



## Q4 Fiscal 2020 Earnings Commentary March 30, 2021

Through the course of fiscal 2020, as a result of the COVID-19 pandemic, we experienced temporary closures at our retail locations for differing periods of time. While most of our retail locations remained open during the fourth quarter, we did temporarily close certain retail locations and have continued to operate with tighter capacity restrictions in most markets.

The financial measures discussed below include both GAAP and adjusted non-GAAP financial measures. Please see the section captioned "Reconciliation of Non-GAAP Financial Measures" included in the accompanying financial tables, which include more detail on the GAAP financial measures that are most directly comparable to the non-GAAP financial measures, and the related reconciliation between these financial measures.

This earnings commentary should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on, or about, March 30, 2021. These reports are available at [www.sec.gov](http://www.sec.gov).

The below narrative compares the fourth quarter of fiscal 2020 to the fourth quarter of fiscal 2019 unless otherwise noted.

### Sales

- **Total net revenue** increased 23.8% to \$1.7 billion, with the increase primarily due to increased direct to consumer net revenue, partially due to a shift in the way guests are shopping due to COVID-19, as well as due to an increase in net revenue from our other channels, driven by net revenue from MIRROR. The increase was partially offset by a decrease in company-operated store net revenue driven by reduced operating hours and restricted guest occupancy levels, as well as temporary closures as a result of COVID-19. Total comparable sales increased 21%, or increased 20% on a constant dollar basis.
- **Company-operated store revenue** totaled \$599.9 million, or 34.7% of total revenue, compared to \$831.4 million, or 59.5% of total revenue, in Q4 2019. Comparable store productivity was 72%, or 71% on a constant dollar basis, representing a comparable store sales decrease of 28%, or a decreased of 29% on a constant dollar basis.
- **Ecommerce revenue** totaled \$899.5 million, or 52.0% of total revenue, compared to \$463.6 million, or 33.2% of total revenue, in Q4 2019. Direct to consumer net revenue increased 94%, or increased 92% on a constant dollar basis.
- **Other revenue**, which includes net revenue from outlets, temporary locations, sales to wholesale accounts, license and supply arrangements, and the sales of in-home fitness equipment and associated content subscriptions, totaled \$230.2 million, or 13.3% of total net revenue, compared to \$102.5 million, or 7.3% of total net revenue, in Q4 2019.

### Store Count

- **New stores:** We opened four net new company-operated stores in Asia Pacific, one in the U.S., and one in Canada in Q4 2020.
- **Total company-operated stores:** At the end of Q4 2020, we had 521 total company-operated stores compared to 491 at the end of Q4 2019. Of the 521 company-operated stores, 393 were in our comparable store base, including 284 in the United States, 42 in Asia, 37 in Australia and New Zealand, 25 in Canada, and 5 in Europe.

### Gross Profit

- **Gross profit** was \$1.0 billion, or 58.6% of net revenue, compared to \$0.8 billion, or 58.0% of net revenue, in Q4 2019. Gross margin increased 60 basis points compared to Q4 2019.

The increase in gross margin was primarily the result of:



- a decrease in occupancy, depreciation, and product department costs as a percentage of net revenue of 190 basis points, driven primarily by the increase in net revenue, as well as lower incentive compensation and travel costs; and
- a favorable impact of foreign exchange rates of 20 basis points.

The increase in gross margin was partially offset by:

- a decrease in product margin of 80 basis points, which was primarily due to higher air freight costs related to COVID-19, as well as higher markdowns.
- an increase in costs as a percentage of net revenue related to our distribution centers of 70 basis points, primarily due to an increase in costs related to COVID-19 safety precautions, higher people costs related to the growth in our direct to consumer business, and increased usage of third-party warehouse and logistics providers.

### Selling, General and Administrative Expenses

- **SG&A expenses** were \$544.8 million, or 31.5% of net revenue, compared to \$394.3 million, or 28.2% of net revenue, in Q4 2019. The deleverage of 330 basis points was primarily the result of 390 basis points of deleverage from our operating channel costs driven by MIRROR, partially offset by 60 basis points of leverage from head office costs.

### Amortization of Intangible Assets and Acquisition-Related Expenses

- **Amortization of intangible assets** was \$2.2 million in Q4 2020, an increase from less than \$0.1 million in Q4 2019. This increase was primarily the result of the recognition of intangible assets of \$85.0 million as a result of our acquisition of MIRROR in Q2 2020.
- **Acquisition-related expenses** of \$7.8 million were recognized in Q4 2020 related to our acquisition of MIRROR. We did not have acquisition-related expenses in Q4 2019.

### Operating Income

- **Operating income** was \$457.9 million, or 26.5% of net revenue, compared to \$416.5 million, or 29.8% of net revenue, in Q4 2019. Adjusted operating income, which excludes acquisition-related expenses, was \$465.7 million, or 26.9% for Q4 2020.

### Income Tax Expense

- **Income tax expense** was \$127.2 million compared to \$120.6 million in Q4 2019 and the effective tax rate was 27.8% compared to 28.8% in Q4 2019. The adjusted effective tax rate was 27.4% for Q4 2020.

### Net Income

- **Net income** was \$329.8 million, or \$2.52 per diluted share, compared to \$2.28 per diluted share in Q4 2019. Adjusted diluted earning per share were \$2.58 in Q4 2020.



### Share Repurchases

- We did not repurchase any shares in Q4 2020. On December 1, 2020, our board of directors approved an increase in the remaining authorization of our existing stock repurchase program from \$263.6 million to \$500.0 million.

### Capital Expenditures

- Capital expenditures were \$57.7 million in Q4 2020 compared to \$68.8 million in Q4 2019. The expenditures in Q4 2020 primarily related to our ecommerce channel, analytics capabilities, supply chain investments, store capital for new locations, relocations and renovations, and other technology investments.

### Balance Sheet Highlights

- Cash and cash equivalents were \$1.2 billion at the end of Q4 2020 and the available capacity under our committed revolving credit facility was \$397.6 million. On December 11, 2020, our \$300.0 million 364 day unsecured revolving credit facility was terminated without penalty.
- Inventory increased 25% to \$647.2 million at the end of Q4 2020 compared to Q4 2019.



## Forward-Looking Statements and Non-GAAP Reconciliations

### Forward-Looking Statements:

This supplemental disclosure includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "outlook," "believes," "intends," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology. These forward-looking statements also include our guidance and outlook statements. These statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include, without limitation: our ability to maintain the value and reputation of our brand; the current COVID-19 coronavirus pandemic and related government, private sector, and individual consumer responsive actions; our highly competitive market and increasing competition; increasing product costs and decreasing selling prices; our ability to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products; our ability to accurately forecast guest demand for our products; changes in consumer shopping preferences and shifts in distribution channels; our ability to expand internationally in light of our limited operating experience and limited brand recognition in new international markets; our ability to realize the potential benefits and synergies sought with the acquisition of MIRROR; our ability to manage our growth and the increased complexity of our business effectively; our ability to successfully open new store locations in a timely manner; seasonality; our reliance on and limited control over third-party suppliers to provide fabrics for and to produce our products; the operations of many of our suppliers are subject to international and other risks; suppliers or manufacturers not complying with our Vendor Code of Ethics or applicable laws; our ability to deliver our products to the market and to meet guest expectations if we have problems with our distribution system; increasing labor costs and other factors associated with the production of our products in South Asia and South East Asia; our ability to safeguard against security breaches with respect to our information technology systems; any material disruption of our information systems; our ability to have technology-based systems function effectively and grow our e-commerce business globally; climate change, and related legislative and regulatory responses; increased scrutiny regarding our environmental, social, and governance, or sustainability responsibilities; an economic recession, depression, or downturn or economic uncertainty in our key markets; global economic and political conditions and global events such as health pandemics; our ability to source and sell our merchandise profitably or at all if new trade restrictions are imposed or existing trade restrictions become more burdensome; changes in tax laws or unanticipated tax liabilities; our ability to comply with trade and other regulations; fluctuations in foreign currency exchange rates; imitation by our competitors; our ability to protect our intellectual property rights; conflicting trademarks and the prevention of sale of certain products; our exposure to various types of litigation; and other risks and uncertainties set out in filings made from time to time with the United States Securities and Exchange Commission and available at [www.sec.gov](http://www.sec.gov), including, without limitation, our most recent reports on Form 10-K and Form 10-Q. You are urged to consider these factors carefully in evaluating the forward-looking statements contained herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by these cautionary statements. The forward-looking statements made herein speak only as of the date of this press release and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as may be required by law.



## Reconciliation of Non-GAAP Financial Measures

Audited; Expressed in thousands, except per share amounts

### Constant dollar changes

The below changes show the change compared to the corresponding period in the prior year.

	Change in Net Revenue	Change in Total Comparable Sales <sup>1,2</sup>	Change in Comparable Store Sales <sup>2</sup>	Change in Direct to Consumer Net Revenue
Change	24 %	21 %	(28)%	94 %
Adjustments due to foreign exchange rate changes	(2)	(1)	(1)	(2)
Change in constant dollars	22 %	20 %	(29)%	92 %

<sup>1</sup>Total comparable sales includes comparable store sales and direct to consumer sales.

<sup>2</sup>Comparable store sales reflects net revenue from company-operated stores that have been open for at least 12 full fiscal months, or open for at least 12 full fiscal months after being significantly expanded.

The below table shows comparable store sales<sup>1</sup> as a percentage of the net revenue generated from these company-operated stores in the corresponding period of the prior year.

	Quarter Ended January 31, 2021
Comparable store productivity	72 %
Adjustments due to foreign exchange rate changes	(1)
Comparable store productivity in constant dollars	71 %

### Adjusted financial measures

The following table reconciles adjusted financial measures for Q4 2020 with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to the acquisition of MIRROR and its related tax effects. Please refer to Note 6. Acquisition of the audited consolidated financial statements included in Item 8 of Part II of our Report on Form 10-K to be filed with the SEC on or about March 30, 2021 for further information on these adjustments.

	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
GAAP results	\$ 457,905	26.5%	\$ 127,181	27.8 %	\$ 329,837	\$ 2.52
Transaction and integration costs	285	—			285	—
Acquisition-related compensation	7,517	0.4			7,517	0.06
Tax effect of the above			270	(0.4)	(270)	—
Adjusted results (non-GAAP)	\$ 465,707	26.9 %	\$ 127,451	27.4 %	\$ 337,369	\$ 2.58