended October 30, 2021 and October 31, 2020:

(In millions)	Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020
Net cash (used for) provided by operating activities	\$ (123.6)	\$ 185.8
Net cash provided by (used for) investing activities	5.0	(28.2)
Net cash provided by (used for) financing activities	122.1	(148.8)
Net increase in cash and cash equivalents	\$ 3.5	\$ 8.8

#### Comparison of the Thirty-Nine Weeks ended October 30, 2021 and October 31, 2020

##### Net Cash (Used for) Provided by Operating Activities

Net cash used for operating activities was \$123.6 million in the thirty-nine weeks ended October 30, 2021, compared with \$185.8 million of net cash provided by operating activities in the thirty-nine weeks ended October 31, 2020. The decrease in net cash provided



by operating activities was primarily due to lower comparable sales results, changes in inventory due to lower balances in fiscal 2021 and increased freight costs in fiscal 2022, the repayment of deferred cash payments negotiated with our landlords as a result of the COVID-19 pandemic and payment of fiscal 2021 incentive compensation to salaried store support center and distribution center team members as well as store and district managers.

### **Net Cash Provided by (Used for) Investing Activities**

Cash provided by investing activities for the thirty-nine weeks ended October 30, 2021 was due to the completion of the sale and leaseback of our Opelika, Alabama distribution center. Cash used for investing activities in fiscal 2022 and 2021 consists primarily of capital expenditures, the majority of which are focused on strategic initiatives including: new location openings, location remodels and refreshes and information technology investments, particularly those supporting our omni-channel platforms and other customer facing systems. We also incur capital outlays for equipment and facility management in our distribution centers, locations and corporate offices.

Specifically, investment for each refresh project is tailored to each location's needs and unit economics. We have four general levels of investment and project scope tailored to what would benefit each location, with future investment expected to range from \$150,000 for the lightest-touch refreshes to \$3 million for the relatively few but most-extensive refreshes. Over 80% of our existing locations are refresh project targets over the next seven to ten years and we expect investments in relation to these future refresh projects to remain consistent with our capital expenditures in connection with completed refresh projects.

In fiscal 2022, we made significant investments to expand our distribution center network capabilities, primarily toward our new multi-purpose distribution center located in West Jefferson, Ohio.

Historical capital expenditures for the thirty-nine weeks ended October 30, 2021 and October 31, 2020 are summarized as follows:

(In millions)	Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020
Retail locations	\$ 17.1	\$ 17.7
Distribution centers	17.5	1.6
Information technology	7.0	7.9
Other	1.3	1.5
<b>Total capital expenditures</b>	<b>42.9</b>	<b>28.7</b>
Landlord contributions	(1.4)	(3.4)
<b>Total capital expenditures, net of landlord contributions</b>	<b>\$ 41.5</b>	<b>\$ 25.3</b>

### **Net Cash Provided by (Used for) Financing Activities**

Net cash provided by financing activities was \$122.1 million during the thirty-nine weeks ended October 30, 2021 compared with \$148.8 million of net cash used for financing activities during the thirty-nine weeks ended October 31, 2020. Net cash provided by financing activities for the first thirty-nine weeks of fiscal 2022 was the result of net proceeds received from the initial public offering and borrowings from the Revolving Credit Facility to repay all of the outstanding borrowings and accrued interest under the Term Loan due 2024 totaling \$72.7 million. In addition, we refinanced our Term Loan due 2023 with a \$675 million Term Loan due 2028, with excess proceeds used to reduce amounts borrowed under our Revolving Credit Facility and fund working capital needs. We used cash for financing activities to repurchase \$10.8 million of common stock as part of our share repurchase program and to pay dividends totaling \$8.4 million during the thirty-nine weeks ended October 30, 2021. As of October 30, 2021, we had the ability to borrow an additional \$270.0 million under our Revolving Credit Facility subject to the facility's borrowing base calculation.

Net cash used for financing activities in the first thirty-nine weeks of fiscal 2021 was primarily the result of the repurchase of portions of the Term Loan due 2023 and the Term Loan due 2024.

### **Off-Balance Sheet Transactions**

Our liquidity is currently not dependent on the use of off-balance sheet transactions other than letters of credit, which are typical in a retail environment.

### **Seasonality**

Our business exhibits seasonality, which is typical for most retail companies. Our net sales are stronger in the second half of the year than the first half of the year. Net income is highest during the months of September through December when sales volumes provide

significant operating leverage. Working capital needed to finance our operations fluctuates during the year and reach its highest levels during the second and third fiscal quarters as we increase our inventory in preparation for our peak selling season. However, the COVID-19 pandemic may have an impact to consumer behaviors and customer traffic that result in changes in the seasonal fluctuations of our business.

### **Critical Accounting Policies and Estimates**

Accounting policies and estimates are considered critical when they require management to make subjective and complex judgments, estimates and assumptions about matters that have a material impact on the presentation of our financial statements and accompanying notes. For a description of our critical accounting policies and estimates, see Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

See Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021. During the thirty-nine weeks ended October 30, 2021, there have been no material changes in our exposure to market risk.

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of October 30, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of October 30, 2021, our disclosure controls and procedures were effective.

#### ***Changes in Internal Control over Financial Reporting***

There were no material changes in our internal control over financial reporting that occurred during the thirty-nine weeks ended October 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### ***Limitations on Effectiveness of Controls and Procedures***

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

The information required to be set forth under this heading is incorporated by reference from Note 10, Commitments and Contingencies, to the Consolidated Financial Statements included in Part I, Item 1.

### Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended January 30, 2021.

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

On September 9, 2021, our Board of Directors authorized a \$20 million share repurchase program. We began repurchasing shares under the authorization during the third quarter of fiscal 2022. Under the share repurchase program, we have repurchased 978,930 shares of common stock at an average price of \$11.07, for a total of \$10.8 million. The authorization is active until March 9, 2022. The table below presents information with respect to our common stock purchases made during the thirteen weeks ended October 30, 2021:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs
August 1, 2021 through August 28, 2021	—	\$ —	—	\$ 20,000,000
August 29, 2021 through October 2, 2021	761,554	11.04	761,554	11,589,138
October 3, 2021 through October 30, 2021	217,376	11.18	217,376	9,159,136
Total	<u>978,930</u>	<u>\$ 11.07</u>	<u>978,930</u>	<u>\$ 9,159,136</u>

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
31.1*	<a href="#"><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></a>
31.2*	<a href="#"><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></a>
32.1**	<a href="#"><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></a>
32.2**	<a href="#"><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></a>
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.

\*\* Furnished herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOANN Inc.

Registrant

Date: December 3, 2021

By: /s/ Matt Susz

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Matt Susz

Senior Vice President, Chief Financial Officer

*(principal financial officer)*

## CERTIFICATION

I, Wade Miquelon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JOANN Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Intentionally omitted];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2021

By: /s/ Wade Miquelon

Wade Miquelon  
President and Chief Executive Officer  
(principal executive officer)

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## CERTIFICATION

I, Matt Susz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JOANN Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Intentionally omitted];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2021

By: /s/ Matt Susz

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Matt Susz

Senior Vice President, Chief Financial Officer  
(principal financial officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of JOANN Inc. (the "Company") for the period ended October 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 3, 2021

By: /s/ Wade Miquelon

Wade Miquelon

President and Chief Executive Officer

*(principal executive officer)*

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of JOANN Inc. on Form 10-Q (the "Company") for the period ended October 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 3, 2021

By: /s/ Matt Susz

Matt Susz  
Senior Vice President, Chief Financial Officer  
*(principal financial officer)*

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