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Stitch Fix Announces Second Quarter Fiscal 2018 Financial Results

SAN FRANCISCO, Mar. 12, 2018 (GLOBE NEWSWIRE) -- Stitch Fix, Inc. (NASDAQ:SFIX), an online personal styling service, has released its financial results for its second quarter of fiscal year 2018 ended January 27, 2018 and posted a letter to its shareholders on its investor relations website.

"We're pleased to share strong results for our second quarter. We grew our active clients to 2.5 million, an increase of 588,000 and 31% year-over-year. We grew net revenue to \$295.9 million, representing 24% year-over-year growth," said Stitch Fix founder and CEO, Katrina Lake. "This quarter also marked the fourth consecutive quarter that we grew net revenue in the range of 25% year-over-year. In addition to strong momentum across our men's and women's categories, we're excited about the potential of Extras, a new capability that allows us to serve more of our client's wardrobe, while increasing incremental revenue."

Please visit the Stitch Fix investor relations website at https://investors.stitchfix.com to view the financial results included in the letter to shareholders. The Company intends to make future announcements of material financial and other information through its investor relations website. The Company will also, from time to time, disclose this information through press releases, filings with the Securities and Exchange Commission, conference calls or webcasts, as required by applicable law.

Conference Call and Webcast Information

Katrina Lake, Chief Executive Officer and Founder of Stitch Fix, Paul Yee, Chief Financial Officer of Stitch Fix, and Mike Smith, Chief Operating Officer of Stitch Fix, will host a conference call at 2:00 p.m. Pacific Time today to discuss the Company's financial results and outlook. A live webcast will be accessible on Stitch Fix's investor relations website at investors.stitchfix.com. Interested parties can also access the call by dialing (877) 857-6176 in the U.S. or (719) 457-2642 internationally, and entering conference code 8518439.

A telephonic replay will be available through Monday, March 19, 2018 at (888) 203-1112 or (719) 457- 0820, passcode 8518439. An archive of the webcast conference call will be available shortly after the call ends at https://investors.stitchfix.com.

About Stitch Fix, Inc.

Stitch Fix is reinventing the shopping experience by delivering one-to-one personalization to our clients, through the combination of data science and human judgment. Stitch Fix was founded in 2011 by CEO and Founder, Katrina Lake, and employs more than 5,800 employees nationwide. Since our founding in 2011, we've helped millions of men and women discover and buy what they love through personalized shipments of apparel, shoes and accessories, hand-selected by Stitch Fix stylists and delivered to our client's homes.

Stitch Fix, Inc. Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share amounts)

	January 27, 2018		July 29, 2017		
Assets		,		· ·	
Current assets:					
Cash	\$	266,374	\$	110,608	
Restricted cash				250	
Inventory, net		80,094		67,592	
Prepaid expenses and other current assets		11,653		19,312	
Total current assets		358,121		197,762	
Property and equipment, net		30,875		26,733	
Deferred tax assets		14,493		19,991	
Restricted cash, net of current portion		9,100		9,100	
Other long-term assets		3,813		3,619	
Total assets	\$	416,402	\$	257,205	
Liabilities, Convertible Preferred Stock and Stockholders' Equity	-		-		
Current liabilities:					
Accounts payable	\$	55,145	\$	44,238	
Accrued liabilities	_	51,077	_	46,363	
Preferred stock warrant liability		_		26,679	
Gift card liability		8,151		5,190	
Deferred revenue		10,433		7,150	
Other current liabilities		4,953		4,298	
Total current liabilities		129,759		133,918	
Deferred rent, net of current portion		10,752		11,781	
Other long-term liabilities		4,794		7,423	
Total liabilities		145,305	-	153,122	
Commitments and contingencies		- ,		,	
Convertible preferred stock, \$0.00002 par value – zero and 60,577,280 shares authorized as of January 27, 2018 and July 29, 2017, respectively; zero and 59,511,055 shares issued and outstanding as of January 27, 2018 and July 29, 2017, respectively; aggregate liquidation preference of \$42,389 as of July 29, 2017		_		42,222	
Stockholders' equity:					
Preferred stock, \$0.00002 par value – 20,000,000 and zero shares authorized as of January 27, 2018 and July 29, 2017, respectively; zero shares issued and outstanding as of January 27, 2018 and July 29, 2017		_		_	
Class A common stock, \$0.00002 par value – 2,000,000,000 and zero shares authorized as of January 27, 2018 and July 29, 2017, respectively; 9,175,557 and zero shares issued and outstanding as of January 27, 2018 and July 29, 2017, respectively		_		_	
Class B common stock, \$0.00002 par value – 100,000,000 shares authorized as of January 27, 2018 and July 29, 2017; 87,885,193 and 26,834,535 shares issued		2			
and outstanding as of January 27, 2018 and July 29, 2017, respectively (1)		210.100		27.002	
Additional paid-in capital		219,108		27,002	
Retained earnings		51,987		34,858	
Total stockholders' equity	_	271,097		61,861	
Total liabilities, convertible preferred stock and stockholders' equity	\$	416,402	\$	257,205	

⁽¹⁾ Shares authorized, issued and outstanding as of July 29, 2017 includes common stock prior to our initial public offering.

Stitch Fix, Inc. Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

(In thousands, except share and per share amounts)

	Fo	For the Three Months Ended			For the Six Months Ended			
	Ja	anuary 27, Ja 2018		January 28, 2017		nuary 27, 2018	Ja	nuary 28, 2017
Revenue, net	\$	295,906	\$	237,775	\$	591,469	\$	473,779
Cost of goods sold		168,523		131,053		335,071		256,979
Gross profit		127,383		106,722	,	256,398		216,800
Selling, general and administrative expenses		111,771		105,835		231,242		189,385
Operating income		15,612		887		25,156		27,415
Remeasurement of preferred stock warrant liability		(1,614)		1,146		(10,685)		2,649
Other income, net		(18)		(6)		(35)		(13)
Income (loss) before income taxes		17,244		(253)		35,876		24,779
Provision for (benefit from) income taxes		13,603		(486)		18,747		11,303
Net income and comprehensive income	\$	3,641	\$	233	\$	17,129	\$	13,476
Earnings per share attributable to common stockholders:								
Basic	\$	0.04	\$		\$	0.18	\$	0.14
Diluted	\$	0.02	\$		\$	0.06	\$	0.14
Weighted-average shares used to compute earnings per share					_			
attributable to common stockholders:								
Basic	82	2,439,351			54	4,377,466	2	4,546,556
Diluted	87	7,954,656		_	60	0,599,568	2	9,134,729

Stitch Fix, Inc. Condensed Consolidated Statements of Cash Flow (Unaudited)

(În thousands)

Cash Flows from Operating Activities \$ 13,129 \$ 13,476 Net income \$ 17,129 \$ 13,476 Adjustments to reconcile net income to net cash provided by operating activities 5.498 (847 Remeasurement of prefered stock warrant liability (10,685) 2,649 Inventory reserves 7,027 3,177 Compensation expense related to certain stock sales by current and former employees 5,135 1,362 Depreciation and amortization 4,888 3,385 Loss on disposal of property and equipment 131 (7 Change in operating assets and liabilities: 11 (19,529) (10,470 Prepaid expenses and other assets 5,078 (9,417 Accrued liabilities 4,848 14,914 Deferred revenue 3,283 1,322 Gift card liability 2,961 3,588 Net cash provided by operating activities 3,23 1,321 Burk Flows from Investing Activities 8,232 11,367 Proceeds from initial public offering, net of underwriting discounts paid 129,46 -9 Proceeds from in the e			For the Six Months Ended						
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Conversion of preferred stock upon initial public offering \$ 42,222 \$ — Reclassification of preferred stock warrant liability upon initial public offering \$ 15,994 \$ —	Deferred offering costs included in accounts payable and accrued liabilities	\$	134	\$	_				
Reclassification of preferred stock warrant liability upon initial public offering \$ 15,994 \$ —				_	_				
Deferred offering costs paid in prior year <u>\$ 1,879</u> <u>\$ —</u>		<u> </u>							
	Deferred offering costs paid in prior year	\$	1,879	\$					

Non-GAAP Financial Measures

We report our financial results in accordance with generally accepted accounting principles in the United States, or GAAP. However, management believes that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance. Management believes that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net income and earnings per share ("EPS") provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. Management also believes that adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, and that such supplemental measure facilitates comparisons between companies. We believe free cash flow is an important metric because it represents a measure of how much cash from operations we have available for discretionary and non-discretionary items after the deduction of capital expenditures. These non-GAAP financial measures may be different than similarly titled measures used by other companies. For instance, we do not exclude stock-based compensation expense from adjusted EBITDA or non-GAAP net income. Stock-based compensation is an important part of how we attract and retain our employees, and we consider it to be a real cost of running the business.

Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS diluted measures exclude compensation expense that we recognized related to certain stock sales by current and former employees;
- our non-GAAP net income and non-GAAP EPS diluted measures exclude the impact of the remeasurement of our net deferred tax assets following the adoption of the Tax Cuts and Jobs Act ("Tax Act");
- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS diluted measures exclude the remeasurement of the preferred stock warrant liability, which is a non-cash expense incurred in the periods prior to the completion of our initial public offering;
- adjusted EBITDA also excludes the recurring, non-cash expenses of depreciation and amortization of property and
 equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced
 in the future:
- adjusted EBITDA does not reflect our tax provision, which reduces cash available to us; and
- free cash flow does not represent the total residual cash flow available for discretionary purposes and does not reflect our future contractual commitments.

Adjusted EBITDA

We define adjusted EBITDA as net income excluding other (income), net, provision for income taxes, depreciation and amortization, the remeasurement of preferred stock warrant liability and, when present, compensation expense related to certain stock sales by current and former employees. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented (in thousands):

	for the Three Months Ended nuary 27, January 28, 2018 2017		For the Six January 27, 2018		 s Ended anuary 28, 2017	
Adjusted EBITDA reconciliation:		·		·		
Net income	\$ 3,641	\$	233	\$	17,129	\$ 13,476
Add (deduct):						
Other income, net	(18)		(6)		(35)	(13)
Provision for income taxes	13,603		(486)		18,747	11,303
Depreciation and amortization	2,618		1,924		4,888	3,385
Remeasurement of preferred stock warrant liability	(1,614)		1,146		(10,685)	2,649
Compensation expense related to certain stock sales by current						
and former employees	 		21,283		<u> </u>	 21,283
Adjusted EBITDA	\$ 18,230	\$	24,094	\$	30,044	\$ 52,083

Non-GAAP Net Income

We define non-GAAP net income as net income excluding the remeasurement of preferred stock warrant liability and, when present, compensation expense related to certain stock sales by current and former employees, and their related tax impacts, if any, as well as the remeasurement of our net deferred tax assets in relation to the adoption of the Tax Act. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to non-GAAP net income for each of the periods presented (in thousands):

	For the Three Months Ended			For the Six M			Ionths Ended		
	Ja	nuary 27, 2018	January 28, 2017		J	January 27, 2018		anuary 28, 2017	
Non-GAAP net income (loss) reconciliation:									
Net income	\$	3,641	\$	233	\$	17,129	\$	13,476	
Add (deduct):									
Remeasurement of preferred stock warrant liability		(1,614)		1,146		(10,685)		2,649	
Compensation expense related to certain stock sales by current									
and former employees		_		21,283		_		21,283	
Tax impact of non-GAAP adjustments		_		(8,890)		_		(8,890)	
Impact of Tax Act (1)		4,730		-		4,730		_	
Non-GAAP net income	\$	6,757	\$	13,772	\$	11,174	\$	28,518	

¹⁾ As discussed in Note 8 to the condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the fiscal quarter ended January 27, 2018, to be filed with the Securities and Exchange Commission on March 13, 2018 ("Form 10-Q"), the U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a provisional net charge of \$4.7 million for the three and six months ended January 27, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP net income related to the Tax Act only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

Non-GAAP Earnings Per Share - Diluted

We define non-GAAP EPS as diluted EPS excluding the per share impact of the remeasurement of preferred stock warrant liability and, when present, compensation expense related to certain stock sales by current and former employees, and their related tax impacts, if any, as well as the per share impact of the remeasurement of our net deferred tax assets in relation to the adoption of the Tax Act. The following table presents a reconciliation of EPS attributable to common stockholders - diluted, the most comparable GAAP financial measure, to non-GAAP EPS attributable to common stockholders - diluted for each of the periods presented (in thousands):

	For the Three Inuary 27, 2018	Months Ended January 28, 2017		For the Six I January 27, 2018		• /	
Non-GAAP earnings per share - diluted reconciliation:				·		٠	
Earnings per share attributable to common stockholders - diluted	\$ 0.02	\$	_	\$	0.06	\$	0.14
Per share impact of the remeasurement of preferred stock warrant liability ⁽¹⁾	\$ _	\$	0.04	\$	_	\$	0.08
Per share impact of compensation expense related to certain stock sales by current and former employees	\$ _	\$	0.66	\$	_	\$	0.61
Per share impact from tax effect of non-GAAP adjustments	\$ _	\$	(0.28)	\$		\$	(0.26)
Per share impact from Tax Act ⁽²⁾	\$ 0.05	\$	_	\$	0.08	\$	_
Non-GAAP earnings per share attributable to common stockholders - diluted	\$ 0.07	\$	0.42	\$	0.14	\$	0.57

¹⁾ For the three and six months ended January 27, 2018, the preferred stock warrant liability was dilutive and included in earnings per share attributable to common stockholders - diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS - diluted.

²⁾ As discussed in Note 8 to the condensed consolidated financial statements included in our Form 10-Q, the U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a provisional net charge of \$4.7 million for the three and six months ended January 27, 2018, due to the remeasurement of our net deferred tax assets for the reduction in tax rate from 35% to 21%. The adjustment to non-GAAP earnings per share attributable to common stockholders - diluted related to the Tax Act only includes this transitional impact. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings.

Free Cash Flow

We define free cash flow as cash flow from operations reduced by purchases of property and equipment which is included in cash flow from investing activities. The following table presents a reconciliation of cash flows from operating activities, the most comparable GAAP financial measure, to free cash flow for each of the periods presented (in thousands):

		For the Six Months Ended						
	Januar	ry 27, 2018	Janu	ary 28, 2017				
Free cash flow reconciliation:								
Cash flows from operating activities	\$	33,735	\$	49,532				
Deduct:								
Purchase of property and equipment		(8,232)		(11,367)				
Free cash flow	\$	25,503	\$	38,165				
Cash flows from investing activities	\$	(8,232)	\$	(11,367)				
Cash flows from financing activities	\$	130,013	\$	(2,635)				