

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 3, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-38291

STITCH FIX, INC.

(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 27-5026540 (I.R.S. Employer Identification No.) |
| 1 Montgomery Street San Francisco (Address of Principal Executive Offices) | Suite 1500 California 94104 (Zip Code) |
| (415) 882-7765 Registrant's telephone number, including area code | |

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|----------------|---|
| Class A common stock, par value \$0.00002 per share | SFIX | Nasdaq Global Select Market |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of January 26, 2019, the last day of the registrant’s most recently completed second fiscal quarter, was approximately \$1,019,019,920.

As of September 27, 2019, the number of outstanding shares of the registrant’s Class A common stock, par value \$0.00002 per share, was 55,030,361, and the number of outstanding shares of the registrant’s Class B common stock, par value \$0.00002 per share, was 46,616,240.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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Unless the context suggests otherwise, references in this Annual Report on Form 10-K (the “Annual Report”) to “Stitch Fix,” the “Company,” “we,” “us,” and “our” refer to Stitch Fix, Inc. and, where appropriate, its subsidiaries.

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that involve risks, uncertainties, and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would,” and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties, and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors” included under Part I, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Item 1. Business.

Overview

Stitch Fix is transforming the way people find what they love, one client at a time and one Fix at a time.

Stitch Fix was inspired by the vision of a client-first, client-centric new way of retail. What people buy and wear matters. When we serve our clients well, we help them discover and define their styles, we find jeans that fit and flatter their bodies, we reduce their anxiety and stress when getting ready in the morning, we give them confidence in job interviews and on first dates, and we give them time back in their lives to invest in themselves or spend with their families. Most of all, we are fortunate to play a small part in our clients looking, feeling, and ultimately being their best selves.

We are reinventing the shopping experience by delivering one-to-one personalization to our clients through the combination of data science and human judgment. This combination drives a better client experience and a more powerful business model than either element could deliver independently.

Since our founding in 2011, we have 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. We call each of these shipments a Fix. Clients can choose to schedule automatic shipments or order a Fix on demand after they fill out a style profile on our website or mobile app. For each Fix, we charge clients a styling fee that is credited toward items they purchase. Alternatively, select U.S. clients may purchase an annual Style Pass, which offers unlimited styling for the year for a \$49 fee that is also credited towards items they purchase. After receiving a Fix, our clients purchase the items they want to keep and return the other items, if any, at no additional charge. In addition, our Extras feature allows clients to select items such as socks, bras, underwear, and other intimates that are then added to the items their stylist selects for their Fix.

Stitch Fix was founded with a focus on Women’s apparel. In our first few years, we were able to gain a deep understanding of our clients and merchandise and build the capability to listen to our clients, respond to feedback, and deliver the experience of personalization. More recently, we have extended those capabilities into Petite, Maternity, Men’s, Plus, and Kids apparel, as well as shoes and accessories. Our stylists leverage our data science and apply their own judgment to hand select apparel, shoes, and accessories for our clients from a broad range of merchandise.

We are successful when we are able to help clients find what they love again and again, creating long-term, trusted relationships. Our clients share personal information with us, including detailed style, size, fit, and price preferences, as well as unique inputs, such as how often they dress for certain occasions or which parts of their bodies they like to flaunt or cover up. Our clients are motivated to share these personal details with us and provide us with ongoing feedback because they recognize that doing so will result in more personalized and successful experiences. This feedback also creates a valuable network effect by helping us to better serve other clients. As of August 3, 2019, we had 3,236,000 active clients. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics” for information on how we define and calculate active clients.

The very human experience that we deliver is powered by data science. Our data science capabilities consist of our rich data set and our proprietary algorithms, which fuel our business by enhancing the client experience and driving business model efficiencies. The vast majority of our client data is provided directly and explicitly by the client, rather than inferred, scraped, or obtained from other sources. We also gather extensive merchandise data, such as inseam, pocket shape, silhouette, and fit. This large and growing data set provides the foundation for proprietary algorithms that we use throughout our business, including those that predict purchase behavior, forecast demand, optimize inventory, and enable us to design new apparel. We believe our data science capabilities give us a significant competitive advantage, and as our data set grows, our algorithms become more powerful.

Our stylists leverage our data science through a custom-built, web-based styling application that provides recommendations from our broad selection of merchandise. Our stylists then apply their judgment to select what they believe to be the best items for each Fix. Our stylists provide a personal touch, offer styling advice and context to each item selected, and help us develop long-term relationships with our clients.

We offer merchandise across multiple price points and styles from established and emerging brands, as well as our own private labels, which we call Exclusive Brands. Many of our brand partners also design and supply items exclusively for our clients.

In May 2019, we launched our service in the United Kingdom.

Industry Overview

Technology is Driving Transformation Across Industries

Technological innovation has profoundly impacted how consumers discover and purchase products, forcing businesses to adapt to engage effectively with consumers. We believe that new business models that embrace these changes and truly focus on the consumer will be the winners in this changing environment.

The Apparel, Shoes, and Accessories Market is Massive but Many Retailers have Failed to Adapt to Changing Consumer Behavior

The U.S. apparel, shoes, and accessories market is large, but we believe many brick-and-mortar retailers have failed to adapt to evolving consumer preferences. Euromonitor International Limited, or Euromonitor, a consumer market research company, estimated that the U.S. apparel, footwear, and accessories market was \$359 billion in calendar 2018. Euromonitor expects this market to grow to \$431 billion by calendar 2023, a compound annual growth rate (“CAGR”) of 3.7%.

Euromonitor estimated that the UK apparel, footwear, and apparel accessories market was \$72 billion in calendar 2018. Euromonitor expects this market to grow to \$96 billion (in current prices) by calendar 2023, a CAGR of 6%.

Historically, brick-and-mortar retailers have been the primary source of apparel, shoes, and accessories sales in the United States. Over time, brick-and-mortar retail has changed and the era of salespersons who know each customer on a personal level has passed. We believe many of today’s consumers view the traditional retail experience as impersonal, time-consuming, and inconvenient. This has led to financial difficulties, bankruptcies, and store closures for many major department stores, specialty retailers, and retail chains.

eCommerce is Growing, but has Further Depersonalized the Shopping Experience

The internet has created new opportunities for consumers to shop for apparel. eCommerce continues to take market share from brick-and-mortar retail. Euromonitor estimated that the eCommerce portion of the U.S. apparel, footwear and accessories market was \$78.6 billion in calendar 2018. Euromonitor expects the eCommerce portion of this market to grow to \$151 billion by calendar 2023, a CAGR of 14.0%. This represents an expansion of eCommerce penetration of the U.S. apparel, footwear, and accessories market from 21.9% of \$359 billion in calendar 2018 to 35.1% of \$431 billion in calendar 2023.

Euromonitor estimated that the eCommerce portion of the UK apparel, footwear, and accessories market was \$14.8 billion in calendar 2018. Euromonitor expects the eCommerce portion to grow to \$27 billion by calendar 2023, a CAGR of 13.0%. This represents an expansion of eCommerce penetration of UK apparel, footwear and apparel accessories market from 24.7% of \$72 billion in calendar 2018 to 34.4% of \$96 billion in calendar 2023.

The first wave of eCommerce companies prioritized low price and fast delivery. This transaction-focused model is well suited for commoditized products and when consumers already know what they want. However, we believe eCommerce companies often fall short when consumers do not know what they want and price and delivery speed are not the primary decision drivers. There is an overwhelming selection of apparel, shoes, and accessories available to consumers online, and searches and filters are poor tools when it comes to finding items that fit one’s style, figure, and occasion. eCommerce companies also lack the critical personal touchpoints necessary to help consumers find what they love, further depersonalizing the shopping experience.

Personalization is the Next Wave

To be relevant today, retailers must find a way to connect with consumers on a personal level and fit conveniently into their lifestyles. Personalization in retail can be difficult and nuanced, as consumers consider many factors that can be difficult to articulate, including style, size, fit, feel, and occasion. We believe that an intelligent combination of data science and human judgment is required to deliver the personalized retail experience that consumers seek.

Competition

The retail apparel industry is highly competitive. Our competitors include eCommerce companies that market apparel, shoes, and accessories; local, national, and global department stores; specialty retailers; discount chains; independent retail stores; and the online offerings of these traditional retail competitors. Additionally, we experience competition for consumer discretionary spending from other product and experiential categories.

We compete primarily on the basis of client experience, brand, product selection, quality, convenience, and price. We believe that we are able to compete effectively because we offer clients a personalized and fun shopping experience that our competitors are unable to match.

See Part I, Item 1A “Risk Factors—Our industry is highly competitive and if we do not compete effectively our operating results could be adversely affected” for more information.

Our Service

Stitch Fix combines data science and human judgment to deliver one-to-one personalization to our clients at scale. We help millions of clients discover and buy what they love through data-driven, personalized, hand-selected shipments of apparel, shoes, and accessories.

Our Data Science Advantage

Our data science capabilities fuel our business. These capabilities consist of our rich and growing set of detailed client and merchandise data and our proprietary algorithms. We use data science throughout our business, including to style our clients, predict purchase behavior, forecast demand, optimize inventory, and design new apparel.

Our data set is particularly powerful because:

- the vast majority of our client data is provided directly and explicitly by the client, rather than inferred, scraped, or obtained from other sources;
- our clients are motivated to provide us with relevant personal data, both at initial signup and over time as they use our service, because they trust it will improve their Fixes; and
- our merchandise data tracks dimensions that enable us to predict purchase behavior and deliver more personalized Fixes.

On average, each client directly provides us with over 90 meaningful data points through his or her style profile, including detailed style, size, fit, and price preferences, as well as unique inputs such as how often he or she dresses for certain occasions or which parts of his or her body the client likes to flaunt or cover up. Over time, through their feedback on Fixes they receive, clients share additional information about their preferences as well as detailed data about both the merchandise they keep and return. Historically, over 85% of our shipments have resulted in direct client feedback. This feedback loop drives important network effects, as our client-provided data informs not only our personalization capabilities for the specific client, but also helps us better serve other clients. In addition, Style Shuffle, an interactive mobile and web-based feature in which participants rate an assortment of Stitch Fix merchandise, provides additional data to strengthen our understanding of client tastes and style preferences.

We believe our proprietary merchandise data set is differentiated from other retailers. We encode each of our SKUs with numerous information attributes to help our algorithms make better recommendations for our clients. The information we store for each SKU includes:

- basic data, such as brand, size, color, pattern, silhouette, and material;
- item measurements, such as length, width, diameter of sleeve opening, and distance from collar to first button;
- nuanced descriptors, such as how appropriate the piece is for a client that prefers preppy clothing or whether it is appropriate for a formal event; and
- client feedback, such as how the item fit a 5’10” client or how popular the piece is with young mothers.

Our algorithms use our data set to match merchandise to each of our clients. For every combination of client and merchandise, we compute the probability the client will keep that item based on her and other clients’ preferences and purchase history as well as the attributes and past performance of the merchandise.

Pairing Data Science with Human Judgment

The combination of data science and human judgment drives a better client experience and a more powerful business model than either element could deliver independently. Our advanced data science capabilities harness the power of our data for our stylists by generating predictive recommendations to streamline our stylists’ individualized curation process. Stylists add a critical layer of contextual, human decision making that augments and improves our algorithms’ selections and ultimately produces a better, more personalized Fix for each client.

Our Differentiated Value Proposition

Our Value Proposition to Clients

Our clients love our service for many reasons. We help clients find apparel, shoes, and accessories that they love in a way that is convenient and fun. We save our clients time by doing the shopping, delivering Fixes right to their homes, allowing them to try on merchandise in the comfort of their homes and in the context of their own closets, and making the return process simple. Our expert styling service connects each client to a professional who will understand her fashion needs, hand select items personalized to her, and offer her ongoing style advice. Clients also value the quality and diversity of our merchandise as we deliver the familiar brands they know, offer items they can’t find anywhere else, and expand their fashion palette by exposing them to new brands and styles they might not have tried if they shopped for themselves. We often hear from clients that we have helped them find the perfect pair of jeans or discover a dress silhouette

they never would have selected for themselves. In these situations, not only is our service more convenient, it is in fact more effective at helping clients find what they love. We proudly style men, women, and kids across ages, sizes, tastes, geographies, and price preferences.

Our Value Proposition to Brand Partners

We believe that we are a preferred channel and a powerful growth opportunity for our brand partners. Unlike many sales channels, we do not rely on discounts or promotions. Also, by introducing our clients to brands they may not have shopped for, we help our brand partners reach clients they may not have otherwise reached. Further, we provide our brand partners with insights based on client feedback that help our brand partners improve and evolve their merchandise to better meet consumer demand.

Our Strengths

Since we were founded in 2011, we have shipped millions of Fixes to our clients. We have achieved this success due to our following key strengths:

- our rich client and merchandise data;
- our expert data science team and proprietary and predictive algorithms;
- our team of 5,100+ stylists;
- our unique combination of data science and human judgment; and
- our superior business model.

Our Strategy

We aim to transform the way people find what they love. We plan to achieve this goal by continuing to:

- expand our relationships with existing clients;
- acquire new clients; and
- expand our addressable market.

How it Works

The Fix

A Fix is a Stitch Fix-branded box containing a combination of apparel, shoes, and accessories personally selected for a client by her Stitch Fix stylist and delivered to the client for her to try on in the comfort of her own home. She can keep some, all, or none of the items in the Fix and easily return any items in a prepaid-postage bag provided in the Fix. One of our stylists individually selects each item in a Fix for a client from a broad range of merchandise recommended to the stylist by our algorithms. These algorithmic recommendations are based on the client's personal style profile, her own order behavior, the aggregate historical behavior of our client base, and the aggregate historical data we have collected on each item of merchandise we have available.

We have numerous touch points with our clients. Before a client receives his or her first Fix, he or she shares the following information with us:

- *Style profile.* Upon registering, each client fills out a style profile on either our website or mobile application. The style profile allows us to introduce ourselves to a client, initiate a dialogue, and start gathering data.
- *Personal note to stylist.* Each client can share a personal note with his or her stylist when placing a Fix order or after receiving a Fix. For example, a client might request shoes for a friend's wedding or shorts for an upcoming vacation. These personal notes enable us to better personalize a Fix.

After completing her initial style profile, a client chooses her preferred order frequency and can select the exact date by which she wants to receive her Fix. We currently offer two types of Fix scheduling:

- *Auto-ship.* A client can elect to auto-ship Fixes every two to three weeks, monthly, bi-monthly, or quarterly.
- *On-demand.* Our on-demand option allows clients to schedule a one-time Fix at any time, either instead of or in addition to utilizing the auto-ship option. An on-demand client is prompted to schedule her next Fix each time she checks out, but is not obligated to do so.

We recognize that our clients have different needs, so our Fix frequency options are another way that we personalize the client experience. Each client can increase or decrease the Fix frequency at any time, and can also easily reschedule any given shipment to better accommodate her needs. Each Fix is delivered to the client's address of choice.

We also offer Extras, a feature that allows clients to select items such as socks, bras, underwear, and other intimates that are then added to the items their stylist selects for their Fix.

In addition to a personalized selection of apparel, shoes, and accessories, each Fix also includes a personal note from the stylist and a style card to provide clients with outfit ideas for each item.

Once a client decides which items she wishes to keep she can easily check out and pick the delivery date for her next Fix via our website or mobile application.

During the checkout process, each client is invited to provide feedback about the fit, price, style, and quality of the items received. Historically, over 85% of shipments have resulted in direct client feedback. This feedback informs both our algorithms and stylists to improve each future Fix. We also gather feedback through Style Shuffle, an interactive mobile and web-based feature in which participants rate an assortment of Stitch Fix merchandise, providing additional data to strengthen our understanding of client tastes and style preferences.

We charge clients a styling fee of \$20 in the United States and £10 in the UK for each Fix, which is credited toward the merchandise purchased. For our Style Pass clients, we charge a \$49 annual fee in the United States, the only country where Style Pass is offered, which provides unlimited styling for the year and is credited toward the merchandise purchased over the course of the year. If the client chooses to keep all items chosen for them by their stylist, she receives a discount on the entire shipment, which is 25% in the United States and 20% in the UK. The client can return the items she does not want or exchange items for a different size if available, using the prepaid-postage bag delivered in her Fix. We request that clients return items to us that they do not wish to purchase within three calendar days of receiving a Fix.

Direct Buy

In June 2019, we launched direct-buy functionality to allow clients the flexibility of purchasing items outside of a Fix. The first offering of this direct-buy functionality is Shop New Colors, which is available for Men's and Women's clients in the United States and allows clients to order previously purchased items in different colors, sizes, or prints. No styling fee is charged for direct purchases.

Our Merchandise, Brand Partners, and Exclusive Brands

The breadth of our merchandise selection is essential to our success. Our algorithms filter over one thousand SKUs to recommend a subset of relevant merchandise to our stylists, who leverage the information to select the merchandise for a client's Fix. We source merchandise from brand partners and also create our own merchandise to serve unmet client needs. We offer apparel, shoes, and accessories across a range of price points. We currently serve our clients in the following categories: Women's, Petite, Maternity, Men's, Plus, and Kids, and our merchandise addresses a diverse range of styles.

Brand Partners

We partner with established and emerging brands across multiple price points and styles. With many of our brand partners, we develop third-party branded items exclusively sold to Stitch Fix clients. This exclusivity allows our clients to discover personally recommended products that are unavailable elsewhere.

Exclusive Brands

We also design and bring to market our own styles, which we refer to as Exclusive Brands, in order to target specific client needs that are unmet by what our merchandising team can source in the market. We use data science to identify and develop the new products for our Exclusive Brands. We then pair our data with the expertise of our design teams to bring these new products to market. We expect our product development efforts will yield better products for our clients as we acquire more data and feedback.

Exclusive Brands are a meaningful part of our business and we expect them to be a permanent part of our portfolio. However, we do not have specific targets for the merchandise mix provided by our brand partners and our Exclusive Brands, and expect it will fluctuate over time. We will continue to develop products when we identify opportunities or gaps in the market.

Sourcing

We purchase substantially all of our merchandise directly from our brand partners or Exclusive Brands merchandise vendors, who are responsible for the entire manufacturing process.

For the production of our Exclusive Brands, we contract with merchandise vendors, who are responsible for the entire manufacturing process. Some of these vendors operate their own manufacturing facilities and others subcontract the manufacturing to other parties. Our vendors generally agree to our standard vendor terms, which govern our business relationship. Although we do not have long-term agreements with our vendors, we have long-standing relationships with a diverse base of vendors that we believe to be mutually satisfactory.

All of our Exclusive Brand merchandise is produced according to our specifications, and we require that all of our vendors comply with applicable law and observe strict standards of conduct. We have hired independent firms that conduct audits of the working conditions at the factories producing our Exclusive Brands. If an audit reveals potential problems, we require that the vendor institute corrective action plans to bring the factory into compliance with our standards, or we may discontinue our relationship with the vendor. We require that all new factories producing Exclusive Brand merchandise for us be audited before Stitch Fix production begins.

Inventory Management and Fulfillment

We have seven fulfillment centers, six of which are in the United States (located in California, Arizona, Texas, Pennsylvania, Georgia, and Indiana), and a seventh in the UK.

In our fulfillment centers, our algorithms increase efficiencies in processes such as allocation, batch picking, transportation, shipping, returns, and ongoing process improvement. We have a reverse logistics operation to manage returned merchandise. Our specialist returns teams in our dedicated return intake areas accept, process, and reallocate returns to our inventory so the merchandise can be selected for another Fix. Our expertise in inventory management allows us to turn inventory quickly, which drives working capital efficiency.

Seasonality

Seasonality in our business does not follow that of traditional retailers, such as typical concentration of revenue in the holiday quarter. We generally experience lower quarter-over-quarter growth rates during our second fiscal quarter due to slower active client growth during the holiday season.

Intellectual Property

We protect our intellectual property through a combination of trademarks, domain names, copyrights, trade secrets and patents, as well as contractual provisions and restrictions on access to our proprietary technology. Our principal trademark assets include the trademarks “Stitch Fix” and “Fix,” which are registered in the United States and some foreign jurisdictions, our logos and taglines, and multiple private label apparel and accessory brand names. We have applied to register or registered many of our trademarks in the United States and other jurisdictions, and we will pursue additional trademark registrations to the extent we believe they would be beneficial and cost-effective.

We file patents in the United States and abroad and intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

We are the registered holder of multiple domestic and international domain names that include “stitchfix” and similar variations. We also hold domain registrations for many of our private-label brand names and other related trade names and slogans.

Our proprietary algorithm technologies, other than those incorporated into a patent application, are protected by trade secret laws.

In addition to the protection provided by our intellectual property rights, we enter into confidentiality and proprietary rights agreements with our employees, consultants, contractors and business partners. Our employees are also subject to invention assignment agreements. We further control the use of our proprietary technology and intellectual property through provisions in both our client terms of use on our website and in our vendor terms and conditions.

Government Regulation

As with all retailers and companies operating on the internet, we are subject to a variety of international and U.S. federal and state laws governing the processing of payments, consumer protection, the privacy of consumer information, and other laws regarding unfair and deceptive trade practices.

Apparel, shoes, and accessories sold by us are also subject to regulation by governmental agencies in the United States and in the UK. These regulations relate principally to product labeling, licensing requirements, flammability testing, and product safety. We are also subject to environmental laws, rules, and regulations. Similarly, apparel, shoes, and accessories sold by us are also subject to import regulations in the United States and other countries concerning the use of wildlife products for commercial and non-commercial trade, including the U.S. Fish and Wildlife Service. We do not estimate any significant capital expenditures for environmental control matters either in the current fiscal year or in the near future.

Employees

As of August 3, 2019, we had approximately 8,000 employees, including over 5,100 stylists, 1,700 fulfillment center employees, 280 client experience employees, 200 engineers, and 125 data scientists. As of such date, over 88% of our employees and 37% of our management team identified as female. None of our employees is represented by a labor union. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Corporate and Available Information

We were incorporated in Delaware in 2011 under the name rack habit inc. We changed our name to Stitch Fix, Inc. in October 2011. Our principal executive offices are located at 1 Montgomery Street, Suite 1500, San Francisco, California, 94104, and our telephone number is (415) 882-7765. Our website is located at www.stitchfix.com, and our investor relations website is located at <https://investors.stitchfix.com>.

We file or furnish electronically with the U.S. Securities and Exchange Commission (the “SEC”) annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make copies of these reports available free of charge through our investor relations website as soon as

reasonably practicable after we file or furnish them with the SEC. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding Stitch Fix and other issuers that file electronically with the SEC.

Information contained on or accessible through our websites is not incorporated into, and does not form a part of, this Annual Report or any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Item 1A. Risk Factors.

Risks Related to Our Business

We have a short operating history in an evolving industry and, as a result, our past results may not be indicative of future operating performance.

We have a short operating history in a rapidly evolving industry that may not develop in a manner favorable to our business. Our relatively short operating history makes it difficult to assess our future performance. You should consider our business and prospects in light of the risks and difficulties we may encounter.

Our future success will depend in large part upon our ability to, among other things:

- cost-effectively acquire new clients and engage with existing clients;
- increase consumer awareness of our brand and maintain our reputation;
- anticipate and respond to macroeconomic changes;
- successfully expand our offering and geographic reach;
- anticipate and respond to changing style trends and consumer preferences;
- manage our inventory effectively;
- compete effectively;
- avoid interruptions in our business from information technology downtime, cybersecurity breaches, or labor stoppages;
- effectively manage our growth;
- continue to enhance our personalization capabilities;
- hire, integrate, and retain talented people at all levels of our organization;
- maintain the quality of our technology infrastructure;
- develop new features to enhance the client experience; and
- retain our existing merchandise vendors and attract new vendors.

If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above as well as those described elsewhere in this “Risk Factors” section, our business and our operating results will be adversely affected.

If we fail to effectively manage our growth, our business, financial condition, and operating results could be harmed.

To effectively manage our growth, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems, and expand, train, and manage our employee base. Since our inception, we have rapidly increased our employee headcount to support the growth of our business. We added a significant number of employees during 2019 and expect to continue growing in 2020. We have expanded across all areas of our business. To support continued growth, we must effectively integrate, develop, and motivate a large number of new employees while maintaining our corporate culture. The risks associated with a rapidly growing workforce will be particularly acute as we expand internationally, as we are less familiar with the labor markets outside of the United States, and if we choose to expand into new merchandise categories.

We are also required to manage numerous relationships with various vendors and other third parties. Further growth of our operations, vendor base, fulfillment centers, information technology systems, or internal controls and procedures may not be adequate to support our operations. For example, in May 2019, we launched our service in the UK, which involves working with international vendors, establishing offices and fulfillment centers in the UK, and complying with UK and European Union (“EU”) laws and regulations. Our launch of Stitch Fix Kids in July 2018 also required us to increase our vendor base, expand our fulfillment center operations, and evaluate compliance with additional regulatory requirements, among other things. If we are unable to manage the growth of our organization effectively, our business, financial condition, and operating results may be adversely affected.

Our continued growth depends on attracting new clients.

Our success depends on our ability to attract new clients in a cost-effective manner. To expand our client base, we must appeal to and acquire clients who have historically used other means to purchase apparel, shoes, and accessories, such as traditional brick-and-mortar apparel retailers or the websites of our competitors. We also face competition for clients from other retailers who offer or plan to offer similar services as ours. We reach new clients through paid marketing, referral programs, organic word of mouth, and other methods of discovery, such as mentions in the press or internet search engine results. Starting in calendar 2017, we began to increase our paid marketing expenses by investing more in digital marketing and launching our first television advertising campaigns. We expect to increase our spending on these and other paid marketing channels in the future and cannot be certain that these efforts will yield more clients, continue to achieve meaningful payback on our investments, or be as cost effective. Although we expect to increase marketing spend

over time, our marketing activity and spend may vary from period to period, which may result in faster or slower rates of active client growth in any given period. Moreover, new clients may not purchase from us as frequently or spend as much with us as existing clients, and the revenue generated from new clients may not be as high as the revenue generated from our existing clients. These factors may harm our growth prospects and our business could be adversely affected.

We rely on consumer discretionary spending and may be adversely affected by economic downturns and other macroeconomic conditions or trends.

Our business and operating results are subject to global economic conditions and their impact on consumer discretionary spending. Some of the factors that may negatively influence consumer spending include high levels of unemployment; higher consumer debt levels; reductions in net worth, declines in asset values, and related market uncertainty; home foreclosures and reductions in home values; fluctuating interest rates and credit availability; fluctuating fuel and other energy costs; fluctuating commodity prices; and general uncertainty regarding the overall future political and economic environment. Economic conditions in certain regions may also be affected by natural disasters, such as hurricanes, tropical storms, earthquakes, and wildfires. Consumer purchases of discretionary items, including the merchandise that we offer, generally decline during recessionary periods or periods of economic uncertainty, when disposable income is reduced or when there is a reduction in consumer confidence.

Adverse economic changes could reduce consumer confidence, and could thereby negatively affect our operating results. In challenging and uncertain economic environments, we cannot predict when macroeconomic uncertainty may arise, whether or when such circumstances may improve or worsen or what impact such circumstances could have on our business.

We expect to increase our paid marketing to help grow our business, but these efforts may not be successful or cost effective.

Promoting awareness of our service is important to our ability to grow our business, drive client engagement, and attract new clients. We believe that much of the growth in our client base during our first five years originated from referrals, organic word of mouth, and other methods of discovery, as our marketing efforts and expenditures were relatively limited. More recently, we increased our paid marketing initiatives and intend to continue to do so. Our marketing efforts currently include client referrals, affiliate programs, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile “push” communications, search engine optimization, and keyword search campaigns. In February 2019, we launched our first integrated brand marketing campaign. We have limited or no experience marketing our services using some of these methods and our efforts may be unsuccessful. Our marketing initiatives may become increasingly expensive and generating a meaningful return on those initiatives may be difficult. We may also adjust our marketing activity from period to period as we launch new initiatives, run tests, or make decisions on marketing investments in response to anticipated rates of return, such as when we identify favorable cost per acquisition trends. For example, we tend to reduce our advertising during the holiday season, when many other retailers compete for marketing opportunities. Even if we successfully increase revenue as a result of our paid marketing efforts, it may not offset the additional marketing expenses we incur.

We currently obtain a significant number of visits to our websites via organic search engine results. Search engines frequently change the algorithms that determine the ranking and display of results of a user’s search, which could reduce the number of organic visits to our websites, in turn reducing new client acquisition and adversely affecting our operating results.

Social networks are important as a source of new clients and as a means by which to connect with current clients, and their importance may be increasing. We may be unable to effectively maintain a presence within these networks, which could lead to lower than anticipated brand affinity and awareness, and in turn could adversely affect our operating results.

With respect to our email marketing efforts, if we are unable to successfully deliver emails to our clients or if clients do not engage with our emails, whether out of choice, because those emails are marked as low priority or spam, or for other reasons, our business could be adversely affected.

We may be unable to maintain a high level of engagement with our clients and increase their spending with us, which could harm our business, financial condition, or operating results.

A high proportion of our revenue comes from repeat purchases by existing clients, especially those existing clients who are highly engaged and purchase a significant amount of merchandise from us. If existing clients no longer find our service and merchandise appealing or appropriately priced, they may make fewer purchases and may stop using our service. Even if our existing clients continue to find our service and merchandise appealing, they may decide to receive fewer Fixes and purchase less merchandise over time as their demand for new apparel declines. If clients who receive Fixes most frequently and purchase a significant amount of merchandise from us were to make fewer purchases or stop using our service, our financial results could be negatively affected. In addition, we seek to attract high-quality clients who will remain clients for the long term, but our efforts may not be successful or produce the results we anticipate. A decrease in the number of clients, a decrease in client spending on the merchandise we offer, or our inability to attract high-quality clients could negatively impact our operating results. Further, we believe that our future success will depend in part on our ability to increase sales to our existing clients over time and, if we are unable to do so, our business may suffer.

Compromises of our data security could cause us to incur unexpected expenses and may materially harm our reputation and operating results.

In the ordinary course of our business, we and our vendors collect, process, and store certain personal information and other data relating to individuals, such as our clients and employees, including client payment card information. We rely substantially on commercially available systems, software, tools, and monitoring to provide security for our processing, transmission, and storage of personal information and other confidential information. There can be no assurance, however, that we or our vendors will not suffer a data compromise, that hackers or other unauthorized parties will not gain access to personal information or other data, including payment card data or confidential business information, or that any such data compromise or unauthorized access will be discovered in a timely fashion. The techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, and we and our vendors may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our employees, contractors, vendors, or other third parties with whom we do business may attempt to circumvent security measures in order to misappropriate such personal information, confidential information, or other data, or may inadvertently release or compromise such data.

Compromise of our data security or of third parties with whom we do business, failure to prevent or mitigate the loss of personal or business information, and delays in detecting or providing prompt notice of any such compromise or loss could disrupt our operations, damage our reputation, and subject us to litigation, government action, or other additional costs and liabilities that could adversely affect our business, financial condition, and operating results.

Our industry is highly competitive and if we do not compete effectively our operating results could be adversely affected.

The retail apparel industry is highly competitive. We compete with eCommerce companies that market the same or similar merchandise and services that we offer; local, national, and global department stores; specialty retailers; discount chains; independent retail stores; and the online offerings of these traditional retail competitors. Additionally, we experience competition for consumer discretionary spending from other product and experiential categories. We believe our ability to compete depends on many factors within and beyond our control, including:

- effectively differentiating our service and value proposition from those of our competitors;
- attracting new clients and engaging with existing clients;
- our direct relationships with our clients and their willingness to share personal information with us;
- further developing our data science capabilities;
- maintaining favorable brand recognition and effectively marketing our services to clients;
- delivering merchandise that each client perceives as personalized to him or her;
- the amount, diversity, and quality of brands and merchandise that we or our competitors offer;
- our ability to expand and maintain appealing Exclusive Brands and exclusive-to-Stitch Fix merchandise;
- the price at which we are able to offer our merchandise;
- the speed and cost at which we can deliver merchandise to our clients and the ease with which they can use our services to return merchandise; and
- anticipating and quickly responding to changing apparel trends and consumer shopping preferences.

Many of our current competitors have, and potential competitors may have, longer operating histories; larger fulfillment infrastructures; greater technical capabilities; faster shipping times; lower-cost shipping; larger databases; more purchasing power; higher profiles; greater financial, marketing, institutional, and other resources; and larger customer bases than we do. These factors may allow our competitors to derive greater revenue and profits from their existing customer bases; acquire customers at lower costs; or respond more quickly than we can to new or emerging technologies, changes in apparel trends and consumer shopping behavior, and changes in supply conditions. These competitors may engage in more extensive research and development efforts, enter or expand their presence in the personalized retail market, undertake more far-reaching marketing campaigns, and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate revenue from their existing customer bases more effectively than we do. If we fail to execute on any of the above better than our competitors, our operating results may be adversely affected.

If we are unable to develop and introduce new merchandise offerings or expand into new markets in a timely and cost-effective manner, our business, financial condition, and operating results could be negatively impacted.

The largest portion of our revenue today comes from the sale of Women's apparel. From 2015 to 2018, we expanded our merchandise offering into categories including Petite, Maternity, Men's, Plus, Premium Brands, and Kids; began offering different product types including, accessories, and Extras; and expanded the number of brands we offer. In May 2019, we launched our service in the UK market. In June 2019, we introduced a direct-buy functionality with Shop New Colors, allowing clients in the United States to buy previously purchased items in new colors, prints, and sizes. We continue to explore additional offerings to serve our existing clients, attract new

clients, and expand our geographic scope. For example, we are currently testing Shop Your Looks, an offering that will allow clients to discover and shop personalized outfits with new items that complement their prior purchases.

New offerings may not have the same success, or gain traction as quickly, as our current offerings. If the merchandise we offer is not accepted by our clients or does not attract new clients, or if we are not able to attract clients in new markets such as the UK, our sales may fall short of expectations, our brand and reputation could be adversely affected, and we may incur expenses that are not offset by sales. If the launch of a new category or offering or in a new geography requires investments greater than we expect, our operating results could be negatively impacted. Also, our business may be adversely affected if we are unable to attract brands and other merchandise vendors that produce sufficient high-quality, appropriately priced, and on-trend merchandise. For example, vendors in the UK may not be familiar with our company or brand, which may make it difficult for us to obtain the merchandise we seek or be able to purchase products at an appropriate price.

Our current merchandise offerings have a range of margin profiles and we believe new offerings will also have a broad range of margin profiles that will affect our operating results. New businesses generally contribute lower margins and imported merchandise may be subject to tariffs or duties that lower margins. Additionally, as we enter into new categories and markets, we may not have as high of purchasing power as we do in our current offerings, which could increase our costs of goods sold and further reduce our margins. Expansion of our merchandise offerings and geographic scope may also strain our management and operational resources, specifically the need to hire and manage additional merchandise buyers to source new merchandise and to allocate new categories across our distribution network. We may also face greater competition in specific categories or regions from companies that are more focused on these areas. For example, now that we have launched in the UK, we compete with existing businesses that have been providing similar services in the region and may be more familiar with trends and customer preferences in that market. Also, our entry into the Kids category means we now compete with a number of additional companies that have been in the Kids category for a longer period of time and may have more experience in children's clothing. If any of the above were to occur, it could damage our reputation, limit our growth, and have an adverse effect on our operating results.

Expansion of our operations internationally requires management attention and resources, involves additional risks, and may be unsuccessful.

In May 2019, we launched our service in the UK market, and we may choose to expand to other international markets in the future. Prior to launching in the UK, we had no experience operating internationally or selling our merchandise outside of the United States, and if we continue to expand internationally, we will need to adapt to different local cultures, standards, laws, and policies. The business model we employ may not appeal to consumers outside of the United States. Furthermore, to succeed with clients in international locations, such as the UK, we will need to locate fulfillment centers in foreign markets and hire local employees, and we will have to invest in these facilities and employees before proving we can successfully run foreign operations. We may not be successful in expanding into additional international markets or in generating revenue from foreign operations for a variety of reasons, including:

- the need to localize our merchandise offerings, including translation into foreign languages and adaptation for local practices;
- different consumer demand dynamics, which may make our model and the merchandise we offer less successful compared to the United States;
- competition from local incumbents that understand the local market and may operate more effectively;
- regulatory requirements, taxes, trade laws, trade sanctions and economic embargoes, tariffs, export quotas, custom duties, or other trade restrictions, or any unexpected changes thereto such as Brexit (as defined below);
- laws and regulations regarding anti-bribery and anti-corruption compliance;
- differing labor regulations where labor laws may be more advantageous to employees as compared to the United States and result in increased labor costs;
- more stringent regulations relating to privacy and data security and access to, or use of, commercial and personal information, particularly in Europe and the United States;
- differing payment requirements and customer behavior relating to payments and fraud;
- changes in a specific country's or region's political or economic conditions; and
- risks resulting from changes in currency exchange rates.

For example, clients in the UK are accustomed to more return shipping options than are typically offered in the United States, which may require us to increase the number of shipping vendors we use in that market, increasing our costs. If we continue to invest substantial time and resources to establish and expand our operations internationally and are unable to do so successfully and in a timely manner, our operating results would suffer.

We may not be able to sustain our revenue growth rate and we may not be profitable in the future.

Our recent revenue growth and past profitability should not be considered indicative of our future performance. Our rate of revenue growth has varied in recent periods. Specifically, our revenue increased by 28.6% in 2019 compared to 2018, 25.5% in 2018 compared to 2017, and 33.8% in 2017 compared to 2016. As we grow our business, our revenue growth rates may slow in future periods due to a number of reasons, which may include slowing demand for our merchandise and service, increasing competition, a decrease in the growth rate of our overall market, and our failure to capitalize on growth opportunities, as well as the maturation of our business.

Moreover, our expenses have increased in recent periods, and we expect expenses to increase substantially in the near term, particularly as we make significant investments in our marketing initiatives; expand our geographic markets, operations, and infrastructure; develop and introduce new merchandise offerings; and hire additional personnel. We may not always pursue short-term profits but are often focused on long-term growth, which may impact our financial results. In addition, in connection with operating as a public company, we are incurring significant additional legal, accounting, and other expenses that we did not incur as a private company. If our revenue does not increase to offset increases in our operating expenses, we may not be profitable in future periods.

We must successfully gauge apparel trends and changing consumer preferences.

Our success is, in large part, dependent upon our ability to identify apparel trends, predict and gauge the tastes of our clients, and provide a service that satisfies client demand in a timely manner. However, lead times for many of our purchasing decisions may make it difficult for us to respond rapidly to new or changing apparel trends or client acceptance of merchandise chosen by our merchandising buyers. We generally enter into purchase contracts significantly in advance of anticipated sales and frequently before apparel trends are confirmed by client purchases. In the past, we have not always predicted our clients' preferences and acceptance levels of our merchandise with accuracy. Further, we use our data science to predict our clients' preferences and gauge demand for our merchandise, and there is no guarantee that our data science and algorithms will accurately anticipate client demand and tastes. Our entry into the UK also requires us to become familiar with different apparel trends and customer preferences. In addition, consumer shopping behavior may continue to evolve and we may need to adapt our service to such changes, which could be further complicated by any future expansion into additional geographic markets. To the extent we misjudge the market for the service we offer or fail to execute on trends and deliver attractive merchandise to clients, our sales will decline and our operating results will be adversely affected.

If we are unable to manage our inventory effectively, our operating results could be adversely affected.

To ensure timely delivery of merchandise, we generally enter into purchase contracts well in advance of a particular season and often before apparel trends are confirmed by client purchases. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases. In the past, we have not always predicted our clients' preferences and acceptance levels of our trend items with accuracy, which has resulted in significant inventory write offs and lower gross margins. Furthermore, we do not use the same liquidation methods as traditional retailers, such as markdowns. We rely on our merchandising team to order styles and products that our clients will purchase and we rely on our data science to inform the levels of inventory we purchase, including when to reorder items that are selling well and when to write off items that are not selling well. If our merchandise team does not predict client demand and tastes well or if our algorithms do not help us reorder the right products or write off the right products timely, we may not effectively manage our inventory and our operating results could be adversely affected.

Our business depends on a strong brand and we may not be able to maintain our brand and reputation.

We believe that maintaining the Stitch Fix brand and reputation is critical to driving client engagement and attracting clients and merchandise vendors. Building our brand will depend largely on our ability to continue to provide our clients with an engaging and personalized client experience, including valued personal styling services, high-quality merchandise, and appropriate price points, which we may not do successfully. Client complaints or negative publicity about our styling services, merchandise, delivery times, or client support, especially on social media platforms, could harm our reputation and diminish client use of our services, the trust that our clients place in Stitch Fix, and vendor confidence in us.

Our brand depends in part on effective client support, which requires significant personnel expense. Failure to manage or train our client support representatives properly or inability to handle client complaints effectively could negatively affect our brand, reputation, and operating results.

If we fail to cost-effectively promote and maintain the Stitch Fix brand, our business, financial condition, and operating results may be adversely affected.

If we fail to attract and retain key personnel, effectively manage succession, or hire, develop, and motivate our employees, our business, financial condition, and operating results could be adversely affected.

Our success, including our ability to anticipate and effectively respond to changing style trends and deliver a personalized styling experience, depends in part on our ability to attract and retain key personnel on our executive team and in our merchandising, algorithms, engineering, marketing, styling, and other organizations.

We do not have long-term employment or non-competition agreements with any of our personnel. Senior employees have left Stitch Fix in the past and others may in the future, which we cannot necessarily anticipate and whom we may not be able to promptly replace. The

loss of one or more of our key personnel or the inability to promptly identify a suitable successor to a key role could have an adverse effect on our business. In particular, our Founder and Chief Executive Officer has unique and valuable experience leading our company from its inception through today. If she were to depart or otherwise reduce her focus on Stitch Fix, our business may be disrupted. We do not currently maintain key-person life insurance policies on any member of our senior management team or other key employees.

We also face significant competition for personnel, particularly in the San Francisco Bay Area where our headquarters are located. To attract top talent, we have had to offer, and believe we will need to continue to offer, competitive compensation and benefits packages before we can validate the productivity of those employees. We may also need to increase our employee compensation levels in response to competition. We cannot be sure that we will be able to attract, retain, and motivate a sufficient number of qualified personnel in the future, or that the compensation costs of doing so will not adversely affect our operating results. Additionally, we may not be able to hire new employees quickly enough to meet our needs. If we fail to effectively manage our hiring needs or successfully integrate new hires, our efficiency, ability to meet forecasts, and employee morale, productivity, and retention could suffer, which may have an adverse effect on our business, financial condition, and operating results.

If we fail to effectively manage our stylists, our business, financial condition and operating results could be adversely affected.

More than 5,100 of our employees are stylists, who work remotely and on a part-time basis for us and are paid hourly. They track and report the time they spend working for us. These employees are classified as nonexempt under federal and state law. If we fail to effectively manage our stylists, including by ensuring accurate tracking and reporting of their hours worked and proper processing of their hourly wages, then we may face claims alleging violations of wage and hour employment laws, including, without limitation, claims of back wages, unpaid overtime pay, and missed meal and rest periods. Any such employee litigation could be attempted on a class or representative basis. Such litigation can be expensive and time-consuming regardless of whether the claims against us are valid or whether we are ultimately determined to be liable, and could divert management's attention from our business. We could also be adversely affected by negative publicity, litigation costs resulting from the defense of these claims, and the diversion of time and resources from our operations.

Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, and warehousing.

We currently source nearly all of the merchandise we offer from third-party vendors, many of whom use manufacturers in the same geographic region, and as a result we may be subject to price fluctuations, including from tariffs, or demand disruptions. Our operating results would be negatively impacted by increases in the cost of our merchandise, and we have no guarantees that costs will not rise. In addition, as we expand into new categories, product types, and geographies, we expect that we may not have strong purchasing power in these new areas, which could lead to higher costs than we have historically seen in our current categories. We may not be able to pass increased costs on to clients, which could adversely affect our operating results.

The fabrics used by our vendors are made of raw materials including petroleum-based products and cotton. Significant price fluctuations or shortages in petroleum, cotton, or other raw materials could significantly increase our cost of goods sold. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used in the manufacture of the merchandise we offer, our vendors might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. For example, natural disasters have in the past increased raw material costs, impacting pricing with certain of our vendors, and caused shipping delays for certain of our merchandise. In addition, the labor costs to produce our products may fluctuate. Any delays, interruption, damage to, or increased costs in the manufacture of the merchandise we offer could result in higher prices to acquire the merchandise, or non-delivery of merchandise altogether, and could adversely affect our operating results.

In addition, we cannot guarantee that merchandise we receive from vendors will be of sufficient quality or free from damage, or that such merchandise will not be damaged during shipping, while stored in one of our fulfillment centers, or when returned by customers. While we take measures to ensure merchandise quality and avoid damage, including evaluating vendor product samples, conducting inventory inspections, and inspecting returned product, we cannot control merchandise while it is out of our possession or prevent all damage while in our fulfillment centers. We may incur additional expenses and our reputation could be harmed if clients and potential clients believe that our merchandise is not of high quality or may be damaged.

If we are unable to acquire new merchandise vendors or retain existing merchandise vendors, our operating results may be harmed.

We offer merchandise from hundreds of established and emerging brands. In order to continue to attract and retain quality merchandise brands, we must help merchandise vendors increase their sales and offer them a high-quality, cost-effective fulfillment process.

If we do not continue to acquire new merchandise vendors or retain our existing merchandise vendors on acceptable commercial terms, we may not be able to maintain a broad selection of products for our clients, and our operating results may suffer.

In addition, our Exclusive Brands are sourced from third-party vendors and contract manufacturers. The loss of one of our Exclusive Brand vendors, or our inability to source any additional vendors needed for our Exclusive Brands, could require us to source Exclusive Brand merchandise from another vendor or manufacturer, which could cause inventory delays, impact our clients' experiences, and otherwise harm our operating results.

Any failure by us or our vendors to comply with product safety, labor, or other laws, or our standard vendor terms and conditions, or to provide safe factory conditions for our or their workers, may damage our reputation and brand, and harm our business.

The merchandise we sell to our clients is subject to regulation by the Federal Consumer Product Safety Commission, the Federal Trade Commission, and similar state and international regulatory authorities. As a result, such merchandise could in the future be subject to recalls and other remedial actions. Product safety, labeling, and licensing concerns may result in us voluntarily removing selected merchandise from our inventory. Such recalls or voluntary removal of merchandise can result in, among other things, lost sales, diverted resources, potential harm to our reputation, and increased client service costs and legal expenses, which could have a material adverse effect on our operating results.

Some of the merchandise we sell, including the children's merchandise sold through Stitch Fix Kids, may expose us to product liability claims and litigation or regulatory action relating to personal injury or environmental or property damage. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms or at all. In addition, some of our agreements with our vendors may not indemnify us from product liability for a particular vendor's merchandise or our vendors may not have sufficient resources or insurance to satisfy their indemnity and defense obligations.

We purchase our merchandise from numerous domestic and international vendors. Our standard vendor terms and conditions require vendors to comply with applicable laws. We have hired independent firms that conduct audits of the working conditions at the factories producing our Exclusive Brand products. If an audit reveals potential problems, we require that the vendor institute corrective action plans to bring the factory into compliance with our standards, or we may discontinue our relationship with the vendor. The loss of an Exclusive Brand vendor due to failure to comply with our standards could cause inventory delays, impact our clients' experiences, and otherwise harm our operating results. In addition, failure of our vendors to comply with applicable laws and regulations and contractual requirements could lead to litigation against us, resulting in increased legal expenses and costs. Furthermore, the failure of any such vendors to provide safe and humane factory conditions and oversight at their facilities could damage our reputation with clients or result in legal claims against us.

We may incur significant losses from fraud.

We have in the past incurred and may in the future incur losses from various types of fraud, including stolen credit card numbers, claims that a client did not authorize a purchase, merchant fraud, and clients who have closed bank accounts or have insufficient funds in open bank accounts to satisfy payments. In addition to the direct costs of such losses, if the fraud is related to credit card transactions and becomes excessive, it could result in us paying higher fees or losing the right to accept credit cards for payment. In addition, under current credit card practices, we are typically liable for fraudulent credit card transactions. Our failure to adequately prevent fraudulent transactions could damage our reputation, result in litigation or regulatory action, and lead to expenses that could substantially impact our operating results.

We are subject to payment-related risks.

We accept payments online via credit and debit cards and online payment systems such as PayPal, which subjects us to certain regulations and fraud. We may in the future offer new payment options to clients that would be subject to additional regulations and risks. We pay interchange and other fees in connection with credit card payments, which may increase over time and adversely affect our operating results. While we use a third party to process payments, we are subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard and rules governing electronic funds transfers. If we fail to comply with applicable rules and regulations, we may be subject to fines or higher transaction fees and may lose our ability to accept online payments or other payment card transactions. If any of these events were to occur, our business, financial condition, and operating results could be adversely affected.

System interruptions that impair client access to our website or other performance failures in our technology infrastructure could damage our business.

The satisfactory performance, reliability, and availability of our website, mobile application, internal applications, and technology infrastructure are critical to our business. We rely on our website and mobile application to engage with our clients and sell them merchandise. We also rely on a host of internal custom-built applications to run critical business functions, such as styling, merchandise purchasing, warehouse operations, and order fulfillment. In addition, we rely on a variety of third-party, cloud-based solution vendors for key elements of our technology infrastructure. These systems are vulnerable to damage or interruption and we have experienced interruptions in the past. For example, in February 2017, as a result of an outage with Amazon Web Services, where much of our technology infrastructure is hosted, we experienced disruptions in applications that support our warehouse operations and order fulfillment that caused a temporary slowdown in the number of Fix shipments we were able to make. Interruptions may be caused by a variety of incidents, including human error, our failure to update or improve our proprietary systems, cyber attacks, fire, flood, earthquake, power loss, or telecommunications failures. Any failure or interruption of our website, mobile application, internal business applications, or our technology infrastructure could harm our ability to serve our clients, which would adversely affect our business and operating results.

Our use of personal information and other data subjects us to privacy laws and obligations, and our failure to comply with such obligations could harm our business.

We collect and maintain significant amounts of personal information and other data relating to our clients and employees. Numerous laws, rules, and regulations in the United States and internationally, including the EU's General Data Protection Regulation ("GDPR"), govern privacy and the collection, use, and protection of personal information. These laws, rules, and regulations evolve frequently and may be inconsistent from one jurisdiction to another or may be interpreted to conflict with our practices. Any failure or perceived failure by us or any third parties with which we do business to comply with these laws, rules, and regulations, or with other obligations to which we may be or become subject, may result in actions against us by governmental entities, private claims and litigation, fines, penalties, or other liabilities. Any such action would be expensive to defend, damage our reputation, and adversely affect our business and operating results. For example, the GDPR imposes more stringent data protection requirements and provides greater penalties for noncompliance than previous data protection laws. Further, the UK government has initiated a process to leave the EU ("Brexit"). Brexit has created uncertainty with regard to the regulation of data protection in the UK. In particular, it is uncertain whether the UK will enact data protection laws or regulations designed to be consistent with the GDPR and how data transfers to and from the UK will be regulated. Similarly, the State of California legislature passed the California Consumer Privacy Act of 2018 ("CCPA"), which will require us to make new disclosures to consumers about our data collection, use, and sharing practices. The CCPA also allows consumers to opt out of certain data sharing with third parties, and provides a new cause of action for data breaches with the possibility of significant statutory damage awards. As currently enacted, the act takes effect on January 1, 2020. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws as imposing standards for the online collection, use, dissemination, and security of data.

Unfavorable changes or failure by us to comply with evolving internet and eCommerce regulations could substantially harm our business and operating results.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the internet and eCommerce. These regulations and laws may involve taxes, privacy and data security, consumer protection, the ability to collect and/or share necessary information that allows us to conduct business on the internet, marketing communications and advertising, content protection, electronic contracts, or gift cards. Furthermore, the regulatory landscape impacting internet and eCommerce businesses is constantly evolving. For example, California's Automatic Renewal Law requires companies to adhere to enhanced disclosure requirements when entering into automatically renewing contracts with consumers. As a result, a wave of consumer class action lawsuits was brought against companies that offer online products and services on a subscription or recurring basis. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, lost business, and proceedings or actions against us by governmental entities or others, which could impact our operating results.

If the use of "cookie" tracking technologies is further restricted, regulated, or blocked, or if changes in technology cause cookies to become less reliable or acceptable as a means of tracking consumer behavior, the amount or accuracy of internet user information we collect would decrease, which could harm our business and operating results.

Cookies are small data files that are sent by websites and stored locally on an internet user's computer or mobile device. We, and third parties who work on our behalf, collect data via cookies that is used to track the behavior of visitors to our sites, to provide a more personal and interactive experience, and to increase the effectiveness of our marketing. However, internet users can easily disable, delete, and block cookies directly through browser settings or through other software, browser extensions, or hardware platforms that physically block cookies from being created and stored.

Privacy regulations restrict how we deploy our cookies and this could potentially increase the number of internet users that choose to proactively disable cookies on their systems. In the EU, the Directive on Privacy and Electronic Communications requires users to give their consent before cookie data can be stored on their local computer or mobile device. Users can decide to opt out of nearly all cookie data creation, which could negatively impact our operating results. We may have to develop alternative systems to determine our clients' behavior, customize their online experience, or efficiently market to them if clients block cookies or regulations introduce additional barriers to collecting cookie data.

Material weaknesses in our internal control over financial reporting may cause us to fail to timely and accurately report our financial results or result in a material misstatement of our financial statements.

As of August 3, 2019, we had material weaknesses in our internal control over financial reporting, as defined in the standards established by the Sarbanes-Oxley Act of 2002, (the "Sarbanes-Oxley Act"). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements would not be prevented or detected on a timely basis.

As of August 3, 2019, we identified a material weakness in our internal control over financial reporting associated with certain outsourced IT service providers and related material weaknesses in components of the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Specifically, we rely on a variety of outsourced IT service providers for key elements of the technology infrastructure impacting our financial reporting process. Certain of these outsourced IT service providers could not provide System and Organization Controls ("SOC") reports or, if they did, they were for periods that did not closely align with

our fiscal year end. As such, we did not have controls designed to assess the design and operation of internal controls pertaining to these outsourced IT service providers over our period of reliance. Given that management did not effectively assess the design and operation of certain outsourced IT service providers' internal controls, certain of our controls over IT systems and business processes were also ineffective, to the extent that they rely upon information that was subject to the outsourced IT service providers' control environment. These deficiencies impact substantially all financial statement account balances and disclosures, and when aggregated represent a material weakness in internal control over financial reporting. Given the outsourced IT service providers material weakness, we identified related COSO material weaknesses, including (a) deficiencies in the principles associated with the control activities component of the COSO framework relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives, and (ii) selecting and developing general control activities over technology to support the achievement of objectives and (b) deficiencies in the principles associated with the monitoring component of the COSO framework relating to selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal control are present and functioning.

We have initiated and will continue to implement remediation plans to address the outsourced IT service providers and related COSO material weaknesses including, but not limited to, expanding controls and/or applying other appropriate procedures to address the design and operation of internal controls relating to certain outsourced IT service providers and enhancing procedures for the identification of control activities and monitoring of control performance to ensure that the components of internal control relating to certain outsourced IT service providers are present and functioning.

In fiscal year 2020, we intend to continue executing these plans to remediate the material weaknesses. However, we cannot be certain that the measures we have taken or may take in the future will ensure that we establish and maintain adequate controls over our financial processes and reporting in the future.

If we identify future material weaknesses in our internal controls over financial reporting or fail to meet the demands placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to accurately report our financial results or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Section 404 of the Sarbanes-Oxley Act could also potentially subject us to sanctions or investigations by the Securities and Exchange Commission ("SEC") or other regulatory authorities. If additional material weaknesses exist or are discovered in the future, and we are unable to remediate any such material weakness, our reputation, financial condition, and operating results could suffer.

Shipping is a critical part of our business and any changes in our shipping arrangements or any interruptions in shipping could adversely affect our operating results.

We currently rely on two major vendors for our shipping. If we are not able to negotiate acceptable pricing and other terms with these entities or they experience performance problems or other difficulties, it could negatively impact our operating results and our clients' experience. In addition, our ability to receive inbound inventory efficiently and ship merchandise to clients may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, and similar factors. For example, in the past, strikes at major international shipping ports have impacted our supply of inventory from our vendors. In addition, as a result of Hurricane Harvey in September 2017, one of our shipping vendors was unable to deliver Fixes to certain affected areas for several weeks, resulting in delivery delays and Fix cancellations. We are also subject to risks of damage or loss during delivery by our shipping vendors. If our merchandise is not delivered in a timely fashion or is damaged or lost during the delivery process, our clients could become dissatisfied and cease using our services, which would adversely affect our business and operating results.

Our operating results could be adversely affected by natural disasters, public health crises, political crises, or other catastrophic events.

Our principal offices and one of our fulfillment centers are located in the San Francisco Bay Area, which has a history of earthquakes, and are thus vulnerable to damage. We also operate offices and fulfillment centers in other regions. Natural disasters, such as earthquakes, hurricanes, tornadoes, floods, fires, and other adverse weather and climate conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, and other political instability; or other catastrophic events, whether occurring in the United States or internationally, could disrupt our operations in any of our offices and fulfillment centers or the operations of one or more of our third-party providers or vendors. In particular, these types of events could impact our merchandise supply chain, including our ability to ship merchandise to clients from or to the impacted region, and could impact our ability or the ability of third parties to operate our sites and ship merchandise. In addition, these types of events could negatively impact consumer spending in the impacted regions. To the extent any of these events occur, our business and operating results could be adversely affected.

If we cannot successfully protect our intellectual property, our business would suffer.

We rely on trademark, copyright, trade secrets, patents, confidentiality agreements, and other practices to protect our brands, proprietary information, technologies, and processes. Our principal trademark assets include the registered trademarks "Stitch Fix" and "Fix," multiple private label clothing and accessory brand names, and our logos and taglines. Our trademarks are valuable assets that support our brand and consumers' perception of our services and merchandise. We also hold the rights to the "stitchfix.com" internet domain name and various other related domain names, which are subject to internet regulatory bodies and trademark and other related laws of each applicable jurisdiction. If we are unable to protect our trademarks or domain names in the United States, the UK, or in other jurisdictions in which

we may ultimately operate, our brand recognition and reputation would suffer, we would incur significant expense establishing new brands and our operating results would be adversely impacted.

As of August 3, 2019, we have one patent issued and a number of additional patent applications pending in the United States. We have also filed patent applications in the People's Republic of China. The patent we own and those that may be issued in the future may not provide us with any competitive advantages or may be challenged by third parties, and our patent applications may never be granted. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property or survive a legal challenge, as the legal standards relating to the validity, enforceability, and scope of protection of patent and other intellectual property rights are uncertain. Our limited patent protection may restrict our ability to protect our technologies and processes from competition. We primarily rely on trade secret laws to protect our technologies and processes, including the algorithms we use throughout our business. Others may independently develop the same or similar technologies and processes, or may improperly acquire and use information about our technologies and processes, which may allow them to provide a service similar to ours, which could harm our competitive position.

We may be required to spend significant resources to monitor and protect our intellectual property rights, and the efforts we take to protect our proprietary rights may not be sufficient.

We may be accused of infringing intellectual property rights of third parties.

We are also at risk of claims by others that we have infringed their copyrights, trademarks, or patents, or improperly used or disclosed their trade secrets. The costs of supporting any litigation or disputes related to these claims can be considerable, and we cannot assure you that we will achieve a favorable outcome of any such claim. If any such claims are valid, we may be compelled to cease our use of such intellectual property and pay damages, which could adversely affect our business. Even if such claims are not valid, defending them could be expensive and distracting, adversely affecting our operating results.

Changes in U.S. tax or tariff policy regarding apparel produced in other countries could adversely affect our business.

A predominant portion of the apparel we sell is originally manufactured in countries other than the United States. International trade disputes that result in tariffs and other protectionist measures could adversely affect our business, including disruption and cost increases in our established patterns for sourcing our merchandise and increased uncertainties in planning our sourcing strategies and forecasting our margins. For example, the U.S. government recently imposed significant new tariffs on China related to the importation of certain product categories, including apparel, footwear, and other goods. A substantial portion of our products are manufactured in China. As a result of these tariffs, we expect our cost of goods imported from China to increase, which may negatively impact our sales or profitability. Additional tariffs on goods imported from China have been proposed by the U.S. government, which could have a material adverse effect on our sales and profitability. Although we are actively reviewing options to mitigate our exposure to current or potential tariffs, there can be no assurance that we will be able to offset any increased costs. Other changes in U.S. tariffs, quotas, trade relationships, or tax provisions could also reduce the supply of goods available to us or increase our cost of goods. Although such changes would have implications across the entire industry, we may fail to effectively adapt to and manage the adjustments in strategy that would be necessary in response to those changes. In addition to the general uncertainty and overall risk from potential changes in U.S. laws and policies, as we make business decisions in the face of such uncertainty, we may incorrectly anticipate the outcomes, miss out on business opportunities, or fail to effectively adapt our business strategies and manage the adjustments that are necessary in response to those changes. These risks could adversely affect our revenues, reduce our profitability, and negatively impact our business.

We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our clients would have to pay for our offering and adversely affect our operating results.

In general, we have not historically collected state or local sales, use, or other similar taxes in any jurisdictions in which we do not have a tax nexus, in reliance on court decisions or applicable exemptions that restrict or preclude the imposition of obligations to collect such taxes with respect to online sales of our products. In addition, we have not historically collected state or local sales, use, or other similar taxes in certain jurisdictions in which we do have a physical presence, in reliance on applicable exemptions. On June 21, 2018, the U.S. Supreme Court decided, in *South Dakota v. Wayfair, Inc.*, that state and local jurisdictions may, at least in certain circumstances, enforce a sales and use tax collection obligation on remote vendors that have no physical presence in such jurisdiction. A number of states have already begun, or have positioned themselves to begin, requiring sales and use tax collection by remote vendors and/or by online marketplaces. The details and effective dates of these collection requirements vary from state to state. We are in the process of determining how and when our collection practices will need to change in the relevant jurisdictions. It is possible that one or more jurisdictions may assert that we have liability for periods for which we have not collected sales, use, or other similar taxes, and if such an assertion or assertions were successful it could result in substantial tax liabilities, including for past sales taxes and penalties and interest, which could materially adversely affect our business, financial condition, and operating results.

Federal income tax reform could have unforeseen effects on our financial condition and results of operations.

The Tax Cut and Jobs Act (the "Tax Act") was enacted on December 22, 2017, and contains many significant changes to U.S. federal tax laws. The Tax Act requires complex computations that were not previously provided for under U.S. tax law. We provided for an estimated effect of the Tax Act in our financial statements for the period ended July 28, 2018. The Tax Act requires significant judgments to be made in the interpretation of the law and significant estimates in the calculation of the provision for income taxes. However, additional guidance may be issued by the Internal Revenue Service ("IRS"), the Department of the Treasury, or other governing body that may

significantly differ from our interpretation of the law, which may result in a material adverse effect on our business, cash flow, results of operations, or financial conditions.

We may be subject to additional tax liabilities, which could adversely affect our operating results.

We are subject to income- and non-income-based taxes in the United States under federal, state, and local jurisdictions and in the UK. The governing tax laws and applicable tax rates vary by jurisdiction and are subject to interpretation, which tax authorities may disagree with upon review or audit across open examination periods. Various tax authorities may disagree with tax positions we take and if any such tax authorities were to successfully challenge one or more of our tax positions, the results could have a material effect on our operating results. Further, the ultimate amount of tax payable in a given financial statement period may be materially impacted by sudden or unforeseen changes in tax laws, changes in the mix and level of earnings by taxing jurisdictions, or changes to existing accounting rules or regulations. The determination of our overall provision for income and other taxes is inherently uncertain as it requires significant judgment around complex transactions and calculations. As a result, fluctuations in our ultimate tax obligations may differ materially from amounts recorded in our financial statements and could adversely affect our business, financial condition, and operating results in the periods for which such determination is made.

We may require additional capital to support business growth, and this capital might not be available or may be available only by diluting existing stockholders.

We intend to continue making investments to support our business growth and may require additional funds to support this growth and respond to business challenges, including the need to develop our services, expand our inventory, enhance our operating infrastructure, expand the markets in which we operate, and potentially acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our Class A common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business and prospects could fail or be adversely affected.

Our failure to adequately and effectively staff our fulfillment centers, through third parties or with our own employees, could adversely affect our client experience and operating results.

We currently receive and distribute merchandise at six fulfillment centers in the United States, one of which is operated by a third party. We also have a seventh fulfillment center in the UK, which is operated by the same third party that we use in the United States. If we or our third-party partner are unable to adequately staff our fulfillment centers to meet demand or if the cost of such staffing is higher than historical or projected costs due to mandated wage increases, regulatory changes, international expansion, or other factors, our operating results could be harmed. In addition, operating fulfillment centers comes with potential risks, such as workplace safety issues and employment claims for the failure or alleged failure to comply with labor laws or laws respecting union organizing activities. Furthermore, if we fail to comply with wage and hour laws for our nonexempt employees, many of whom work in our fulfillment centers, we could be subject to legal risk, including claims for back wages, unpaid overtime pay, and missed meal and rest periods, which could be on a class or representative basis. Any such issues may result in delays in shipping times, reduced packing quality, or costly litigation, and our reputation and operating results may be harmed.

By using a third-party operator for some of our fulfillment centers, we also face additional risks associated with not having complete control over operations at those fulfillment centers. Any deterioration in the financial condition or operations of that third party, or the loss of the relationship with that third party, would have significant impact on our operations.

Some of our software and systems contain open source software, which may pose particular risks to our proprietary applications.

We use open source software in the applications we have developed to operate our business and will use open source software in the future. We may face claims from third parties demanding the release or license of the open source software or derivative works that we developed from such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. In addition, our use of open source software may present additional security risks because the source code for open source software is publicly available, which may make it easier for hackers and other third parties to determine how to breach our website and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage and, if not addressed, could have an adverse effect on our business and operating results.

Adverse litigation judgments or settlements resulting from legal proceedings in which we are or may be involved could expose us to monetary damages or limit our ability to operate our business.

Currently, we are involved in various legal proceedings, including the securities litigation and other matters described elsewhere in this Annual Report. We have in the past and may in the future become involved in other private actions, collective actions, investigations, and various other legal proceedings by clients, employees, suppliers, competitors, government agencies, stockholders, or others. The results of any such litigation, investigations, and other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time, and divert significant resources. If any of these legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or limits on our ability to operate our business, which could have an adverse effect on our business, financial condition, and operating results.

If we are unable to make acquisitions and investments, or successfully integrate them into our business, our business could be harmed.

As part of our business strategy, we may acquire other companies or businesses. However, we may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. Acquisitions involve numerous risks, any of which could harm our business and negatively affect our operating results, including:

- difficulties in integrating the technologies, operations, existing contracts, and personnel of an acquired company;
- difficulties in supporting and transitioning clients and suppliers, if any, of an acquired company;
- diversion of financial and management resources from existing operations or alternative acquisition opportunities;
- failure to realize the anticipated benefits or synergies of a transaction;
- failure to identify all of the problems, liabilities, or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance practices, revenue recognition or other accounting practices, or employee or client issues;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, clients, vendors, and suppliers from either our current business or an acquired company's business;
- inability to generate sufficient revenue to offset acquisition costs;
- additional costs or equity dilution associated with funding the acquisition; and
- possible write-offs or impairment charges relating to acquired businesses.

Risks Relating to Ownership of Our Class A Common Stock

The market price of our Class A common stock may continue to be volatile or may decline steeply or suddenly regardless of our operating performance and we may not be able to meet investor or analyst expectations. You may lose all or part of your investment.

The market price of our Class A common stock may fluctuate or decline significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our client base, the level of client engagement, revenue, or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors, and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information, or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- whether investors or securities analysts view our stock structure unfavorably, particularly our dual-class structure and the significant voting control of our executive officers, directors, and their affiliates;
- additional shares of our Class A common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of companies in our industry, including our vendors and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;

- lawsuits threatened or filed against us;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many eCommerce and other technology companies' stock prices. Often, their stock prices have fluctuated in ways unrelated or disproportionate to the companies' operating performance. In the past, stockholders have filed securities class action litigation following periods of market volatility. For example, beginning in October 2018, we and certain of our directors and officers were sued in putative class action and derivative lawsuits alleging violations of the federal securities laws for allegedly making materially false and misleading statements. We may be the target of additional litigation of this type in the future as well. Such securities litigation could subject us to substantial costs, divert resources and the attention of management from our business, and seriously harm our business.

Moreover, because of these fluctuations, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our Class A common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated revenue or earnings forecasts that we may provide.

An active trading market for our Class A common stock may not be sustained.

Our Class A common stock is currently listed on the Nasdaq Global Select Market ("Nasdaq") under the symbol "SFIX" and trades on that market and others. We cannot assure you that an active trading market for our Class A common stock will be sustained. Accordingly, we cannot assure you of the liquidity of any trading market, your ability to sell your shares of our Class A common stock when desired or the prices that you may obtain for your shares.

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders sell or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, the trading price of our Class A common stock could decline. In addition, shares underlying any outstanding options and restricted stock units will become eligible for sale if exercised or settled, as applicable, and to the extent permitted by the provisions of various vesting agreements and Rule 144 of the Securities Act. All the shares of Class A and Class B common stock subject to stock options and restricted stock units outstanding and reserved for issuance under our 2011 Equity Incentive Plan, as amended, and our 2017 Incentive Plan have been registered on Form S-8 under the Securities Act and such shares are eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our Class A common stock could decline.

The dual class structure of our common stock concentrates voting control with our executive officers, directors and their affiliates, and may depress the trading price of our Class A common stock.

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As a result, the holders of our Class B common stock, including our directors, executive officers, and their affiliates, are able to exercise considerable influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or our assets, even if their stock holdings represent less than 50% of the outstanding shares of our capital stock. As of September 27, 2019, 47,096,268 of our 101,646,601 shares outstanding were held by our directors, executive officers, and their affiliates, and 46,497,807 of such shares held by our directors, executive officers, and their affiliates were shares of Class B common stock. This concentration of ownership will limit the ability of other stockholders to influence corporate matters and may cause us to make strategic decisions that could involve risks to you or that may not be aligned with your interests. This control may adversely affect the market price of our Class A common stock.

In addition, in July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Affected indices include the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Under the announced policies, our dual class capital structure currently makes us ineligible for inclusion in Standard & Poor's indices and, as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track the S&P indices will not be investing in our stock. These policies are new and it is unclear what effect, if any, they will have on the valuations of publicly traded companies excluded from the indices, but it is possible that they may depress these valuations compared to those of other similar companies that are included.

If securities or industry analysts either do not publish research about us or publish inaccurate or unfavorable research about us, our business, or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our Class A common stock could decline.

The trading market for our Class A common stock is influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market, or our competitors. If one or more of the analysts initiate research with an unfavorable rating or downgrade our Class A common stock, provide a more favorable recommendation about our competitors, or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume of our Class A common stock to decline.

We do not currently intend to pay dividends on our Class A common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation of the value of our Class A common stock.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to pay any cash dividends on our Class A common stock in the foreseeable future. As a result, any investment return on our Class A common stock will depend upon increases in the value for our Class A common stock, which is not certain.

Future securities sales and issuances could result in significant dilution to our stockholders and impair the market price of our Class A common stock.

We may issue additional equity securities in the future. We also issue common stock to our employees and others under our incentive plans. Future issuances of shares of our Class A common stock or the conversion of a substantial number of shares of our Class B common stock, or the perception that these sales or conversions may occur, could depress the market price of our Class A common stock and result in dilution to existing holders of our Class A common stock. Also, to the extent outstanding options to purchase our shares of our Class A or Class B common stock are exercised or options or other stock-based awards are issued or become vested, there will be further dilution. The amount of dilution could be substantial depending upon the size of the issuances or exercises. Furthermore, we may issue additional equity securities that could have rights senior to those of our Class A common stock. As a result, holders of our Class A common stock bear the risk that future issuances of debt or equity securities may reduce the value of our Class A common stock and further dilute their ownership interest.

The requirements of being a public company may strain our resources, result in more litigation, and divert management's attention.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq, and other applicable securities rules and regulations. Complying with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, make some activities more difficult, time consuming, or costly, and increase demand on our systems and resources. To address these challenges, we have expanded our finance and accounting teams. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are required to disclose changes made in our internal control and procedures on a quarterly basis. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire additional employees or engage outside consultants to comply with these requirements, which will increase our costs and expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

These new rules and regulations may make it more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

By disclosing information in filings required of a public company, our business and financial condition are more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If those claims are successful, our business

could be seriously harmed. Even if the claims do not result in litigation or are resolved in our favor, the time and resources needed to resolve them could divert our management's resources and seriously harm our business.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the trading price of our Class A common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our Class A common stock by acting to discourage, delay, or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions include the following:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that directors may only be removed for cause;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of "blank check" preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws;
- restrict the forum for certain litigation against us to Delaware;
- reflect the dual class structure of our common stock; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Any provision of our amended and restated certificate of incorporation or amended and restated bylaws that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States are the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal affairs doctrine.

This provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the U.S. federal courts have exclusive jurisdiction. Our amended and restated certificate of incorporation further provides that the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, subject to and contingent upon a final adjudication in the State of Delaware of the enforceability of such exclusive forum provision.

These exclusive forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. We are currently subject to a stockholder derivative action regarding the validity of the federal exclusive forum provision. In December 2018, the Court of Chancery of the State of Delaware issued an opinion holding that the provision stating that U.S. federal district courts are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act is not enforceable. We have appealed this decision to the Delaware Supreme Court. If the Delaware Supreme Court ultimately affirms the Court of Chancery's decision, we may be required to pay the plaintiffs' attorneys fees and future stockholder disputes arising under the Securities Act may be more costly for us to resolve.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal physical properties are located in the United States and UK. Our corporate headquarters are located in San Francisco, California, and comprise approximately 134,000 square feet of space. We lease an additional 34,800 square feet of office space in Texas, where our client experience team is based.

We also lease and operate five fulfillment centers, comprising a total of approximately 2,578,000 square feet, at which we receive merchandise from vendors, ship products to clients and receive and process returns from clients. These facilities are located in California, Arizona, Texas, Pennsylvania, and Georgia. Our sixth fulfillment center in Indiana, representing approximately 400,000 square feet, is leased and operated by a third-party logistics contractor. Our seventh fulfillment center in England, representing approximately 277,000 square feet, is leased and operated by a third-party logistics contractor.

We believe our facilities, including our planned expansions, are sufficient for our current needs.

Item 3. Legal Proceedings.

On October 11, 2018, October 26, 2018, November 16, 2018, and December 10, 2018, four putative class action lawsuits alleging violations of the federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The four lawsuits each make the same allegations of violations of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), by us and our officers for allegedly making materially false and misleading statements regarding our active client growth and strategy with respect to television advertising between June 2018 and October 2018. The plaintiffs seek unspecified monetary damages and other relief. The four lawsuits have been consolidated and a lead plaintiff has been appointed. The lead plaintiff filed a consolidated amended complaint on September 18, 2019. We dispute these claims and intend to defend the matter vigorously.

On December 12, 2018, a derivative action was filed against our directors in the same court, alleging the same violations of securities laws as alleged in the four putative class action lawsuits described above, and a breach of fiduciary duties. The derivative action has been stayed pending the outcome of the motion to dismiss in the related class action lawsuits.

On December 29, 2017, a lawsuit was filed by a holder of shares of our Class A common stock in the Court of Chancery of the State of Delaware, naming as defendants us and certain of our directors, as well as two other public companies and certain of their directors. The lawsuit sought a court determination that Article VI, Section E of our amended and restated certificate of incorporation, purporting to limit to federal court the forum in which a stockholder could bring a claim under the Securities Act of 1933, as amended (the "Securities Act"), and similar provisions in our co-defendants' certificates of incorporation, were invalid. On December 19, 2018, the Chancery Court of the State of Delaware issued an opinion in *Sciabacucchi v. Salzberg*, invalidating our federal exclusive forum provision. We have appealed this decision to the Delaware Supreme Court.

In addition, we are subject to legal proceedings that arise in the ordinary course of business. We have in the past and may in the future become involved in private actions, collective actions, investigations and various other legal proceedings by clients, employees, suppliers, competitors, government agencies, stockholders or others. We evaluate any claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, and the expected effect on us of defending the claims and a potential adverse result. However, the results of any litigation, investigations and other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time and divert significant resources. If any legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or limits on our ability to operate our business, which could have an adverse effect on our business, financial condition and operating results.

Item 4. Mine Safety Disclosures.

None.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information for Common Stock**

Our Class A common stock, par value \$0.00002 per share, is listed on the Nasdaq Global Select Market, under the symbol "SFIX" and began trading on November 17, 2017. Prior to that date, there was no public trading market for our Class A common stock. There is no public trading market for our Class B common stock, par value \$0.00002 per share.

Holders of Record

As of the close of business on September 27, 2019, there were 49 stockholders of record of our Class A common stock and 36 stockholders of record of our Class B common stock. The actual number of holders of our Class A and Class B common stock is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or

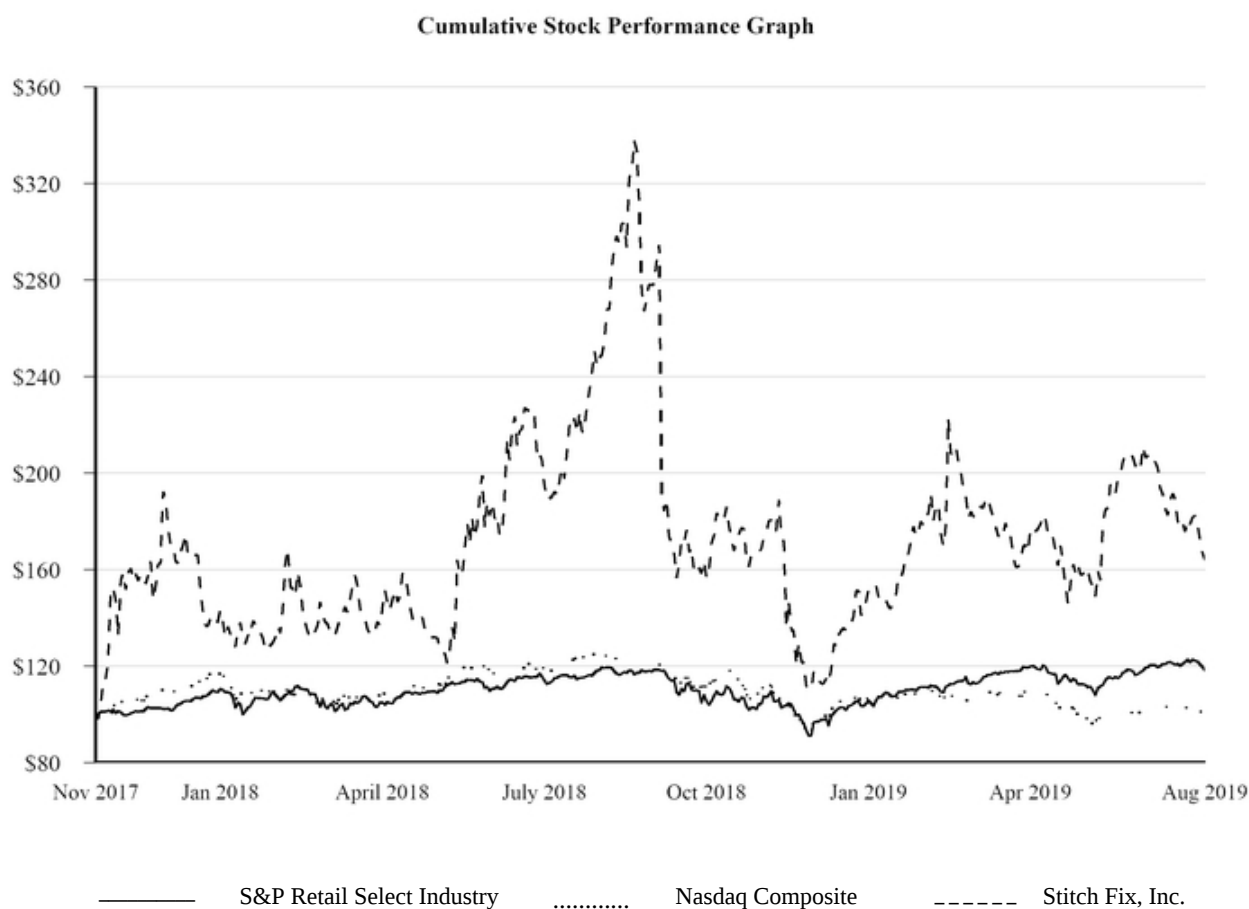
other nominees. The number of holders of record presented here also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant.

Cumulative Stock Performance Graph

The following graph compares the cumulative total return to stockholders on our Class A common stock relative to the cumulative total returns of the Standard and Poor’s Retail Select Industry Index (S&P Retail Select Industry) and Nasdaq Composite Index (Nasdaq Composite). An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our Class A common stock and in each index on November 17, 2017, the date our Class A common stock began trading on the Nasdaq, and its relative performance is tracked through August 3, 2019. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.



The following table assumes an investment of \$100 (with reinvestment of all dividends) to have been made in our Class A common stock and in each index on November 17, 2017, the date our Class A common stock began trading on the Nasdaq, and indicates the cumulative total return to stockholders on our Class A common stock and the cumulative total return of each index at July 28, 2018, and August 3, 2019:

| (in dollars) | November 17, 2017 | July 28, 2018 | August 3, 2019 |
|----------------------------|-------------------|---------------|----------------|
| S&P Retail Select Industry | \$ 100.00 | \$ 118.27 | \$ 98.40 |
| Nasdaq Composite | \$ 100.00 | \$ 114.07 | \$ 118.01 |
| Stitch Fix, Inc. | \$ 100.00 | \$ 194.79 | \$ 163.89 |

The information under “Cumulative Stock Performance Graph” is not deemed to be “soliciting material” or “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, and is not to be incorporated by reference in any filing of Stitch Fix under the Securities Act or the Exchange Act, whether made before or after the date of this Annual Report and irrespective of any general incorporation language in those filings.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data.

The following selected consolidated financial and other data should be read in conjunction with, and are qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report. The consolidated statements of operations data for the fiscal years ended August 3, 2019, July 28, 2018, and July 29, 2017, and the consolidated balance sheet data as of August 3, 2019, and July 28, 2018, are derived from the audited consolidated financial statements that are included elsewhere in this Annual Report. The consolidated statements of operations data for the fiscal years ended July 30, 2016, and August 1, 2015, as well as the consolidated balance sheet data as of July 29, 2017, July 30, 2016, and August 1, 2015, are derived from audited consolidated financial statements that are not included in this Annual Report. We have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in any period in the future.

| (in thousands, except per share data) | For the Fiscal Year Ended | | | | |
|---|---------------------------|---------------|---------------|---------------|----------------|
| | August 3, 2019 (1) | July 28, 2018 | July 29, 2017 | July 30, 2016 | August 1, 2015 |
| Revenue, net | \$ 1,577,558 | \$ 1,226,505 | \$ 977,139 | \$ 730,313 | \$ 342,803 |
| Cost of goods sold | 874,429 | 690,483 | 542,718 | 407,064 | 198,054 |
| Gross profit | 703,129 | 536,022 | 434,421 | 323,249 | 144,749 |
| Selling, general, and administrative expenses (2)(3) | 679,634 | 492,998 | 402,781 | 259,021 | 108,562 |
| Operating income | 23,495 | 43,024 | 31,640 | 64,228 | 36,187 |
| Remeasurement of preferred stock warrant liability | — | (10,685) | 18,881 | 3,019 | 2,938 |
| Interest income | (5,791) | (904) | (42) | — | — |
| Other income, net | (1,535) | (100) | — | (13) | (2) |
| Income before income taxes | 30,821 | 54,713 | 12,801 | 61,222 | 33,251 |
| Provision (benefit) for income taxes | (6,060) | 9,813 | 13,395 | 28,041 | 12,322 |
| Net income (loss) | \$ 36,881 | \$ 44,900 | \$ (594) | \$ 33,181 | \$ 20,929 |
| Net income (loss) attributable to common stockholders: (4) | | | | | |
| Basic | \$ 36,863 | \$ 35,541 | \$ (594) | \$ 8,211 | \$ 4,573 |
| Diluted | \$ 36,864 | \$ 27,285 | \$ (594) | \$ 9,496 | \$ 5,318 |
| Earnings (loss) per share attributable to common stockholders: (4) | | | | | |
| Basic | \$ 0.37 | \$ 0.47 | \$ (0.02) | \$ 0.36 | \$ 0.22 |
| Diluted | \$ 0.36 | \$ 0.34 | \$ (0.02) | \$ 0.34 | \$ 0.21 |
| Weighted-average shares used to compute earnings per share attributable to common stockholders: (4) | | | | | |
| Basic | 100,013,462 | 75,947,759 | 24,973,931 | 22,729,890 | 20,705,313 |
| Diluted | 103,653,626 | 81,288,418 | 24,973,931 | 27,882,844 | 25,452,912 |
| Other Financial and Operating Data | | | | | |
| Adjusted EBITDA (5) | \$ 39,590 | \$ 53,566 | \$ 60,578 | \$ 72,582 | \$ 42,126 |
| Non-GAAP net income (5) | \$ 36,881 | \$ 38,424 | \$ 30,680 | \$ 41,010 | \$ 29,033 |
| Active clients (as of period end) (6) | 3,236 | 2,742 | 2,194 | 1,674 | 867 |

(1) Fiscal 2019 was a 53-week year. All other periods presented included 52 weeks.

(2) Includes stock-based compensation expense of \$35.3 million, \$15.4 million, \$3.5 million, \$1.9 million, and \$0.7 million for 2019, 2018, 2017, 2016, and 2015, respectively.

(3) Includes compensation expense related to certain stock sales by current and former employees of \$21.3 million and \$4.8 million for 2017 and 2016, respectively.

(4) See Note 11 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for an explanation of the calculations of our basic and diluted earnings (loss) per share attributable to common stockholders and the weighted average number of shares used in the computation of the per share amounts.

(5) See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for information regarding our use of adjusted EBITDA and non-GAAP net income, and their reconciliation to net income (loss).

(6) See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for information on how we define and calculate active clients.

| (in thousands) | August 3, 2019 | July 28, 2018 | July 29, 2017 | July 30, 2016 | August 1, 2015 |
|---|----------------|---------------|---------------|---------------|----------------|
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$ 170,932 | \$ 297,516 | \$ 110,608 | \$ 91,488 | \$ 68,449 |
| Short and long-term investments | 196,648 | — | — | — | — |
| Total assets | 616,066 | 481,585 | 257,205 | 191,600 | 111,600 |
| Working capital (1) | 299,773 | 274,774 | 63,844 | 63,199 | 41,615 |
| Convertible preferred stock | — | — | 42,222 | 42,222 | 42,222 |
| Total stockholders' equity | 396,000 | 315,072 | 61,861 | 49,947 | 8,539 |

(1) Working capital for all periods presented above is defined as current assets less current liabilities.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements and related notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K, or Annual Report. We use a 52- or 53-week fiscal year, with our fiscal year ending on the Saturday that is closest to July 31 of that year. Each fiscal year generally consists of four 13-week fiscal quarters, with each fiscal quarter ending on the Saturday that is closest to the last day of the last month of the quarter. The fiscal year ended August 3, 2019, included 53 weeks of operations. The fiscal years ended July 28, 2018, and July 29, 2017, included 52 weeks of operations. Throughout this Annual Report, all references to quarters and years are to our fiscal quarters and fiscal years unless otherwise noted.

In addition, this discussion contains forward-looking statements that reflect our plans, estimates, and beliefs, and involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in or implied by these forward-looking statements as a result of several factors, including those discussed in the section titled “Risk Factors” included under Part I, Item 1A and elsewhere in this Annual Report. See “Special Note Regarding Forward-Looking Statements” in this Annual Report.

A discussion regarding our financial condition and results of operation for the fiscal year ended August 3, 2019, compared to the fiscal year ended July 28, 2018, is presented below. A discussion regarding our financial condition and results of operations for fiscal year ended July 28, 2018, compared to the fiscal year ended July 29, 2017, can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018, filed with the SEC on October 3, 2018, which is available on the SEC’s website at www.sec.gov and on the SEC Filings section of the Investor Relations section of our website at <https://investors.stitchfix.com>.

Overview

Since our founding in 2011, we have 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. We call each of these shipments a Fix. Clients can choose to schedule automatic shipments or order a Fix on demand after they fill out a style profile on our website or mobile app. For each Fix, we charge clients a styling fee that is credited toward items they purchase. Alternatively, select U.S. clients may purchase an annual Style Pass, which offers unlimited styling for the year for a \$49 fee that is also credited towards items they purchase. After receiving a Fix, our clients purchase the items they want to keep and return the other items, if any, at no additional charge. In addition, our Extras feature allows clients to select items such as socks, bras, underwear, and other intimates that are then added to the items their stylist selects for their Fix.

In May 2019, we launched our service in the UK. In June 2019, we launched direct-buy functionality to allow clients the flexibility of purchasing items outside of a Fix. The first offering of this direct-buy functionality is Shop New Colors, which is available for Men’s and Women’s clients in the United States and allows clients to order previously purchased items in different colors, sizes, or prints. No styling fee is charged for direct purchases.

We believe our success in serving clients has resulted in our rapid and profitable growth. We have achieved positive cash flows from operations on an annual basis since 2014, while continuing to make meaningful investments to drive growth. For the fiscal year ended August 3, 2019, we reported \$1.6 billion of revenue representing year-over-year growth of 28.6% from the fiscal year ended July 28, 2018. As of August 3, 2019, and July 28, 2018, we had active clients of 3,236,000 and 2,742,000, respectively, representing year-over-year growth of 18.0%.

Net income for the fiscal year ended August 3, 2019, was \$36.9 million, a decrease of \$8.0 million from the fiscal year ended July 28, 2018. Included in net income for the fiscal year ended July 28, 2018, was a \$10.7 million gain on remeasurement of our preferred stock warrant liability prior to our initial public offering, or IPO, and a \$6.7 million remeasurement expense on our net deferred tax assets related to the Tax Cuts and Jobs Act (the “Tax Act”) which was enacted on December 22, 2017.

Key Metrics

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 (loss) and earnings (loss) 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.

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 attributable to common stockholders – 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 attributable to common stockholders – diluted measures exclude the impact of the remeasurement of our net deferred tax assets following the adoption of the Tax Act;
- our non-GAAP net income, adjusted EBITDA, and non-GAAP EPS attributable to common stockholders – 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 IPO;
- 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;
- 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 (loss) excluding interest income, other (income), net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability and compensation expense related to certain stock sales by current and former employees. The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented:

| (in thousands) | For the Fiscal Year Ended | | |
|---|---------------------------|------------------|------------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Adjusted EBITDA reconciliation: | | | |
| Net income (loss) | \$ 36,881 | \$ 44,900 | \$ (594) |
| Add (deduct): | | | |
| Interest income | (5,791) | (904) | (42) |
| Other income, net | (1,535) | (100) | — |
| Provision (benefit) for income taxes | (6,060) | 9,813 | 13,395 |
| Depreciation and amortization | 16,095 | 10,542 | 7,655 |
| Remeasurement of preferred stock warrant liability | — | (10,685) | 18,881 |
| Compensation expense related to certain stock sales by current and former employees | — | — | 21,283 |
| Adjusted EBITDA | \$ 39,590 | \$ 53,566 | \$ 60,578 |

Non-GAAP Net Income

We define non-GAAP net income as net income (loss) excluding, when present, the remeasurement of preferred stock warrant liability, compensation expense related to certain stock sales by current and former employees, and the related tax impact of those items, 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 (loss), the most comparable GAAP financial measure, to non-GAAP net income for each of the periods presented:

| (in thousands) | For the Fiscal Year Ended | | |
|---|---------------------------|------------------|------------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Non-GAAP net income reconciliation: | | | |
| Net income (loss) | \$ 36,881 | \$ 44,900 | \$ (594) |
| Add (deduct): | | | |
| Remeasurement of preferred stock warrant liability | — | (10,685) | 18,881 |
| Compensation expense related to certain stock sales by current and former employees | — | — | 21,283 |
| Tax impact of non-GAAP adjustments | — | — | (8,890) |
| Impact of Tax Act ⁽¹⁾ | — | 4,209 | — |
| Non-GAAP net income | \$ 36,881 | \$ 38,424 | \$ 30,680 |

⁽¹⁾ The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.2 million for the fiscal year ended July 28, 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 Attributable to Common Stockholders – Diluted

We define non-GAAP EPS attributable to common stockholders – diluted as diluted EPS attributable to common stockholders excluding, when present, the per share impact of the remeasurement of preferred stock warrant liability, compensation expense related to certain stock sales by current and former employees, and the related tax impact of those items, 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 dollars) | For the Fiscal Year Ended | | |
|---|---------------------------|----------------|----------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Non-GAAP earnings per share attributable to common stockholders – diluted reconciliation: | | | |
| Earnings (loss) per share attributable to common stockholders – diluted | \$ 0.36 | \$ 0.34 | \$ (0.02) |
| Per share impact of the remeasurement of preferred stock warrant liability ⁽¹⁾ | — | — | 0.36 |
| Per share impact of compensation expense related to certain stock sales by current and former employees | — | — | 0.40 |
| Per share impact from tax effect of non-GAAP adjustments | — | — | (0.17) |
| Per share impact from Tax Act ⁽²⁾ | — | 0.05 | — |
| Non-GAAP earnings per share attributable to common stockholders – diluted | \$ 0.36 | \$ 0.39 | \$ 0.57 |

⁽¹⁾ For the fiscal year ended July 28, 2018, the preferred stock warrant liability was dilutive and included in EPS attributable to common stockholders - diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS attributable to common stockholders – diluted.

⁽²⁾ The U.S. government enacted comprehensive tax legislation in December 2017. This resulted in a net charge of \$4.2 million for the fiscal year ended July 28, 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 EPS 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 operating activities 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:

| (in thousands) | For the Fiscal Year Ended | | |
|---|---------------------------|------------------|------------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Free cash flow reconciliation: | | | |
| Cash flows provided by operating activities | \$ 78,594 | \$ 72,178 | \$ 38,624 |
| Deduct: | | | |
| Purchases of property and equipment | (30,825) | (16,565) | (17,130) |
| Free cash flow | \$ 47,769 | \$ 55,613 | \$ 21,494 |

Active Clients

We believe that the number of active clients is a key indicator of our growth and the overall health of our business. We define an active client as a client who checked out a Fix or was shipped an item using our new direct-buy functionality in the preceding 12-month period (52 weeks), measured as of the last day of that period. A client checks out a Fix when she indicates what items she is keeping through our mobile application or on our website. We consider each Men's, Women's, or Kids account as a client, even if they share the same household. We had 3,236,000 and 2,742,000 active clients as of August 3, 2019, and July 28, 2018, respectively, representing year-over-year growth of 18.0%.

Factors Affecting Our Performance

Client Acquisition and Engagement

To grow our business, we must continue to acquire clients and successfully engage them. We believe that implementing broad-based marketing strategies that increase our brand awareness has the potential to strengthen Stitch Fix as a prominent consumer brand, help us acquire new clients and drive revenue growth. As our business has achieved a greater scale and we are able to support a large and growing client base, we have increased our investments in marketing to take advantage of more marketing channels to efficiently acquire clients. For example, we continue to increase our advertising spend, from \$102.1 million for the fiscal year ended July 28, 2018, to \$152.1 million for the fiscal year ended August 3, 2019, to support the growth of our business. We expect to continue to make significant marketing investments to grow our business, such as our integrated brand campaign launched in February 2019. We currently utilize both digital and offline channels to attract new visitors to our website or mobile app and subsequently convert them into clients. Our current marketing

efforts include client referrals, affiliate programs, partnerships, display advertising, television, print, radio, video, content, direct mail, social media, email, mobile “push” communications, search engine optimization, and keyword search campaigns.

To successfully acquire clients and increase engagement, we must also continue to improve the diversity of our offering. These efforts may include broadening our brand partnerships and expanding into new categories, product types, price points, and geographies. For example, in July 2018 we launched Stitch Fix Kids, expanding our client and vendor base, and in May 2019 we launched our service in the UK, expanding our geographic scope.

Investment in our Operations and Infrastructure

To grow our client base and enhance our offering, we will incur additional expenses. We intend to leverage our data science and deep understanding of our clients’ needs to inform investments in operations and infrastructure. We anticipate that our expenses will increase as we continue to hire additional personnel and further advance our technological and data science capabilities. Moreover, we intend to make capital investments in our inventory, fulfillment centers and office space, and logistics infrastructure as we launch new categories, expand internationally, and drive operating efficiencies. We expect to increase our spending on these investments in the future and cannot be certain that these efforts will grow our client base or be cost-effective. However, we believe these strategies will yield positive returns in the long term.

Inventory Management

We leverage our data science to buy and manage our inventory, including merchandise assortment and fulfillment center optimization. To ensure sufficient availability of merchandise, we generally enter into purchase orders well in advance and frequently before apparel trends are confirmed by client purchases. As a result, we are vulnerable to demand and pricing shifts and availability of merchandise at time of purchase. We incur inventory write-offs and changes in inventory reserves that impact our gross margins. Because our merchandise assortment directly correlates to client success, we may at times optimize our inventory to prioritize long-term client success over short-term gross margin impact. Moreover, our inventory investments will fluctuate with the needs of our business. For example, entering new locations such as the UK, launching new categories such as Stitch Fix Kids, introducing direct-buy offerings such as Shop New Colors, or adding new fulfillment centers will all require additional investments in inventory.

Merchandise Mix

We offer apparel, shoes, and accessories across categories, brands, product types, and price points. We currently serve our clients in the following categories: Women’s, Petite, Maternity, Men’s, Plus, and Kids. We carry a mix of third-party branded merchandise, including premium brands, and our own Exclusive Brands. We also offer a wide variety of product types, including denim, dresses, blouses, skirts, shoes, jewelry, and handbags. We sell merchandise across a broad range of price points and may further broaden our price point offerings in the future.

While changes in our merchandise mix have not caused significant fluctuations in our gross margin to date, categories, brands, product types, and price points do have a range of margin profiles. For example, our Exclusive Brands have generally contributed higher margins, shoes have generally contributed lower margins, and newer categories, such as Kids, tend to initially have lower margins. Shifts in merchandise mix driven by client demand may result in fluctuations in our gross margin from period to period.

Components of Results of Operations

Revenue

We generate revenue from the sale of merchandise. We charge a nonrefundable upfront fee, referred to as a “styling fee,” that is credited towards any merchandise purchased in the Fix. We deduct discounts, sales tax, and estimated refunds to arrive at net revenue, which we refer to as revenue throughout the report. We offer Style Pass to provide select U.S. clients with an alternative to paying a styling fee per Fix. Style Pass clients pay a nonrefundable annual fee for unlimited styling that is credited towards merchandise purchases. To a lesser extent, we also recognize revenue resulting from direct purchases and estimated breakage income on gift cards. We expect our revenue to increase in absolute dollars as we grow our business, although our revenue growth rate may slow in future periods.

Cost of Goods Sold

Cost of goods sold consists of the costs of merchandise, expenses for shipping to and from clients and inbound freight, inventory write-offs and changes in our inventory reserve, payment processing fees, and packaging materials costs. We expect our cost of goods sold to fluctuate as a percentage of revenue primarily due to how we manage our inventory and merchandise mix. Our classification of cost of goods sold may vary from other companies in our industry and may not be comparable.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses consist primarily of compensation and benefits costs, including stock-based compensation expense, for our employees including our stylists, fulfillment center operations, data analytics, merchandising, engineering, marketing, client experience, and corporate personnel. Selling, general, and administrative expenses also include marketing and advertising costs, third-party logistics costs, facility costs for our fulfillment centers and offices, professional service fees, information technology costs, and depreciation and amortization expense. We expect our selling, general, and administrative expenses to increase in absolute dollars

and to fluctuate as a percentage of revenue due to the anticipated growth of our business, increased marketing investments, and additional costs associated with being a public company. Our classification of selling, general, and administrative expenses may vary from other companies in our industry and may not be comparable.

Remeasurement of Preferred Stock Warrant Liability

We estimate the fair value of the preferred stock warrant liability at the end of each reporting period and recognize changes in the fair value through our statement of operations. In connection with our IPO, all warrants were automatically exercised for no consideration, therefore we do not expect to have preferred stock warrant liability in future periods.

Interest Income

Interest income is generated from our cash, cash equivalents, and investments in available-for-sale securities.

Provision for Income Taxes

Our provision for income taxes consists of an estimate of federal, state, and international income taxes based on enacted federal, state, and international tax rates, as adjusted for allowable credits, deductions, and uncertain tax positions.

Results of Operations

Comparison of the Fiscal Years Ended August 3, 2019, July 28, 2018, and July 29, 2017

The following table sets forth our results of operations for the periods indicated:

| (in thousands) | For the Fiscal Year Ended | | | 2019 vs. 2018 | 2018 vs. 2017 |
|--|-------------------------------|---------------|---------------|---------------|---------------|
| | August 3, 2019 ⁽¹⁾ | July 28, 2018 | July 29, 2017 | % Change | % Change |
| Revenue, net | \$ 1,577,558 | \$ 1,226,505 | \$ 977,139 | 28.6 % | 25.5 % |
| Cost of goods sold | 874,429 | 690,483 | 542,718 | 26.6 % | 27.2 % |
| Gross profit | 703,129 | 536,022 | 434,421 | 31.2 % | 23.4 % |
| Selling, general and administrative expenses | 679,634 | 492,998 | 402,781 | 37.9 % | 22.4 % |
| Operating income | 23,495 | 43,024 | 31,640 | (45.4)% | 36.0 % |
| Remeasurement of preferred stock warrant liability | — | (10,685) | 18,881 | (100.0)% | (156.6)% |
| Interest income | (5,791) | (904) | (42) | * | * |
| Other income, net | (1,535) | (100) | — | * | 100.0 % |
| Income before income taxes | 30,821 | 54,713 | 12,801 | (43.7)% | 327.4 % |
| Provision (benefit) for income taxes | (6,060) | 9,813 | 13,395 | (161.8)% | (26.7)% |
| Net income (loss) | \$ 36,881 | \$ 44,900 | \$ (594) | (17.9)% | * |

⁽¹⁾ Fiscal 2019 was a 53-week year. Fiscal 2018 and 2017 included 52 weeks.

* Not meaningful

The following table sets forth the components of our results of operations as a percentage of revenue:

| | For the Fiscal Year Ended | | |
|--|---------------------------|---------------|---------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Revenue, net | 100.0 % | 100.0 % | 100.0% |
| Cost of goods sold | 55.4 % | 56.3 % | 55.5% |
| Gross margin | 44.6 % | 43.7 % | 44.5% |
| Selling, general and administrative expenses | 43.1 % | 40.2 % | 41.2% |
| Operating income | 1.5 % | 3.5 % | 3.3% |
| Remeasurement of preferred stock warrant liability | — % | (0.9)% | 1.9% |
| Interest income | (0.4)% | (0.1)% | —% |
| Other income, net | (0.1)% | — % | —% |
| Income before income taxes | 2.0 % | 4.5 % | 1.4% |
| Provision (benefit) for income taxes | (0.3)% | 0.8 % | 1.4% |
| Net income (loss) | 2.3 % | 3.7 % | —% |

Revenue and Gross Margin

Revenue in the fiscal year ended August 3, 2019, which included a 53rd week, increased by \$351.1 million, or 28.6%, from revenue in the fiscal year ended July 28, 2018. The increase in revenue was primarily attributable to a 18.0% increase in active clients from July 28, 2018, to August 3, 2019, which drove increased sales of merchandise, and an increase in revenue per active client.

Gross margin for the fiscal year ended August 3, 2019, increased by 0.9% compared with the fiscal year ended July 28, 2018. The increase was primarily attributable to a decrease in clearance expense due to improved inventory management and a reduction in shrink expense.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses in the fiscal year ended August 3, 2019, which included a 53rd week, increased by \$186.6 million during the fiscal year ended August 3, 2019, compared with the fiscal year ended July 28, 2018. As a percentage of revenue, selling, general, and administrative expenses increased to 43.1% for the fiscal year ended August 3, 2019, compared with 40.2% for the fiscal year ended July 28, 2018. The increase was primarily related to higher compensation and benefits expense and stock-based compensation expense due to increased headcount as we continue to invest in technology talent, higher advertising spend year over year, primarily due to the launch of our integrated brand campaign in February 2019, and investments related to our UK launch.

Remeasurement of Preferred Stock Warrant Liability

Prior to our IPO, the change in the preferred stock warrant liability was due to a change in the underlying fair value of our preferred stock. In November 2017, in connection with our IPO, the preferred stock warrants were automatically exercised into shares of Class B common stock and the preferred stock warrant liability was reclassified to additional paid-in capital.

Provision for Income Taxes

The following table summarizes our effective tax rate from income for the periods presented:

| (in thousands) | For the Fiscal Year Ended | | |
|--------------------------------------|---------------------------|---------------|---------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Income before income taxes | \$ 30,821 | \$ 54,713 | \$ 12,801 |
| Provision (benefit) for income taxes | (6,060) | 9,813 | 13,395 |
| Effective tax rate | (19.7)% | 17.9% | 104.6% |

We are subject to income taxes in the United States and the UK. Our effective tax rate and provision for income taxes decreased from the fiscal year ended July 28, 2018, to the fiscal year ended August 3, 2019, primarily due to increased excess tax benefits from stock-based compensation, additional qualified activities for U.S. and California research and development tax credits, and the prior year Tax Act remeasurement of deferred tax assets that was not in effect for the current year.

Quarterly Results of Operations

The following tables set forth our unaudited quarterly consolidated statements of operations for each of the quarters indicated. The information for each quarter has been prepared on a basis consistent with our audited consolidated financial statements included in this Annual Report and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for a fair presentation of the financial information contained in those statements. Our historical results are not necessarily indicative of the results that may be expected for the full year or any other period in the future. The fiscal year ended August 3, 2019, includes the impact of an additional week compared to the prior fiscal year, which occurred in the fourth quarter of 2019. The following quarterly financial information should be read in conjunction with our audited consolidated financial statements and related notes included in this Annual Report.

| (in thousands, except per share data) | Quarter Ended | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| | August 3, 2019 | April 27, 2019 | January 26, 2019 | October 27, 2018 | July 28, 2018 | April 28, 2018 | January 27, 2018 | October 28, 2017 |
| Revenue, net | \$ 432,149 | \$ 408,893 | \$ 370,280 | \$ 366,236 | \$ 318,295 | \$ 316,741 | \$ 295,906 | \$ 295,563 |
| Cost of goods sold | 241,785 | 224,445 | 207,131 | 201,068 | 176,877 | 178,535 | 168,523 | 166,548 |
| Gross profit | 190,364 | 184,448 | 163,149 | 165,168 | 141,418 | 138,206 | 127,383 | 129,015 |
| Selling, general and administrative expenses | 188,610 | 189,015 | 147,738 | 154,271 | 133,302 | 128,454 | 111,771 | 119,471 |
| Operating income | 1,754 | (4,567) | 15,411 | 10,897 | 8,116 | 9,752 | 15,612 | 9,544 |
| Remeasurement of preferred stock warrant liability | — | — | — | — | — | — | (1,614) | (9,071) |
| Interest income | (1,759) | (1,463) | (1,170) | (1,399) | (757) | (209) | (18) | (17) |
| Other income, net | (571) | (391) | (453) | (120) | (3) | — | — | — |
| Income (loss) before income taxes | 4,084 | (2,713) | 17,034 | 12,416 | 8,876 | 9,961 | 17,244 | 18,632 |
| Provision (benefit) for income taxes | (3,095) | (9,761) | 5,058 | 1,738 | (9,408) | 474 | 13,603 | 5,144 |
| Net income | <u>\$ 7,179</u> | <u>\$ 7,048</u> | <u>\$ 11,976</u> | <u>\$ 10,678</u> | <u>\$ 18,284</u> | <u>\$ 9,487</u> | <u>\$ 3,641</u> | <u>\$ 13,488</u> |
| Net income attributable to common stockholders: | | | | | | | | |
| Basic | <u>\$ 7,179</u> | <u>\$ 7,048</u> | <u>\$ 11,968</u> | <u>\$ 10,664</u> | <u>\$ 18,244</u> | <u>\$ 9,458</u> | <u>\$ 3,036</u> | <u>\$ 3,915</u> |
| Diluted | <u>\$ 7,179</u> | <u>\$ 7,048</u> | <u>\$ 11,968</u> | <u>\$ 10,665</u> | <u>\$ 18,246</u> | <u>\$ 9,459</u> | <u>\$ 1,653</u> | <u>\$ 1,347</u> |
| Earnings per share attributable to common stockholders: | | | | | | | | |
| Basic | <u>\$ 0.07</u> | <u>\$ 0.07</u> | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.19</u> | <u>\$ 0.10</u> | <u>\$ 0.04</u> | <u>\$ 0.15</u> |
| Diluted | <u>\$ 0.07</u> | <u>\$ 0.07</u> | <u>\$ 0.12</u> | <u>\$ 0.10</u> | <u>\$ 0.18</u> | <u>\$ 0.09</u> | <u>\$ 0.02</u> | <u>\$ 0.04</u> |
| Weighted-average shares used to compute earnings per share attributable to common stockholders: | | | | | | | | |
| Basic | <u>101,111,138</u> | <u>100,301,078</u> | <u>99,590,187</u> | <u>98,965,274</u> | <u>98,019,577</u> | <u>97,055,573</u> | <u>82,439,531</u> | <u>26,329,495</u> |
| Diluted | <u>104,190,711</u> | <u>103,615,159</u> | <u>102,817,838</u> | <u>104,539,452</u> | <u>102,782,006</u> | <u>101,847,521</u> | <u>87,954,656</u> | <u>33,262,082</u> |

Liquidity and Capital Resources

Sources of Liquidity

Our principal sources of liquidity since inception have been our cash flows from operations, as well as the net proceeds we received through private sales of equity securities and our IPO. We have had positive and growing cash flows from operations since 2014. As of August 3, 2019, we had raised an aggregate of \$169.6 million of equity capital including proceeds from our IPO. We had \$170.9 million of cash and cash equivalents and investments of \$196.6 million as of August 3, 2019. Our investment balance includes \$143.3 million of short-term investments with contractual maturities of 12 months or less as of August 3, 2019.

Our primary use of cash includes operating costs such as merchandise purchases, compensation and benefits, marketing, and other expenditures necessary to support our business growth. We have been able to fund these costs through our cash flows from operations since 2014 and expect to continue to do so. We believe our existing cash balances and cash flows from operations will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months.

Cash Flows

The following table summarizes our cash flows for the periods indicated and our cash and working capital balances as of the end of the period (in thousands):

| (in thousands) | For the Fiscal Year Ended | | |
|---|---------------------------|-------------------|------------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Net cash provided by operating activities | \$ 78,594 | \$ 72,178 | \$ 38,624 |
| Net cash used in investing activities | (225,184) | (16,565) | (17,130) |
| Net cash provided by (used in) financing activities | 6,945 | 134,795 | (3,028) |
| Net increase (decrease) in cash and restricted cash | <u>\$ (139,645)</u> | <u>\$ 190,408</u> | <u>\$ 18,466</u> |

Cash provided by operating activities

During the fiscal year ended August 3, 2019, cash provided by operating activities was \$78.6 million, which consisted of net income of \$36.9 million, adjusted by non-cash charges of \$49.5 million and a change of \$7.8 million in our net operating assets and liabilities. The non-cash charges were largely driven by \$35.3 million of stock-based compensation expense and \$14.3 million of depreciation, amortization, and accretion, partially offset by a \$8.2 million decrease in deferred tax expense. The change in our net operating assets and liabilities was primarily due to an increase of \$41.2 million in our inventory balance due to increased inventory purchases to support our growth, substantially offset by an increase of \$33.6 million in accrued expenses and account payable related to increased business activity.

During the fiscal year ended July 28, 2018, cash provided by operating activities was \$72.2 million, which consisted of net income of \$44.9 million, adjusted by non-cash charges of \$23.9 million and a change of \$3.4 million in our net operating assets and liabilities. The non-cash charges were largely driven by \$15.4 million of stock-based compensation expense, \$10.5 million of depreciation and amortization, and a \$6.6 million increase in deferred tax expense primarily related to a remeasurement of our net deferred tax assets under the Tax Act, partially offset by \$10.7 million related to the remeasurement of the preferred stock warrant liability. The change in our net operating assets and liabilities was primarily due to an increase of \$35.5 million in accounts payable related to the increased business activity, substantially offset by an increase of \$19.4 million in our inventory balance due to increased inventory purchases to support our growth.

Cash used in investing activities

During the fiscal year ended August 3, 2019, cash used in investing activities was \$225.2 million, primarily related to our investment of \$285.2 million in highly rated available-for-sale securities and \$30.8 million in purchases of property and equipment, partially offset by maturities of available-for-sale securities of \$80.3 million.

During the fiscal year ended July 28, 2018, cash used in investing activities was \$16.6 million due to the purchase of property and equipment primarily related to the expansion of our fulfillment centers and offices as well as continued investment in our proprietary systems.

Cash provided by financing activities

During the fiscal year ended August 3, 2019, cash provided by financing activities was \$6.9 million, which was primarily due to proceeds from the exercise of stock options, partially offset by tax withholding related to vesting of restricted stock units.

During the fiscal year ended July 28, 2018, cash provided by financing activities was \$134.8 million, which was primarily due to the net proceeds from our IPO.

Contractual Obligations and Other Commitments

The following table summarizes our contractual obligations as of August 3, 2019:

| (in thousands) | Total | Payments Due by Period | | | |
|--|------------|------------------------|-------------|-------------|-------------------|
| | | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| Operating lease obligations | \$ 179,790 | \$ 27,018 | \$ 53,131 | \$ 42,954 | \$ 56,687 |
| Purchase obligations ⁽¹⁾ | 215,214 | 215,214 | — | — | — |
| Unrecognized tax benefits ⁽²⁾ | — | — | — | — | — |
| Total | \$ 395,004 | \$ 242,232 | \$ 53,131 | \$ 42,954 | \$ 56,687 |

⁽¹⁾ Represents estimated open purchase orders to purchase inventory in the normal course of business.

⁽²⁾ Due to the uncertainty with respect to the timing of future cash flows associated with our \$11.0 million of unrecognized tax benefits at August 3, 2019, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, the related balances have not been included in the table above.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of our financial statements requires us to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. The critical accounting policies, estimates, and judgments that we believe to have the most significant impacts to our consolidated financial statements are described below.

Inventory

Inventory consists of finished goods, which are recorded at the lower of cost or net realizable value using the specific identification method. We establish a reserve for excess and slow-moving inventory we expect to write off based on historical trends. In addition, we estimate and accrue shrinkage as a percentage of inventory out to the client and damaged items at 100% of cost. Inventory shrinkage and damage estimates are made to reduce the inventory value for lost, stolen, or damaged items. If actual experience differs significantly from our estimates, our operating results could be adversely affected.

Stock-Based Compensation

We grant stock options to our employees, consultants, and members of our board of directors and recognize stock-based compensation expense based on the fair value of stock options at grant date. We estimate the fair value of stock options using the Black-Scholes option-pricing model. This model requires us to use certain estimates and assumptions such as:

- Expected volatility of our common stock based on the volatility of comparable publicly traded companies;
- Expected term of our stock options—as we do not have sufficient historical experience for determining the expected term of the stock option awards granted, we base our expected term on the simplified method, generally calculated as the mid-point between the vesting date and the end of the contractual term;
- Expected dividend yield—as we have not paid and do not anticipate paying dividends on our common stock, our expected dividend yield is 0%; and
- Risk-free interest rates based on the U.S. Treasury zero coupon notes in effect at the grant date with maturities equal to the expected terms of the options granted.

If any of the assumptions used in the Black-Scholes option-pricing model changes significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously.

We record stock-based compensation expense net of estimated forfeitures so that expense is recorded for only those stock options that we expect to vest. We estimate forfeitures based on our historical forfeiture of stock options adjusted to reflect future changes in facts and circumstances, if any. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates.

We have granted certain option awards that contain both service and performance conditions. The service condition for such awards is satisfied ratably over the 24-month period following the fourth anniversary of the grant date. The performance condition for such awards was satisfied if we consummated an IPO within 12 months of the grant date. Expense related to awards which contain both service and performance conditions is recognized using the accelerated attribution method. Since an IPO is not deemed probable until such event

occurs, no compensation cost related to the performance condition was recognized prior to the consummation of our IPO in November 2017. Subsequently, we recorded stock-based compensation expense of \$0.5 million related to periods prior to the IPO.

Income Taxes

We are subject to income taxes in the United States and the UK. We compute our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled.

Significant judgment is required in determining our uncertain tax positions. We continuously review issues raised in connection with all ongoing examinations and open tax years to evaluate the adequacy of our tax liabilities. We evaluate uncertain tax positions under a two-step approach. The first step is to evaluate the uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination based on its technical merits. The second step is, for those positions that meet the recognition criteria, to measure the tax benefit as the largest amount that is more than 50% likely of being realized. We believe our recorded tax liabilities are adequate to cover all open tax years based on our assessment. This assessment relies on estimates and assumptions and involves significant judgments about future events. To the extent that our view as to the outcome of these matters changes, we will adjust income tax expense in the period in which such determination is made. We classify interest and penalties related to income taxes as income tax expense.

Revenue Recognition

While our revenue recognition does not involve significant judgment, it represents an important accounting policy. Revenue is recognized net of sales taxes, discounts, and estimated refunds. For a Fix, we generate revenue when clients purchase merchandise, at which point we apply the nonrefundable upfront styling fee against the price of merchandise purchased. If none of the items within the Fix are purchased, we recognize the nonrefundable upfront styling fee as revenue at that time. For Style Pass clients, we recognize revenue at the earlier of the time the annual Style Pass fee is applied against the price of merchandise purchased or the expiry of the annual period. For a direct buy, we generate revenue when the item is shipped to the client. If a client would like to exchange an item, we recognize revenue at the time the exchanged item is shipped, which coincides with the transfer of control to the customer. Sales tax collected from clients is not considered revenue and is included in accrued liabilities until remitted to the taxing authorities. Discounts are recorded as a reduction to revenue when merchandise is purchased. We record a refund reserve based on our historical refund patterns.

We sell gift cards to clients and establish a liability based on the face value of such gift cards. The liability is relieved and we recognize revenue upon redemption by our clients. If a gift card is not used, we will recognize estimated gift card breakage revenue proportionately to customer usage of gift cards over the expected gift card usage period, subject to requirements to remit balances to governmental agencies.

Recent Accounting Pronouncements

For recent accounting pronouncements, please see “Significant Accounting Policies” in Note 2 of the Notes to Consolidated Financial Statements included in this Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are primarily exposed to market risks through interest rate risk on our investments. As of August 3, 2019, we had \$196.6 million in highly rated investments accounted for as available-for-sale securities, which are presented on our balance sheet at their fair market value. These interest-earning instruments carry a degree of interest rate risk; however, a hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Foreign Currency Risk

As of August 3, 2019, our revenue was earned in U.S. dollars and British pound sterling. Our expansion into the UK exposes us to fluctuations in foreign currency exchange rates on our operating expenses. Fluctuations in foreign currency exchange rates may also result in transaction gains or losses on transactions in currencies other than the U.S. dollar or British pound sterling. For the fiscal year ended August 3, 2019, a hypothetical 10% increase or decrease in current exchange rates would not have had a material impact on our consolidated financial results.

Item 8. Financial Statements and Supplementary Data.

**STITCH FIX, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Stitch Fix, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Stitch Fix, Inc. and subsidiaries (the “Company”) as of August 3, 2019 and July 28, 2018, the related consolidated statements of operations and comprehensive income (loss), convertible preferred stock and stockholders' equity, and cash flow for each of the fiscal years ended August 3, 2019, July 28, 2018, and July 29, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of August 3, 2019 and July 28, 2018, and the results of its operations and its cash flow for each of the fiscal years ended August 3, 2019, July 28, 2018, and July 29, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of August 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated October 2, 2019 expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Inventory - Excess and Slow-Moving Inventory Reserve - Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company establishes an inventory reserve, which includes a reserve for excess and slow-moving inventory on hand that is expected to be written-off or otherwise disposed of at a future date. The Company's estimate of the appropriate amount of the excess and slow-moving inventory reserve utilizes certain inputs and involves judgment. Such inputs include data associated with historic trends, historic inventory write-off activity, and the on-hand inventory aging distribution. The calculation and analysis of historic trend data, historic write-off activity, and the application of this analysis to on-hand inventory involves complex calculations. The excess and slow-moving inventory reserve at August 3, 2019 totaled \$18 million. Net inventory at August 3, 2019 totaled \$118 million.

We identified the inventory reserve as a critical audit matter because of the significant estimates and assumptions management makes to estimate the excess and slow-moving inventory reserve, especially considering the introduction of newer product lines and changes in the inventory management process. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the methodology and the reasonableness of related assumptions, as well as the inputs and related calculations related to historic inventory trends, historic inventory write-off activity, and the on-hand inventory aging distribution.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the excess and slow-moving inventory reserve included the following, among others:

- We evaluated the appropriateness of specified inputs supporting management's estimate, including the age of on-hand inventory items, historic inventory trends, and historic write-off activity.
- We evaluated the appropriateness and consistency of management's methods and assumptions used in developing their estimate

of the excess and slow-moving inventory reserve, which included consideration of reserve trends by merchandise category and the impact of changes in inventory management processes on the estimate.

- We developed an independent expectation of the excess and slow-moving inventory reserve using historic inventory activity and compared our independent expectation to the amount recorded in the financial statements.
- We compared actual write-off activity in the current year to the excess and slow-moving reserve estimated by the Company in the prior year to evaluate management's ability to accurately estimate the reserve.
- We looked for indications that the reserve for excess and slow-moving inventory may be understated by evaluating write-off activity of inventory subsequent to August 3, 2019.

Impact on Financial Statements of Material Weaknesses in Internal Control Over Reporting - Refer to *Management's Report on Internal Control Over Financial Reporting*

Critical Audit Matter Description

As discussed in *Management's Report on Internal Control Over Financial Reporting*, the Company identified a material weakness in their internal control over financial reporting associated with certain outsourced Information Technology (IT) service providers, and related material weaknesses in the components of *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) related to control activities and monitoring. These material weaknesses impact the Company's controls over IT systems and business processes and affect substantially all financial statement account balances and disclosures; and result in a critical audit matter that required us to increase the extent of our audit effort, including the need to modify the nature and extent of audit evidence obtained.

How the Critical Audit Matter Was Addressed in the Audit

As a result of the material weaknesses, in performing our audit procedures we lowered the threshold for investigating differences between recorded amounts and independent expectations developed by us that we would have otherwise used, and increased the number of selections we would have otherwise made if the Company's controls were designed and operating effectively. In addition, we utilized original source documents for audit evidence, rather than system reports or other information generated by the Company's IT systems. Specific to inventory, we performed procedures to test existence at August 3, 2019, rather than relying on management's cycle count controls.

/s/ Deloitte & Touche LLP

San Francisco, California

October 2, 2019

We have served as the Company's auditor since 2014.

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

| | August 3, 2019 | July 28, 2018 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 170,932 | \$ 297,516 |
| Restricted cash | — | 250 |
| Short-term investments | 143,276 | — |
| Inventory, net | 118,216 | 85,092 |
| Prepaid expenses and other current assets | 49,980 | 34,148 |
| Total current assets | 482,404 | 417,006 |
| Long-term investments | 53,372 | — |
| Property and equipment, net | 54,888 | 34,169 |
| Deferred tax assets | 22,175 | 14,107 |
| Restricted cash, net of current portion | — | 12,600 |
| Other long-term assets | 3,227 | 3,703 |
| Total assets | \$ 616,066 | \$ 481,585 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 90,883 | \$ 79,782 |
| Accrued liabilities | 69,734 | 43,037 |
| Gift card liability | 7,233 | 6,814 |
| Deferred revenue | 11,997 | 8,870 |
| Other current liabilities | 2,784 | 3,729 |
| Total current liabilities | 182,631 | 142,232 |
| Deferred rent, net of current portion | 24,439 | 15,288 |
| Other long-term liabilities | 12,996 | 8,993 |
| Total liabilities | 220,066 | 166,513 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Class A common stock, \$0.00002 par value – 2,000,000,000 shares authorized as of August 3, 2019, and July 28, 2018; 54,551,240 and 35,756,628 shares issued and outstanding as of August 3, 2019, and July 28, 2018, respectively | 1 | 1 |
| Class B common stock, \$0.00002 par value – 100,000,000 shares authorized as of August 3, 2019, and July 28, 2018; 46,846,240 and 63,043,233 shares issued and outstanding as of August 3, 2019, and July 28, 2018, respectively | 1 | 1 |
| Additional paid-in capital | 279,511 | 235,312 |
| Accumulated other comprehensive income | (187) | — |
| Retained earnings | 116,674 | 79,758 |
| Total stockholders' equity | 396,000 | 315,072 |
| Total liabilities and stockholders' equity | \$ 616,066 | \$ 481,585 |

The accompanying notes are an integral part of these consolidated financial statements.

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

| | For the Fiscal Year Ended | | |
|---|---------------------------|---------------|---------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Revenue, net | \$ 1,577,558 | \$ 1,226,505 | \$ 977,139 |
| Cost of goods sold | 874,429 | 690,483 | 542,718 |
| Gross profit | 703,129 | 536,022 | 434,421 |
| Selling, general, and administrative expenses | 679,634 | 492,998 | 402,781 |
| Operating income | 23,495 | 43,024 | 31,640 |
| Remeasurement of preferred stock warrant liability | — | (10,685) | 18,881 |
| Interest income | (5,791) | (904) | (42) |
| Other income, net | (1,535) | (100) | — |
| Income before income taxes | 30,821 | 54,713 | 12,801 |
| Provision for income taxes | (6,060) | 9,813 | 13,395 |
| Net income (loss) | \$ 36,881 | \$ 44,900 | \$ (594) |
| Other comprehensive income (loss): | | | |
| Change in unrealized gain on available-for-sale securities, net of tax | 391 | — | — |
| Foreign currency translation | (578) | — | — |
| Total other comprehensive income (loss), net of tax | (187) | — | — |
| Comprehensive income (loss) | \$ 36,694 | \$ 44,900 | \$ (594) |
| Net income (loss) attributable to common stockholders: | | | |
| Basic | \$ 36,863 | \$ 35,541 | \$ (594) |
| Diluted | \$ 36,864 | \$ 27,285 | \$ (594) |
| Earnings (loss) per share attributable to common stockholders: | | | |
| Basic | \$ 0.37 | \$ 0.47 | \$ (0.02) |
| Diluted | \$ 0.36 | \$ 0.34 | \$ (0.02) |
| Weighted-average shares used to compute earnings per share attributable to common stockholders: | | | |
| Basic | 100,013,462 | 75,947,759 | 24,973,931 |
| Diluted | 103,653,626 | 81,288,418 | 24,973,931 |

The accompanying notes are an integral part of these consolidated financial statements.

Stitch Fix, Inc.
Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity
(In thousands, except share amounts)

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholders' Equity |
|--|-----------------------------|------------------|--------------------|-------------|----------------------------|--|-------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance as of July 30, 2016 | 59,511,055 | \$ 42,222 | 25,873,434 | \$ — | \$ 10,938 | \$ — | \$ 39,009 | \$ 49,947 |
| Compensation expense related to certain stock sales by current and former employees | — | — | — | — | 9,699 | — | — | 9,699 |
| Issuance of common stock upon exercise of stock options, net of amount related to early exercised options of \$642 | — | — | 1,462,434 | — | 1,704 | — | — | 1,704 |
| Vesting of early exercised options | — | — | — | 1 | 890 | — | — | 891 |
| Repurchase of common stock | — | — | (501,333) | — | — | — | (3,557) | (3,557) |
| Stock-based compensation | — | — | — | — | 3,709 | — | — | 3,709 |
| Excess tax benefit related to stock-based compensation | — | — | — | — | 62 | — | — | 62 |
| Net income | — | — | — | — | — | — | (594) | (594) |
| Balance as of July 29, 2017 | 59,511,055 | \$ 42,222 | 26,834,535 | \$ 1 | \$ 27,002 | \$ — | \$ 34,858 | \$ 61,861 |
| Issuance of Class A common stock upon initial public offering, net of offering costs | — | — | 9,175,557 | — | 127,033 | — | — | 127,033 |
| Issuance of Class B common stock upon conversion of convertible preferred stock | (59,511,055) | (42,222) | 59,511,055 | 1 | 42,221 | — | — | 42,222 |
| Reclassification of warrant liability to additional paid-in capital upon the initial public offering | — | — | 1,066,225 | — | 15,994 | — | — | 15,994 |
| Issuance of Class B common stock upon exercise of stock options | — | — | 2,192,430 | — | 6,384 | — | — | 6,384 |
| Issuance of Class A common stock upon settlement of restricted stock units, net of tax withholdings | — | — | 39,538 | — | (596) | — | — | (596) |
| Repurchase of Class B common stock related to early exercised options | — | — | (19,479) | — | — | — | — | — |
| Vesting of early exercised options | — | — | — | — | 988 | — | — | 988 |
| Stock-based compensation | — | — | — | — | 16,286 | — | — | 16,286 |
| Net income | — | — | — | — | — | — | 44,900 | 44,900 |
| Balance as of July 28, 2018 | — | \$ — | 98,799,861 | \$ 2 | \$ 235,312 | \$ — | 79,758 | \$ 315,072 |
| Cumulative effect of adopting accounting standards ⁽¹⁾ | — | — | — | — | — | — | 35 | 35 |
| Issuance of common stock upon exercise of stock options | — | — | 2,200,393 | — | 13,693 | — | — | 13,693 |
| Issuance of common stock upon settlement of restricted stock units, net of tax withholdings | — | — | 397,226 | — | (6,748) | — | — | (6,748) |
| Vesting of early exercised options | — | — | — | — | 209 | — | — | 209 |
| Stock-based compensation | — | — | — | — | 37,045 | — | — | 37,045 |
| Net income | — | — | — | — | — | — | 36,881 | 36,881 |
| Other comprehensive income, net of tax | — | — | — | — | — | (187) | — | (187) |
| Balance as of August 3, 2019 | — | \$ — | 101,397,480 | \$ 2 | \$ 279,511 | \$ (187) | \$ 116,674 | \$ 396,000 |

⁽¹⁾ See Note 2, Summary of Significant Accounting Policies, of the Notes to the Condensed Consolidated Financial Statements for more details on the cumulative effect of adopting accounting standards.

The accompanying notes are an integral part of these consolidated financial statements.

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

| | For the Fiscal Year Ended | | |
|--|---------------------------|-------------------|-------------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Cash Flows from Operating Activities | | | |
| Net income | \$ 36,881 | \$ 44,900 | \$ (594) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Deferred income taxes | (8,203) | 6,588 | (6,728) |
| Remeasurement of preferred stock warrant liability | — | (10,685) | 18,881 |
| Inventory reserves | 7,974 | 1,916 | 3,591 |
| Compensation expense related to certain stock sales by current and former employees | — | — | 9,699 |
| Stock-based compensation expense | 35,256 | 15,403 | 3,545 |
| Excess tax benefit related to stock-based compensation expense | — | — | (62) |
| Depreciation, amortization, and accretion | 14,331 | 10,542 | 7,655 |
| Loss on disposal of property and equipment | 148 | 155 | — |
| Change in operating assets and liabilities: | | | |
| Inventory | (41,233) | (19,416) | (26,375) |
| Prepaid expenses and other assets | (16,831) | (17,307) | (7,596) |
| Accounts payable | 10,774 | 35,502 | 7,841 |
| Accrued liabilities | 22,856 | (3,595) | 17,748 |
| Deferred revenue | 3,325 | 1,720 | 2,719 |
| Gift card liability | 825 | 1,624 | 1,993 |
| Other liabilities | 12,491 | 4,831 | 6,307 |
| Net cash provided by operating activities | <u>78,594</u> | <u>72,178</u> | <u>38,624</u> |
| Cash Flows from Investing Activities | | | |
| Purchases of property and equipment | (30,825) | (16,565) | (17,130) |
| Purchases of securities available-for-sale | (285,205) | — | — |
| Sales of securities available-for-sale | 10,596 | — | — |
| Maturities of securities available-for-sale | 80,250 | — | — |
| Net cash used in investing activities | <u>(225,184)</u> | <u>(16,565)</u> | <u>(17,130)</u> |
| 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 | 13,693 | 6,384 | 2,346 |
| Payments for tax withholding related to vesting of restricted stock units | (6,748) | (596) | — |
| Excess tax benefit related to stock-based compensation expense | — | — | 62 |
| Repurchase of Class B common stock related to early exercised options | — | (39) | (3,557) |
| Payment of deferred offering costs | — | — | (1,879) |
| Net cash provided by (used in) financing activities | <u>6,945</u> | <u>134,795</u> | <u>(3,028)</u> |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (139,645) | 190,408 | 18,466 |
| Effect of exchange rate changes on cash | 211 | — | — |
| Cash, cash equivalents, and restricted cash at beginning of period | 310,366 | 119,958 | 101,492 |
| Cash, cash equivalents, and restricted cash at end of period | <u>\$ 170,932</u> | <u>\$ 310,366</u> | <u>\$ 119,958</u> |
| Components of Cash, Cash Equivalents, and Restricted Cash | | | |
| Cash and cash equivalents | \$ 170,932 | \$ 297,516 | \$ 110,608 |
| Restricted cash – current portion | — | 250 | 250 |
| Restricted cash – long-term portion | — | 12,600 | 9,100 |
| Total cash, cash equivalents, and restricted cash | <u>\$ 170,932</u> | <u>\$ 310,366</u> | <u>\$ 119,958</u> |
| Supplemental Disclosure | | | |
| Cash paid for income taxes | <u>\$ 966</u> | <u>10,071</u> | <u>28,023</u> |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | | |
| Purchases of property and equipment included in accounts payable and accrued liabilities | <u>\$ 5,272</u> | <u>\$ 795</u> | <u>\$ 111</u> |
| Capitalized stock-based compensation | <u>\$ 1,789</u> | <u>\$ 883</u> | <u>\$ 164</u> |
| Vesting of early exercised options | <u>\$ 209</u> | <u>\$ 988</u> | <u>\$ 891</u> |
| Conversion of preferred stock upon initial public offering | <u>\$ —</u> | <u>\$ 42,222</u> | <u>\$ —</u> |
| Reclassification of preferred stock warrant liability upon initial public offering | <u>\$ —</u> | <u>\$ 15,994</u> | <u>\$ —</u> |
| Deferred offering costs included in accrued liabilities | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 508</u> |
| Deferred offering costs paid in prior year | <u>\$ —</u> | <u>\$ 1,879</u> | <u>\$ —</u> |

The accompanying notes are an integral part of these consolidated financial statements.

STITCH FIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Stitch Fix, Inc. (“we,” “our,” “us,” or “the Company”) delivers one-to-one personalization to our clients through the combination of data science and human judgment. Our stylists hand select items from a broad range of merchandise. Stylists pair their own judgment with our analysis of client and merchandise data to provide a personalized shipment of apparel, shoes, and accessories suited to each client’s needs. We call each of these unique shipments a Fix. After receiving a Fix, our clients purchase the items they want to keep and return the other items. We are incorporated in Delaware and have operations in the United States and the UK.

Initial Public Offering

On November 16, 2017, we completed an initial public offering, or IPO. In connection with the IPO, we authorized two new classes of common stock: Class A common stock and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, conversion and transfer rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock and has no expiration date. The Class B common stock automatically converts to Class A common stock upon transfers or any sale. In the IPO, we issued and sold 8,000,000 shares of our Class A common stock at a public offering price of \$15.00 per share. We received \$110.4 million in net proceeds after deducting \$6.2 million of underwriting discounts and \$3.4 million in offering costs. Upon the closing of the IPO, all of the then-outstanding shares of common stock were reclassified into Class B common stock, all of the outstanding shares of convertible preferred stock automatically converted into 59,511,055 shares of Class B common stock, and all of the outstanding preferred stock warrants were automatically exercised into 1,066,225 shares of Class B common stock. Subsequent to the closing of the IPO, there were no shares of preferred stock or preferred stock warrants outstanding.

In December 2017, we issued an additional 1,175,557 shares of Class A common stock at a price of \$15.00 per share following the underwriters’ exercise of their option to purchase additional shares and received \$16.7 million in net proceeds after deducting underwriting discounts and expenses.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The consolidated financial statements include the accounts of Stitch Fix, Inc. and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Our fiscal year is a 52-week or 53-week period ending on the Saturday closest to July 31. The fiscal year ended August 3, 2019 (“2019”), consisted of 53 weeks, and the fiscal years ended July 28, 2018 (“2018”), and July 29, 2017 (“2017”), consisted of 52 weeks.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Segment Information

We have one operating segment and one reportable segment as our chief operating decision maker, who is our Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and accompanying footnotes. Significant estimates and assumptions are used for inventory, stock-based compensation expense, income taxes, and revenue recognition. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

Cash and Cash Equivalents

Cash consists of bank deposits and amounts in transit from banks for client credit card and debit card transactions that will process in less than seven days. Cash equivalents consist of investments in short-term money market funds.

Restricted Cash

At July 28, 2018, restricted cash represented cash balances held in segregated accounts collateralizing letters of credit for our leased properties.

Investment Securities

The Company's short-term and long-term investments have been classified and accounted for as available-for-sale securities. We determine the appropriate classification of our investments at the time of purchase and reevaluate the classification at each balance sheet date. Available-for-sale securities with maturities of 12 months or less are classified as short term and available-for-sale securities with maturities greater than 12 months are classified as long term. The Company's available-for-sale securities are carried at fair value, with unrealized gains and losses, net of taxes, reported within accumulated other comprehensive income ("AOCI") in stockholders' equity, with the exception of unrealized losses believed to be other than temporary, which are reported in earnings in the current period, if applicable. The cost of securities sold is based upon the specific identification method.

Foreign Currency

The functional currency of our international subsidiary is the local currency. For that subsidiary, we translate assets and liabilities to U.S. dollars using period-end exchange rates, and average monthly exchange rates for revenues, costs, and expenses. We record translation gains and losses in AOCI as a component of stockholders' equity. Net foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to functional currency are recorded in other income, net in the consolidated statements of operations and comprehensive income.

Inventory, net

Inventory consists of finished goods which are recorded at the lower of cost or net realizable value using the specific identification method. The cost of inventory consists of merchandise costs and in-bound freight costs. We establish a reserve for excess and slow-moving inventory we expect to write off based on historical trends. In addition, we estimate and accrue shrinkage as a percentage of inventory out to the client and damaged items at 100% of cost. Inventory shrinkage and damage estimates are made to reduce the inventory value for lost, stolen, or damaged items.

The inventory reserve, which reduces inventory in our consolidated balance sheets, was \$25.5 million and \$17.6 million as of August 3, 2019, and July 28, 2018, respectively.

Property and Equipment, net

Property and equipment, net is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the respective assets. Repair and maintenance costs are expensed as incurred.

The estimated useful lives of our assets are as follows:

| | Estimated useful life |
|---|--|
| Computer equipment and capitalized software | 3 years |
| Office furniture and equipment | 5 years |
| Buildings | 25 years |
| Leasehold improvements | Shorter of lease term or estimated useful life |

We capitalize eligible costs to develop our proprietary systems, website, and mobile app. Capitalization of such costs begins when the preliminary project stage is completed and it is probable that the project will be completed and the software will be used to perform the function intended. A subsequent addition, modification, or upgrade to internal-use software is capitalized to the extent that it enhances the software's functionality or extends its useful life. Costs related to design or maintenance are expensed as incurred.

Deferred Offering Costs

Deferred offering costs, which consist of direct incremental legal, consulting, banking, and accounting fees relating to the IPO, were capitalized and offset against proceeds upon the consummation of the IPO, which became effective on November 21, 2017.

In December 2017, we issued additional shares of Class A common stock following the underwriters' exercise of their option to purchase additional shares. The related deferred offering costs were capitalized and offset against proceeds upon issuance of the shares.

Impairment of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated from the use of the asset and its eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount exceeds the fair value of the impaired assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. We have not recorded an impairment of long-lived assets since inception.

Preferred Stock Warrant Liability

We recorded our preferred stock warrants as current liabilities in the consolidated balance sheets at their estimated fair value because the warrants were exercisable at any time by the holders for cash at a purchase price per share equal to the lowest price per share at which we had sold shares of a specific series of our preferred stock or a number of shares of equivalent value as determined by a specified calculation. At initial recognition, we recorded these warrants at their estimated fair value. The liability associated with these warrants was subject to remeasurement at each balance sheet date, with changes in fair value recorded as remeasurement of preferred stock warrant liability in the consolidated statements of operations. In November 2017, in connection with our IPO, the preferred stock warrants were automatically exercised into Class B common stock and the preferred stock warrant liability was reclassified to additional paid-in capital.

Revenue Recognition

We generate revenue primarily from the sale of merchandise in a Fix and, to a lesser extent, from direct purchases. Clients create an online account on our website or mobile app, complete a style profile, and order a Fix to be delivered on a specified date.

Each Fix represents an offer made by us to the client to purchase merchandise. The client is charged a nonrefundable upfront styling fee before the Fix is shipped. As an alternative to the styling fee, we offer select clients the option to purchase a Style Pass. Style Pass clients pay a nonrefundable annual fee for unlimited Fixes that is credited towards merchandise purchases. If the offer to purchase merchandise is accepted, we charge the client the order amount for the accepted merchandise, net of the upfront styling fee or Style Pass annual fee. For each Fix, acceptance occurs when the client checks out the merchandise on our website or mobile app. We offer a discount to clients who purchase all of the items in the Fix.

We recognize revenue through the following steps: (1) identification of the contract, or contracts, with the customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Both our styling fee and Style Pass arrangements consist of one performance obligation, which is the option to purchase merchandise. The upfront styling fee is not a performance obligation as the styling activity is not distinct within the context of the contract. Similarly, the right to receive multiple options under Style Pass does not provide the customer with material stand-alone value and therefore does not give rise to a separate performance obligation. Both the upfront styling fee and Style Pass annual fee are included in deferred revenue until the performance obligation is satisfied when the client exercises his or her option to purchase merchandise (i.e., upon checkout of a Fix) or when the option(s) to purchase merchandise expire(s).

Revenue is recognized when control of the promised goods is transferred to the client. For a Fix, control is transferred when the client accepts or rejects the offer to purchase merchandise. Upon acceptance by purchasing one or more items within the Fix at checkout, the total amount of the order, including the upfront styling fee, is recognized as revenue. If none of the items within the Fix are accepted at checkout, the upfront styling fee is recognized as revenue at that time. The Style Pass annual fee is recognized at the earlier of (i) the time at which a client accepts and applies the Style Pass fee to an offer to purchase merchandise or (ii) upon expiry of the annual period. Under Style Pass arrangements, if a client does not accept any items within the Fix, the annual fee will continue to be deferred until it is applied to a future purchase or upon expiry of the annual period. For a direct buy, control is transferred when the item is shipped to the client. If a client would like to exchange an item, we recognize revenue at the time the exchanged item is shipped, which coincides with the transfer of control to the customer.

We deduct discounts, sales tax, and estimated refunds to arrive at net revenue. Sales tax collected from clients is not considered revenue and is included in accrued liabilities until remitted to the taxing authorities. All shipping and handling costs are accounted for as fulfillment costs in cost of goods sold and as selling, general, and administrative expense ("SG&A"), respectively, and are therefore not evaluated as a separate performance obligation. Discounts are recorded as a reduction to revenue when the order is accepted. We record a refund reserve based on our historical refund patterns. Our refund reserve, which is included in accrued liabilities in the consolidated balance sheets, was \$3.1 million and \$2.3 million as of August 3, 2019, and July 28, 2018, respectively.

The Company has four types of contractual liabilities: (i) cash collections of upfront styling fees, which are included in deferred revenue and are recognized as revenue upon the earlier of application to a merchandise purchase or expiry of the offer, (ii) cash collections of Style Pass annual fees, which are included in deferred revenue and are recognized upon the earlier of application to a merchandise purchase or expiry of the Style Pass annual period, (iii) unredeemed gift cards, which are included in gift card liability and recognized as revenue upon usage or inclusion in gift card breakage estimates, and (iv) referral credits, which are included in other current liabilities and are recognized as revenue when used.

We sell gift cards to clients and establish a liability based upon the face value of such gift cards. We reduce the liability and recognize revenue upon usage of the gift card. We recognize estimated gift card breakage revenue proportionately to customer usage of gift cards over the expected gift card usage period, subject to requirements to remit balances to governmental agencies. All commissions paid to third parties upon issuance of gift cards are recognized in SG&A as incurred, as on average, gift cards are used within a one-year period. Similarly, referral credits that are considered incremental costs of obtaining a contract with a customer are recognized in SG&A when issued, as on average, referral credits are used within a one-year period.

Contractual liabilities included in deferred revenue, gift card liability, and other current liabilities were \$12.0 million, \$7.2 million, and \$1.6 million, respectively, at August 3, 2019, and \$8.9 million, \$6.8 million, and \$2.7 million, respectively, at July 28, 2018. During the fiscal year ended August 3, 2019, the Company recognized \$8.6 million, \$2.8 million, and \$0.7 million of net revenue included in deferred revenue, gift card liability, and other current liabilities, respectively, at July 28, 2018. All amounts presented as of July 28, 2018, are accounted for under Accounting Standards Codification (“ASC”) 605. All amounts presented as of August 3, 2019, include the transition impact of adopting ASC 606. See “Recently Adopted Accounting Pronouncements” below.

Deferred revenue related to upfront styling fees totaled \$9.6 million as of August 3, 2019, and \$7.6 million as of July 28, 2018. Deferred revenue related to Style Pass annual fees totaled \$2.3 million as of August 3, 2019, and \$1.1 million as of July 28, 2018. Deferred revenue related to exchanges totaled zero as of August 3, 2019, and \$0.2 million as of July 28, 2018.

The Company expects deferred revenue for upfront styling fees and Style Pass annual fees to be recognized within one year. On average, gift card liability and other current liabilities are also recognized within one year.

Cost of Goods Sold

Cost of goods sold consists of the costs of merchandise, expenses for shipping to and from clients and inbound freight, inventory write-offs and changes in our inventory reserve, payment processing fees, and packaging material costs.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses consist primarily of compensation and benefits costs, including stock-based compensation expense, for our employees including our stylist, fulfillment center operations, data analytics, merchandising, engineering, client experience, marketing, and corporate personnel. Selling, general, and administrative expenses also include marketing and advertising, third-party logistics costs, facility costs for our fulfillment centers and offices, professional services fees, information technology, and depreciation and amortization.

Advertising Expenses

Costs associated with the production of advertising, such as writing, copy, printing, and other production costs are expensed as incurred. Costs associated with communicating advertising on television and radio are expensed the first time the advertisement is run. Online advertising costs are expensed as incurred. Advertising costs totaled \$152.1 million, \$102.1 million, and \$70.5 million for 2019, 2018, and 2017, respectively, and are included within selling, general, and administrative expenses in the consolidated statements of operations.

Marketing Programs

We have a client referral program under which we issue credits for future purchases to clients when the referral results in a new client who has ordered a Fix. We record a liability at the time of issuing the credit and reduce the liability upon application of the credit to a client’s purchase. Our liability for client referral credits amounted to \$1.6 million and \$2.7 million as of August 3, 2019, and July 28, 2018, respectively. We also have an affiliate program under which we make cash payments to lifestyle or fashion bloggers or others who refer clients in high volumes. Amounts related to both of these programs are included within selling, general, and administrative expenses in the consolidated statements of operations.

Leases

We recognize rent expense over the term of the lease, starting when the property is made available for use to us by the landlord. When a lease contains a predetermined fixed rent escalation, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rent expense and the amounts paid under the lease as deferred rent included in other current liabilities and deferred rent, net of current portion, on the consolidated balance sheets. We also receive tenant allowances upon entering into certain leases, which are recorded as a liability and amortized using the straight-line method as a reduction to rent expense over the term of the lease.

Income Taxes

We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which they are expected to be realized or settled.

We believe that it is more likely than not that forecasted income and potential income from tax planning strategies, together with future reversals of existing taxable temporary differences and results of recent operations, will be sufficient to fully recover the deferred tax assets. In the event that we determine all or part of the net deferred tax assets are not realizable in the future, we would record a valuation allowance.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits, if any, as income tax expense.

Stock-Based Compensation Expense

We measure stock-based compensation expense associated with option awards made to employees and members of our board of directors based on the estimated fair values of the awards at grant date using the Black-Scholes option-pricing model. For options with service conditions only, stock-based compensation expense is recognized, net of forfeitures, over the requisite service period using the straight-line method such that an expense is only recognized for those awards that we expect to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We have granted certain option awards that contain both service and performance conditions. The service condition for such awards is satisfied ratably over the 24-month period following the fourth anniversary of the grant date. The performance condition for such awards was satisfied if we consummated an IPO within 12 months of the grant date. Expense related to awards which contain both service and performance conditions is recognized using the accelerated attribution method. Since an IPO is not deemed probable until such event occurs, no compensation cost related to the performance condition was recognized prior to the consummation of our IPO in November 2017. Subsequently, we recorded stock-based compensation expense of \$0.5 million related to periods prior to the IPO.

Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in stockholders' equity during a period from sources other than transactions with stockholders. For 2019, comprehensive income (loss) includes the net income (loss) for the period, the gain (loss) due to foreign currency translation, and the change in unrealized gain (loss) on available-for-sale securities. Our net income (loss) was equal to our comprehensive income (loss) for 2018 and 2017.

Concentration of Credit Risks

We are subject to concentrations of credit risk principally from cash and cash equivalents and investment securities. The majority of our cash is held by three financial institutions within the United States. Our cash balances held by these institutions may exceed federally insured limits. The associated risk of concentration for cash is mitigated by banking with credit-worthy institutions. The associated risk of concentration for cash equivalents and investments is mitigated by maintaining a diversified portfolio of highly rated instruments.

No client accounted for greater than 10% of total revenue, net for 2019, 2018, and 2017.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which amended the existing FASB Accounting Standards Codification. ASU 2014-09 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services and also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption ("modified retrospective method").

We adopted the standard in the first quarter of fiscal 2019 under the modified retrospective approach. Under the new standard, we recognize estimated gift card breakage revenue proportionately to customer gift card usage over the expected gift card usage period rather than waiting until the likelihood of redemption becomes remote. Further, we recognize revenue related to exchanges upon shipment by us, rather than upon receipt by the customer. In the first quarter of 2019, the Company recorded a cumulative catch-up adjustment resulting in an increase to opening retained earnings, net of tax, of \$0.4 million, comprised of the impact of \$0.3 million from the change in revenue recognition related to gift cards and \$0.1 million from the recognition of exchanges upon shipment. The impact to net revenue for the fiscal year ended August 3, 2019, was an increase of \$1.4 million as a result of adopting the standard.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)* ("ASU 2016-16"), which amends existing guidance on the recognition of current and deferred income tax impacts for intra-entity asset transfers other than inventory. We adopted the standard in the first quarter of 2019 under the modified retrospective approach. As a result, a cumulative adjustment of \$0.4 million, net of tax, was recorded to reduce opening retained earnings in connection with adoption of Topic 740.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Presentation of leases within the consolidated statements of operations and comprehensive income and consolidated statements of cash flow will be generally consistent with current lease accounting guidance. However, this standard will result in a substantial increase in our long-term assets and liabilities on our consolidated balance sheet.

We will adopt this standard in the first quarter of the fiscal year ending August 1, 2020 ("2020") on a modified retrospective basis through a cumulative-effect adjustment of zero to opening retained earnings in the period of adoption. We will also elect the package of practical expedients to leases that commenced before the effective date whereby we will elect to not reassess the following:

- (i) whether any expired or existing contracts contain leases;
- (ii) the lease classification for any expired or existing leases; and
- (iii) initial direct costs for any existing leases.

Upon adoption of ASU 2016-02, we will not record right-of-use assets or lease liabilities for leases with an initial term of 12 months or less. Payments on those leases will be recognized on a straight-line basis through the consolidated statements of operations and comprehensive income over the lease term. We will also elect to combine lease and non-lease components on our leases into a single lease component. We expect to record approximately \$130 million to \$140 million in right-of-use assets and \$155 million to \$165 million in lease liabilities on our consolidated balance sheet upon adoption on August 4, 2019.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The standard requires entities to use a financial instrument impairment model based on expected losses, known as the current expected credit loss (“CECL”) model, rather than incurred losses. Under the new guidance, an entity recognizes an allowance for estimated credit losses upon recognition of the financial instrument. We expect to adopt this standard in our first fiscal quarter of 2021. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). Under this ASU, the accounting for awards issued to nonemployees will be similar to the accounting for employee awards. This includes allowing for the measurement of awards at the grant date and recognition of awards with performance conditions when those conditions are probable, both of which are earlier than under current guidance for nonemployee awards. We expect to adopt this standard in our first fiscal quarter of 2020. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (“ASU 2018-15”). The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This standard is effective beginning in our first fiscal quarter of 2021 on a prospective or retrospective basis, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

Recently Issued SEC Rules

In March 2019, the SEC amended its rules to modernize and simplify certain disclosure requirements in Regulation S-K and the related rules and forms. Among other things, the amendments (1) allow registrants to redact confidential information from most exhibits to their filings without filing a confidential treatment request; (2) allow registrants who present financial statements covering three years in their periodic reports to omit discussion of the earliest year from management’s discussion and analysis if the discussion was included in a prior filing; (3) allow registrants to remove certain Properties and Risk Factors disclosures; and (4) require XBRL data tagging for items on the cover pages of certain filings, as well as the use of hyperlinks for information that is incorporated by reference and available on EDGAR. These provisions were effective and incorporated in this Annual Report on Form 10-K.

3. Fair Value Measurements

We disclose and recognize the fair value of our assets and liabilities using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes three levels of the fair value hierarchy as follows:

Level 1: Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3: Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

Our financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts payable, accrued liabilities, and, prior to our IPO, the preferred stock warrant liability. At August 3, 2019, and July 28, 2018, the carrying values of cash and cash equivalents, accounts payable, and accrued liabilities approximated fair value due to their short-term maturities. In November 2017, in connection with our IPO, all outstanding preferred stock warrants were automatically exercised into shares of Class B common stock. As a result, we remeasured and reclassified the preferred stock warrant liability to additional paid-in capital upon the closing of our IPO.

The following table sets forth the amortized cost, gross unrealized gains, gross unrealized losses and fair values of our short-term and long-term investments accounted for as available-for-sale securities as of August 3, 2019:

| (in thousands) | August 3, 2019 | | | |
|--------------------------|-------------------|------------------------|-------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Financial Assets: | | | | |
| Investments: | | | | |
| U.S. Treasury securities | \$ 49,807 | \$ 100 | \$ — | \$ 49,907 |
| Commercial paper | 29,761 | — | — | 29,761 |
| Asset-backed securities | 42,587 | 145 | — | 42,732 |
| Corporate bonds | 73,969 | 279 | — | 74,248 |
| Total | \$ 196,124 | \$ 524 | \$ — | \$ 196,648 |

The following table sets forth the fair value of available-for-sale securities by contractual maturity as of August 3, 2019:

| (in thousands) | August 3, 2019 | | | |
|--------------------------|-------------------|----------------------------------|-----------------|-------------------|
| | One Year or Less | Over One Year Through Five Years | Over Five Years | Total |
| Financial Assets: | | | | |
| Investments: | | | | |
| U.S. Treasury securities | \$ 44,772 | \$ 5,135 | \$ — | \$ 49,907 |
| Commercial paper | 29,761 | — | — | 29,761 |
| Asset-backed securities | 5,412 | 37,320 | — | 42,732 |
| Corporate bonds | 63,331 | 10,917 | — | 74,248 |
| Total | \$ 143,276 | \$ 53,372 | \$ — | \$ 196,648 |

The following table sets forth our cash equivalents, and short-term and long-term investments accounted for as available-for-sale securities that were measured at fair value on a recurring basis based on the fair value hierarchy as of August 3, 2019:

| (in thousands) | August 3, 2019 | | | |
|--------------------------|------------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$ 6,427 | \$ — | \$ — | \$ 6,427 |
| Commercial paper | — | 11,970 | — | 11,970 |
| Investments: | | | | |
| U.S. Treasury securities | 49,907 | — | — | 49,907 |
| Commercial paper | — | 29,761 | — | 29,761 |
| Asset-backed securities | — | 42,732 | — | 42,732 |
| Corporate bonds | — | 74,248 | — | 74,248 |
| Total | \$ 56,334 | \$ 158,711 | \$ — | \$ 215,045 |

As of July 28, 2018, the Company did not have any financial instruments measured at fair value.

There were no transfers of financial assets or liabilities into or out of Level 1, Level 2, or Level 3 for the fiscal years ended August 3, 2019, and July 28, 2018.

The following table sets forth a summary of the changes in the fair value of the preferred stock warrant liability for the fiscal year ended July 28, 2018:

| (in thousands) | For the Fiscal Year Ended July 28, 2018 | |
|--|--|----------|
| Balance at July 29, 2017 | \$ | 26,679 |
| Change in fair value | | (10,685) |
| Reclassification of warrant liability to additional paid-in capital upon the initial public offering | | (15,994) |
| Balance at July 28, 2018 | \$ | — |

The key assumptions used in the Black-Scholes option-pricing model for the valuation of the preferred stock warrant liability upon remeasurement were as follows:

| | July 29, 2017 | |
|---------------------------------|---------------|-------|
| Expected term (in years) | | 2.0 |
| Fair value of underlying shares | \$ | 25.09 |
| Volatility | | 43.8% |
| Risk free interest rate | | 1.3% |
| Dividend yield | | —% |

Generally, increases or decreases in the fair value of the underlying convertible preferred stock would result in a directionally similar impact in the fair value measurement of the associated warrant liability.

See Note 6, Preferred Stock Warrant Liability, for more details on our preferred stock warrants.

4. Property and Equipment, net

Property and equipment, net consisted of the following:

| (in thousands) | August 3, 2019 | | July 28, 2018 | |
|---|----------------|----------|---------------|----------|
| Computer equipment | \$ | 3,647 | \$ | 2,920 |
| Office furniture and equipment | | 18,010 | | 9,829 |
| Leasehold improvements | | 27,967 | | 16,091 |
| Capitalized software | | 34,571 | | 24,982 |
| Construction in progress | | 1,381 | | 356 |
| Building and land | | 402 | | 402 |
| Total property and equipment | | 85,978 | | 54,580 |
| Less: accumulated depreciation and amortization | | (31,090) | | (20,411) |
| Property and equipment, net | \$ | 54,888 | \$ | 34,169 |

Depreciation and amortization expense for 2019, 2018, and 2017 was \$16.1 million, \$10.5 million, and \$7.7 million, respectively.

5. Accrued Liabilities

Accrued liabilities consisted of the following:

| (in thousands) | August 3, 2019 | | July 28, 2018 | |
|-----------------------------------|----------------|--------|---------------|--------|
| Compensation and related benefits | \$ | 9,494 | \$ | 10,680 |
| Advertising | | 12,922 | | 10,456 |
| Sales taxes | | 6,956 | | 7,066 |
| Shipping and freight | | 7,045 | | 4,801 |
| Accrued accounts payable | | 7,550 | | 4,567 |
| Inventory purchases | | 15,703 | | 506 |
| Other | | 10,064 | | 4,961 |
| Total accrued liabilities | \$ | 69,734 | \$ | 43,037 |

6. Preferred Stock Warrant Liability

In 2012 and 2013, in connection with financing arrangements, we issued warrants to purchase shares of our convertible preferred stock. For one of the financing arrangements, we issued warrants to purchase 375,230 shares of Series Seed convertible preferred stock at an exercise price of \$0.1066 per share and 66,265 shares of Series A convertible preferred stock at an exercise price of \$0.22636 per share. For the second financing arrangement, we issued warrants for the purchase of, at the warrant holder's option, either (a) 624,730 shares of Series A-1 convertible preferred stock at an exercise price of \$0.2401 per share or (b) 308,315 shares of Series B convertible preferred stock at an exercise price of \$0.486516 per share. Prior to their automatic exercise in connection with the IPO, the warrants were exercisable for and expired ten years from the date of issuance. In November 2017, in connection with our IPO, the preferred stock warrants were automatically exercised into shares of Class B common stock and the preferred stock warrant liability was reclassified to additional paid-in capital.

7. Commitments and Contingencies

Leases

We have entered into various lease arrangements for our corporate offices and fulfillment centers. Such leases generally have original lease terms between five and eight years. We had security deposits totaling \$1.2 million and \$1.3 million as of August 3, 2019, and July 28, 2018, respectively. We had unsecured letters of credit totaling \$13.9 million as of August 3, 2019. We had secured letters of credit totaling \$12.9 million as of July 28, 2018, which were collateralized by time deposits.

A schedule of the future minimum rental commitments under our non-cancelable operating lease agreements with an initial or remaining term in excess of one year as of August 3, 2019, is as follows:

| (in thousands) | August 3, 2019 |
|-----------------------|-----------------------|
| 2020 | \$ 27,018 |
| 2021 | 27,680 |
| 2022 | 25,451 |
| 2023 | 23,258 |
| 2024 | 19,696 |
| Thereafter | 56,687 |
| Total | \$ 179,790 |

At one fulfillment center, the Company recognizes contingent rent in excess of its minimum lease payments. Contingent rental amounts are determined based on additional square footage utilized in excess of the Company's contractual minimum commitments.

Total rent expense classified within selling, general, and administrative expenses in the consolidated statements of operations was \$26.9 million, \$18.2 million, and \$16.6 million for 2019, 2018, and 2017, respectively.

Future minimum rental commitments as of August 3, 2019, have not been reduced by sublease rental income of \$1.8 million due to the Company under non-cancelable subleases through fiscal 2021.

We entered into an amendment to our fulfillment center arrangement in Dallas effective February 20, 2019 (the "Amendment"). The Amendment increases our existing square footage at this location by approximately 174,000 square feet to approximately 490,000 square feet and extends the original lease term by approximately 18 months to June 2024. The arrangement is being accounted for as an operating lease with future minimum lease payments of approximately \$10.0 million through June 2024.

On October 12, 2018, we executed an agreement with a third-party logistics contractor to lease and operate a fulfillment center in Leicester, England (the "Fulfillment Center Logistics Agreement"). The agreement commits the Company to a five-year contract for logistics services at the Leicester fulfillment center that can be terminated after two years, with six months' advance notice. The leasing component of the arrangement is being accounted for as an operating lease with future minimum lease payments over the five-year term of \$11.1 million.

On June 13, 2019, we entered into an amendment to our office lease in Austin, Texas. The amendment extends our existing lease for the current space through March 2025. The arrangement will continue to be accounted for as an operating lease with future minimum lease payments of approximately \$6.7 million through March 2025.

On June 17, 2019, we entered into an agreement to lease approximately 925,000 square feet of space to be used as a fulfillment center in the Atlanta, Georgia, metropolitan area. The lease has a term of 86 months and will be accounted for as an operating lease with future minimum lease payments of approximately \$23.5 million over the 86-month lease term.

Contingencies

We record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We also disclose material contingencies when we believe a loss is not probable but reasonably possible. Accounting for contingencies requires us to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. Although we cannot predict with assurance the outcome of any litigation or tax matters, we do not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on our operating results, financial position, or cash flows.

On October 11, 2018, October 26, 2018, November 16, 2018, and December 10, 2018, four putative class action lawsuits alleging violations of the federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The four lawsuits each make the same allegations of violations of the Securities Exchange Act of 1934, as amended, by us and our officers for allegedly making materially false and misleading statements regarding our active client growth and strategy with respect to television advertising between June 2018 and October 2018. The plaintiffs seek unspecified monetary damages and other relief. The four lawsuits have been consolidated and a lead plaintiff has been appointed. The lead plaintiff filed a consolidated amended complaint on September 18, 2019. The Company disputes these claims and intends to defend the matter vigorously. On December 12, 2018, a derivative action was filed against our directors in the same court, alleging the same violations of securities laws as alleged in the four putative class action lawsuits described above and breach of fiduciary duties. The derivative action has been stayed pending the outcome of the motion to dismiss in the related class action lawsuits.

On December 29, 2017, a lawsuit was filed by a holder of shares of our Class A common stock in the Court of Chancery of the State of Delaware, naming as defendants us and certain of our directors, as well as two other public companies and certain of their directors. The lawsuit sought a court determination that Article VI, Section E of our amended and restated certificate of incorporation, purporting to limit to federal court the forum in which a stockholder could bring a claim under the Securities Act of 1933, as amended (the "Securities Act"), and similar provisions in our co-defendants' certificates of incorporation, were invalid. On December 19, 2018, the Chancery Court of the State of Delaware issued an opinion in *Sciabacucchi v. Salzberg*, invalidating our federal exclusive forum provision. We have appealed this decision to the Delaware Supreme Court.

Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to vendors, directors, officers, and other parties with respect to certain matters. We have not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in our consolidated financial statements.

8. Accumulated Other Comprehensive Income

The table below presents the changes in AOCI by component and the reclassifications out of AOCI:

| (in thousands) | Changes in Accumulated Other Comprehensive Income | | |
|---|---|------------------------------|-----------------|
| | Available-for-sale Securities | Foreign Currency Translation | Total |
| Balance at July 28, 2018 | \$ — | \$ — | \$ — |
| Other comprehensive income (loss) before reclassifications ⁽¹⁾ | 391 | (578) | (187) |
| Net change in AOCI | 391 | (578) | (187) |
| Balance at August 3, 2019 | <u>\$ 391</u> | <u>\$ (578)</u> | <u>\$ (187)</u> |

⁽¹⁾ The associated income tax effects for gains / losses on available-for-sale securities were \$133.

9. Stock-Based Compensation

2011 Equity Incentive Plan

In 2011, we adopted the 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan provided for the grant of stock-based awards to employees, directors, and nonemployees under terms and provisions established by the board of directors. As of July 29, 2017, the number of shares authorized for issuance under the 2011 Plan was 23,223,374, of which 2,023,424 were available for grant.

The 2011 Plan allowed for the grant of incentive stock options or nonqualified stock options as well as restricted stock units, restricted stock and stock appreciation rights. Only incentive and nonqualified stock options were granted under the 2011 Plan. Effective upon our IPO, the 2011 Plan was replaced by the 2017 Incentive Plan.

2017 Incentive Plan

In November 2017, our board of directors and stockholders adopted our 2017 Incentive Plan (the “2017 Plan”). The remaining shares available for issuance under the 2011 Plan became reserved for issuance under the 2017 Plan. The 2017 Plan provides for the grant of incentive stock options to employees, including employees of any parent or subsidiary, and for the grant of nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards, and other forms of stock awards to employees, directors, and consultants, including employees and consultants of our subsidiaries. Under the 2017 Plan, the number of shares available for issuance may be increased annually by an amount not to exceed 5% of the outstanding shares of our common stock as of the last day of the immediately preceding fiscal year. The Board of Directors approved an increase of 5,069,874 shares available for issuance under the 2017 Plan as of August 4, 2019. The number of shares authorized for issuance under the 2017 Plan was 17,137,824 as of August 3, 2019.

Employee stock options generally vest 25% on the first anniversary of the grant date with the remaining vesting ratably over the next three years. Options generally expire after 10 years.

The following table summarizes the shares available for grant under the 2017 Plan:

| | Shares Available for Grant |
|--------------------------|----------------------------|
| Balance – July 28, 2018 | 3,743,623 |
| Authorized | — |
| Granted | (4,113,084) |
| Cancelled | 1,502,719 |
| Balance – August 3, 2019 | 1,133,258 |

Stock option activity under the 2011 Plan and 2017 Plan is as follows:

| | Options Outstanding | | | |
|--|---------------------|---------------------------------|--|--|
| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in Years) | Aggregate Intrinsic Value (in thousands) |
| Balance – July 28, 2018 | 9,052,160 | \$ 11.74 | 8.23 | \$ 160,856 |
| Granted | 1,090,890 | 24.77 | | |
| Exercised | (2,198,655) | 6.79 | | |
| Cancelled | (874,270) | 16.15 | | |
| Balance – August 3, 2019 | 7,070,125 | \$ 14.48 | 7.72 | \$ 73,861 |
| Options vested and exercisable - August 3, 2019 | 2,263,236 | \$ 9.48 | 6.77 | \$ 35,009 |
| Options vested and expected to vest - August 3, 2019 | 6,450,028 | \$ 14.40 | 7.61 | \$ 69,652 |

The weighted-average grant date fair value of options granted during 2019, 2018, and 2017 was \$11.60, \$8.40, and \$9.11 per share, respectively. The total grant date fair value of options that vested during 2019, 2018, and 2017 was \$13.1 million, \$8.5 million, and \$2.6 million, respectively. The aggregate intrinsic value of options exercised during 2019, 2018, and 2017 was \$49.1 million, \$59.6 million, and \$17.4 million, respectively. The aggregate intrinsic value of options exercised is the difference between the fair value of the underlying common stock on the date of exercise and the exercise price for in-the-money stock options.

Employee restricted stock units are granted under the 2017 Plan and generally vest 25% on the first anniversary of the grant date with the remaining vesting ratably over the next three years.

The following table summarizes the restricted stock unit (“RSU”) award activity under the 2017 Plan:

| | Unvested RSUs | |
|----------------------------|----------------------|--|
| | Class A Common Stock | Weighted-Average Grant Date Fair Value |
| Unvested at July 28, 2018 | 2,432,326 | \$ 21.58 |
| Granted | 3,022,194 | 30.25 |
| Vested | (397,226) | 20.67 |
| Forfeited | (628,449) | 23.50 |
| Unvested at August 3, 2019 | 4,428,845 | \$ 27.30 |

Stock-Based Compensation Expense

Stock-based compensation expense for options granted to employees was \$35.2 million, \$15.4 million, and \$3.4 million for 2019, 2018, and 2017, respectively. Stock-based compensation expense for options granted to non-employees was less than \$0.1 million in 2019 and 2018, and \$0.2 million for 2017. The income tax benefit related to stock-based compensation was \$8.9 million, \$4.7 million, and \$1.3 million for 2019, 2018, and 2017, respectively. Stock-based compensation expense is included in selling, general, and administrative expenses in our consolidated statements of operations.

As of August 3, 2019, the total unrecognized compensation expense related to unvested options and RSUs, net of estimated forfeitures, was \$147.9 million, which we expect to recognize over an estimated weighted average period of 3.0 years.

In determining the fair value of the stock-based awards, we use the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment.

Fair Value of Common Stock - As of August 3, 2019, the fair value of the shares of common stock underlying our stock options has been determined based on market prices. Prior to our IPO on November 16, 2017, the fair value of the shares of common stock underlying our stock options was determined by the board of directors. As there was no public market for our common stock, the board of directors determined the fair value of the common stock on the stock option grant date by considering a number of objective and subjective factors, including third-party valuations of our common stock, sales of our common stock, operating and financial performance, the lack of marketability of our common stock and general macroeconomic conditions.

Expected Term - The expected term represents the period that our stock options are expected to be outstanding and is determined using the simplified method (generally calculated as the mid-point between the vesting date and the end of the contractual term).

Expected Volatility - The expected volatility was estimated based on the average volatility for publicly traded companies that we considered comparable, over a period equal to the expected term of the stock option grants.

Risk-Free Interest Rate - The risk-free interest rate is based on the U.S. Treasury zero coupon notes in effect at the time of grant for periods corresponding with the expected term of the option.

Expected Dividend - We have not paid dividends on our common stock and do not anticipate paying dividends on our common stock; therefore, we use an expected dividend yield of zero.

The fair value of stock options granted to employees was estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions:

| | For the Fiscal Year Ended | | |
|--------------------------|---------------------------|---------------|---------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Expected term (in years) | 5.1 - 6.5 | 5.4 - 6.6 | 5.1 - 7.7 |
| Volatility | 41.7 - 52.2% | 41.4 - 43.5% | 42.6 - 46.0% |
| Risk free interest rate | 2.3 - 3.0% | 1.9 - 3.0% | 1.3 - 2.3% |
| Dividend yield | —% | —% | —% |

In July 2017, options to purchase an aggregate of 1,097,463 shares of common stock which had both a service-based condition and a liquidity event-related performance condition were granted to certain members of our executive management team. Such options vest ratably over the 24-month period following the fourth anniversary of the grant date, subject to an IPO occurring within 12 months of the grant date and the option holder’s continuous service through each vesting date. The aggregate grant-date fair value of such option awards was \$14.0 million. Since an IPO is not deemed probable until such event occurs, no compensation cost related to the performance condition was recognized prior to the consummation of our IPO in November 2017. Subsequently, we recorded stock-based compensation expense of \$0.5 million related to periods prior to the IPO.

Early Exercise of Employee Options

We allow certain employees to exercise options granted under the 2011 Plan prior to vesting in exchange for shares of restricted common stock subject to a right of repurchase that lapses according to the original option vesting schedule. The proceeds from the exercise of options are recorded in other current liabilities and other long-term liabilities in our consolidated balance sheets at the time the options are exercised and reclassified to common stock and additional paid-in capital as our repurchase right lapses. Upon termination of employment, any unvested shares are subject to repurchase by us at the original purchase price.

We did not issue any shares upon exercise of unvested stock options during 2019 and 2018. We issued 111,557 shares of common stock during 2017 upon exercise of unvested stock options. As of August 3, 2019, there were no shares of common stock subject to repurchase. As of July 28, 2018, and July 29, 2017 there were 160,417, and 702,144 shares of common stock, respectively, held by employees subject to repurchase at an aggregate price of \$0.2 million, and \$1.2 million, respectively.

Sales of Our Stock

In November 2016, we initiated a cash tender offer which was completed in December 2016 for the purchase of our common stock, including shares underlying then-unexercised vested options, at a purchase price of \$22.61 per share. To be eligible to participate in the tender offer, employees must have received equity grants with vesting start dates on or before October 31, 2014. Such employees could elect to sell up to 10% of their total vested holdings. The total number of tendered shares was 526,620 for total cash consideration of \$11.9 million. The purchase price per share in the tender offer was in excess of the fair value of our common stock at the time of the transaction. As a result, during 2017, we recorded the excess of the purchase price above fair value of \$8.3 million as compensation expense.

In January 2017, two of our former employees sold 554,799 shares of our common stock for a total of \$12.5 million to existing investors. In addition, an employee sold 85,000 shares of our Series C convertible preferred stock for a total purchase price of \$1.9 million to an existing investor. The purchase price was in excess of the fair value of such shares. During 2017, we recorded \$13.0 million as compensation expense related to these transactions.

10. Income Taxes

The components of income (loss) before income taxes are as follows:

| (in thousands) | For the Fiscal Year Ended | | |
|--|---------------------------|---------------|---------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Income (loss) before income taxes | | | |
| United States | \$ 31,657 | \$ 56,978 | \$ 12,801 |
| Foreign | (836) | (2,265) | — |
| Total | \$ 30,821 | \$ 54,713 | \$ 12,801 |

The components of the provision (benefit) for income tax expense are as follows:

| (in thousands) | For the Fiscal Year Ended | | |
|--------------------------------------|---------------------------|---------------|---------------|
| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
| Current: | | | |
| Federal | \$ (221) | \$ 2,732 | \$ 17,027 |
| State | 2,431 | 493 | 3,096 |
| Foreign | (67) | — | — |
| Total current | 2,143 | 3,225 | 20,123 |
| Deferred: | | | |
| Federal | (5,464) | 7,917 | (6,009) |
| State | (2,667) | (1,329) | (719) |
| Foreign | (72) | — | — |
| Total deferred | (8,203) | 6,588 | (6,728) |
| Provision (benefit) for income taxes | \$ (6,060) | \$ 9,813 | \$ 13,395 |

The reconciliation of our effective tax rate to the statutory federal rate is as follows:

| (in thousands, except percentages) | For the Fiscal Year Ended | | | | | |
|--|---------------------------|----------------|-----------------|---------------|------------------|----------------|
| | August 3, 2019 | | July 28, 2018 | | July 29, 2017 | |
| Tax at federal statutory rate | \$ 6,473 | 21.0 % | \$ 14,752 | 27.0 % | \$ 4,481 | 35.0 % |
| State taxes, net of federal effect | (1,068) | (3.5)% | (755) | (1.4)% | 1,270 | 9.9 % |
| Remeasurement of preferred stock warrant liability | — | 0.0 % | (2,881) | (5.3)% | 6,608 | 51.6 % |
| Stock-based compensation | (7,114) | (23.1)% | (5,454) | (9.9)% | 229 | 1.8 % |
| Tax Act impact | — | 0.0 % | 6,670 | 12.2 % | — | 0.0 % |
| Research and development credits | (5,984) | (19.4)% | (2,146) | (3.9)% | — | 0.0 % |
| Uncertain tax positions | 2,030 | 6.6 % | 2,846 | 5.1 % | 23 | 0.2 % |
| Return to provision | (1,821) | (5.9)% | (3,891) | (7.1)% | — | 0.0 % |
| Meals and entertainment | 765 | 2.5 % | 652 | 1.2 % | 1,188 | 9.3 % |
| Other | 659 | 2.1 % | 20 | 0.0 % | (404) | (3.2)% |
| Effective tax rate | <u>\$ (6,060)</u> | <u>(19.7)%</u> | <u>\$ 9,813</u> | <u>17.9 %</u> | <u>\$ 13,395</u> | <u>104.6 %</u> |

The components of net deferred tax assets are as follows:

| (in thousands) | August 3, 2019 | July 28, 2018 | July 29, 2017 |
|--|------------------|------------------|------------------|
| Deferred tax assets: | | | |
| Inventory reserve and uniform capitalization | \$ 11,696 | \$ 7,504 | \$ 13,378 |
| Deferred rent | 232 | 202 | 4,858 |
| Accruals and reserves | 6,623 | 8,274 | 6,215 |
| Research and development credits | 4,778 | 754 | — |
| Stock-based compensation | 6,195 | 2,210 | 308 |
| Deferred revenue | 713 | 739 | 616 |
| Other | 302 | 404 | 175 |
| Gross deferred tax assets | <u>30,539</u> | <u>20,087</u> | <u>25,550</u> |
| Deferred tax liabilities: | | | |
| Depreciation and amortization | (8,275) | (5,860) | (5,407) |
| Other | (89) | (120) | (152) |
| Gross deferred tax liabilities | <u>(8,364)</u> | <u>(5,980)</u> | <u>(5,559)</u> |
| Net deferred tax assets | <u>\$ 22,175</u> | <u>\$ 14,107</u> | <u>\$ 19,991</u> |

The Tax Cuts and Jobs Act (the “Tax Act”) was signed into law on December 22, 2017, and significantly changed previous U.S. tax laws, including a reduction of the corporate tax rate from 35% to 21%. For fiscal 2018, the change in the corporate tax rate resulted in a blended U.S. federal statutory rate for the Company of approximately 27%. Certain provisions of the Tax Act, including a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries, were not effective for the Company until fiscal 2019. In accordance with U.S. GAAP, the Company has made an accounting policy election to treat taxes due under the GILTI provision as a current period expense. Implementation of the Tax Act required the Company to record an incremental tax expense due to remeasurement of net deferred tax assets in fiscal 2018, which increased our effective tax rate in fiscal 2018. The Company completed its analysis of the Tax Act in the second quarter of fiscal 2019 and no adjustments were made to the provisional amounts recorded.

Our effective tax rate and provision for income taxes decreased from the fiscal year ended July 28, 2018, to the fiscal year ended August 3, 2019, primarily due to increased excess tax benefits from stock-based compensation, additional qualified activities for U.S. and California research and development tax credits, and the prior year Tax Act remeasurement of deferred tax assets that was not in effect for the current year.

Our effective tax rate and provision for income taxes decreased from the fiscal year ended July 29, 2017, to the fiscal year ended July 28, 2018, primarily due to stock-based compensation deductions, analysis of our 2016 through 2018 qualified activities for U.S. and California research and development tax credits, and a decrease in the nondeductible remeasurement of the preferred stock warrant liability. These tax benefits were partially offset by tax charges for the remeasurement of our net deferred tax assets associated with the enactment of the Tax Act, which reduced the corporate tax rate from 35% to 21%.

The Company considers all undistributed earnings of foreign subsidiaries indefinitely reinvested outside the United States.

We had state net operating loss carryforwards of \$0.2 million for the year ended July 28, 2018. These losses were fully utilized in the year ended August 3, 2019. As of August 3, 2019, we had federal research and development tax credit carryforwards of \$3.5 million,

which are set to expire in 2039. As of August 3, 2019, and July 28, 2018, we had California research and development tax credit carryforwards of \$5.2 million and \$1.5 million, respectively, which are not subject to expiration.

Uncertain Tax Positions

A reconciliation of our unrecognized tax benefits is as follows:

| (in thousands) | August 3, 2019 | July 28, 2018 | July 29, 2017 |
|--|-----------------------|----------------------|----------------------|
| Balance at the beginning of the year | \$ 5,503 | \$ 1,052 | \$ 846 |
| Lapse of statute of limitations | (422) | — | — |
| Increase related to prior period tax positions | 2,602 | 2,334 | — |
| Decrease related to prior period tax positions | (183) | (241) | (36) |
| Increase related to current year tax positions | 3,495 | 2,358 | 242 |
| Balance at the end of the year | <u>\$ 10,995</u> | <u>\$ 5,503</u> | <u>\$ 1,052</u> |

The amount of unrecognized tax benefits relating to our tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, we anticipate that the balance of the liability for unrecognized tax benefits and related deferred tax assets will decrease by \$0.9 million during the next 12 months due to lapses of applicable statutes of limitation. Our liability for uncertain tax positions as of August 3, 2019, includes \$7.7 million related to amounts that would impact our current and future tax expense.

We recognize interest related to uncertain tax positions in our provision for income taxes. The Company files income tax returns in the U.S. federal and various state and local jurisdictions and in the UK. We are subject to UK, U.S. federal, state and local income tax examinations for all prior years. There are no jurisdictions currently under examination.

11. Earnings (Loss) Per Share Attributable to Common Stockholders

Basic and diluted net income (loss) per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. We consider convertible preferred stock and early exercised share options to be participating securities. In connection with our IPO, we established two classes of authorized common stock: Class A common stock and Class B common stock. As a result, all then-outstanding shares of common stock were converted into shares of Class B common stock upon effectiveness of our IPO. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, conversion, and transfer rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock.

Undistributed earnings allocated to participating securities are subtracted from net income (loss) in determining net income (loss) attributable to common stockholders. Basic earnings per share (“EPS”) attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding.

For the calculation of diluted earnings per share, net income (loss) attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities. Diluted net income (loss) per share attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding, including all potentially dilutive common shares. The undistributed earnings are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year have been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock, while diluted net income (loss) per share of Class B common stock does not assume the conversion of Class A common stock as Class A common stock is not convertible into Class B common stock.

A reconciliation of the numerator and denominator used in the calculation of the basic and diluted EPS attributable to common stockholders is as follows (in thousands except share and per share amounts):

| (in thousands except share and per share amounts) | August 3, 2019 | | July 28, 2018 | | July 29, 2017 |
|---|----------------|------------|---------------|------------|---------------|
| | Class A | Class B | Class A | Class B | Class B |
| Numerator: | | | | | |
| Net income (loss) | \$ 16,604 | \$ 20,277 | \$ 7,650 | \$ 37,250 | \$ (594) |
| Less: noncumulative dividends to preferred stockholders | — | — | (131) | (637) | — |
| Less: undistributed earnings to participating securities | (8) | (10) | (1,464) | (7,127) | — |
| Net income (loss) attributable to common stockholders – basic | 16,596 | 20,267 | 6,055 | 29,486 | (594) |
| Less: change in fair value of preferred stock warrant liability (net of tax) | — | — | (10,685) | (10,685) | — |
| Add: adjustments to undistributed earnings to participating securities | 1 | — | 2,429 | 2,015 | — |
| Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares | 20,267 | — | 29,486 | — | — |
| Reallocation of undistributed earnings to Class B shares | — | 302 | — | 2,122 | — |
| Net income (loss) attributable to common stockholders – diluted | \$ 36,864 | \$ 20,569 | \$ 27,285 | \$ 22,938 | \$ (594) |
| Denominator: | | | | | |
| Weighted-average shares of common stock – basic | 45,027,352 | 54,986,110 | 12,940,593 | 63,007,166 | 24,973,931 |
| Conversion of Class B to Class A common shares outstanding | 54,986,110 | — | 63,007,166 | — | — |
| Effect of dilutive stock options and restricted stock units | 3,640,164 | 2,849,737 | 5,021,692 | 5,011,712 | — |
| Effect of potentially dilutive preferred stock warrants | — | — | 318,967 | 318,967 | — |
| Weighted-average shares of common stock – diluted | 103,653,626 | 57,835,847 | 81,288,418 | 68,337,845 | 24,973,931 |
| Earnings (loss) per share attributable to common stockholders: | | | | | |
| Basic | \$ 0.37 | \$ 0.37 | \$ 0.47 | \$ 0.47 | \$ (0.02) |
| Diluted | \$ 0.36 | \$ 0.36 | \$ 0.34 | \$ 0.34 | \$ (0.02) |

The following common stock equivalents were excluded from the computation of diluted earnings (loss) per share for the periods presented because including them would have been antidilutive:

| | August 3, 2019 | July 28, 2018 | July 29, 2017 |
|--|----------------|---------------|---------------|
| Convertible preferred stock | — | — | 59,511,055 |
| Preferred stock warrants | — | — | 1,066,225 |
| Restricted stock units | 2,914,630 | 2,276,994 | — |
| Stock options to purchase Class A common stock | 1,547,495 | 1,271,152 | — |
| Stock options to purchase Class B common stock | 969,179 | 3,689,369 | 5,675,447 |
| Total | 5,431,304 | 7,237,515 | 66,252,727 |

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Annual Report. Based on the evaluation of our disclosure controls and procedures as of August 3, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of the material weaknesses in our internal control, our disclosure controls and procedures were not effective as of August 3, 2019.

Management's Report on Internal Control Over Financial Reporting

Management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. GAAP.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on evaluation under these criteria, management determined, based upon the existence of the material weaknesses described below, that we did not maintain effective internal control over financial reporting as of August 3, 2019.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

As previously disclosed, throughout fiscal 2019 we implemented processes and procedures designed to remediate the material weakness identified in connection with the audit of our Consolidated Financial Statements for the year ended July 28, 2018. We have continued to review, confirm, and test these initiatives and, in connection with those efforts, as of August 3, 2019, we have identified a material weakness in our internal control over financial reporting associated with certain outsourced IT service providers and related material weaknesses in our COSO components as described below.

Outsourced IT Service Providers

We rely upon a variety of outsourced IT service providers for key elements of the technology infrastructure impacting our financial reporting process. Certain of these outsourced IT service providers could not provide System and Organization Controls (SOC) reports or, if they did, they were for periods that did not closely align with our fiscal year end. As such, we did not have controls designed to assess the design and operation of internal controls pertaining to these outsourced IT service providers over our period of reliance. Given that management did not effectively assess the design and operation of certain outsourced IT service providers' internal controls, certain of our controls over IT systems and business processes were also ineffective, to the extent that they rely upon information that was subject to the outsourced IT service providers' control environment. These deficiencies impact substantially all financial statement account balances and disclosures, and when aggregated represent a material weakness in internal control over financial reporting.

Control Activities and Monitoring

Given the outsourced IT service providers material weakness, we identified related COSO material weaknesses, including: (1) deficiencies in the principles associated with the control activities component of the COSO framework relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives, and (ii) selecting and developing general control activities over technology to support the achievement of objectives, and (2) deficiencies in the principles associated with the monitoring component of the COSO framework relating to selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal control are present and functioning.

Notwithstanding the identified outsourced IT service providers and related COSO material weaknesses, management has concluded that the Consolidated Financial Statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of August 3, 2019.

Management's Planned Remediation Activities

Our management has been actively engaged in developing and implementing remediation plans to address the outsourced IT service providers and related COSO material weaknesses described above. These remediation efforts are ongoing and include or are expected to include the following:

- Expanding controls and/or applying other appropriate procedures to address the design and operation of internal controls relating to certain outsourced IT service providers.
- Enhancing procedures for the identification of control activities and monitoring of control performance to ensure that the components of internal control relating to certain outsourced IT service providers are present and functioning.

As we continue to evaluate and work to improve our internal control over financial reporting, we may decide to take additional measures to address control deficiencies or modify the remediation plans described above. The outsourced IT service providers and related COSO material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. In fiscal year 2020, we intend to continue executing these plans to remediate the outsourced IT service providers and related COSO material weaknesses. However, we cannot be certain that the measures we have taken or may take in the future will ensure that we establish and maintain adequate controls over our financial processes and reporting in the future.

Changes in Internal Control over Financial Reporting

During fiscal year 2019, we undertook efforts to remediate the material weakness previously disclosed in connection with the audit of our consolidated financial statements for the year ended July 28, 2018 with the following remediation actions to improve and strengthen our internal controls:

- Enhanced IT governance policies and procedures.
- Designed and implemented control activities and procedures around user and administrator access, program change management, including within the accounting systems test environment, and computer operations.

After the completion of extensive remediation efforts during fiscal year 2019, the material weakness relating to our use of certain outsourced IT service providers, as described above, remains outstanding as of August 3, 2019.

Except for the identification of the outsourced IT service providers and related COSO material weaknesses and changes described above, there were no changes during the quarter ended August 3, 2019 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error or overriding of controls, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Stitch Fix, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Stitch Fix, Inc. and subsidiaries (the “Company”) as of August 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of August 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and the related notes (collectively referred to as the “financial statements”) as of and for the year ended August 3, 2019, of the Company and our report dated October 2, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in the accompanying *Management’s Report on Internal Control Over Financial Reporting*:

Outsourced IT Service Providers - The Company relies upon a variety of outsourced Information Technology (IT) service providers for key elements of the technology infrastructure impacting its financial reporting process. Certain of these outsourced IT service providers could not provide System and Organization Controls (SOC) reports or, if they did, they were for periods that did not closely align with the Company’s fiscal year end. The Company did not have controls designed to assess the design and operation of internal controls pertaining to these outsourced IT service providers over the period of reliance. Given that management did not effectively assess the design and operation of certain outsourced IT service providers’ internal controls, certain of the Company’s controls over IT systems and business processes were also ineffective, to the extent that they rely upon information that was subject to the outsourced IT service providers’ control environment.

Control Activities and Monitoring - Given the outsourced IT service providers material weakness, the Company identified related COSO material weaknesses, including: (1) deficiencies in the principles associated with the control activities component of the COSO framework

relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives, and (ii) selecting and developing general control activities over technology to support the achievement of objectives, and (2) deficiencies in the principles associated with the monitoring component of the COSO framework relating to selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal control are present and functioning.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended August 3, 2019, of the Company, and this report does not affect our report on such financial statements.

/s/ Deloitte & Touche LLP

San Francisco, California

October 2, 2019

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item regarding directors and director nominees, executive officers, the board of directors and its committees, certain corporate governance matters, and compliance with Section 16(a) of the Exchange Act is incorporated by reference to the information set forth in the definitive proxy statement for our 2019 Annual Meeting of Stockholders, or the 2019 Proxy Statement.

We have adopted a written code of business conduct and ethics (“Code of Conduct”) that applies to all of our employees, officers and directors, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Conduct is available on our corporate website at <https://investors.stitchfix.com> under “Documents” under the section entitled “Governance.” If we make any substantive amendments to our Code of Conduct or grant any of our directors or executive officers any waiver, including any implicit waiver, from a provision of our Code of Conduct, we will disclose the nature of the amendment or waiver on our website or in a Current Report on Form 8-K.

Item 11. Executive Compensation.

Information required by this item regarding executive compensation is incorporated by reference to the information set forth in our 2019 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this item regarding security ownership of certain beneficial owners and management and securities authorized for issuance under our equity compensation plans is incorporated by reference to the information set forth in our 2019 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this item regarding certain relationships and related transactions and director independence is incorporated by reference to the information set forth in our 2019 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in our 2019 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report:

- (1) The financial statements are filed as part of this Annual Report under “Item 8. Financial Statements and Supplementary Data.”
- (2) The financial statement schedules are omitted because they are either not applicable or the information required is presented in the financial statements and notes thereto under “Item 8. Financial Statements and Supplementary Data.”
- (3) The exhibits listed in the following Exhibit Index are filed, furnished, or incorporated by reference as part of this Annual Report.

Exhibit Index

| Exhibit Number | Description | Incorporation by Reference | | | | Filed or Furnished Herewith |
|----------------|--|----------------------------|------------|---------|-------------|-----------------------------|
| | | Form | File No. | Exhibit | Filing Date | |
| 3.1 | Amended and Restated Certificate of Incorporation of Stitch Fix, Inc. | 8-K | 001-38291 | 3.1 | 11/21/2017 | |
| 3.2 | Amended and Restated Bylaws of Stitch Fix, Inc. | 8-K | 001-38291 | 3.2 | 11/21/2017 | |
| 4.1 | Form of Class A Common Stock Certificate. | S-1/A | 333-221014 | 4.1 | 11/6/2017 | |
| 4.2 | Form of Class B Common Stock Certificate. | S-8 | 333-221650 | 4.6 | 11/17/2017 | |
| 10.1 | Amended and Restated Investor Rights Agreement, dated April 10, 2014. | S-1 | 333-221014 | 10.1 | 10/19/2017 | |
| 10.2+ | Stitch Fix, Inc. 2011 Equity Incentive Plan, as amended. | S-1 | 333-221014 | 10.2 | 10/19/2017 | |
| 10.3+ | Forms of grant notice, stock option agreement, notice of exercise and early exercise stock purchase agreement under the Stitch Fix, Inc. 2011 Equity Incentive Plan, as amended. | S-1 | 333-221014 | 10.3 | 10/19/2017 | |
| 10.4+ | Stitch Fix, Inc. 2017 Incentive Plan. | 10-K | 001-38291 | 10.4 | 10/3/2018 | |
| 10.5+ | Forms of stock option grant notice, stock option agreement and notice of exercise under the Stitch Fix, Inc. 2017 Incentive Plan. | S-1/A | 333-221014 | 10.5 | 11/6/2017 | |
| 10.6+ | Forms of restricted stock unit grant notice and award agreement under the Stitch Fix, Inc. 2017 Incentive Plan. | S-1/A | 333-221014 | 10.6 | 11/6/2017 | |
| 10.7+ | Form of Indemnity Agreement entered into by and between Stitch Fix, Inc. and each director and executive officer. | S-1 | 333-221014 | 10.7 | 10/19/2017 | |
| 10.8+ | Offer Letter, by and between Stitch Fix, Inc. and Katrina Lake, dated September 5, 2017. | S-1 | 333-221014 | 10.8 | 10/19/2017 | |
| 10.9+ | Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Paul Yee, dated September 5, 2017. | S-1 | 333-221014 | 10.9 | 10/19/2017 | |
| 10.10+ | Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Scott Darling, dated September 5, 2017. | S-1 | 333-221014 | 10.11 | 10/19/2017 | |
| 10.11+ | Amended and Restated Offer Letter, by and between Stitch Fix, Inc. and Mike Smith, dated September 25, 2017. | S-1 | 333-221014 | 10.16 | 10/19/2017 | |
| 10.12+ | Stitch Fix, Inc. Independent Director Compensation Policy. | 10-Q | 001-38291 | 10.1 | 12/11/2018 | |
| 10.13 | Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of November 10, 2015, as amended. | S-1/A | 333-221014 | 10.12 | 11/6/2017 | |
| 10.14 | First Amendment to Original Office Lease, executed February 22, 2016, between Stitch Fix, Inc. and Post-Montgomery Associates. | 10-Q | 001-38291 | 10.1 | 3/13/2018 | |
| 10.15 | Second Amendment to Original Office Lease, executed September 6, 2017, between Stitch Fix, Inc. and Post-Montgomery Associates. | 10-Q | 001-38291 | 10.2 | 3/13/2018 | |
| 10.16 | Third Amendment to the Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of January 29, 2018. | 8-K | 001-38291 | 10.1 | 2/2/2018 | |

| | | | | | | |
|---------|---|------|------------|-------|------------|---|
| 10.17 | Fourth Amendment to the Office Lease, by and between Stitch Fix, Inc. and Post-Montgomery Associates, dated as of June 4, 2018. | 10-Q | 001-38291 | 10.2 | 6/8/2018 | |
| 10.18# | Logistics Services Agreement, by and between Stitch Fix, Inc. and Ozburn-Hessey Logistics, LLC, dated as of April 24, 2014. | S-1 | 333-221014 | 10.14 | 10/19/2017 | |
| 10.19# | Amendment One to the Logistics Services Agreement, by and between Stitch Fix, Inc. and Ozburn-Hessey Logistics LLC, dated as of July 1, 2016. | 10-Q | 001-38291 | 10.4 | 6/8/2018 | |
| 10.20# | Amendment Two to the Logistics Services Agreement, by and between Stitch Fix, Inc. and Geodis Logistics LLC, dated as of February 23, 2018. | 10-Q | 001-38291 | 10.3 | 6/8/2018 | |
| 21.1 | List of Subsidiaries of Stitch Fix, Inc. | | | | | X |
| 23.1 | Consent of Deloitte & Touche LLP, independent registered public accounting firm. | | | | | X |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.1† | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 101.INS | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document). | | | | | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | | | X |
| 104 | Cover Page Interactive Data File (the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document). | | | | | |

+ Indicates management contract or compensatory plan.

Confidential treatment has been granted for portions of this exhibit. These portions have been omitted from the registration statement and submitted separately to the SEC.

† The certification attached as Exhibit 32.1 accompanying this Annual Report on Form 10-K is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Stitch Fix, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 2, 2019

Stitch Fix, Inc.

By: /s/ Paul Yee

Paul Yee

Chief Financial Officer

(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Katrina Lake, Paul Yee, and Scott Darling, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution for him or her, and in his or her name in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and either of them, his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|-----------------|
| <u>/s/ Katrina Lake</u> Katrina Lake | Founder, Chief Executive Officer and Director <i>(Principal Executive Officer)</i> | October 2, 2019 |
| <u>/s/ Paul Yee</u> Paul Yee | Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i> | October 2, 2019 |
| <u>/s/ Steven Anderson</u> Steven Anderson | Director | October 2, 2019 |
| <u>/s/ J. William Gurley</u> J. William Gurley | Director | October 2, 2019 |
| <u>/s/ Marka Hansen</u> Marka Hansen | Director | October 2, 2019 |
| <u>/s/ Kirsten Lynch</u> Kirsten Lynch | Director | October 2, 2019 |
| <u>/s/ Sharon McCollam</u> Sharon McCollam | Director | October 2, 2019 |
| <u>/s/ Mikkel Svane</u> Mikkel Svane | Director | October 2, 2019 |
| <u>/s/ Elizabeth Williams</u> Elizabeth Williams | Director | October 2, 2019 |

List of Subsidiaries of Stitch Fix, Inc.

| Name of Subsidiary | Jurisdiction |
|---|---------------------|
| Stitch Fix International (Cayman), Ltd. | Cayman Islands |
| Stitch Fix International (Delaware), Inc. | Delaware |
| Stitch Fix Gift Cards, LLC | Virginia |
| Stitch Fix UK, Ltd. | United Kingdom |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-221650 on Form S-8 of our reports dated October 2, 2019, relating to the consolidated financial statements of Stitch Fix, Inc. and its subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of material weaknesses), appearing in this Annual Report on Form 10-K of Stitch Fix, Inc. and its subsidiaries for the year ended August 3, 2019.

/s/ Deloitte & Touche LLP

San Francisco, California
October 2, 2019

CERTIFICATION

I, Katrina Lake, certify that:

1. I have reviewed this annual report on Form 10-K of Stitch Fix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 2, 2019

/s/ Katrina Lake

Katrina Lake

Founder, Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATION

I, Paul Yee, certify that:

1. I have reviewed this annual report on Form 10-K of Stitch Fix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 2, 2019

/s/ Paul Yee

Paul Yee

Chief Financial Officer

(Principal Financial and Accounting Officer)

CERTIFICATION

In connection with the Annual Report of Stitch Fix, Inc. (the “Company”) on Form 10-K for the period ended August 3, 2019, as filed with the Securities and Exchange Commission (the “Annual Report”), we, Katrina Lake, Chief Executive Officer of the Company, and Paul Yee, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

1. The Annual Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 2, 2019

/s/ Katrina Lake

Katrina Lake

Founder, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Paul Yee

Paul Yee

Chief Financial Officer
(Principal Financial and Accounting Officer)