STITCH FIX™

Stitch Fix Announces Second Quarter Fiscal Year 2019 Financial Results

SAN FRANCISCO, March 11, 2019 (GLOBE NEWSWIRE) -- Stitch Fix, Inc. (NASDAQ:SFIX), the leading online personal styling service, has released its financial results for the second quarter of fiscal year 2019 ended January 26, 2019, and posted a letter to its shareholders on its investor relations website.

Second quarter highlights

- Active clients of 3.0 million, an increase of 18% year over year
- Net revenue of $370.3 million, an increase of 25% year over year
- Net income of $12.0 million and adjusted EBITDA of $19.2 million
- Diluted earnings per share of $0.12

"Q2 was another strong quarter for us, delivering net revenue of $370.3 million, exceeding our guidance and representing 25% year-over-year growth," said Stitch Fix Founder and CEO Katrina Lake. *"Since becoming a public company, we have posted six consecutive quarters of over 20% growth, which demonstrates our ability to drive consistent business performance. I'm proud that we're now serving 3 million people across the U.S. and remain focused on delighting our existing clients and expanding our reach. We launched our first integrated brand campaign in February to increase awareness and consideration with new and existing clients and we're excited to connect even more people to the power of personalized styling."*

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 continue 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, Founder and Chief Executive Officer of Stitch Fix, Paul Yee, Chief Financial Officer of Stitch Fix, and Mike Smith, President and 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 (888) 254-3590 in the U.S. or (323) 994-2093 internationally, and entering conference code 1231328.

A telephonic replay will be available through Monday, March 18, 2019, at (888) 203-1112 or (719) 457-0820, passcode 1231328. 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 Founder and CEO Katrina Lake. Since our founding, we've helped millions of men, women, and kids discover and buy what they love through personalized shipments of apparel, shoes, and accessories, hand-selected by Stitch Fix stylists and delivered to our clients' homes.

Forward-Looking Statements

This press release and related conference call and webcast contain forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact could be deemed forward looking, including but not limited to statements regarding our future financial performance, including our guidance on financial results for the third quarter and full year of fiscal 2019; market trends, growth, and opportunity; profitability; competition; the timing and success of expansions to our offering and penetration of our target markets, such as the launch of our offering in the United Kingdom; our ability to leverage our engineering and data science capabilities to drive efficiencies in our business and enhance our ability to personalize; our plans related to client acquisition, including any impact on our costs and margins and our ability to determine optimal marketing and advertising methods; and our ability to successfully acquire, engage, and retain clients. These statements involve substantial risks and uncertainties, including risks and uncertainties related to our ability to generate sufficient net revenue to offset our costs; the growth of our market and consumer behavior; our ability to acquire, engage, and retain clients; our ability to provide offerings and services that achieve market acceptance; our data science and technology, stylists, operations, marketing initiatives, and other key strategic areas; risks related to international operations; and other risks described in the filings we make with the Securities and Exchange Commission ("SEC"). Further information on these and other factors that could cause our financial results, performance, and achievements to differ materially from any results, performance, or achievements anticipated, expressed, or implied by these forward-looking statements is included in filings we make with the SEC from time to time, including in the section titled "Risk Factors" in our Quarterly Report on Form 10-Q for the fiscal quarter ended October 27, 2018. These documents are available on the SEC Filings section of the Investor Relations section of our website at: http://investors.stitchfix.com. We undertake no obligation to update any forward-looking statements made in this press release to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law. The achievement or success of the matters covered by such forward-looking statements involves known and unknown risks, uncertainties, and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, our results could differ materially from the results expressed or implied by the forward-looking statements we make. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

Stitch Fix, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share amounts)

	January 26, 2019	July 28, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 167,496	$ 297,516
Restricted cash	250	250
Short-term investments	109,363	—
Inventory, net	103,167	85,092
Prepaid expenses and other current assets	33,160	34,148
Total current assets	413,436	417,006
Long-term investments	66,734	—
Property and equipment, net	44,888	34,169
Deferred tax assets	16,383	14,107
Restricted cash, net of current portion	12,600	12,600
Other long-term assets	3,010	3,703
Total assets	$ 557,051	$ 481,585
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 86,815	$ 79,782
Accrued liabilities	66,080	43,037
Gift card liability	9,921	6,814
Deferred revenue	12,496	8,870
Other current liabilities	1,847	3,729
Total current liabilities	177,159	142,232
Deferred rent, net of current portion	16,420	15,288
Other long-term liabilities	10,183	8,993
Total liabilities	203,762	166,513
Stockholders' equity:		
Class A common stock, $0.00002 par value	1	1
Class B common stock, $0.00002 par value	1	1
Additional paid-in capital	250,699	235,312
Accumulated other comprehensive income	141	—
Retained earnings	102,447	79,758
Total stockholders' equity	353,289	315,072
Total liabilities and stockholders' equity	$ 557,051	$ 481,585

Stitch Fix, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(In thousands, except share and per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	January 26, 2019	January 27, 2018	January 26, 2019	January 27, 2018
Revenue, net	$ 370,280	$ 295,906	$ 736,516	$ 591,469
Cost of goods sold	207,131	168,523	408,199	335,071
Gross profit	163,149	127,383	328,317	256,398
Selling, general, and administrative expenses	147,738	111,771	302,009	231,242
Operating income	15,411	15,612	26,308	25,156
Remeasurement of preferred stock warrant liability	—	(1,614)	—	(10,685)
Interest income	(1,170)	(18)	(2,569)	(35)
Other income, net	(453)	—	(573)	—
Income before income taxes	17,034	17,244	29,450	35,876
Provision for income taxes	5,058	13,603	6,796	18,747
Net income	$ 11,976	$ 3,641	$ 22,654	$ 17,129
Other comprehensive income:				
Change in unrealized gain on available-for-sale securities, net of tax	104	—	22	—
Foreign currency translation	93	—	$ 119	$ —
Total other comprehensive income, net of tax	197	—	$ 141	$ —
Comprehensive income	$ 12,173	$ 3,641	$ 22,795	$ 17,129
Net income attributable to common stockholders:				
Basic	$ 11,968	$ 3,036	$ 22,632	$ 9,794
Diluted	$ 11,968	$ 1,653	$ 22,633	$ 3,530
Earnings per share attributable to common stockholders:				
Basic	$ 0.12	$ 0.04	$ 0.23	$ 0.18
Diluted	$ 0.12	$ 0.02	$ 0.22	$ 0.06
Weighted-average shares used to compute earnings per share attributable to common stockholders:				
Basic	99,590,187	82,439,351	99,278,599	54,377,466
Diluted	102,817,838	87,954,656	103,597,316	60,599,568

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

	For the Six Months Ended	
	January 26, 2019	January 27, 2018
Cash Flows from Operating Activities		
Net income	$ 22,654	$ 17,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(2,288)	5,498
Remeasurement of preferred stock warrant liability	—	(10,685)
Inventory reserves	4,853	7,027
Stock-based compensation expense	14,747	5,135
Depreciation and amortization	6,456	4,888
Loss on disposal of property and equipment	—	131
Change in operating assets and liabilities:		
Inventory	(22,928)	(19,529)
Prepaid expenses and other assets	1,546	5,078
Accounts payable	7,012	10,843
Accrued liabilities	17,689	4,484
Deferred revenue	3,822	3,283
Gift card liability	3,512	2,961
Other liabilities	592	(2,508)
Net cash provided by operating activities	57,667	33,735
Cash Flows from Investing Activities		
Purchases of property and equipment	(11,903)	(8,232)
Purchases of securities available-for-sale	(185,994)	—
Sales of securities available-for-sale	1,163	—
Maturities of securities available-for-sale	9,500	—
Net cash used in investing activities	(187,234)	(8,232)
Cash Flows from Financing Activities		
Proceeds from initial public offering, net of underwriting discounts paid	—	129,046
Proceeds from the exercise of stock options, net	1,931	1,006
Payments for tax withholding related to vesting of restricted stock units	(2,281)	—
Repurchase of Class B common stock related to early exercised options	—	(39)
Net cash (used in) provided by financing activities	(350)	130,013
Net increase (decrease) in cash, cash equivalents, and restricted cash	(129,917)	155,516
Effect of exchange rate changes on cash	(103)	—
Cash, cash equivalents, and restricted cash at beginning of period	310,366	119,958
Cash, cash equivalents, and restricted cash at end of period	$ 180,346	$ 275,474
Components of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	$ 167,496	$ 266,374
Restricted cash – current portion	250	—
Restricted cash – long-term portion	12,600	9,100
Total cash, cash equivalents, and restricted cash	$ 180,346	$ 275,474
Supplemental Disclosure		
Cash paid for income taxes	$ 191	$ 3,091
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 4,741	$ 780
Capitalized stock-based compensation	$ 812	$ 261
Vesting of early exercised options	$ 178	$ 456
Deferred offering costs included in accounts payable and accrued liabilities	$ —	$ 134
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 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 ("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 this 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 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 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;
- adjusted EBITDA excludes interest income and other income, net, as these items are not components of our core business; 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 interest income, other income, net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented:

	For the Three Months Ended		For the Six Months Ended	
(in thousands)	**January 26, 2019**	**January 27, 2018**	**January 26, 2019**	**January 27, 2018**
Adjusted EBITDA reconciliation:				
Net income	$ 11,976	$ 3,641	$ 22,654	$ 17,129
Add (deduct):				
Interest income	(1,170)	(18)	(2,569)	(35)
Other income, net	(453)	—	(573)	—
Provision for income taxes	5,058	13,603	6,796	18,747
Depreciation and amortization	3,790	2,618	7,184	4,888
Remeasurement of preferred stock warrant liability	—	(1,614)	—	(10,685)
Adjusted EBITDA	**$ 19,201**	**$ 18,230**	**$ 33,492**	**$ 30,044**

Non-GAAP Net Income

We define non-GAAP net income as net income excluding, when present, the remeasurement of preferred stock warrant liability and 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:

	For the Three Months Ended		For the Six Months Ended	
(in thousands)	**January 26, 2019**	**January 27, 2018**	**January 26, 2019**	**January 27, 2018**
Non-GAAP net income reconciliation:				
Net income	$ 11,976	$ 3,641	$ 22,654	$ 17,129
Add (deduct):				
Remeasurement of preferred stock warrant liability	—	(1,614)	—	(10,685)
Impact of Tax Act [(1)]	—	4,730	—	4,730
Non-GAAP net income	**$ 11,976**	**$ 6,757**	**$ 22,654**	**$ 11,174**

[(1)] The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a 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 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, when present, the per share impact of the remeasurement of preferred stock warrant liability and 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:

	For the Three Months Ended		For the Six Months Ended	
(in dollars)	**January 26, 2019**	**January 27, 2018**	**January 26, 2019**	**January 27, 2018**
Non-GAAP earnings per share – diluted reconciliation:				
Earnings per share attributable to common stockholders – diluted	$ 0.12	$ 0.02	$ 0.22	$ 0.06
Per share impact of the remeasurement of preferred stock warrant liability[(1)]	—	—	—	—
Per share impact of Tax Act[(2)]	—	0.05	—	0.08
Non-GAAP earnings per share attributable to common stockholders – diluted	**$ 0.12**	**$ 0.07**	**$ 0.22**	**$ 0.14**

[(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)] The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a 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 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 flows provided by operations reduced by purchases of property and equipment that are included in cash flows used in investing activities. The following table presents a reconciliation of cash flows provided by operating activities, the most comparable GAAP financial measure, to free cash flow for each of the periods presented:

	For the Six Months Ended	
(in thousands)	**January 26, 2019**	**January 27, 2018**
Free cash flow reconciliation:		
Cash flows provided by operating activities	$ 57,667	$ 33,735
Deduct:		
Purchases of property and equipment	(11,903)	(8,232)
Free cash flow	**$ 45,764**	**$ 25,503**
Cash flows used in investing activities	$ (187,234)	$ (8,232)
Cash flows (used in) provided by financing activities	$ (350)	$ 130,013

IR Contact:

David Pearce
ir@stitchfix.com

PR Contact:

Suzy Sammons
media@stitchfix.com