

Stitch Fix Fiscal Q3 2021 Earnings Prepared Remarks

Thank you for joining us on the call today to discuss the results for our third quarter of fiscal 2021. Joining me on today's call are Katrina Lake, Founder and CEO of Stitch Fix, Elizabeth Spaulding, President, and Dan Jedda, CFO. I would also like to mention that we are joining you remotely today from our home offices. We have posted complete Q3 financial results in a press release posted on the IR section of our website, investors.stitchfix.com, and starting this quarter, we will not be issuing a shareholder letter. A link to the webcast of today's conference call can also be found on our site.

We would like to remind everyone that we will be making forward-looking statements on this call which involve risks and uncertainties. Actual results could differ materially from those contemplated by our forward-looking statements. Reported results should not be considered as an indication of future performance. Please review our filings with the SEC for a discussion of the factors that could cause our results to differ. Also, note that the forward-looking statements on this call are based on information available to us as of today's date. We disclaim any obligation to update any forward-looking statements, except as required by law.

During this call, we will discuss certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in the press release on our IR website. These non-GAAP measures are not intended to be a substitute for our GAAP results. Finally, this call in its entirety is being webcast on our IR website, and a replay of this call will be available on the website shortly.

I'd now like to turn the call over to Katrina.

Thanks David, and thank you for joining us. After the market closed today, we issued a press release with details on our quarterly performance and outlook.

As you'll hear on today's call, we delivered strong third quarter results with active client growth accelerating to 20% year over year, and outperformance across net revenue and adjusted EBITDA. This was a function of strong demand and improved client outcomes across both our Fix and direct buy offerings, and was reinforced by an improving apparel retail market backdrop. As Elizabeth will discuss later, we continued to roll out new product features in Q3 to enhance both offerings and drive greater client adoption. We believe these new experiences drove momentum in the quarter which will continue in Q4 as we capitalize on the demand strength and relevance of our Fix offering, and introduce direct buy to new clients by the end of the quarter.

Now let me discuss our Q3 results in more detail. In the third quarter, we generated net revenue of \$536 million, reflecting 44% growth year over year. During the quarter, we grew our active client count to over 4.1 million, representing a year over year increase of 689,000 clients or 20% growth. And on a quarter over quarter basis, we added 234,000 active clients, our second highest client addition ever. In Q3, we delivered a net loss of \$18.8 million and adjusted EBITDA of \$11.6 million.

Dan will review our results in more detail later on this call, as well as share our updated outlook for fiscal 2021.

Over the last decade, we've delighted millions of clients and formed lasting relationships and feedback loops that underpin our unrivaled personalization capabilities. Our radically different client experience is built on getting to know every client and gathering feedback around their detailed preferences, resulting in our rich and highly differentiated data moat. Through our powerful combination of data science and creative human judgment, we've shipped over 50 million Fixes to date. And while Fixes have been incredibly successful, we know that this form factor alone doesn't address all consumer use cases. As such, we're now embarking on our next growth horizon through our introduction of direct buy, which expands our ecosystem of experiences and opens up a total addressable market that we estimate to be multiple times larger than with Fixes alone. We believe that this more personalized way to shop is universally appealing and one that we are uniquely positioned to address.

How we shop -- and live, work, and interact with each other -- has changed dramatically in the past year, and we believe that consumers' shift to shopping online will be a lasting one. Apparel retail is at a pivotal point with market share moving online at a record pace, and consumers seeking more highly personalized and authentic experiences. Stitch Fix was purpose-built to address this evolution with our unique multi-touchpoint model and, as we shared in April, this moment of transformation in our industry and our business makes it the right time for the next generation of leadership at Stitch Fix to lead us into the future.

With that, I'm very excited for Elizabeth to assume the CEO role starting in August. Working alongside her, we have an experienced and talented leadership team that shares relentless energy, passion, and optimism for the potential possibilities ahead in our business.

Since joining us as President, Elizabeth has made significant, broad-based contributions across our business and demonstrated outstanding leadership. She's challenged us to think differently, accelerated our pace of innovation, and outlined an ambitious vision for our future. To be clear, I won't be going anywhere and am committed as ever to Stitch Fix. I will be transitioning to the role of Executive Chairperson and will remain a Stitch Fix employee where I'll be focusing my impact on our sustainability and social impact efforts that will drive long-term value for all of our stakeholders.

I am deeply confident in Elizabeth and our entire team and can't imagine anyone else assuming the CEO role. I look forward to her continuing to innovate on behalf of our clients and taking us from over four million clients we serve today to the tens of millions more that we plan to serve in the future.

And with that, let me turn it over to Elizabeth.

Thanks Katrina. I look forward to our continued partnership as you transition to the role of Executive Chairperson. I feel both a great sense of responsibility as well as optimism for all of the possibilities that lie ahead for Stitch Fix.

Our mission remains the same as since our inception -- to transform the way people find what they love. We are a relationship-based brand, creating a more curated and discovery-led ecosystem of personalized shopping experiences that is truly transformational. Whether a client prefers to have items hand-picked by our talented stylists, select their own pieces or both, clients can trust that Stitch Fix has a shopping experience that uniquely caters to them.

With vaccination rates increasing and COVID restrictions easing, we are seeing the overall market for apparel beginning to rebound as more consumers can leave their homes to eat out, attend social gatherings, and return to the office. These consumers are turning to us for fresh inspiration and our radically convenient, personalized shopping experience, and in Q3 we saw robust first Fix demand and reactivation rates. Our Fix and direct buy offerings have allowed us to meet consumers in this moment, and position us to further capitalize on this improving apparel demand backdrop in the quarters ahead.

With our Fix offering, in Q3 we drove strong client acquisition trends and improved client outcomes. In the first three quarters of fiscal 2021, we've already added more net active clients than any full year since 2016, and in Q3 we saw strong demand from first-time and reactivated clients that resulted in our second highest quarter over quarter client additions on record. In line with recent quarters, nearly 80% of our first time Fix clients in the quarter purchased at least one item and shared that they looked forward to their second Fix which is a strong indicator of future client engagement and retention.

Our ability to delight clients was evident across all categories including Women's, Men's and Kids with success rates in each growing both year over year as well as quarter over quarter. As client preferences began to shift in Q3, the rich insights we've collected around product and client preferences allowed us to match clients with the most relevant and personalized items. For example, within our Women's category, she's excited about newness and dressing up again for work or going out and we saw a shift out of loungewear and back into dressier, more tailored looks. Rompers and jumpsuit sales increased 60% year over year and midi skirt sales increased over 80% year over year. She is also travelling again, and we've seen an increase in requests for vacation-related items in Fixes and bright, seasonal colors in particular are doing exceptionally well. In Men's, he's beginning to venture out of leisurewear and seeking more "structure" with button-up shirts trending recently in Fix request notes. These positive underlying demand and client satisfaction results reflect our differentiation in being able to collect early signals to identify trends and react to deliver great client outcomes.

In Q3, we also continued to expand the availability of Fix Preview, which has allowed us to begin to reimagine our Fix experience, deliver stronger client outcomes and build deeper trust with clients. As we previously discussed, Fix Preview allows clients to engage more directly with their Fix before it ships and have more agency in selecting the items they receive. Based on the positive

impact Fix Preview has had on client outcomes in the U.K., where it has been rolled out to all clients, we began to scale the experience to U.S. clients in Q3. As of the end of May, we've offered it to over half of our U.S. client base and will continue to roll it out. Across the U.S. and U.K. to date, we've seen roughly three-quarters of clients opt-in to Fix Preview with strong repeat engagement, which has driven higher success rates and average order values. With these gains and the broader expansion of Fix Preview, we believe it will improve client retention as well as conversion rates over time.

With Fix Preview, clients feel increasingly confident that they're going to love their Fix before it even ships and appreciate the tighter communication with their stylist. The additional feedback dimension also helps us get to know our clients sooner and better as they share more nuanced personal preferences, specific requests, and information regarding the contents of their closet. To give you a couple examples, after previewing her items, one client shared that her closet already contained taupe suede shoes and that she preferred another piece, so we refreshed her basket resulting in a higher keep rate. Another client who used Fix Preview to discover new styles was excited to purchase a jumpsuit and floral dress, pushing her style in a new way that the traditional Fix experience might not have.

Now turning to direct buy. In Q3, we evolved our direct buy feed-based experience and considerably expanded the feature-set to deliver a more holistic shopping solution. Most notably, our new Shop by Category offering was launched to all existing clients in March giving them the ability to browse and discover a range of categories with item recommendations personalized to their preferences. Clients can now engage with direct buy for intent-based shopping, meeting more of their everyday needs, and supplementing our more serendipitous Trending for You and Complete Your Looks offerings. Following the Shop by Category launch, we saw a meaningful increase in client engagement that led to the average weekly units ordered per client reaching a record high in the third quarter.

In addition, we've noted that our newest Fix clients are purchasing through direct buy at increasing rates, thereby meeting more of their needs and increasing their average spend with us. In fact, we've seen that each quarterly cohort of new Fix clients who have been with us for 30 days or less has purchased through direct buy at a higher rate than those cohorts that preceded it. Seeing clients engage earlier with direct buy highlights how the direct buy experience is becoming an immersive part of our ecosystem and allows us to grow client value sooner and expand our share of wallet.

The success and incrementality that direct buy has demonstrated to date gives us high conviction that our personalized shopping experience will significantly broaden the appeal and reach of Stitch Fix. We look forward to more fully unlocking our nearly half a trillion dollar total addressable market opportunity over time. By the end of fiscal Q4, we plan to open up direct buy to new-to-Stitch Fix clients and will begin scaling our advertising efforts in fiscal 2022 to build greater awareness and mindshare.

With that, I'll turn it over to Dan.

Thanks Elizabeth, and hello to everyone joining us on today's call. While I've only worked with Kat for the last six months, I want to echo Elizabeth's remarks. Kat has built an amazing and highly differentiated client-centric business over the past decade with so much potential still ahead. I look forward to continuing to partner with her in her new role as chairperson and with Elizabeth as CEO.

In the third quarter, we generated net revenue of \$536 million, representing 44% year over year growth, compared to the same period last year - which was the COVID-19 trough.

We grew active clients to over 4.1 million, an increase of 689,000 clients and 20% year over year. This also reflected an increase of 234,000 active clients quarter over quarter, and our second highest quarterly client addition ever. The momentum in active client growth was driven by strength in Fix demand, lower dormancy rates as we lapped year ago COVID softness, and re-engaging past clients.

Net revenue per active client of \$481 increased 3.0% quarter over quarter compared to \$467 of Q2'21, and declined 3.4% year-over-year. As we've shared in past quarters, this year over year decline is driven primarily by our increasing new client growth. With an influx of new clients that are early in their spending journey with us, revenue per client may be lower until these new cohorts of clients have more time on our platform.

Q3 gross margin grew to 46.0%, which marked our highest quarterly gross margin since fiscal 2017. It represented a sequential increase of over 310 basis points from Q2, and a 520 basis point increase from the same period last year. Year over year, these gains were primarily driven by improvements in inventory health and lower merchandise costs. Quarter over quarter, these gains were largely driven by lower merchandise costs and improved transportation costs.

Q3 advertising was 9.1% of net revenue, a sequential increase of 80 basis points from Q2 and a 110 basis point decrease from the same quarter last year.

Other SG&A excluding advertising was 41.4% of net revenue in Q3, a sequential decrease of 120 basis points from Q2, and a 160 basis point decrease from the same period last year. Despite our progress in the quarter, like many others, we are seeing continued labor market competition, and we will continue to invest to attract and retain the best talent to support long-term growth and enhance the client experience.

Q3 adjusted EBITDA was \$11.6 million and reflected the flow-through of higher revenue, improved gross margins, and efficient advertising spend in the quarter.

Q3 net loss was \$18.8 million, and diluted loss per share was \$0.18.

We ended the quarter with no debt and \$303 million in cash, cash equivalents, and highly rated securities, and earlier this month we renewed a three-year, \$100 million revolving credit facility to provide us with greater flexibility to invest and accelerate growth.

We were pleased with our outperformance in Q3 and are excited for the improvement in the apparel market backdrop to continue. With that, let me now share our updated outlook for the remainder of the fiscal year.

In Q4, we expect net revenue in the range of \$540 to \$550 million, representing growth of 22% to 24% year over year. We expect to generate positive adjusted EBITDA in the range of \$15 to \$20 million, or 2.8% to 3.6%.

To wrap up, our third quarter results and outlook underscore our strong business momentum and enduring secular trends. We are continuing to innovate on behalf of our clients and are focused on driving long-term growth by bringing more consumers into our ecosystem of personalized shopping experiences. We remain very excited for both our Fix and Shop offerings going forward.

With that, we're now ready for your questions. Operator, I'll turn it over to you.