



Q3 Fiscal 2021 Earnings Commentary

While most of our retail locations were open throughout the first three quarters of fiscal 2021, certain locations were temporarily closed based on government and health authority guidance. We continue to operate with precautionary measures in place, as appropriate.

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

This earnings commentary should be read in conjunction with the Company's quarterly report on Form 10-Q filed with the Securities and Exchange Commission ("SEC") on, or about, December 9, 2021 and the Company's annual report on Form 10-K filed with the SEC on March 30, 2021. These reports are available at www.sec.gov.

The below narrative compares the third quarter of fiscal 2021 to the third quarter of fiscal 2020, unless otherwise noted.

Sales

- **Total net revenue** increased 30% to \$1.5 billion, primarily due to increased company-operated store net revenue, including from increased comparable store sales and new company-operated stores. Direct to consumer net revenue and other net revenue also increased. Net revenue increased 28% in North America, and increased 40% internationally. Total comparable sales increased 27%, or increased 26% on a constant dollar basis. Net revenue increased by a two-year compound annual growth rate ("CAGR") of 26%.
- **Company-operated store revenue** totaled \$707.2 million, or 48.8% of total revenue, compared to \$511.8 million, or 45.8% of total revenue, in Q3 2020. Comparable store sales increased 32%, or increased 31% on a constant dollar basis, primarily due to increased store traffic. Company-operated store revenue increased 10% on a two-year CAGR basis.
- **E-commerce revenue** totaled \$586.5 million, or 40.4% of total revenue, compared to \$478.3 million, or 42.8% of total revenue, in Q3 2020. E-commerce net revenue increased 23%, or increased 21% on a constant dollar basis, primarily due to increased traffic and dollar value per transaction, partially offset by a decrease in conversion rates. E-commerce revenue increased 54% on a two-year CAGR basis.
- **Other revenue**, which includes net revenue from outlets, temporary locations, sales to wholesale accounts, license and supply arrangements, and the sales of in-home fitness equipment and associated content subscriptions, totaled \$156.7 million, or 10.8% of total net revenue, compared to \$127.4 million, or 11.4% of total net revenue, in Q3 2020. Other revenue increased 32% on a two-year CAGR basis.

Store Count

- **New stores:** We opened 12 net new company-operated stores in Asia Pacific, four in North America, and two in Europe in Q3 2021.
- **Total company-operated stores:** At the end of Q3 2021, we had 552 total company-operated stores compared to 515 at the end of Q3 2020.

Gross Profit

- **Gross profit** was \$829.4 million, or 57.2% of net revenue, compared to \$627.4 million, or 56.1% of net revenue, in Q3 2020. Gross margin increased 110 basis points compared to Q3 2020.



The increase in gross margin was primarily the result of:

- a decrease in occupancy and depreciation costs as a percentage of net revenue of 60 basis points, driven primarily by the increase in net revenue;
 - a favorable impact of foreign currency exchange rates of 30 basis points; and
 - an increase in product margin of 20 basis points, primarily due to lower markdowns, partially offset by higher air freight costs as a result of COVID impacts on supply chain.
- **Gross margin** increased 210 basis points compared to Q3 2019 primarily as a result of:
 - leverage on occupancy, depreciation, and product departments of 230 basis points, primarily due to the increase in net revenue; and
 - a favorable impact of foreign currency exchange rates of 30 basis points.

The increase in gross margin was partially offset by a decrease in product margin of 50 basis points, primarily due to higher air freight costs as a result of COVID-19 impacts on logistics availability and costs, partially offset by lower markdowns.

Selling, General and Administrative Expenses

- **SG&A expenses** were \$545.1 million, or 37.6% of net revenue, compared to \$411.7 million, or 36.8% of net revenue, in Q3 2020. The deleverage of 80 basis points was driven by 270 basis points of deleverage from increased investments in people and brand building in support of growth initiatives and 50 basis points from the unfavorable impact of foreign currency exchange rates. This was partially offset by 240 basis points of leverage from our operating channel costs primarily driven by e-commerce.
- **SG&A expenses** as a percentage of net revenue increased 170 basis points compared to Q3 2019 primarily due to the consolidation of MIRROR's results in 2021 but not in 2019, modest deleverage on depreciation and amortization, and foreign exchange.

Amortization of Intangible Assets and Acquisition-Related Expenses

- **Amortization of intangible assets** was \$2.2 million in both Q3 2021 and Q3 2020, primarily related to the amortization of intangible assets recognized upon the acquisition of MIRROR.
- **Acquisition-related expenses** of \$24.1 million were recognized in Q3 2021, compared to \$8.5 million in Q3 2020. The expenses relate to the acquisition of MIRROR, including accelerated expenses related to the transition of the former MIRROR Chief Executive Officer to an advisory role, and its related tax effects.

Operating Income

- **Operating income** was \$257.9 million, or 17.8% of net revenue, compared to \$204.9 million, or 18.3% of net revenue, in Q3 2020. Adjusted operating income, which excludes acquisition-related expenses, was \$282.1 million, or 19.4%, compared to \$213.5 million or 19.1% in Q3 2020.
- **Operating margin** decreased 140 basis points compared to Q3 2019. Adjusted operating margin increased 20 basis points.

Income Tax Expense

- **Income tax expense** was \$70.2 million compared to \$60.7 million in Q3 2020 and the effective tax rate was 27.2% compared to 29.7% in Q3 2020. The adjusted effective tax rate was 25.1% compared to 28.9% in Q3 2020.



Net Income

- **Net income** was \$187.8 million, or \$1.44 per diluted share, compared to \$1.10 per diluted share in Q3 2020, and \$0.96 in Q3 2019. Adjusted diluted earnings per share were \$1.62, compared to \$1.16 in Q3 2020.

Share Count

- Our diluted share count for the quarter was 130.2 million compared to 130.9 million in Q3 2020.
- In Q3 2021, we repurchased 0.6 million shares at an average price of \$405.87 per share for a total cost of \$236.4 million.

Capital Expenditures

- **Capital expenditures** were \$122.5 million in Q3 2021 compared to \$66.1 million in Q3 2020. The Q3 2021 capital expenditures were primarily related capital for new store locations, relocations, and renovations, as well as supply chain investment and information technology to support our business growth.

Balance Sheet Highlights

- Cash and cash equivalents were \$1.0 billion at the end of Q3 2021 and the available capacity under our committed revolving credit facility was \$396.9 million.
- Inventories increased 22% to \$943.9 million at the end of Q3 2021 compared to Q3 2020.



Forward-Looking Statements and Non-GAAP Reconciliations

Forward-Looking Statements:

This supplemental disclosure includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "outlook," "believes," "intends," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology. These forward-looking statements also include our guidance and outlook statements. These statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include, without limitation: our ability to maintain the value and reputation of our brand; the current COVID-19 coronavirus pandemic and related government, private sector, and individual consumer responsive actions; our highly competitive market and increasing competition; increasing costs and decreasing selling prices; our ability to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products; the acceptability of our products to guests; our ability to accurately forecast guest demand for our products; changes in consumer shopping preferences and shifts in distribution channels; our ability to expand in light of our limited operating experience and limited brand recognition in new international markets and new product categories; our ability to realize the potential benefits and synergies sought with the acquisition of MIRROR; our ability to manage our growth and the increased complexity of our business effectively; our ability to successfully open new store locations in a timely manner; seasonality; disruptions of our supply chain; 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; our ability to deliver our products to the market and to meet guest expectations if we have problems with our distribution system; increasing labor costs and other factors associated with the production of our products in South Asia and South East Asia; our ability to safeguard against security breaches with respect to our information technology systems; our compliance with privacy and data protection laws; any material disruption of our information systems; our ability to have technology-based systems function effectively and grow our e-commerce business globally; climate change, and related legislative and regulatory responses; increased scrutiny regarding our environmental, social, and governance, or sustainability responsibilities; an economic recession, depression, or downturn or economic uncertainty in our key markets; global economic and political conditions and global events such as health pandemics; our ability to source and sell our merchandise profitably or at all if new trade restrictions are imposed or existing trade restrictions become more burdensome; changes in tax laws or unanticipated tax liabilities; our ability to comply with trade and other regulations; fluctuations in foreign currency exchange rates; imitation by our competitors; our ability to protect our intellectual property rights; conflicting trademarks and the prevention of sale of certain products; our exposure to various types of litigation; and other risks and uncertainties set out in filings made from time to time with the United States Securities and Exchange Commission and available at www.sec.gov, 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 Measures

Unaudited; In thousands, except per share amounts

Constant dollar changes

The below changes show the change for Q3 2021 compared to Q3 2020.

	Net Revenue	Total Comparable Sales ^{1,2}	Comparable Store Sales ²	Direct to Consumer Net Revenue
Change	30 %	27 %	32 %	23 %
Adjustments due to foreign currency exchange rate changes	(2)%	(1)	(1)	(2)
Change in constant dollars	28 %	26 %	31 %	21 %

⁽¹⁾ Total comparable sales includes comparable store sales and direct to consumer net revenue.

⁽²⁾ Comparable store sales reflects net revenue from company-operated stores that have been open for at least 12 full fiscal months, or open for at least 12 full fiscal months after being significantly expanded. Comparable store sales exclude sales from stores which have been temporarily relocated for renovations or have been temporarily closed.

Adjusted financial measures

The following tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to the acquisition of MIRROR, including accelerated expenses related to the transition of the former MIRROR Chief Executive Officer to an advisory role, and its related tax effects. Please refer to Note 3. Acquisition included in Item 1 of Part I of our Report on Form 10-Q to be filed with the SEC on or about December 9, 2021 for further information on these adjustments.

Q3 2021						
	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
GAAP results	\$ 257,947	17.8 %	\$ 70,174	27.2 %	\$ 187,788	\$ 1.44
Transaction and integration costs	328	—			328	—
Acquisition-related compensation	23,799	1.6			23,799	0.18
Tax effect of the above			611	(2.1)	(611)	—
Adjusted results (non-GAAP)	\$ 282,074	19.4 %	\$ 70,785	25.1 %	\$ 211,304	\$ 1.62

Q3 2020						
	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
GAAP results	\$ 204,920	18.3 %	\$ 60,697	29.7 %	\$ 143,643	\$ 1.10
Transaction and integration costs	1,017	0.1			1,017	0.01
Acquisition-related compensation	7,514	0.7			7,514	0.06
Tax effect of the above			896	(0.8)	(896)	(0.01)
Adjusted results (non-GAAP)	\$ 213,451	19.1 %	\$ 61,593	28.9 %	\$ 151,278	\$ 1.16