
sleep number
Improving the health and wellbeing of society through higher quality sleep
SLEEP NUMBER SMART BED
CLIMATE COOL
Sleep Number Corporation
(Nasdaq: SNBR)
July 2024

Forward-looking Statements

Statements used in this presentations relating to future plans, events, financial results or performance, such as the statement that the company's transformation focus areas will deliver significant value to shareholders, the company's plans to execute on a more durable operating model transformation and advance industry leading innovation with the ClimateCool™ smart bed, the company's future as a sleep health leader, and that the company is poised for growth, other future plans, and the company's 2024 financial outlook, including expected annual net sales, gross margin, adjusted EBITDA, adjusted EBITDA margin, free cash flow, and capital expenditures, are forward-looking statements subject to certain risks and uncertainties including, among others, changes in economic conditions and consumer sentiment and related impacts on discretionary consumer spending; increases in interest rates, which have increased the cost of servicing our indebtedness; availability of attractive and cost-effective consumer credit options; ability to achieve savings and efficiencies from cost savings plans related to business restructuring actions and to avoid unexpected adverse effects; dependence on, and ability to maintain working relationships and favorable contractual terms with key suppliers and third parties; fluctuations in commodity costs or third-party delivery or logistics costs and other inflationary pressures; risks inherent in global-sourcing activities, including tariffs, foreign regulation, geo-political turmoil, war, pandemics, labor challenges, foreign currency fluctuations, inflation, and climate or other disasters, and resulting supply shortages and production and delivery delays and disruptions; operating with minimal levels of inventory, which may leave us vulnerable to supply shortages, as well as carrying excess levels of inventory for various products from time to time, which may leave us vulnerable to inventory obsolescence and write-downs; the effectiveness of our marketing strategy and promotional efforts; the execution of our Total Retail distribution strategy; ability to achieve and maintain high levels of product quality and to improve and expand the product line; ability to protect our technology, trademarks, and brand and the adequacy of our intellectual property rights; ability to effectively compete; risks of disruption in the operation of our facilities and operations, including manufacturing, assembly, distribution, logistics, field services, home delivery, headquarters, product development, retail or customer service operations; ability to comply with existing and changing government regulations and laws; pending or unforeseen litigation and the potential for associated adverse publicity; the adequacy of the company's and third-party information systems and costs and disruptions related to upgrading or maintaining these systems; our ability to identify and withstand cyber threats that could compromise the security of our systems, result in a data breach or business disruption; risks associated with advancements in or adoption of artificial intelligence technologies; our ability, and the ability of our suppliers and vendors, to attract, retain and motivate qualified and effective personnel; the volatility of Sleep Number stock, our removal from various stock indices, and the potential negative effects of shareholder activism or of changes in coverage by securities analysts; environmental, social and governance risks, including increasing regulation and stakeholder expectations; and our ability to adapt to climate change and readiness for legal or regulatory responses thereto. Additional information concerning these and other risks and uncertainties is contained in the company's filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K and other periodic reports. We have no obligation to publicly update or revise any of these forward-looking statements.

sleep number

Overview of Sleep Number (Nasdaq: SNBR)

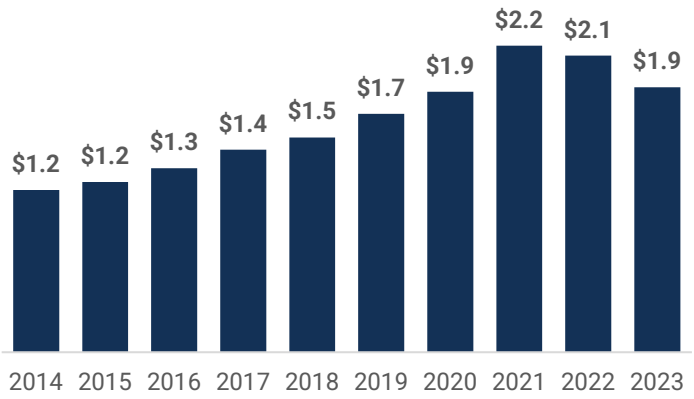
A beloved brand and leader of sleep wellness technology through the design, engineering, manufacturing, distribution and marketing of innovative sleep solutions

- We are dedicated to our mission of improving lives by individualizing sleep experiences
- We integrate physical and digital innovations for unparalleled comfort through a highly advanced technology platform that adjusts to the needs of each sleeper
- Our proprietary smart beds revolutionized the sleep industry and have improved the lives of over 15 million people
- Our smart beds collect billions of data points nightly from millions of sleepers, generating comprehensive longitudinal data. Our data and smart bed ecosystem drive best-in-class engagement through personalized digital sleep and health insights
- We have developed an intellectual property portfolio consistent with our strategic imperatives, supported by over 800 patents and patents pending worldwide
- Our vertically integrated, direct-to-consumer business model with exclusive distribution enables us to be closer to our customer
- Across our customer touchpoints, including nearly 650 stores, online, phone and chat, we deliver a value-added retail experience. Our mission-driven team members seamlessly integrate our digital and physical experiences to meet customer needs

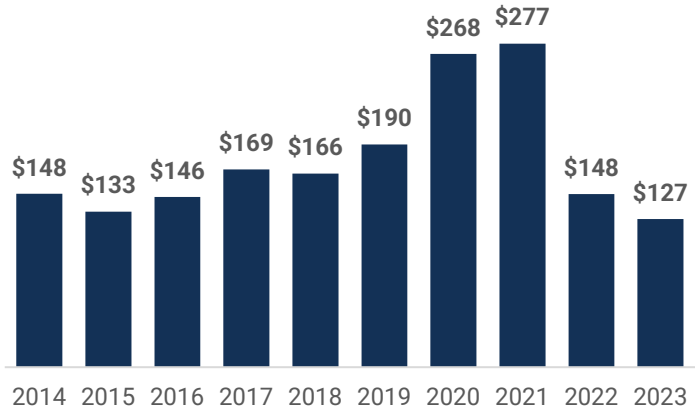
Summary Data[1]

Enterprise Value ($ in millions)	$778
Net Debt ($ in millions)	$538
Market Cap ($ in millions)	$240
Sleep Number Stores	646
Smart Sleepers	2.9M

Revenue ($B)[1]



Adjusted EBITDA ($M)[1,2]



1. *Source: FactSet and Company filings. valuation data as of July 26, 2024.*
2. *See Appendix for non-GAAP reconciliation.*

How We Are Transforming Our Operating Model to Improve Financial Resilience

Aggressively managing four principal areas supporting 2024 margin and cash flow targets and positioning us to achieve greater profitability when the industry recovers

Our Transformation Focus	Will Deliver Significant Value to Shareholders
1 **Cost of Acquisition**	Applying greater precision in marketing investments and sales decision-making tools driven by expanding our AI-based models to deliver more efficient demand generation
2 **Cost to Serve**	Outsourcing select operational activities and leveraging third-party expertise in information technology and services, providing flexibility to support peak volumes in customer contact centers and home delivery services
3 **Cost of Goods Sold**	Implementing efficiency improvements in procurement processes, manufacturing, and end-to-end fulfillment by introducing new best-in-class operating practices based on extensive assessments and cost controls
4 **G&A and R&D**	Streamlining organizational design, removing inefficiencies and increasing productivity while maintaining our industry-leading innovation advantage

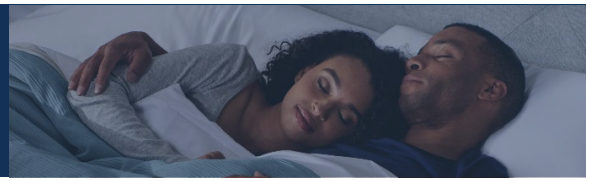
Transformation Progress and Second-Half 2024 Outlook

Organizational and operational improvements are showing tangible progress. For the first half of 2024, we are ahead of our expectations for both gross margin rate expansion and adjusted EBITDA, despite facing a tougher demand environment

	Second Half 2023 Actual (July – December)	First Half 2024 Actual (January – June)	Second Half 2024 Outlook (July – December)
Demand	Down high-single digits	Down mid-single digits	Flat to down low-single digits
Net Sales	$902M (-13% YOY)	$879M (-11% YOY)	Flat to down low single digits
Gross Margin	57.0%	58.9%	59.5% - 60.0%
Adjusted EBITDA Margin	4.8%	7.5%	7.5% - 8.0%
Free Cash Flow	-$55M	$9M	$40M – $60M

Our Strategy to Drive Long-Term Growth

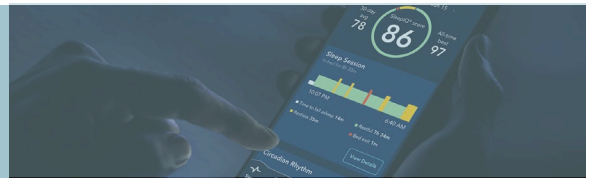
Our Purpose
To improve the health and wellbeing of society through higher quality sleep



Our Vision
To become one of the world's most beloved brands by delivering unparalleled sleep experiences



Our Strategic Priorities
Executing on our four-pillar consumer innovation strategy



Multisided sleep wellness platform
Smart beds deliver customized sleep experiences, addressing barriers to quality sleep with physical and digital products and services

Connected Smart Sleepers
Highly engaged user base of nearly three million Smart Sleepers who advocate for our beloved brand and drive referrals and repeat purchases

Durable operating model
Transformed and strengthened operating model to deliver positive cash flow in a range of macroeconomic environments

Culture of individuality
~3,800 team members connected to our purpose and committed to driving innovation, efficiency and growth

Why Our Mission Matters

Our proprietary wellness technology platform provides proven benefits to consumers and is the foundation of our long-term value proposition

- The benefits of sleep are well known; sleep boosts immunity, increases energy and focus and improves recovery[1]
- Not surprisingly, given its physical and mental health benefits, sleep consistently ranks as one of consumers' highest health and wellness priorities[2]
- Yet, sleep is also the area in which consumers have the most unmet needs
  - Many adults don't get enough sleep,[3] and many consumers find that their current sleep products and services are not meeting their needs[4]
- Our smart beds serve an important purpose: by effortlessly adjusting to sleepers' unique needs, they help millions of consumers achieve more restful sleep every night[5]

7-9

7-9 hours of sleep each night are required for REM sleep[1]

32%

You are 32% more likely to catch a cold if you sleep less than 7 hours per night[1]

45%

45% of consumers rank better sleep as a "very high priority"[2]

33%

33% of American adults are not getting enough sleep on a regular basis[3]

1. *"Discover Why Sleep Is Important," Sleep Number. Available at: https://www.sleepnumber.com/pages/health-well-being.*
2. *"The trends defining the $1.8 trillion global wellness market in 2024," McKinsey & Co., Jan. 16, 2024.*
3. *"Sleep and Sleep Disorders," Centers for Disease Control and Prevention.*
4. *"Still feeling good: The US wellness market continues to boom," McKinsey & Co., September 19, 2022.*
5. *Based on internal analysis of sleep sessions assessing sleepers who use multiple features of Sleep Number® products. Claim based on sleepers achieving over 15 more minutes of restful sleep per sleep session.*

How We Deliver a Better Sleep Experience

Our smart beds go beyond simple tracking to "sense and do technology", thereby providing higher sleep quality

Our Unique Offerings	Deliver Significant Value to the Consumer
Individualized Experience	Our smart beds respond to movement throughout the night, automatically adjusting each side to their ideal level of support, firmness and temperature
Digital Engagement	Embedded research-grade sensors in our smart beds monitor pressure across the mattress and use machine learning to analyze personalized insights about sleep patterns and deliver insights to help improve sleep quality
Longitudinal Data	Data generated by the smart bed platform allows us to analyze sleep and health insights from millions of sleepers. Using the data, we develop new science-based innovations for improved sleep health and wellbeing

94% of Sleep Number® smart bed sleepers report getting better sleep quality compared with sleeping on a non-smart bed[1]

1. *Source: Based on self-reported data between 3/23-6/23 from 90 incentivized sleepers new to the brand who slept on a Sleep Number® smart bed for 6 weeks without the ability to use any smart features and then were given the ability to use all features for 6 weeks.*

History of Our Evolution

Act 1: Direct-to-Consumer	Act 2: Sleep Innovation Leader	Act 3: Smart Bed Leader	Act 4: Fit for Growth

2009 — **Exited all retail partners** in the U.S. to become an independent, vertically integrated market leader

2010 — **Rebranded all stores and consumer facing assets** to "Sleep Number"

2011 — **Expanded store footprint** with standalone locations and immersive store experience

2012 — **Initiated consumer innovation strategy and partnership with BAM Labs** to develop biosignal sensors for sleep monitoring

2013 — **Acquired Comfortaire,** a South Carolina-based adjustable mattress manufacturer

2014 — **Introduced SleepIQ® technology** and surpassed **$1B in sales** for the first time

2015 — **Acquired BAM Labs,** becoming the world's leading provider of Smart Bed Technology™ solutions

2017 — **Introduced Sleep Number 360®** smart bed and changed corporate name from Select Comfort to **Sleep Number (SNBR)**

2018 — Became "**Official Sleep + Wellness Partner**" of the NFL; **80% of NFL players** have Sleep Number smart beds

2020 — **Initiated R&D collaboration with Mayo Clinic** to advance sleep science with an emphasis on cardiovascular health

2021 — **Introduced My Sleep Health** technology feature for daily, personalized health insights

2022 — **Introduced Climate360®** smart bed; named **American Cancer Society Partner of the Year**

2023 — **Initiated operating model transformation** to significantly reduce costs and strengthen financial resilience through economic cycles

2024 and beyond — **Executing operating model transformation** and advancing industry leading innovation with the **ClimateCool™** smart bed

Ongoing transformational actions deepen our customer relationships and accelerate our lead in sleep wellness

Sleep Number Is Highly Differentiated from Competitors

We are advancing the category with wellness-focused, technology-driven innovations and a differentiated business model

Traditional Mattress Companies	sleep number
Technology (if any) is **reliant on licensing and partnerships**	**Robust IP portfolio, proprietary technology, life-changing innovations**
Sleep tracking apps and devices have **limited functionality**	Smart bed platform delivers **"sense and do" technology** and **personalized insights at scale**
Limited data capability and power due to lack of ownership	Power to build on and monetize **multisided wellness platform**
Mass brands without known consumer identities or definitions	**Strong, salient brand** with high consumer meaning
Restricted to a **narrow, cyclical category**	Opportunities for **growth in large wellness technology market**
Undifferentiated and lower productivity stores	Highly **productive stores** with **mission-driven team members**
Price-focused consumers with **minimal brand loyalty**	**Digitally engaged** Smart Sleepers with high retention and referrals

Our Business Model Supports Growth

The strength of our business model positions us to capitalize when industry demand improves from recessionary levels

Industry-Leading Innovation

- **Smart beds deliver higher quality sleep** by individualizing sleep experiences for each sleeper
- Patent portfolio expansion and R&D investments **strengthen competitive moats**
- **Robust innovation roadmap provides opportunity to expand market relevance** beyond traditional mattress category

Connected Smart Sleepers

- High ongoing engagement builds lifelong customer relationships, **increasing their lifetime value**
- **Provides valuable longitudinal data** used by leading research institutions to help solve global sleep and health challenges
- Smart Sleeper advocacy provides **strong brand support** through reviews and testimonials

Vertical Integration

- Enables us to **stay close to our consumer** and adjust our strategies in real-time
- Allows us to **control and optimize our brand** through integrated consumer touch points
- Gives us **control of our manufacturing and fulfillment network**

Long-Term Value

- More durable operating model generates **free cash flow** across range of industry cycles
- **Track record of taking market share**, even in challenging industry conditions
- **Opportunity for margin expansion** as mattress demand environment recovers

Our Business Model Provides Meaningful Competitive Advantages

Our vertically integrated model allows us to navigate a dynamic demand environment and supports our long-term strategy

Attributes	Retailer	Wholesaler	sleep number
Control over brand experience	✓		✓
Proximity to customers and ability to adjust strategy in real-time	✓		✓
Integrated demand planning	✓		✓
Mission-driven team members and a value-added relationship-based store experience			✓
Full ownership of R&D and innovation process		✓	✓
Full visibility into supply chain and time-to-deliver		✓	✓
Enhanced control over input cost inflation		✓	✓
Opportunity for full margin capture			✓

Our Brand Attracts Consumers through Highly Differentiated Benefits and Value



#1 in Customer Satisfaction
with Mattresses Purchased in-Store[1]

Our Smart Sleepers get
28 minutes more restful sleep per night*

[1]*For J.D. Power award information, visit jdpower.com/awards.*
**Based on average SleepIQ® data from 8/1/21 - 2/28/22 of sleepers engaging with Sleep Number® setting, SleepIQ® data and FlexFit™ adjustable base vs. sleepers who have those features but didn't similarly engage with them.*

Celebrating 10 Years of Improving Lives with Innovations that Deliver Higher Quality Sleep

Market leader with superior benefits of individual firmness, sleep position, temperature and highly accurate data









Smart Bed Introduction

2014 - 2016

Introduced the first smart bed, the x12 and SleepIQ® technology as a $299 option with any Sleep Number® bed

Introduced first active heating and cooling solution – the DualTemp® layer

Introduced FlexTop® Size Option and Partner Snore Technology

Full Technology Integration

2017 - 2021

SleepIQ technology available on all beds with the introduction of 360® smart beds

Launched the 360 smart bed platform – fully assembled smart bed

Integrated hardware and software technologies to support physical and digital experience

Broadening Consumer Benefits

2022 - 2023

New Sleep Number smart bed platform expanded capabilities to support future connected health digital products

Revolutionary Climate360® smart bed technology with active heating and cooling

Deepening Competitive Moat

2024

New c1 smart bed starting at $999

Revolutionary ClimateCool™ smart bed with active cooling starting at $5499

Sleep Number is a Market Leader in Temperature Balancing Sleep Solutions

ClimateCool smart bed launches October 2024



DualTemp®
$999

Individual cooling and warming layer to be used on any mattress

35% cooler or warmer

Technology sits on floor



ClimateCool™
$5,499

Active cooling on each side

Sleeps up to 15 degrees cooler

Technology integrated into smart bed



Climate360®
$9,999

Active cooling and warming by zone on each side

Sleeps up to 15 degrees cooler or warmer

Technology integrated into smart bed/base

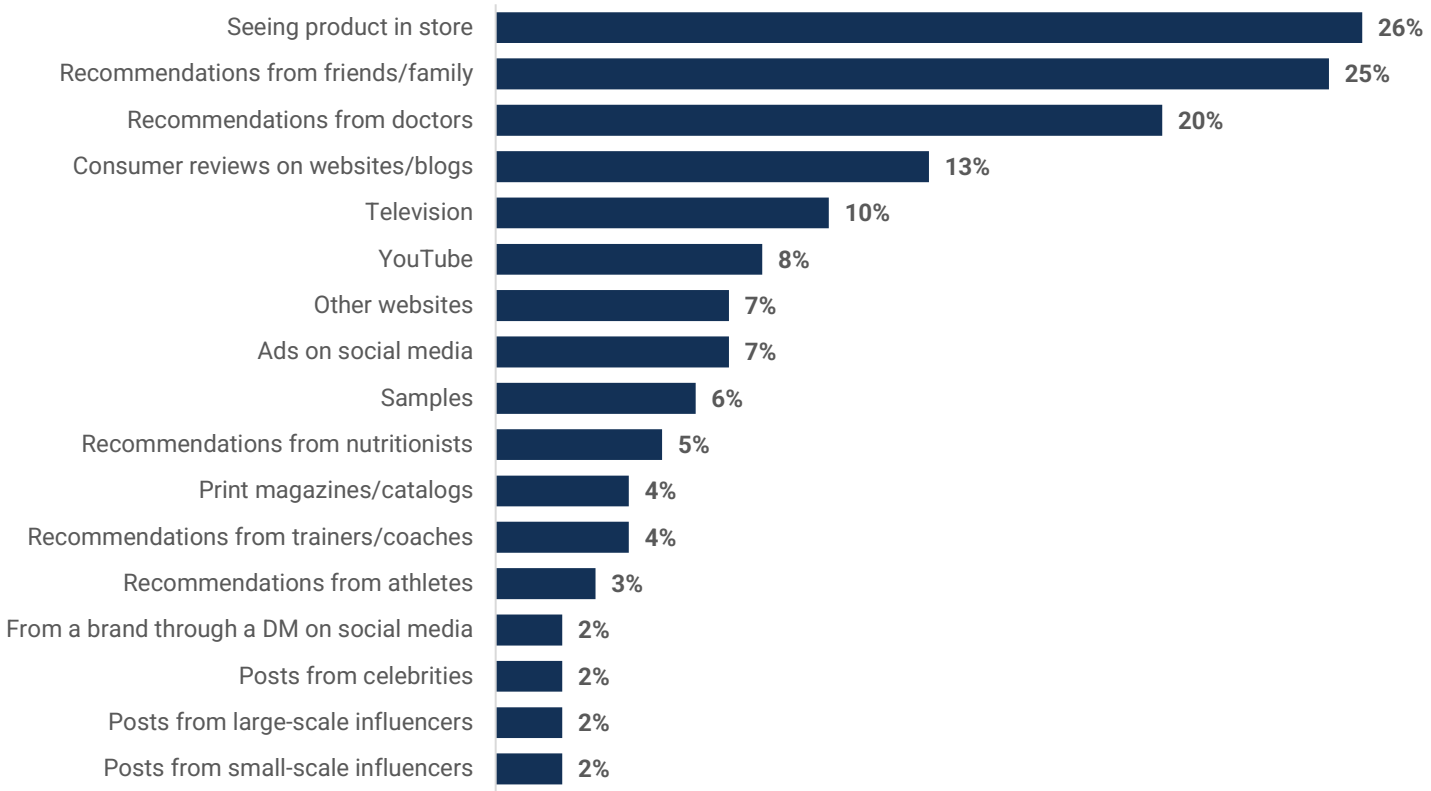
Our Retail Strategy Delivers a Premium, Seamless Brand Experience

Our in-store experience allows us to demonstrate the transformative benefits of our smart beds

Our engaged, knowledgeable team members leverage digital and interactive tools to educate and inform potential customers

In-store, relationship-based experiences drive high conversion rates

Sources of Influence for US Consumers When Purchasing Health and Wellness Products and Services[1]



1. *Source: McKinsey Future of Wellness Survey, August 2023.*

Integrated Retail Touchpoints Build Lifelong Relationships

Growth flywheel

ATTRACT and CONSIDER	CONNECT and CONVERT	ENGAGE and ADVOCATE

Touchpoints

Digital



Dynamic online brand experience

- Digital experience engages and educates
- Drives highly qualified and informed retail traffic
- Captures leads and connects to next touchpoint (online or in-store)
- Easy to transact via online, chat, and phone

Stores



Highly productive Sleep Number stores

- High productivity: ~$2.7M per store (2-3x traditional mattress stores)
- Industry-leading ~$800 sales per square foot
- Average true store profit: ~$1.0M for a $3M store, ~$750K for a $2.5M store

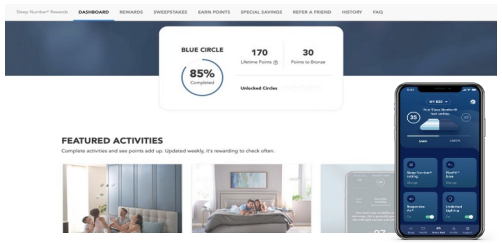
Selling Experience



Relationship-based selling experience

- Mission-driven teams (in-store and online) build lifelong customer relationships, loyalty and advocacy
- Immersive and cohesive in-store technology easily communicates product benefits
- Selling process is supported digitally and is continually tested and optimized, resulting in high conversion

Smart Sleepers



Smart Sleeper engagement

- Blend of human and digital connection highlights innovation benefits and drives brand engagement
- Sleep Number app enables regular interaction between Smart Sleepers and the brand
- Smart Sleeper activities and active team member clienteling support repeat and referral (~50% of total sales)

Our Smart Sleeper Community Continues to Grow and is Highly Engaged

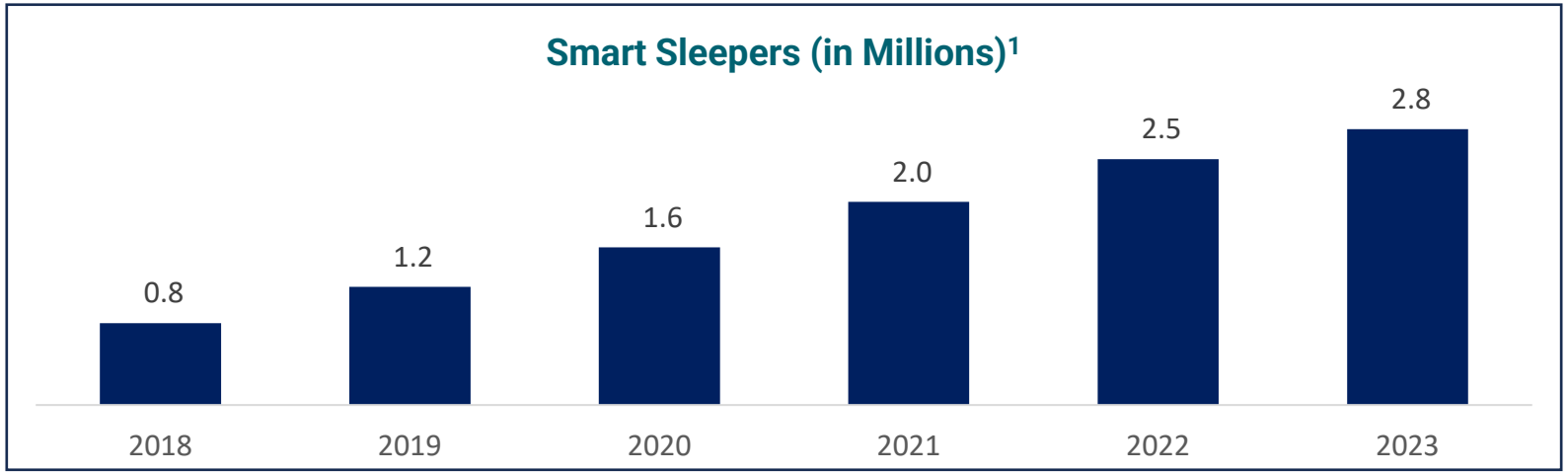
Our innovations are improving the lives of a growing number of sleepers, driving engagement and increasing customer value

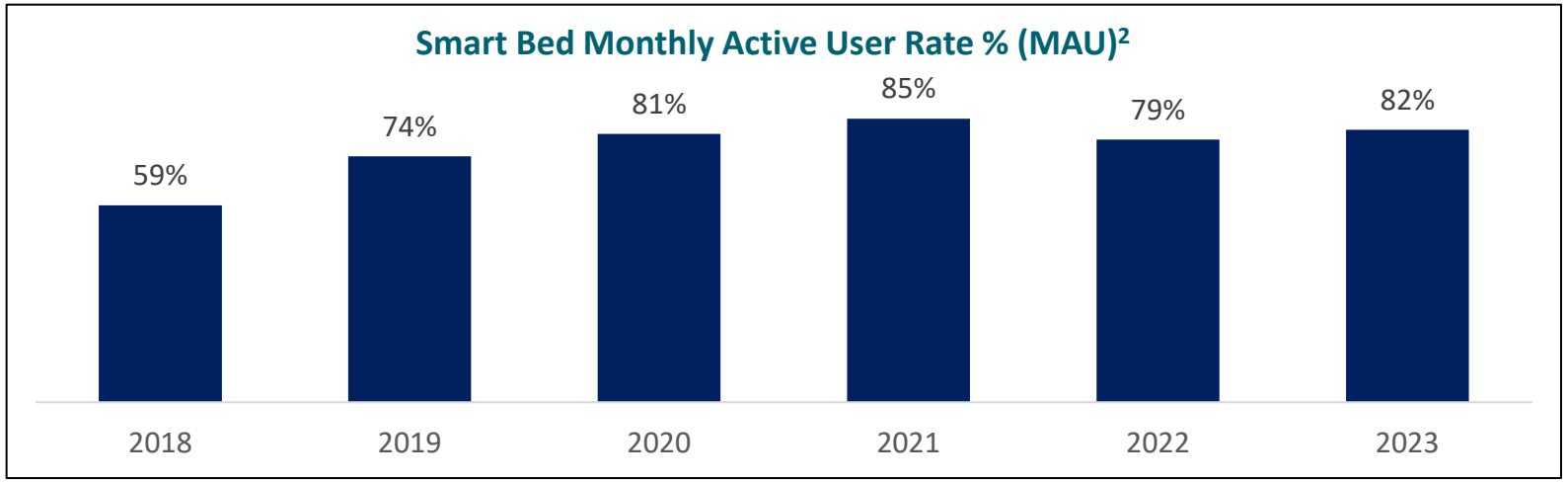
Our community of Smart Sleepers continues to grow, from 800K in 2018 to 2.8 million at the end of 2023

Our smart bed monthly active user rate (MAU) of 80%+ is best-in-class for digital health and wellness products

Smart Sleepers high engagement results in higher repeat and referral sales than our prior core customer

Smart Sleepers have a higher customer lifetime value and drive efficient customer acquisition

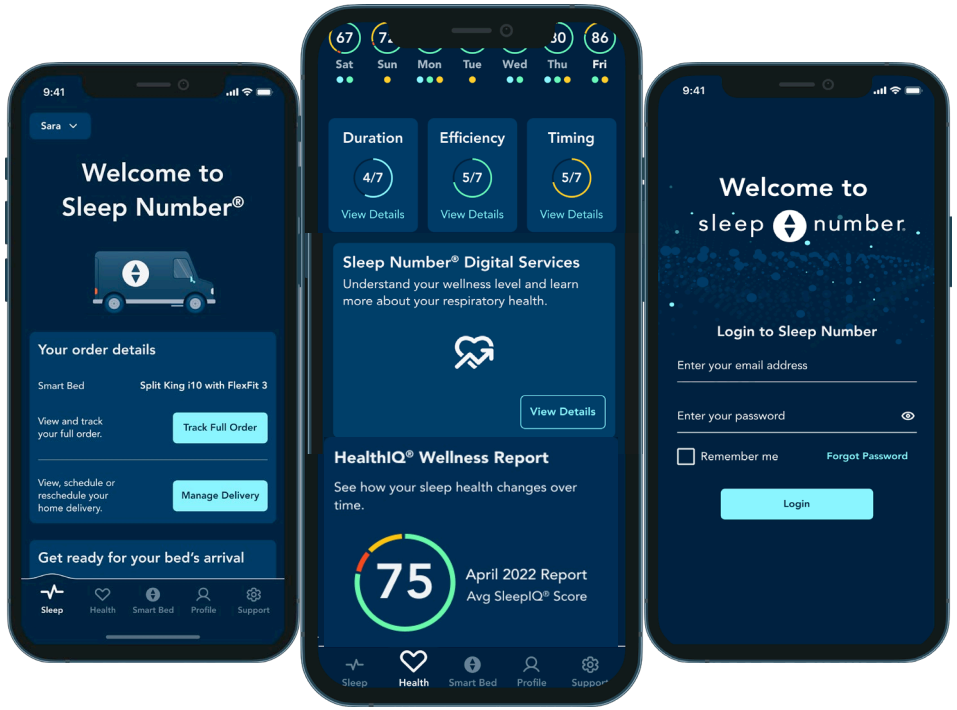




1. Source: Company data.
2. Source: Company data based on percentage of smart bed users that engage with Sleep Number's sleep wellness technology platform in multiple ways.

Smart Sleeper Engagement Accelerates Future Opportunities

- Our **millions of Smart Sleepers are highly engaged;** they benefit from the combination of our physical smart bed with proprietary digital features and insights, which deliver proven quality sleep
- Engagement of our smart sleeper community will **accelerate the pace of adoption** of new digital services that we offer in the future
- Sleep Number's new app connects smart sleepers with a **holistic Sleep Number experience** and will support future digital health products and services



Proprietary ecosystem connects Smart Sleepers with all things Sleep Number including future digital health services

- Sleep health insights
- Smart bed features
- Delivery services
- Customer service
- Loyalty and rewards
- Digital services
- Partnerships

Our Technology Platform Supports Digital Health Products and Services

TODAY

SLEEP INNOVATION LEADER

Sleep Health Insights

Multidimensional sleep platform combines physical and digital technologies to provide individualized sleep through connected features and insights

TOMORROW

SLEEP HEALTH LEADER

Sleep Assessment

Facilitated Diagnosis and Treatment

Digital Services
Sleep-science based leadership addressing society's chronic barriers to quality sleep

FUTURE

CONNECTED SLEEP HEALTH LEADER

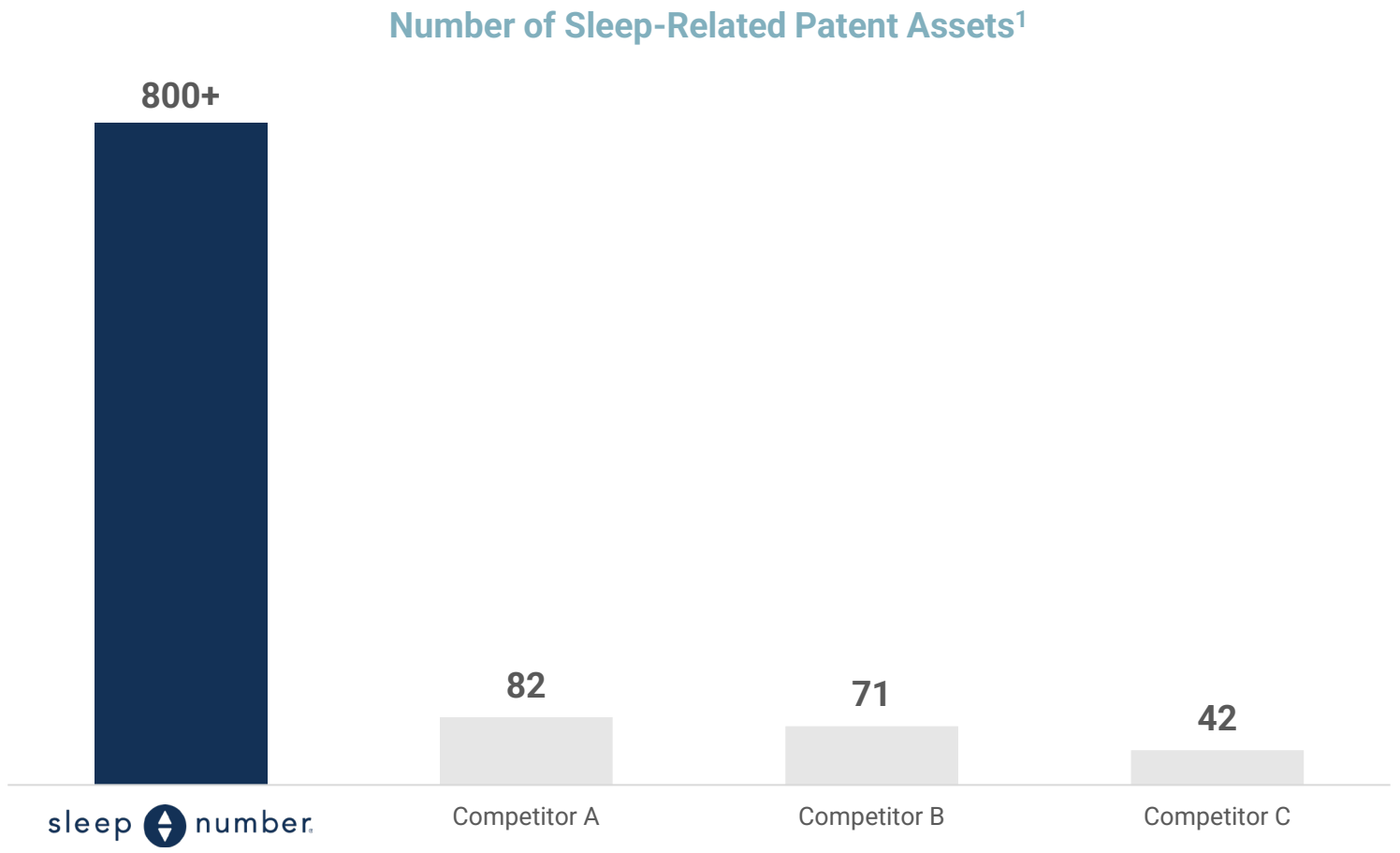
Connected Solutions

Seamless bi-directional healthcare connectivity enabling real-time evaluation and response to changes in health status

Our Robust IP Portfolio Supports Innovation Roadmap

Sleep Number has actively developed a robust intellectual property portfolio consistent with our strategic imperatives

The scale of our IP library positions us as an innovation leader, and facilitates our strategic expansion into attractive adjacencies



1. *Source: Patent database searches on three selected companies developing smart bed technologies. Competitor patent numbers based on search for issued patents and published applications related to sleep products; patent syntax and public information limitations apply to the search and results. Sleep Number figure includes all issued patents and applications (published and unpublished).*

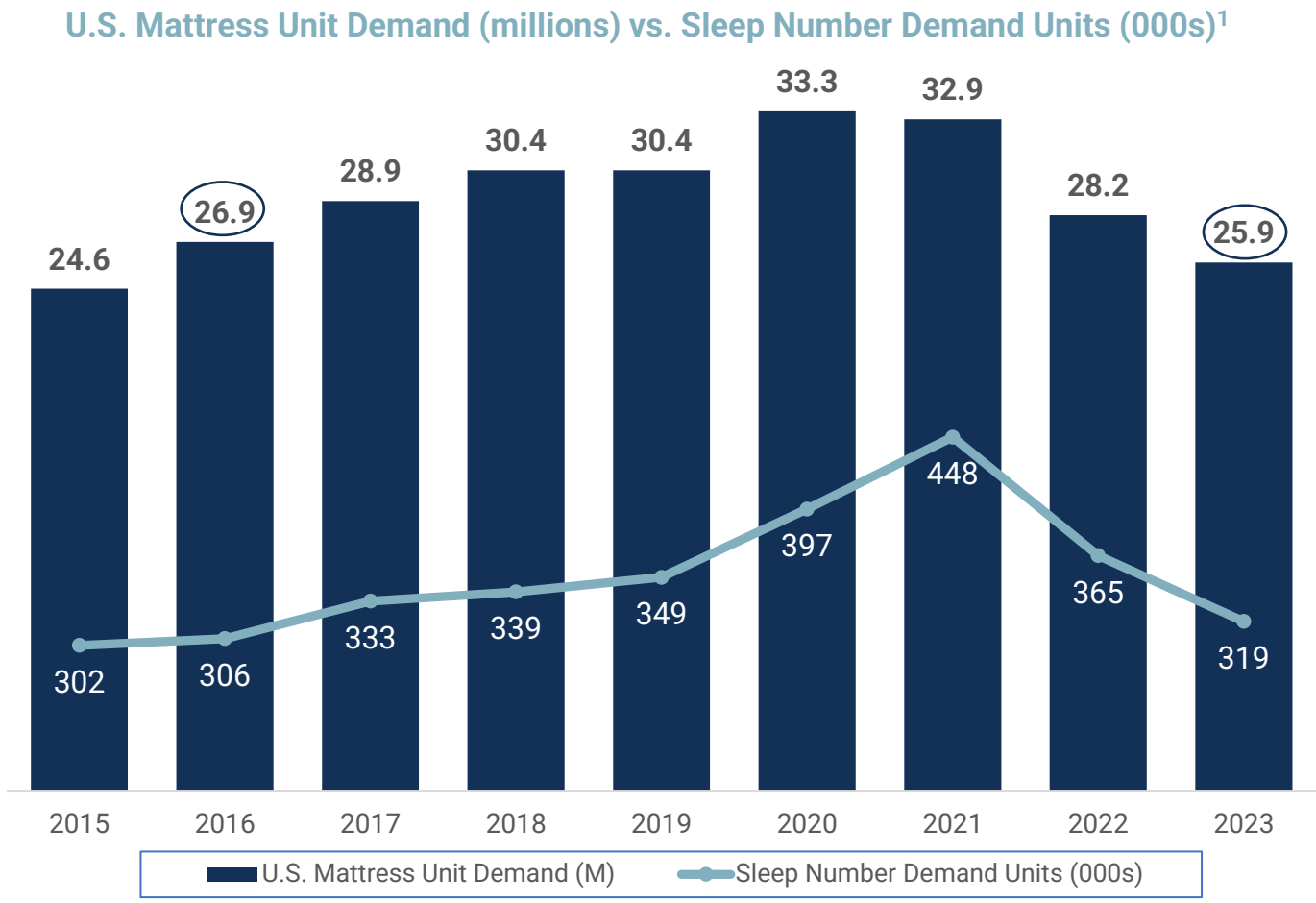
We Have Maintained Market Share in a Difficult Environment

Economic uncertainty, inflation and other factors have led to a historic unit decline for the mattress industry; over the last two years mattress unit volumes are down 22% and are below 2016-unit levels

Our consumer innovation strategy is a differentiator in a consolidating and commoditizing market and allows us to protect and take share

While 2023 U.S. mattress unit demand was down 4% versus 2016, Sleep Number's mattress unit demand is up 4% over that same period

Our fall-off in volume since 2019 (down 9%) has been much less than the broader mattress industry (down 15%)



1. *U.S. Mattress Unit Demand data from the International Sleep Products Association. 2023 industry data based on management's estimates*

We are Restructuring our Operating Model for Increased Financial Resilience

Current Strategic Imperatives	Actions
1 **Competing effectively to take market share**	▪ Sharpening our messaging to more clearly convey the affordability of our smart beds ▪ Optimizing our media strategy to lower cost per impression, increasing traffic and improving ROI ▪ Simplifying online experience to clearly communicate the benefits of our smart bed before other solutions ▪ Refined promotional strategy and in-store selling process to meet the customer where she is
2 **Restoring margins**	▪ Improving gross margins through value engineering and material cost reduction initiatives ▪ Targeting $40-45 million of operating expense reductions in 2024 with $130 million of operating expense reductions over a two-year period (2023/2024); operating expenses down $44 million (before restructuring costs) for the first six months of 2024 ▪ Reduced workforce to approximately 4,100 team members at end of 2023, 25% less than 2021 ▪ Optimizing our store portfolio and expect to end 2024 with 25 to 30 fewer stores than 2023
3 **Increasing cash flow to pay down debt**	▪ Expecting to generate $50-70 million of free cash flow in 2024 to reduce outstanding credit facility balance ▪ Reduced operating expenses and capital expenditures ▪ Amended our bank agreement and related financial covenants to provide increased flexibility through 2024 ▪ Continuing to meet liquidity needs through operating cash flow and existing credit facilities

We Have Driven Meaningful Cost Reductions

- We have initiated comprehensive cost reduction actions across the organization, which drove an $85 million reduction in operating expenses for 2023 (before the impact of restructuring charges) and an additional $44 million year-over-year reduction for the first half of 2024
- We retained a leading consulting firm to help expedite our transformation and support sustainability of actions
- We reduced cost to serve through service simplification programs, adjusting hours, outsourcing and increasing customer support assets
- We reduced our workforce across all areas of our business, including corporate and R&D
- These actions will lead to a more durable operating model that generates positive free cash flow in a range of macroeconomic environments
- Our leaner, more efficient business structure retains the flexibility to capitalize on future growth opportunities

Year-over-Year Change in Operating Expenses ($ millions)[1]



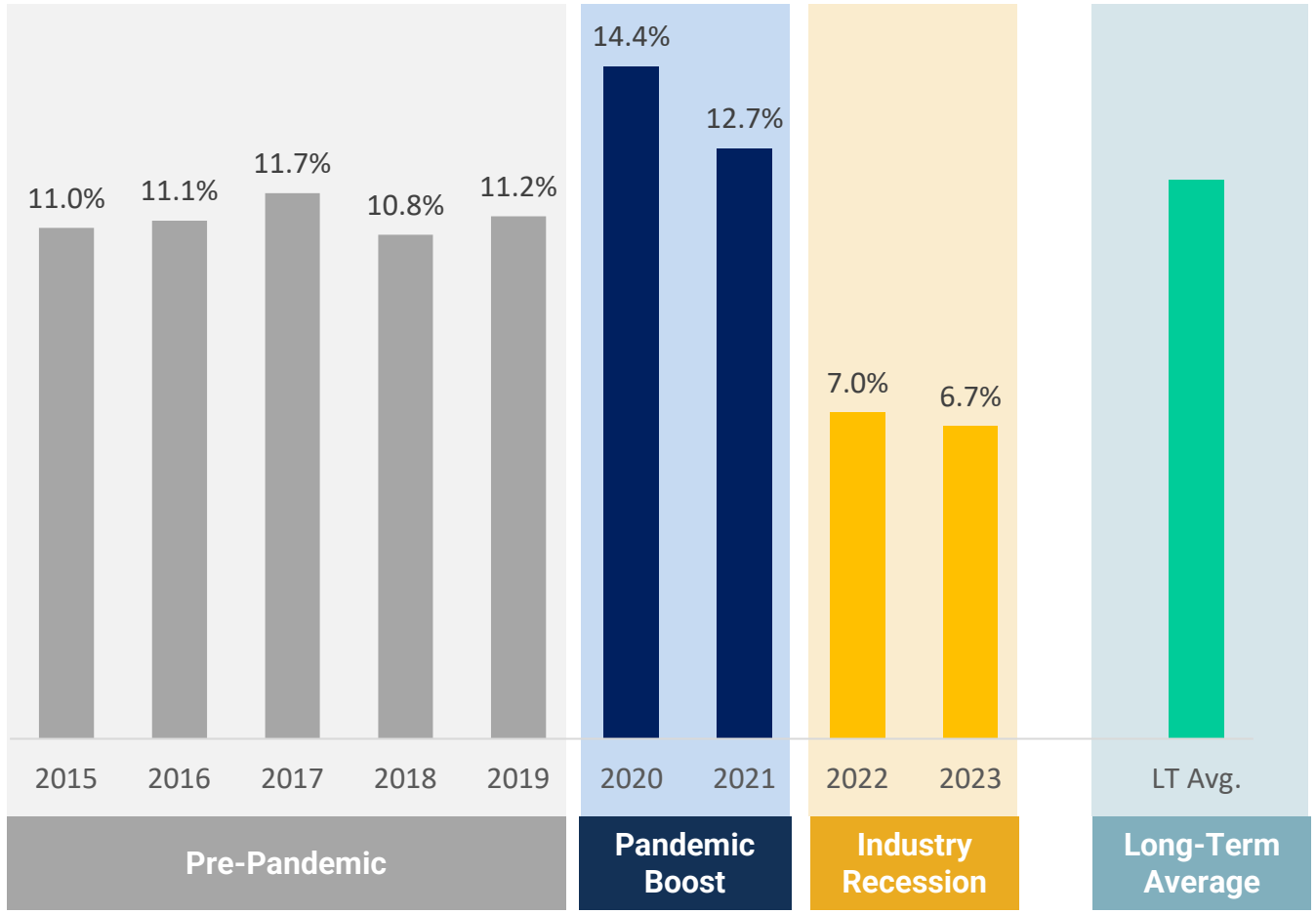
Sleep Number Team Members[1]



1. *Source: Company filings; Q4 2023 operating expenses exclude $15.7 million of restructuring charges*

Building More Durable Model to Better Perform Through Industry Cycles

Adjusted EBITDA Margin[1]



- In response to our industry's ongoing recession, we have restructured our operating model to better perform in a wide range of economic scenarios
- We expect improved profitability in 2024, even if demand is flat or slightly down, based on a significant reduction in operating expenses
- Our industry is cyclical, and our margins will fluctuate over time based on the demand environment
- Based on market share growth and leveraging our more durable business model, we expect a double-digit long-term average Adjusted EBITDA margin
- In the current recessionary environment, we are transforming our operating model for financial resilience, and free cash flow generation to pay down debt

1. *Source: Company filings. See Appendix for reconciliations.*

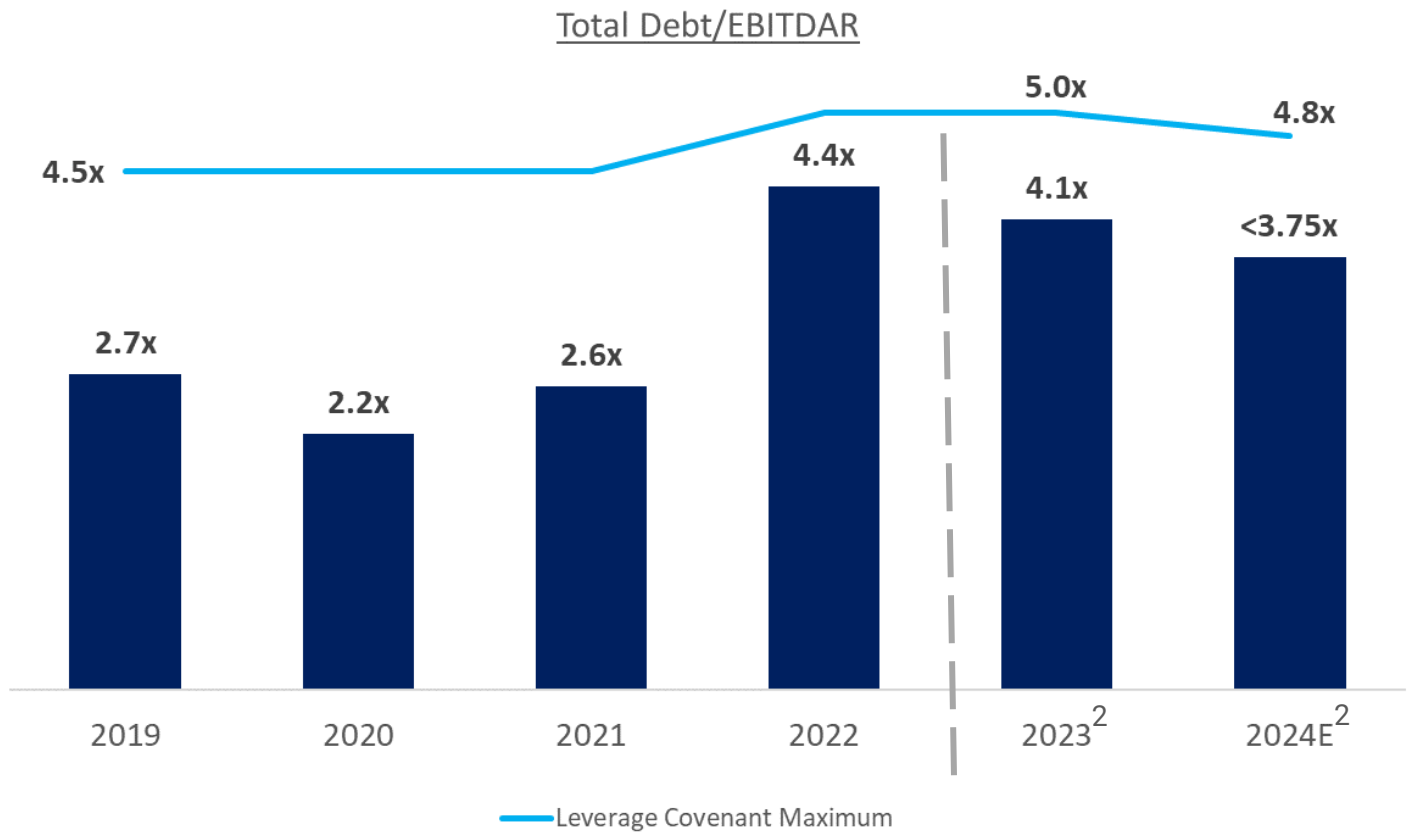
We are Taking Actions to Improve Liquidity and Reduce Leverage

We expect to generate $50-70 million of free cash flow in 2024 to pay down debt

We amended our bank agreement in the fourth quarter of 2023 to provide appropriate operating flexibility in the current mattress industry recessionary environment

Our leverage at the end of 2023 was well below the revised covenant of 5.0x EBITDAR

Our 2024 outlook provides appropriate clearance against the revised bank covenants



1. Source: Company filings. See Appendix for reconciliations.
2. Reflects revised leverage covenant definition per the amended bank agreement executed in the fourth quarter of 2023

We Are Positioned to Better Perform in a Range of Environments

Strong Foundation and Optionality Across Different Environments

Weaker Demand

- ✓ Reduce operating expenses
- ✓ Moderate Cap-Ex, as appropriate
- ✓ Preserve liquidity and protect balance sheet
- ✓ Optimize store footprint
- ✓ Prioritize supply chain and manufacturing efficiency to protect gross margins

Stronger Demand

- ✓ Capitalize on efficient operating model and realize economies of scale
- ✓ Invest in strategic expansion into attractive markets
- ✓ Expand marketing to support customer acquisition
- ✓ Advance innovation to drive customer engagement and growth

Ongoing Actions to Strengthen the Business Today

Evolving and recalibrating our marketing approach to drive new customer growth and activate smart sleepers for referral and repeat sales

Accelerating cost reduction actions across the business to strengthen our financial position and advance our transformation

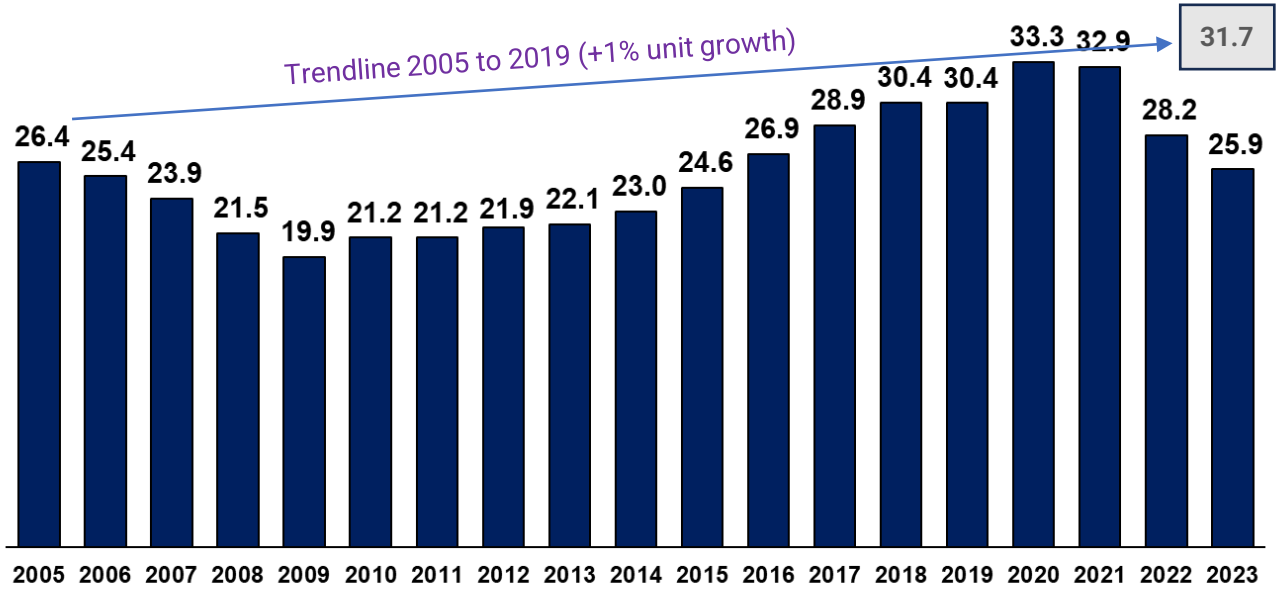
Reducing our outstanding credit line balance and financial leverage

Developing a more durable business model to navigate alternative macroeconomic environments going forward and greater financial resilience

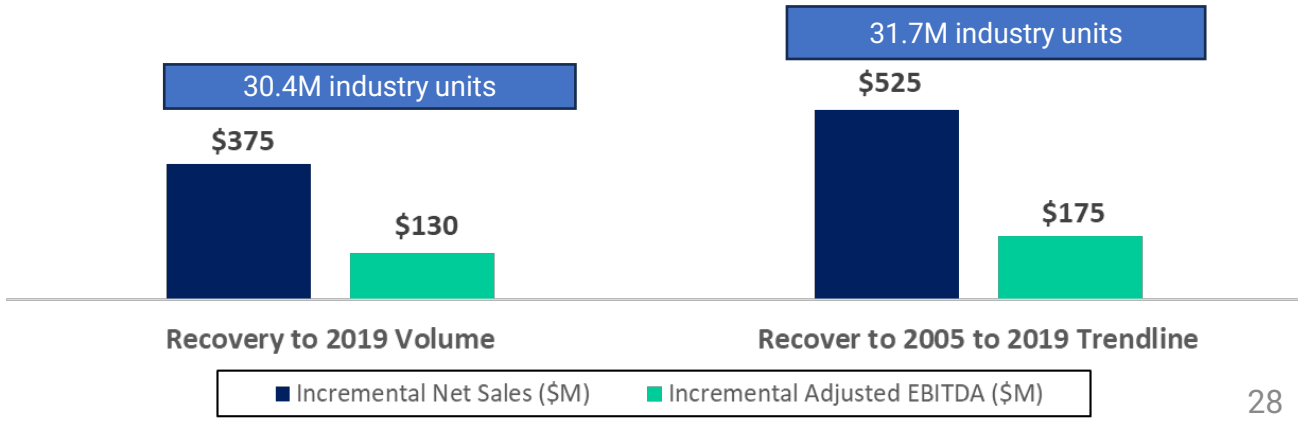
And Are Poised for Growth When Demand Recovers

- The mattress industry experienced a historic contraction in unit volume over the past two years
- Industry unit volumes are back below 2016-unit levels and 6 to 7 million units below the expected consumption for the industry (31.7M units using 1% CAGR from 2005 to 2019)
- Sleep Number is well-positioned for growth off the base of a stronger, more durable operating model as the mattress industry recovers
- A recovery in industry unit volume to pre-pandemic levels (2019) or the longer-term trendline for the industry (2005 to 2019) could result in a significant uplift to net sales and EBITDA, assuming we maintain our 1.25% share of industry mattress units

U.S. Mattress Industry Unit Consumption (millions)[1]



Illustrative Opportunity from Industry Volume Recovery[2]



1. *U.S. Mattress Unit Demand data from the International Sleep Products Association. 2023 industry data based on management's estimates.*
2. *Incremental net sales opportunity assumes Sleep Number retains approximately 1.25% share of industry unit volume. Incremental Adjusted EBITDA opportunity assumes EBITDA margins ranging from 12% to 13% inclusive of the incremental net sales in each scenario*

The Long-Term Opportunity Remains Intact

Our more durable operating model has enabled us to navigate a prolonged industry recession, while positioning us for even greater profitability as the industry recovers

	SNBR Illustrative Performance in Alternative Mattress Industry Cycles		
	2024 Outlook (Weak Market)	2015 to 2019 Average (Moderate Market)	Industry Returns to Long-Term Trendline[1]
Annual Net Sales	Mid-single-digit decline	Mid to high-single-digit growth	$2.3B
Gross Margin	59%+ (+100 bps)	~61% to 62%	Low 60's
Adjusted EBITDA	$125M to $145M	~$160M	~$300M
Adjusted EBITDA Margin	7% to 8%	~11% to 12%	~13%
Free Cash Flow	$50M to $70M	~$90M	~$200M+
Capital Expenditures	~$30M	~$60M	$60M to $80M

1. *Represents illustrative business performance if Sleep Number retains approximately 1.25% share of industry unit volume and industry mattress units recover to long-term trend line from 2005 to 2019 (31.7M implied industry units; see prior page)*

SECTION FOUR

Appendix: Non-GAAP Reconciliations

sleep number

Reconciliation of Adjusted EBITDA

	Fiscal Year									
($ in millions)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Net Income	**$ 68.0**	**$ 50.5**	**$ 51.4**	**$ 65.1**	**$ 69.5**	**$ 81.8**	**$ 139.2**	**$ 153.7**	**$ 36.6**	**$ (15.3)**
Adjustments:										
(+ / -) Income Tax Expense (Benefit)	34.1	24.9	24.5	26.0	17.0	18.7	36.8	33.5	12.3	(4.5)
(+) Interest Expense	0.1	0.2	0.8	1.0	5.9	11.6	9.0	6.2	19.0	42.7
(+) Depreciation and Amortization	38.8	46.9	56.9	61.1	61.6	61.4	60.8	59.8	66.6	72.5
(+) Stock-based Compensation	6.8	10.3	12.0	15.8	11.4	16.7	21.8	23.2	13.2	14.9
(+) Restructuring Costs	-	-	-	-	-	-	-	-	-	15.7
(+) Asset Impairments	0.5	0.3	0.1	0.2	0.1	0.2	0.3	0.2	0.3	0.7
Adjusted EBITDA	**$ 48.2**	**$ 133.1**	**$ 145.7**	**$ 169.1**	**$ 165.6**	**$ 190.4**	**$ 267.9**	**$ 276.7**	**$ 148.0**	**$ 126.7**
Revenue	$ 157	$ 1,214	$ 1,311	$ 1,444	$ 1,532	$ 1,698	$ 1,857	$ 2,185	$ 2,114	$ 1,887
Adjusted EBITDA Margin	***12.8%***	***11.0%***	***11.1%***	***11.7%***	***10.8%***	***11.2%***	***14.4%***	***12.7%***	***7.0%***	***6.7%***

Columns may not foot due to rounding

Note: Our Adjusted EBITDA calculation is considered a non-GAAP financial measure and is 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

Reconciliation of Free Cash Flow

	Fiscal Year								
($ in thousands)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Net Cash Provided by (Used in) Operating Activities	$107.9	$151.6	$172.6	$131.5	$189.2	$279.7	$300.0	$36.1	$(9.0)
Adjustments:									
(-) Purchases of Property and Equipment	(85.6)	(57.9)	(59.8)	(45.5)	(59.2)	(37.1)	(66.9)	(69.5)	(57.1)
Free Cash Flow	**$22.4**	**$93.8**	**$112.8**	**$86.0**	**$129.9**	**$242.6**	**$233.1**	**$(33.3)**	**$(66.1)**

Columns may not foot due to rounding

Note - Free Cash Flow data is considered non-GAAP financial measures and is 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.

Calculation of Net Leverage Ratio Under Revolving Credit Facility

	Fiscal Year				
($ in millions)	**2019**	**2020**	**2021**	**2022**	**2023[1]**
Borrowings Under Revolving Credit Facility	$ 231.0	$ 244.2	$ 382.5	$ 459.6	$ 539.5
Outstanding Letters of Credit	3.5	4.0	4.0	5.9	7.1
Finance Lease Obligations	0.8	0.7	0.5	0.4	0.3
Consolidated Funded Indebtedness	**$ 235.3**	**$ 248.8**	**$ 387.0**	**$ 466.0**	**$ 547.0**
Adjustments:					
(+) Capitalized Operating Lease Obligations	527.0	548.7	610.1	663.9	-
(+) Operating Lease Liabilities	-	-	-		433.2
Total Debt Including Operating Lease Liabilities (a)	**$ 762.3**	**$ 797.6**	**$ 997.1**	**$ 1,129.9**	**$ 980.1**
Adjusted EBITDAR:					
Adjusted EBITDA	$ 190.4	$ 267.9	$ 276.7	$ 148.0	$ 126.7
Adjustments:					
(+) Consolidated Rent Expense	87.8	91.5	101.7	110.7	113.8
Consolidated EBITDAR (b)	**$ 278.2**	**$ 359.3**	**$ 378.4**	**$ 258.7**	**$ 240.5**
Net Leverage Ratio (a ÷ b)	**2.7x**	**2.2x**	**2.6x**	**4.4x**	**4.1x**

1. Reflects revised leverage covenant definition per the amended bank agreement executed in the fourth quarter of 2023

Sleep well, dream big.

For more information visit SleepNumber.com