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<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

Good afternoon. I'm Brad Thomas, the Hardlines Analyst with KeyBanc Capital Markets. Thank you all for joining us for today's fireside chat with Linda Findley, the President and CEO of Sleep Number. Linda, of course, joined the company in April of 2025, coming with extensive consumer brand experience from companies like Blue Apron and Etsy. We'll be talking with Linda today, but in meetings with her as well are Amy O'Keefe, who just joined this week as CFO, and Ryan Smith, Head of Investor Relations for Sleep Number.

So to kick things off, Linda, at KeyBanc, we have been impressed with the change and sense of urgency that you have brought to Sleep Number since you have joined, rightsizing the organization, bringing in new leadership in areas like marketing, and updating your bank agreement to give you flexibility as we move into 2026. I know we'll get into those initiatives more during this call, but as a starting point, I was hoping you could talk a little bit more about what attracted you to Sleep Number and at this point perhaps how things are going and what's maybe surprised you to the upside and downside relative to your expectations when you joined.

<<Linda Findley, President and Chief Executive Officer>>

Yeah, absolutely. Thanks, Brad. So I've been here about eight months now, and I really joined for a variety of reasons. This is an incredible brand, an incredible company in a space that matters a lot to people right now, which is sleep health and wellness. This is an area that frankly, everyone is starting to recognize the importance of sleep health and wellness. And sleep is one of the leading indicators of all sorts of, whether it's weight loss, whether it's health, whether it's productivity, all of that is very related to sleep. So it's an important space right now.

And frankly, the products that we offer are so differentiated, so unique between the technology that we deploy from sleep tracking to the full adjustability that we have in our beds. No one else really does everything that we do in one bed. So that was very attractive to me as well. But also, I am somebody who is obsessed with consumers and how consumers behave and particularly consumer products that are driven by technology and this is just such a great product, but also, frankly, a lot of upside.

There's been challenges in the past. There's huge opportunity ahead. You have a company with 60% gross margins with the ability to sort of leverage that on now a lower cost basis going forward. That's a pretty unique combination of things to have between the brand and that space. Personally, sleep health and wellness is also very important to me. I'm a breast cancer survivor, so I've struggled with how that post-treatment sleep needs can change and this bed has been a massive solution for me. So there is a personal angle here as well.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great to hear. Thank you for sharing that. Maybe as a starting point on the business today, can we talk about the state of the consumer? It's December 12th and so we're in the heart of the holiday season. How are you feeling about the consumer today and how do you think the consumer may play out in 2026?

<<Linda Findley, President and Chief Executive Officer>>

Yeah, so I think that the consumer behavior has been a big source of frankly confusion across the industry and frankly across the consumer. You have some people saying that we're in a recover in this industry. You have other people saying, no, it's still very choppy and there is a lot of fluctuation. So what we're focused on instead is I really want to build the business in a way that can thrive regardless of the macro environment.

I think that we have the ability to add value to consumers, whether they are very focused on value or whether they are moving and furnishing entirely new house. And so that's really how we're thinking about product marketing and our initiatives going forward is resilience in any economy. But when we think about our planning for 2026, we are frankly focused on what we can control, how we focus on marketing, how we focus on product. Because we are right now assuming that the consumer sentiment will stay relatively flat and relatively modest in 2026. Would love for that to change and see some upside, but we don't want to have to bank on it. So we're focused on making sure we're resilient no matter what.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

And certainly as it relates to the mattress industry, it's been another challenging year. I think the ISPA estimates are for the year end up down about 6.5%. The industry association is looking for modest growth next year, although they've had rose colored glasses in the past. How are you thinking about dynamics in the mattress industry specifically and maybe any nuance about how the high end or mid end might perform?

<<Linda Findley, President and Chief Executive Officer>>

Yeah, so we've really focused – when we talked about the new product initiatives that we're going to have coming in early 2026, we're very focused on that premium space. So we are a premium player and we really want to create the right value for the customer in that premium space. So I would say that from our perspective, we're focused on the low to mid tier of that premium space as a good opportunity to be able to demonstrate value to the customer. We don't necessarily have a desire to go lower and sort of down market. We think we have a unique product to offer and we want to demonstrate the value to the customers at the right price point at the right time.

And that speaks to what I was saying earlier of we're building this in such a way to say, okay, regardless of the macro environment, we want to be valuable to customers, specifically in this industry, as they think about the importance of mattresses in their life, with it being a third of their life spent in the mattress. It should be one of the areas where you really invest when it comes to your bed. But we think we can provide value and we can provide really great performance on improving your sleep while you sleep through our products.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

And speaking of that product, for those on the call that are not familiar, could you describe the Sleep Number bed a bit and perhaps give the pitch of why anyone in the market for a bed should be buying a Sleep Number mattress?

<<Linda Findley, President and Chief Executive Officer>>

Yeah. So, I mean, again, as I said before, we are the only bed that does everything we do in one bed. And the DNA of the company is really all about adjustability. So it's the air adjustability on both sides of the bed, so you can control those sides individually that helps relieve back pain, that helps people stay asleep longer. It helps people relieve pressure points. So that's sort of the core of who Sleep Number is and where we started. What we've layered on top of that is the smart bed technology that allows you not only to track your sleep without wearing a wearable, but actually uses what we call responsive air to adjust throughout the night to your position to relieve those pressure points.

On our sort of core line of mattresses that can provide up to 28 minutes more of restful sleep per night. When you go to the top of the line, where we have active cooling and heating, we can provide up to 52 minutes of sleep per night if you're using those temperature routines that we've designed to optimize your sleep. So, that's really what makes us different is the combination of adjustability, temperature and responsiveness that improves your sleep while you're asleep.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great. One of the observations I've had at the company over the last decade or so is that it's expanded its product offering pretty significantly. You are in the process of reviewing that assortment. And so maybe as a starting point, how should we think about how many beds and how many products you're offering and how that might change going forward and perhaps if then you want to get into pricing within there, I'll leave it open ended.

<<Linda Findley, President and Chief Executive Officer>>

Sure. So I'll focus on what we've said publicly. We are reviewing everything. And as I've said multiple times, everything is on the table. But for me, we have such an exceptional product and the technology behind our product is so strong that I want to make it as simple as possible for customers to find the bed that fits their needs. And so that to me includes looking carefully at every product in our portfolio and making sure that we are rationalizing it appropriately to get the right value for the right customer.

From a price point perspective, as I mentioned, I think, we're very strong in the premium space and we're extremely strong in almost the luxury space when you get into some of the higher end beds as well. But I think it's in that premium category that we have the ability to really refine and manage the product set in such a way that we can make sure it's easy and simple for people to find what they're looking for, whether they're coming into the store or whether they're coming online.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great. Distribution seems like an opportunity for you as well. You've talked about wholesale, potentially. Where are you in that analysis process and how important do you think that could be for you over time?

<<Linda Findley, President and Chief Executive Officer>>

Yeah, so we're fairly early in that process. Although we have a lot of energy focused on this to think about what's next. We're really focused first on marketing and product efficiency. Those are two of the biggest areas that we think are going to be critical to the business. But very fast

follow to that is distribution channels maybe. As you know, we've already been testing some. We did a test on HSN and that was really exciting.

We're looking at this as an enhancement to our vertical model. So our vertical model is extremely strong and it provides us with a great opportunity to control the customer from end-to-end. I think we can enhance that by thinking about alternate channels, both physical and digital. So both retail and digital channels that allow us to better target customers, reach them directly, in some cases still fulfill the product ourselves, which lets us continue to sort of drive efficiently, and manage the customer experience and expand our TAM at the same time. So that's really about reaching more customers and reaching targeted customers.

So again, fairly early in that process, but moving quickly, like we've been moving quickly on pretty much everything at the same time.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

You really have. Obviously your own stores is your primary driver of distribution...

<<Linda Findley, President and Chief Executive Officer>>

Yes.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

...here today and will continue to be, so as you mentioned. How are you thinking about the store footprint? One thing we have seen the company do in the past when there's times of belt tightening is reduce the store footprint, get a pretty favorable transfer rate.

<<Linda Findley, President and Chief Executive Officer>>

Yeah.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

How much analysis can you do on that front? How big of a reduction might we be seeing here?

<<Linda Findley, President and Chief Executive Officer>>

So we know our stores inside and out and our stores are really where the magic happens for the customer. That is where that face-to-face experience happens, they get a chance to understand the benefits of a Sleep Number bed and our store teams are excellent. So we have closed around 50 stores so far and that includes even before I joined the business, and consolidated those. And as you just mentioned, we have a very good transfer rate on those stores. We're going to be a lot more opportunistic about that going forward and make sure that we're doing the best we can to maximize the revenue transfer, maximize the customer experience, serve the markets that we've already been serving across the entire United States and make sure we're continuing that benefit of the vertically integrated model.

So we haven't given any specific number about where we think we might get to, but I will tell you it'll be a very strategic set of decisions based on how we actually see transfer rates, how we see the benefits to the customer and based on the data that we already have. But we are lucky to

have a very profitable store fleet and so we want to make sure that we're maximizing that and taking advantage of the great teams we have on the floor.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

Great. If we move on to marketing.

<<Linda Findley, President and Chief Executive Officer>>

Yes.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

You have made some major changes there and significantly reduced the dollars you're spending towards advertising while greatly improving the effectiveness of those dollars that you're spending.

<<Linda Findley, President and Chief Executive Officer>>

Yes.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

Can you share a little more details on what's happening? And as sales eventually stabilize and start to improve, how should we think about layering more advertising back in?

<<Linda Findley, President and Chief Executive Officer>>

Yeah, so we have – we took a very, very dramatic action as soon as I started to reduce our marketing spend significantly. And that's partially because we did need to reset our cost-base while we were negotiating for the amendment extend on our debt, but also frankly because we needed to reset marketing. Our marketing strategies were quite out of date, I think, for where the tools that we have available to us now and how we can actually better utilize technology in order to be more accurate and clear on how we're measuring marketing ROI. And so we basically took that hit and took our marketing spend down by about 30% both in Q2 and in Q3 in order to make that reset and started layering back in from there.

So we've expanded our channels, we've expanded more digital, we've added more performance measurements, we've added better trackability, we've adjusted the creative slightly, although there is a lot more creative to come in future months. So all of those things have actually been very productive in helping to increase efficiency. On the flip side, we've also been adjusting our website and changing some of the way that you flow through our website and lead capture there. That's also increased efficiency. So those two things working together have been what's really provided that ability for us to lean in.

And then once we renegotiated, and amended, and extended our debt and also the way that our covenants are calculated in the covenants themselves, that gave us the room to bring Q4 spend back up more in line with Q4 of last year rather than the 30% down. And we are planning 2026 at roughly the same slightly up in marketing spend as well, which is really about that stabilization that we were talking about before because marketing spend is so important to us.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great. And so as we think about the cost actions the company has taken, some I think, very warranted just because it hadn't done big reductions that I can recall having covered it for many years. But also some that were a bit more warranted because of the environment and to make sure you're in compliance with covenants.

So as we think about the playbook going forward here, Linda, can you help us think about the flexibility that you have within these covenants to make investments in the business where you need to with new products and layer in the advertising when you're ready.

<<Linda Findley, President and Chief Executive Officer>>

So we were very, very intentional about how we set these covenants with the bank and how we work through this. We want to continue to manage the business closely and we think there are more cost savings to be had in the business going forward, particularly fixed cost savings. So we're managing this business, I would say, I don't want to say conservatively, but it's – that's the only word I can think of right now in that I want to make sure that we're using every dollar we have towards shoring up the top end of the business going forward.

So the covenants give us the room we need to be able to invest at the right levels based on what we have agreed upon the banks. And we worked hand-in-hand setting those covenants. So that part, I'm really happy with that extension. But when I think about this going forward too, we have such a unique business model. Again, 60% gross margin. This is a negative working capital business.

When the trajectory of the business changes, it's an extremely positive business to be in. And that was the truth even before we took all these fixed costs out. So what I'm anticipating and what I'm working towards is we've been able to maintain that roughly 60% gross margin at the same time we've been managing volume changes. And so applying all of that with the business model that we have to a lower fixed cost base is where we're looking at getting that scale.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great. If we move back to the product and the sales side of things, it's a topic I've asked, I think, on many earnings calls about the new products. And I know you can't tell us until you actually roll it out, so I understand you're not going to really answer this. But maybe at a high level, as you look at again, the assortment and the price points today, we've talked about perhaps an opportunity a little lower or a stronger lineup at the entry level. Where do you see niches or markets that might be or incremental customers that might be a better opportunity for you if you redo this portfolio of products?

<<Linda Findley, President and Chief Executive Officer>>

Yeah. And again, I want to be really clear that we're not looking at going low end. We're looking at going better value across the entire product line. We have incredible differentiators, as we've said multiple times during this call. And in my view, we are still – we still have an opportunity to open up to a much broader audience, slightly younger audience. We've been seeing big growth in millennial buyers still serving our smart sleepers who have been with us for a really long time and continue to be really loyal. So for me, it's that opportunity of expanding TAM by going for that premium segment that's growing the fastest and has the biggest TAM opportunity. So I

think that's really it isn't. It's less about, again, going low end. It's more about the right price point, the right value, and offering the unique aspects of improving sleep that only Sleep Number can offer.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

And typically, in my experience with companies in the mattress or furniture industries, if you go through and you do a big line review, you also have an opportunity to go after margins, particularly if you simplify the assortment. Can you talk about that opportunity as you redo the lineup, particularly in this world where tariffs add a bit of a curveball?

<<Linda Findley, President and Chief Executive Officer>>

Exactly. So I think one of the unique aspects of what we've done with all the changes that we're looking at going forward is really design for manufacturability. And everything we're doing on looking at and reviewing the product line is how do we create more consistency in the manufacturing, not just for cost savings and for margin, but frankly also for reusability, backwards compatibility. I mean, we have very high quality beds. We test our beds for durability for much longer than most mattress companies test their beds. And so there are beds out there that are 25 years old and people are still sleeping on them. So we want to make sure that we have as much backwards compatibility and as much interchangeability of parts as we possibly can.

And so really creating everything we're doing from a product perspective with an eye towards manufacturability, service and quality is part of what's going to allow us to continue to maintain strong margins as we roll out new products. And then there will always be optimization we can do after that. But that manufacturability is really important.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's really helpful. And again, we're really excited to see it when it comes out. I know you can't share all the details. One area that has been a core competency of Sleep Number is using third-party financing. Synchrony has been an important partner for you for many years. And so in this backdrop where the Fed is cutting rates, it seems that most investors are focused on housing and could that recover even though the long end of the market's not really moving, unfortunately with the short end is coming down. And so hopefully that leads to lower financing costs for you all. How are you thinking about weaving financing offers into the business going forward?

<<Linda Findley, President and Chief Executive Officer>>

Yeah. Synchrony has been an incredible partner of ours for more than 20 years. And one of the benefits of working with Synchrony is not only do we have the ability to offer financing to our customers, but they're able to help us understand customer behavior and what customers might need most right now. So we work really closely with them on thinking about how to adjust our offers to whatever is happening in the environment. And that's been just an incredible partnership for us.

So I still think financing is a big part of what we're looking at going forward. Again, we want to make sure that we're flexible to have both financing and non-financed options for our customers, depending on how they want to buy. But for us, that long-term relationship with Synchrony has been really, really valuable in making sure that we're offering the right product.

So we will continue to invest in financing for our customers going forward because it continues to be a high demand way to pay.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great. Speaking of companies that you have partnerships with Leggett supplier of yours and of course is in the news here of late with Somnigroup having made an unsolicited offer on them. Could you just talk a little bit about your relationship with Leggett and what you get from them?

<<Linda Findley, President and Chief Executive Officer>>

I mean, we – it's another 20 plus year relationship for us. We've been working with Leggett for a long time and developed a lot of products with Leggett. Obviously, this is a little surprise to pretty much everyone, but for us, we have the benefit of a long-term relationship with Leggett, but then we also have the benefit of with tariffs. And with a lot of the changes that have happened not just recently, but over the last several years, we have created a much more flexible, much more resilient supply chain so that we can kind of manage whatever is thrown at us, regardless of what happens. But we will be watching the space along with everyone else.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

Absolutely. Interesting times here. Maybe moving on to the topic of tariffs, that's been coming up during our conference. It's been coming up all year. Can you just give us an update on the degree of impact you're seeing from tariffs and how, if at all, that continues to flow into 2026?

<<Linda Findley, President and Chief Executive Officer>>

Yeah. So we announced earlier in 2025 that our total tariff impact was somewhere around \$30 million. And we have managed to mitigate all of that through supply chain flexibility, the same supply chain flexibility I was just talking about managing material costs and also of course, pricing. So we've been able to manage that so far. And we have built tariffs into our 2026 plan. So we've built all of those impacts into our plan and plan to continue to try to mitigate them wherever possible. Obviously, if something changes with tariffs, then we'll adapt and that'll be probably a good tailwind for us. But at this point, we're able to look at how we want to stabilize the business even with the impact of tariffs.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

Great. We've got about 10 minutes left and I've probably got three or four good questions for you here. You've done a great job of answering succinctly.

<<Linda Findley, President and Chief Executive Officer>>

I'll try to slow down a little bit for you.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

You're doing great. With Amy, with it being Amy's first week, I'm going to lay off grilling you on margins or anything like that. But I was wondering if we could talk about competition and how you think of competition for Sleep Number.

<<Linda Findley, President and Chief Executive Officer>>

Yeah. I mean, we're the third largest player in the space, so we have a substantial footprint here in the United States. And again, we think of ourselves as truly differentiated and about sleep wellness, not just about being a mattress. And again, we are – we look at ourselves as one of the only products that can actually improve your sleep while you're asleep. And that's very, very valuable to people.

So from a competitive standpoint, I think we've been doing a lot of work on our marketing campaigns and other things to make sure that we can remain competitive even though we don't have endless coffers of cash through marketing strategies. But for us, it's more about focusing on what makes us different and regaining market share in that premium, sort of lower to mid premium range. So that's where we're focused right now. And we're staying laser focused on that going forward.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

And then circling back on some of the changes that you've made, you have a number of new members at the management team. Maybe – I'd love for you to maybe highlight for our audience the new additions and perhaps help us think about, do you feel like you're done? Do you feel like you have the team you want? Or is there still more change ahead?

<<Linda Findley, President and Chief Executive Officer>>

Yeah. So I think the management team is extremely critical for us going forward because I'm a firm believer that businesses have the right team for the right place at the right time. And this company is going through a massive transformation as part of this turnaround and we need to move extremely quickly. So with the team that we have today, I brought in several new team members, including Amy, who you just mentioned, brought in a new CMO not long after I started, Amber Minson, who I had worked with before.

And we brought in a couple of new talents in the business. At the same time, we also have shifted some of the more experienced executives that we have in the company into new roles. And that shift has allowed for us to take the deep knowledge that they have of the Sleep Number business and enhance with fresh eyes being on new teams. So as an example, Melissa Barra, who runs products and strategy for us, previously had been running sales. She came into the business with deep product and customer insights experience. And so having her lead that product and innovation piece of the business is a great fit.

So across the board, you've got strong people with both deep experience and also fresh eyes and that right balance of how people are looking at the business going forward. Really excited to have Amy joining the business with deep experience across consumer, across a variety of types of leverage situations and significant expertise in creating both EBITDA growth and free cash flow. So those are obviously some of our biggest areas of focus. So I think we have the team that we need. We might add to the team, but we definitely have the team that we need. And I think there is lots of interesting ways that we can leverage the extensive knowledge in that team going forward.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

And these are all interesting topics that I'm glad we have the time to dig into here at the end of the call. From a culture standpoint, would you say that there is a main message that you're sending out to the team or changes around number of days a week people are in or things like that? How would you describe cultural changes, if any, over Sleep Number since you...

<<Linda Findley, President and Chief Executive Officer>>

I would give you three words on cultural changes. Really that has nothing to do with days of the week in the office or anything like that. I would actually say empowerment, transparency and speed. So, really taking this – taking the knowledge that's resident in this company and surfacing it bottoms up to give people, that's the empowerment piece, to give people the ability to say, hey, we've learned this, we can change this. Here is an idea that's worked before, or here's an idea that we haven't tried yet, but here is why we think it would work. That's number one.

Transparency, being really clear about where we are and what we need to do and stay focused on the priorities, that's to me one of the biggest keys. You've got to stay very, very transparent and you have to stay focused. It's very easy to get distracted by a lot of different things. And then speed, we're all challenging ourselves to move a lot faster. And as you noted earlier, we have done that and we will continue to do that. And that makes things very exciting. We normally have about a two year product creation life cycle and we're doing it in nine months and that's pretty exceptional. So we're really excited about speed because part of the speed comes from some of the refinement we've done on costs and removing some of the unnecessary layers and removing some of the redundancies. So those are probably the three ways that I would describe the culture.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

So maybe I'll end it on this last question here, Linda. I often ask companies when they meet with investors what they think is most misunderstood about the company or the stock. And for you all, I would think it would be a little more transparent either you're going to turn it around or not. You're in the midst of the turnaround here.

<<Linda Findley, President and Chief Executive Officer>>

Yeah.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

So I guess maybe I'd ask it in a more nuanced way of as investors, or you look at sizing the degree of difficulty maybe...

<<Linda Findley, President and Chief Executive Officer>>

Yeah.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

It's turnaround. Can you help us put into context what's underappreciated about how good the work is that you're doing over there right now?

<<Linda Findley, President and Chief Executive Officer>>

Yeah, I think, I mean, I guess there's a few things that I would say to that. One is Q2 and Q3 was an aggressive reduction in cost that impacted the top line. And because we have 60% gross margins that also impacts the bottom line. But it was a necessary reset that we needed to do in the business in order to get it back on the right track. So I think there is a mistake to extrapolate what happened in Q3 – Q2 and Q3 to the business overall. So that's, I would say, number one.

Number two is exactly what we talked about before of this business model, the negative working capital model, the 60% gross margins, the vertical model. All of that is very sensitive in both directions. So everything I just talked about before is going to make a challenge when you have to cut costs in when you're focused on cutting something that's going to impact the top line. It performs beautifully when you change that trajectory. So that's sort of number two.

And then I think number three really is about this resilient customer and the loyal customer. We have a lot of people who Sleep Number beds have changed their life for the good. And they love to talk about it. They love these beds. These beds last a really long time. They improve their sleep. I hear it every time I turn a corner. Someone says I have a Sleep Number bed. And they're so excited to tell you about it. And so I think the differentiated product cannot be underestimated. There isn't really anyone else who does what we do.

<<Bradley B. Thomas, Analyst, KeyBanc Capital Markets>>

That's great. Well, with that, we are about at time here. And so Linda, thank you very much. And for those in the audience, thank you so much for joining us and happy holidays.

<<Linda Findley, President and Chief Executive Officer>>

Thank you.