



## Q1 Fiscal 2020 Earnings Commentary

As a result of the COVID-19 pandemic, all of our stores in North America, Europe, and certain countries in Asia Pacific were closed for a significant portion of the quarter. Subsequent to May 3, 2020, we began reopening our retail locations in these markets in line with the guidance from local authorities. As of June 10, 2020, 295 of our company-operated stores were open.

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

This earnings commentary should be read in conjunction with our quarterly report on Form 10-Q filed with the Securities and Exchange Commission ("SEC") on, or about, June 11, 2020 and our annual report on Form 10-K filed with the SEC on March 26, 2020. These reports are available at [www.sec.gov](http://www.sec.gov).

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

### Sales

- **Total net revenue** decreased 17% to \$652.0 million, with the decrease primarily due to the impact of COVID-19, including temporary closures of company-operated stores. There was a decrease in company-operated store net revenue as well as a decrease in net revenue from our other retail locations. This was partially offset by an increase in direct to consumer net revenue.
- **Company-operated store revenue** totaled \$260.0 million, or 39.9% of total revenue, compared to \$506.4 million, or 64.7% of total revenue, in Q1 2019.
- **E-commerce revenue** totaled \$352.0 million, or 54.0% of total revenue, compared to \$209.8 million, or 26.8% of total revenue, in Q1 2019.
- **Other revenue**, which includes outlets, temporary locations including seasonal stores, sales to wholesale accounts, license and supply arrangements, and warehouse sales, totaled \$40.0 million, or 6.1% of total net revenue, compared to \$66.0 million, or 8.4% of total net revenue, in Q1 2019.

### Store Count

- **New stores:** We closed four company-operated stores in the U.S. and two in Canada in Q1 2020. These closures included five ivivva-branded stores. We opened four company-operated stores in Asia.
- **Total company-operated stores:** At the end of Q1 2020, we had 489 total company-operated stores compared to 455 at the end of Q1 2019.

### Gross Profit

- **Gross profit** was \$334.4 million, or 51.3% of net revenue, compared to \$421.7 million, or 53.9% of net revenue, in Q1 2019. Gross margin decreased 260 basis points compared to Q1 2019.

The decrease in gross margin was primarily the result of:

- an increase in occupancy and depreciation costs as a percentage of revenue of 330 basis points, primarily due to lower net revenue;



- an increase in costs as a percentage of revenue predominantly related to our distribution centers of 100 basis points primarily due to lower net revenue; and
- an unfavorable impact of foreign exchange rates of 20 basis points.

This was partially offset by an increase in product margin of 180 basis points. The increase in product margin was primarily due to lower product costs, and a favorable mix of higher margin product, partially offset by higher markdowns.

### Selling, General and Administrative Expenses

- **SG&A expenses** were \$301.7 million, or 46.3% of net revenue, compared to \$292.9 million, or 37.4% of net revenue, in Q1 2019. The deleverage of 890 basis points in our SG&A rate was primarily the result of 930 basis points of deleverage on operating channel and corporate costs primarily due to lower net revenue from temporary store closures due to COVID-19, partially offset by 40 basis points of leverage in foreign exchange.

### Operating Income

- **Operating income** was \$32.8 million, or 5.0% of net revenue, compared to \$128.8 million, or 16.5% of net revenue, in Q1 2019.

### Income Tax Expense

- **Income tax expense** was \$5.3 million compared to \$34.6 million in Q1 2019 and the effective tax rate was 15.6% compared to 26.4% in Q1 2019. The decrease in the effective tax rate was primarily due to an increase in tax deductions related to stock-based compensation which, as a result of the lower pre-tax income for the quarter, represented a higher proportion of income before income tax expense and so reduced the overall effective tax rate.

### Net Income

- **Net income** was \$28.6 million, or \$0.22 per diluted share, compared to \$0.74 per diluted share in Q1 2019.

### Share Count

- Our diluted share count for the quarter was 130.8 million compared to 131.3 million in Q1 2019.
- During the first quarter of fiscal 2020, we repurchased 0.4 million shares at a cost of \$63.7 million.

### Capital Expenditures

- **Capital expenditures** were \$52.1 million in Q1 2020 compared to \$68.4 million in Q1 2019. The decrease was primarily the result of adjusting our investments in light of COVID-19. This included decreasing our corporate capital expenditures on information technology and business systems as well as decreasing our capital expenditures for renovations and relocations of our company-operated stores in Q1 2020 compared to Q1 2019.



### **Balance Sheet Highlights**

- Cash and cash equivalents were \$823.0 million at the end of Q1 2020 and the available capacity under our committed revolving credit facility was \$398.2 million.
- Inventory increased 41% to \$625.8 million at the end of Q1 2020 compared to Q1 2019.



## **Forward-Looking Statements and Non-GAAP Reconciliations**

### **Forward-Looking Statements:**

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



**Reconciliation of Non-GAAP Financial Measure**

*Unaudited*

**Constant dollar changes in direct to consumer net revenue**

The below changes in net revenue show the net change for the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019.

	<b>Direct to Consumer Net Revenue</b>
Change .....	<u>68%</u>
Adjustments due to foreign exchange rate changes .....	<u>2</u>
Change in constant dollars .....	<u><u>70%</u></u>