



Sleep Number Announces Second Quarter 2020 Results

July 15, 2020

- **High-single digit demand growth for the last two months of the quarter combined, after being down 48% in fiscal April**
- **More than 95% of our retail stores are now open compared with 53% open on average during the second quarter**
- **Cash and liquidity available under our credit facility was \$295 million at the end of the second quarter, a \$129 million increase versus the same period last year**

MINNEAPOLIS--(BUSINESS WIRE)--Jul. 15, 2020-- Sleep Number Corporation (Nasdaq: SNBR) today reported results for the quarter ended June 27, 2020.

"The mission of Sleep Number has never been more important or more relevant than it is today. The pandemic has heightened individuals' concerns about their immunity and resilience, and there is increased understanding that sleep is vital for healthy living. With the proven quality sleep of our proprietary 360[®] smart beds, Sleep Number is at the forefront of delivering this life-changing benefit," said Shelly Ibach, President and CEO. "Our increased relevance with consumers, combined with the significant competitive advantages of our integrated business model and the ingenuity of our purpose driven team, drove our stronger-than-expected second quarter results."

Second Quarter Overview

- Second quarter financial results reflect the significant impact of COVID-19
- **Net sales** were \$285 million, down 20% compared with \$356 million last year
- **Gross profit rate** of 57.2%, compared with 61.0% last year, reflecting product mix changes and sales deleverage as a result of COVID-19
- **Operating expense** reduction of \$35 million or 17% versus prior year, reflects immediate actions taken to reduce expenses
- **Net loss per diluted share** of \$0.45, compared to net income per diluted share of \$0.14 last year

Cash Flows and Liquidity Review

- Generated \$87 million in net cash from operating activities for the first six months of 2020, up 24% versus last year, with year-to-date operating free cash flows of \$65 million, up 79% versus prior year
- Invested \$22 million in year-to-date capital expenditures compared to \$34 million for the prior year period
- Recently acquired a patent portfolio from Gentherm to further strengthen our competitive position related to cooling and heating beds and bedding
- Return on invested capital (ROIC) of 17.2% for the trailing twelve-month period, up 40 basis points versus the prior year comparable period
- Leverage ratio of 2.8x EBITDAR at the end of the second quarter, compared with 3.0x for the same period last year (covenant maximum of 4.5x)
- Cash and liquidity available under our credit facility was \$295 million at the end of the second quarter, a \$129 million increase versus the same period last year

Financial Outlook

On March 23, 2020, the company withdrew its fiscal 2020 financial guidance due to COVID-19. Given the continued uncertainty related to COVID-19, the company is not providing any further financial guidance at this time. The company expects to meet its liquidity needs from operating cash flows and its existing credit facility, while funding growth initiatives and other longer-term opportunities.

Conference Call Information

Management will host its regularly scheduled conference call to discuss the company's results at 5 p.m. EDT (4 p.m. CDT; 2 p.m. PDT) today. To access the webcast, please visit the investor relations area of the Sleep Number website at <http://www.sleepnumber.com/eng/aboutus/InvestorRelations.cfm>. The webcast replay will remain available for approximately 60 days.

About Sleep Number Corporation

As a purpose driven company, Sleep Number's mission is to improve lives by individualizing sleep experiences. Our revolutionary Sleep Number 360[®] smart beds deliver proven, quality sleep through effortless, adjustable comfort. Our integrated SleepIQ[®] operating system captures over 13 billion biometric data points every night and offers actionable insights to improve your overall sleep health and wellness.

To experience proven quality sleep, visit SleepNumber.com or one of our approximately 600 Sleep Number® stores. More information is available on our [newsroom](#) and [investor relations](#) site.

Forward-looking Statements

Statements used in this news release relating to future plans, events, financial results or performance are forward-looking statements subject to certain risks and uncertainties including, among others, such factors as current and future general and industry economic trends and consumer confidence; risks inherent in outbreaks of pandemics or contagious diseases; the effectiveness of our marketing messages; the efficiency of our advertising and promotional efforts; our ability to execute our company-controlled distribution strategy; our ability to achieve and maintain acceptable levels of product and service quality, and acceptable product return and warranty claims rates; our ability to continue to improve and expand our product line; consumer acceptance of our products, product quality, innovation and brand image; industry competition, the emergence of additional competitive products, and the adequacy of our intellectual property rights to protect our products and brand from competitive or infringing activities; claims that our products, processes, advertising, or trademarks infringe the intellectual property rights of others; availability of attractive and cost-effective consumer credit options; pending and unforeseen litigation and the potential for adverse publicity associated with litigation; our manufacturing processes with minimal levels of inventory, which may leave us vulnerable to shortages in supply; our dependence on significant suppliers and third parties and our ability to maintain relationships with key suppliers or third-parties, including several sole-source suppliers or providers of services; rising commodity costs and other inflationary pressures; risks inherent in global sourcing activities, including tariffs, pandemics, strikes, and the potential for shortages in supply; risks of disruption in the operation of our main manufacturing facilities or assembly distribution facilities; increasing government regulation; the adequacy of our and third-party information systems to meet the evolving needs of our business and existing and evolving risks and regulatory standards applicable to data privacy and security; the costs and potential disruptions to our business related to upgrading our management information systems; the vulnerability of our and third-party information systems to attacks by hackers or other cyber threats that could compromise the security of our systems, result in a data breach or disrupt our business; and our ability to attract, retain and motivate qualified management, executive and other key team members, including qualified retail sales professionals and managers. Additional information concerning these and other risks and uncertainties is contained in the company's filings with the Securities and Exchange Commission (SEC), including the Annual Report on Form 10-K, and other periodic reports filed with the SEC. The company has no obligation to publicly update or revise any of the forward-looking statements in this news release.

**SLEEP NUMBER CORPORATION
AND SUBSIDIARIES**
Consolidated Statements of Operations
(unaudited – in thousands, except per share amounts)

| | Three Months Ended | | | |
|---------------------------------------|--------------------|-------------------|------------------|-------------------|
| | June 27, 2020 | % of Net Sales | June 29, 2019 | % of Net Sales |
| Net sales | \$284,938 | 100.0% | \$355,963 | 100.0% |
| Cost of sales | 121,928 | 42.8% | 138,777 | 39.0% |
| Gross profit | 163,010 | 57.2% | 217,186 | 61.0% |
| Operating expenses: | | | | |
| Sales and marketing | 130,165 | 45.7% | 168,839 | 47.4% |
| General and administrative | 36,716 | 12.9% | 33,045 | 9.3% |
| Research and development | 8,254 | 2.9% | 8,057 | 2.3% |
| Total operating expenses | 175,135 | 61.5% | 209,941 | 59.0% |
| Operating (loss) income | (12,125) | (4.3%) | 7,245 | 2.0% |
| Interest expense, net | 3,940 | 1.4% | 3,228 | 0.9% |
| (Loss) income before income taxes | (16,065) | (5.6%) | 4,017 | 1.1% |
| Income tax benefit | (3,435) | (1.2%) | (263) | (0.1%) |
| Net (loss) income | \$ (12,630) | (4.4%) | \$ 4,280 | 1.2% |
| Net (loss) income per share – basic | \$ (0.45) | | \$ 0.14 | |
| Net (loss) income per share – diluted | \$ (0.45) | | \$ 0.14 | |

Reconciliation of weighted-average shares outstanding:

| | | |
|--|--------|--------|
| Basic weighted-average shares outstanding | 27,923 | 29,873 |
| Dilutive effect of stock-based awards ¹ | - | 658 |
| Diluted weighted-average shares outstanding ¹ | 27,923 | 30,531 |

¹ For the three months ended June 27, 2020, potentially dilutive stock-based awards have been excluded from the calculation of diluted weighted-average shares outstanding, as their inclusion would have had an anti-dilutive effect on our net loss per diluted share.

Consolidated Statements of Operations
(unaudited – in thousands, except per share amounts)

| | Six Months Ended | | | |
|--------------------------------|-------------------------|------------------|------------------|------------------|
| | June 27, | % of | June 29, | % of |
| | 2020 | Net Sales | 2019 | Net Sales |
| Net sales | \$757,504 | 100.0% | \$782,408 | 100.0% |
| Cost of sales | 292,363 | 38.6% | 302,989 | 38.7% |
| Gross profit | 465,141 | 61.4% | 479,419 | 61.3% |
| Operating expenses: | | | | |
| Sales and marketing | 337,909 | 44.6% | 355,666 | 45.5% |
| General and administrative | 67,788 | 8.9% | 67,368 | 8.6% |
| Research and development | 18,755 | 2.5% | 16,433 | 2.1% |
| Total operating expenses | 424,452 | 56.0% | 439,467 | 56.2% |
| Operating income | 40,689 | 5.4% | 39,952 | 5.1% |
| Interest expense, net | 6,284 | 0.8% | 5,837 | 0.7% |
| Income before income taxes | 34,405 | 4.5% | 34,115 | 4.4% |
| Income tax expense | 7,895 | 1.0% | 4,417 | 0.6% |
| Net income | <u>\$ 26,510</u> | <u>3.5%</u> | <u>\$ 29,698</u> | <u>3.8%</u> |
| Net income per share – basic | <u>\$ 0.95</u> | | <u>\$ 0.98</u> | |
| Net income per share – diluted | <u>\$ 0.93</u> | | <u>\$ 0.95</u> | |

Reconciliation of weighted-average shares outstanding:

| | | |
|---|---------------|---------------|
| Basic weighted-average shares outstanding | 27,890 | 30,247 |
| Dilutive effect of stock-based awards | <u>633</u> | <u>887</u> |
| Diluted weighted-average shares outstanding | <u>28,523</u> | <u>31,134</u> |

**SLEEP NUMBER CORPORATION
AND SUBSIDIARIES**
Consolidated Balance Sheets
(unaudited – in thousands, except per share amounts)
subject to reclassification

| | June 27, | December |
|--|-------------------|-------------------|
| | 2020 | 28, |
| | | 2019 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,651 | \$ 1,593 |
| Accounts receivable, net of allowance for doubtful accounts of \$957 and \$898, respectively | 15,754 | 19,978 |
| Inventories | 81,674 | 87,065 |
| Prepaid expenses | 12,072 | 15,335 |
| Other current assets | 30,607 | 36,397 |
| Total current assets | <u>141,758</u> | <u>160,368</u> |
| Non-current assets: | | |
| Property and equipment, net | 186,943 | 197,421 |
| Operating lease right-of-use assets | 315,221 | 327,017 |
| Goodwill and intangible assets, net | 74,109 | 73,226 |
| Other non-current assets | 50,767 | 48,011 |
| Total assets | <u>\$ 768,798</u> | <u>\$ 806,043</u> |
| Liabilities and Shareholders' Deficit | | |
| Current liabilities: | | |
| Borrowings under credit facility | \$ 227,240 | \$ 231,000 |
| Accounts payable | 94,966 | 134,594 |

| | | |
|--|------------|------------|
| Customer prepayments | 51,235 | 34,248 |
| Accrued sales returns | 17,196 | 19,809 |
| Compensation and benefits | 33,067 | 40,321 |
| Taxes and withholding | 21,085 | 22,171 |
| Operating lease liabilities | 60,180 | 59,561 |
| Other current liabilities | 57,547 | 53,070 |
| Total current liabilities | 562,516 | 594,774 |
| Non-current liabilities: | | |
| Deferred income taxes | 8,191 | 3,808 |
| Operating lease liabilities | 286,292 | 298,090 |
| Other non-current liabilities | 74,817 | 68,802 |
| Total non-current liabilities | 369,300 | 370,700 |
| Total liabilities | 931,816 | 965,474 |
| Shareholders' deficit: | | |
| Undesignated preferred stock; 5,000 shares authorized, no shares issued and outstanding | - | - |
| Common stock, \$0.01 par value; 142,500 shares authorized, 27,725 and 27,961 shares issued and outstanding, respectively | 277 | 280 |
| Additional paid-in capital | 5,519 | - |
| Accumulated deficit | (168,814) | (159,711) |
| Total shareholders' deficit | (163,018) | (159,431) |
| Total liabilities and shareholders' deficit | \$ 768,798 | \$ 806,043 |

**SLEEP NUMBER CORPORATION
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows
(unaudited - in thousands)
subject to reclassification

| | <u>Six Months Ended</u> | |
|---|---|-----------|
| | <u>June 27, 2020</u> <u>June 29, 2019</u> | |
| Cash flows from operating activities: | | |
| Net income | \$ 26,510 | \$ 29,698 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 30,811 | 31,187 |
| Stock-based compensation | 7,084 | 7,888 |
| Net loss (gain) on disposals and impairments of assets | 224 | (431) |
| Deferred income taxes | 4,383 | 721 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,224 | 5,214 |
| Inventories | 5,391 | (2,977) |
| Income taxes | 2,508 | (9,195) |
| Prepaid expenses and other assets | 7,018 | (8,580) |
| Accounts payable | (14,804) | 12,408 |
| Customer prepayments | 16,987 | 3,407 |
| Accrued compensation and benefits | (7,405) | 2,348 |
| Other taxes and withholding | (3,594) | (1,836) |
| Other accruals and liabilities | 7,664 | 495 |
| Net cash provided by operating activities | 87,001 | 70,347 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (21,695) | (33,896) |
| Proceeds from sales of property and equipment | 25 | 2,571 |
| Purchase of intangible assets | (945) | - |
| Net cash used in investing activities | (22,615) | (31,325) |
| Cash flows from financing activities: | | |
| Net (decrease) increase in short-term borrowings | (26,364) | 56,758 |

| | | |
|---|-----------------|-----------------|
| Repurchases of common stock | (41,774) | (99,684) |
| Proceeds from issuance of common stock | 4,100 | 4,995 |
| Debt issuance costs | (290) | (1,019) |
| Net cash used in financing activities | <u>(64,328)</u> | <u>(38,950)</u> |
| Net increase in cash and cash equivalents | 58 | 72 |
| Cash and cash equivalents, at beginning of period | 1,593 | 1,612 |
| Cash and cash equivalents, at end of period | <u>\$ 1,651</u> | <u>\$ 1,684</u> |

**SLEEP NUMBER CORPORATION
AND SUBSIDIARIES**
Supplemental Financial Information
(unaudited)

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | <u>June 27, 2020</u> | <u>June 29, 2019</u> | <u>June 27, 2020</u> | <u>June 29, 2019</u> |
| Percent of sales: | | | | |
| Retail | 72.2% | 92.1% | 84.6% | 92.1% |
| Online and phone | 27.5% | 7.2% | 15.1% | 7.0% |
| Wholesale/other | 0.3% | 0.7% | 0.3% | 0.9% |
| Total Company | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Sales change rates: | | | | |
| Retail comparable-store sales | (40%) | 9% | (14%) | 7% |
| Online and phone | 209% | 2% | 107% | 4% |
| Total Retail comparable sales change | (21%) | 8% | (5%) | 7% |
| Net opened/closed stores | 1% | 5% | 2% | 4% |
| Total Retail | (20%) | 13% | (3%) | 11% |
| Wholesale/other | (72%) | (44%) | (71%) | (23%) |
| Total Company | <u>(20%)</u> | <u>13%</u> | <u>(3%)</u> | <u>11%</u> |
| Stores open: | | | | |
| Beginning of period | 611 | 585 | 611 | 579 |
| Opened | 6 | 17 | 14 | 32 |
| Closed | (19) | (8) | (27) | (17) |
| End of period | <u>598</u> | <u>594</u> | <u>598</u> | <u>594</u> |
| Other metrics: | | | | |
| Average sales per store (\$ in 000's) ¹ | \$ 2,830 | \$ 2,800 | | |
| Average sales per square foot ¹ | \$ 988 | \$ 1,015 | | |
| Stores > \$2 million net sales ² | 63% | 69% | | |
| Stores > \$3 million net sales ² | 25% | 28% | | |
| Average revenue per mattress unit ³ | \$ 4,767 | \$ 4,945 | \$4,839 | \$4,868 |

- 1 Trailing twelve months Total Retail comparable sales per store open at least one year.
- 2 Trailing twelve months for stores open at least one year (excludes online and phone sales).
- 3 Represents Total Retail net sales divided by Total Retail mattress units.

SLEEP NUMBER CORPORATION AND SUBSIDIARIES

Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)
(in thousands)

We define earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) as net income plus: income tax expense, interest expense, depreciation and amortization, stock-based compensation and asset impairments. Management believes Adjusted EBITDA is a useful indicator of our financial performance and our ability to generate cash from operating activities. Our definition of Adjusted EBITDA may not be comparable to similarly titled definitions used by other companies. The table below reconciles Adjusted EBITDA, which is a non-GAAP financial measure, to the comparable GAAP financial measure:

| | Three Months Ended | | Trailing Twelve Months Ended | |
|-------------------------------|---------------------------|------------------|-------------------------------------|-------------------|
| | June 27, | June 29, | June 27, | June 29, |
| | 2020 | 2019 | 2020 | 2019 |
| Net (loss) income | \$ (12,630) | \$ 4,280 | \$ 78,657 | \$ 74,945 |
| Income tax (benefit) expense | (3,435) | (263) | 22,141 | 18,682 |
| Interest expense | 4,022 | 3,229 | 12,131 | 9,769 |
| Depreciation and amortization | 15,253 | 15,328 | 60,951 | 61,675 |
| Stock-based compensation | 5,033 | 4,250 | 15,853 | 12,558 |
| Asset impairments | 246 | 1 | 294 | 151 |
| Adjusted EBITDA | <u>\$ 8,489</u> | <u>\$ 26,825</u> | <u>\$ 190,027</u> | <u>\$ 177,780</u> |

Free Cash Flow
(in thousands)

| | Three Months Ended | | Trailing Twelve Months Ended | |
|---|---------------------------|--------------------|-------------------------------------|-------------------|
| | June 27, | June 29, | June 27, | June 29, |
| | 2020 | 2019 | 2020 | 2019 |
| Net cash provided by operating activities | \$ 2,060 | \$ 2,211 | \$ 205,814 | \$ 172,756 |
| Subtract: Purchases of property and equipment | 11,344 | 14,153 | 47,038 | 58,070 |
| Free cash flow | <u>\$ (9,284)</u> | <u>\$ (11,942)</u> | <u>\$ 158,776</u> | <u>\$ 114,686</u> |

Calculation of Net Leverage Ratio under Credit Facility
(in thousands)

| | Trailing Twelve Months Ended | |
|--|-------------------------------------|-------------------|
| | June 27, | June 29, |
| | 2020 | 2019 |
| Borrowings under credit facility | \$ 227,240 | \$ 281,500 |
| Outstanding letters of credit | 3,997 | 3,497 |
| Finance lease obligations | 704 | 809 |
| Consolidated funded indebtedness | \$ 231,941 | \$ 285,806 |
| Capitalized operating lease obligations ¹ | 542,095 | 505,260 |
| Total debt including capitalized operating lease obligations (a) | <u>\$ 774,036</u> | <u>\$ 791,066</u> |
| Adjusted EBITDA (see above) | \$ 190,027 | \$ 177,780 |
| Consolidated rent expense | 90,349 | 84,210 |
| Consolidated EBITDAR (b) | <u>\$ 280,376</u> | <u>\$ 261,990</u> |
| Net Leverage Ratio under credit facility (a divided by b) | <u>2.8 to 1.0</u> | <u>3.0 to 1.0</u> |

¹ A multiple of six times annual rent expense is used as an estimate for capitalizing our operating lease obligations in accordance with our credit facility.

Note - Our Adjusted EBITDA and EBITDAR calculations, Free Cash Flow data and Calculation of Net Leverage Ratio under Credit Facility are considered non-GAAP financial measures and are not in accordance with, or preferable to, "as reported," or GAAP financial data. However, we are providing this information as we believe it facilitates analysis of the Company's financial performance by investors and financial analysts.

GAAP - generally accepted accounting principles in the U.S.

SLEEP NUMBER CORPORATION AND SUBSIDIARIES
Calculation of Return on Invested Capital (ROIC)
(in thousands)

ROIC is a financial measure we use to determine how efficiently we deploy our capital. It quantifies the return we earn on our invested capital. Management believes ROIC is also a useful metric for investors and financial analysts. We compute ROIC as outlined below. Our definition and calculation of ROIC may not be comparable to similarly titled definitions and calculations used by other companies. The tables below reconcile net operating profit after taxes (NOPAT) and total invested capital, which are non-GAAP financial measures, to the comparable GAAP financial measures:

Trailing Twelve Months Ended

| | <u>June 27, 2020</u> | <u>June 29, 2019</u> |
|---|--------------------------|--------------------------|
| <u>Net operating profit after taxes (NOPAT)</u> | | |
| Operating income | \$ 112,831 | \$ 103,393 |
| Add: Rent expense ¹ | 90,349 | 84,210 |
| Add: Interest income | 97 | 4 |
| Less: Depreciation on capitalized operating leases ² | (23,331) | (21,310) |
| Less: Income taxes ³ | (42,735) | (40,319) |
| NOPAT | <u>\$ 137,211</u> | <u>\$ 125,978</u> |
| <u>Average invested capital</u> | | |
| Total deficit | \$ (163,018) | \$ (157,302) |
| Add: Long-term debt ⁴ | 227,944 | 282,308 |
| Add: Capitalized operating lease obligations ⁵ | 722,792 | 673,680 |
| Total invested capital at end of period | <u>\$ 787,718</u> | <u>\$ 798,686</u> |
| Average invested capital ⁶ | \$ 797,862 | \$ 750,375 |
| Return on invested capital (ROIC) ⁷ | <u>17.2%</u> | <u>16.8%</u> |

¹Rent expense is added back to operating income to show the impact of owning versus leasing the related assets.

²Depreciation is based on the average of the last five fiscal quarters' ending capitalized operating lease obligations (see note 5) for the respective reporting periods with an assumed thirty-year useful life. This life assumption is based on our long-term participation in given markets though specific retail location lease commitments are generally 5 to 10 years at inception. This is subtracted from operating income to illustrate the impact of owning versus leasing the related assets.

³Reflects annual effective income tax rates, before discrete adjustments, of 23.7% and 24.2% for 2020 and 2019, respectively.

⁴Long-term debt includes existing finance lease liabilities.

⁵A multiple of eight times annual rent expense is used as an estimate for capitalizing our operating lease obligations. The methodology utilized aligns with the methodology of a nationally recognized credit rating agency.

⁶Average invested capital represents the average of the last five fiscal quarters' ending invested capital balances.

⁷ROIC equals NOPAT divided by average invested capital.

Note - Our ROIC calculation and data are considered non-GAAP financial measures and are not in accordance with, or preferable to, GAAP financial data. However, we are providing this information as we believe it facilitates analysis of the Company's financial performance by investors and financial analysts.

GAAP - generally accepted accounting principles in the U.S.

View source version on [businesswire.com](https://www.businesswire.com/news/home/20200715005770/en/): <https://www.businesswire.com/news/home/20200715005770/en/>

Investor Contact: Dave Schwantes; (763) 551-7498; investorrelations@sleepnumber.com

Media Contact: Julie Elepano; (763) 551-7459; julie.elepano@sleepnumber.com

Source: Sleep Number Corporation