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Q4 Fiscal 2021 Earnings Commentary
March 29, 2022

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

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

This earnings commentary should be read in conjunction with the Company's annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on, or about, March 29, 2022. These reports are available at www.sec.gov.

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

Sales

- **Total net revenue** increased 23% to $2.1 billion, primarily due to increased company-operated store net revenue, including from increased comparable store sales and new company-operated stores. Direct to consumer net revenue also increased. The increase was partially offset by a decrease in other net revenue. Net revenue increased 21% in North America, and increased 35% internationally. Total comparable sales increased 22%. Net revenue increased by a two-year compound annual growth rate ("CAGR") of 23%.

- **Company-operated store revenue** totaled $882.6 million, or 41.5% of total revenue, compared to $599.9 million, or 34.7% of total revenue, in Q4 2020. Comparable store sales increased 32%, primarily due to increased store traffic, partially offset by a decrease in conversion rates. Company-operated store net revenue increased 3% on a two-year CAGR basis.

- **E-commerce revenue** totaled $1.0 billion, or 49.3% of total revenue, compared to $899.5 million, or 52.0% of total revenue, in Q4 2020. E-commerce net revenue increased 17%, or increased 16% on a constant dollar basis, primarily due to increased traffic and dollar value per transaction, partially offset by a modest decrease in conversion rates. E-commerce revenue increased 50% on a two-year CAGR basis.

- **Other revenue**, which includes net revenue from outlets, temporary locations, MIRROR, sales to wholesale accounts, and license and supply arrangements, totaled $197.6 million, or 9.3% of total net revenue, compared to $230.2 million, or 13.3% of total net revenue, in Q4 2020.

Store Count

- **New stores**: We opened 17 net new company-operated stores in Asia Pacific, three in North America, and two in Europe in Q4 2021.

- **Total company-operated stores**: At the end of Q4 2021, we had 574 total company-operated stores compared to 521 at the end of Q4 2020.

Gross Profit

- **Gross profit** was $1.2 billion, or 58.1% of net revenue, compared to $1.0 billion, or 58.6% of net revenue, in Q4 2020. Gross margin decreased 50 basis points compared to Q4 2020.

The decrease in gross margin was primarily the result of:

- a decrease in product margin of 60 basis points, primarily due to higher air freight costs as a result of global supply chain disruption, partially offset by lower markdowns; and
- an increase in costs related to our distribution centers and product departments as a percentage of revenue of 10 basis points.

The decrease in gross margin was partially offset by a decrease in occupancy and depreciation costs as a percentage of net revenue of 20 basis points, driven primarily by the increase in net revenue.

- **Gross margin** increased 10 basis points compared to Q4 2019, primarily as a result of:
  - leverage on occupancy, depreciation, product departments and distribution centers costs of 120 basis points; and
  - a favorable impact of foreign currency exchange rates of 20 basis points.

  The increase in gross margin was partially offset by a decrease in product margin of 130 basis points, primarily due to higher air freight costs as a result of global supply chain disruption, partially offset by lower markdowns.

Selling, General and Administrative Expenses

- **SG&A expenses** were $642.0 million, or 30.2% of net revenue, compared to $544.8 million, or 31.5% of net revenue, in Q4 2020. The leverage of 130 basis points was driven by 220 basis points of leverage from our operating channel costs primarily driven by company-operated stores. This was partially offset by 80 basis points of deleverage from increased strategic investments in support of growth initiatives and 10 basis points of deleverage from depreciation and amortization.

- **SG&A expenses** as a percentage of net revenue increased 200 basis points compared to Q4 2019 primarily due to the consolidation of MIRROR's results in 2021 but not in 2019.

Amortization of Intangible Assets and Acquisition-Related Expenses

- **Amortization of intangible assets** was $2.2 million in both Q4 2021 and Q4 2020, primarily related to the amortization of intangible assets recognized upon the acquisition of MIRROR.

- **Acquisition-related expenses** of $1.5 million were recognized in Q4 2021, compared to $7.8 million in Q4 2020. The expenses relate to the acquisition of MIRROR.

Operating Income

- **Operating income** was $590.6 million, or 27.7% of net revenue, compared to $457.9 million, or 26.5% of net revenue, in Q4 2020. Adjusted operating income, which excludes acquisition-related expenses, was $592.0 million, or 27.8%, compared to $465.7 million or 26.9% in Q4 2020.

- **Operating margin** decreased 210 basis points compared to Q4 2019. Adjusted operating margin decreased 200 basis points.

Income Tax Expense

- **Income tax expense** was $156.2 million compared to $127.2 million in Q4 2020 and the effective tax rate was 26.4% compared to 27.8% in Q4 2020. The adjusted effective tax rate was 26.4% compared to 27.4% in Q4 2020.

Net Income

- **Net income** was $434.5 million, or $3.36 per diluted share, compared to $2.52 per diluted share in Q4 2020, and $2.28 in Q4 2019. Adjusted diluted earnings per share were $3.37, compared to $2.58 in Q4 2020.

Share Count

- Our diluted share count for the quarter was 129.5 million compared to 131.0 million in Q4 2020.

- In Q4 2021, we repurchased 0.8 million shares at an average of $380.81 per share for a total cost of $321.3 million.

- As at January 30, 2022 we had $187.5 million of authorization remaining on our stock repurchase program. During the first quarter of fiscal 2022, we completed the remaining stock repurchases under this program.

- On March 23, 2022, the board of directors approved a new stock repurchase program for up to $1.0 billion of our common shares.

Capital Expenditures

- **Capital expenditures** were $127.5 million in Q4 2021 compared to $58.4 million in Q4 2020. The Q4 2021 capital expenditures were primarily related to capital for new store locations, relocations, and renovations, as well as supply chain investment and technology to support our business growth.

Balance Sheet Highlights

- Cash and cash equivalents were $1.3 billion at the end of Q4 2021 and the available capacity under our committed revolving credit facility was $397.0 million.

- Inventories increased 49% to $966.5 million at the end of Q4 2021 compared to Q4 2020. On a number of units basis, inventories increased 33%. On a 2-year CAGR basis, unit inventory increased 29%.

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Forward-Looking Statements and Non-GAAP Reconciliations

Forward-Looking Statements:

This supplemental disclosure includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "outlook," "believes," "intends," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology. These forward-looking statements also include our guidance and outlook statements. These statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include, without limitation: our ability to maintain the value and reputation of our brand; the current COVID-19 coronavirus pandemic and related government, private sector, and individual consumer responsive actions; our highly competitive market and increasing competition; increasing costs and decreasing selling prices; our ability to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products; the acceptability of our products to guests; our ability to accurately forecast guest demand for our products; changes in consumer shopping preferences and shifts in distribution channels; our ability to expand in light of our limited operating experience and limited brand recognition in new international markets and new product categories; our ability to realize the potential benefits and synergies sought with the acquisition of MIRROR; our ability to manage our growth and the increased complexity of our business effectively; our ability to successfully open new store locations in a timely manner; seasonality; disruptions of our supply chain; our reliance on and limited control over third-party suppliers to provide fabrics for and to produce our products; suppliers or manufacturers not complying with our Vendor Code of Ethics or applicable laws; our ability to deliver our products to the market and to meet guest expectations if we have problems with our distribution system; increasing labor costs and other factors associated with the production of our products in South Asia and South East Asia; our ability to safeguard against security breaches with respect to our technology systems; our compliance with privacy and data protection laws; any material disruption of our information systems; our ability to have technology-based systems function effectively and grow our e-commerce business globally; climate change, and related legislative and regulatory responses; increased scrutiny regarding our environmental, social, and governance, or sustainability responsibilities; an economic recession, depression, or downturn or economic uncertainty in our key markets; global economic and political conditions and global events such as health pandemics; our ability to source and sell our merchandise profitably or at all if new trade restrictions are imposed or existing trade restrictions become more burdensome; changes in tax laws or unanticipated tax liabilities; our ability to comply with trade and other regulations; fluctuations in foreign currency exchange rates; imitation by our competitors; our ability to protect our intellectual property rights; conflicting trademarks and patents and the prevention of sale of certain products; our exposure to various types of litigation; and other risks and uncertainties set out in filings made from time to time with the United States Securities and Exchange Commission and available at www.sec.gov, including, without limitation, our most recent reports on Form 10-K and Form 10-Q. You are urged to consider these factors carefully in evaluating the forward-looking statements contained herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by these cautionary statements. The forward-looking statements made herein speak only as of the date of this disclosure and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as may be required by law.

Reconciliation of Non-GAAP Financial Measures

Unaudited; Expressed in thousands, except per share amounts

Constant dollar changes

The below changes show the change for Q4 2021 compared to Q4 2020.

	Net Revenue	Total Comparable Sales[1,2]	Comparable Store Sales[2]	Direct to Consumer Net Revenue
Change	23 %	22 %	32 %	17 %
Adjustments due to foreign currency exchange rate changes	—	—	—	(1)
Change in constant dollars	23 %	22 %	32 %	16 %

[1]Total comparable sales includes comparable store sales and direct to consumer net revenue.

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

Adjusted financial measures

The following tables reconcile adjusted financial measures for Q4 2021 and Q4 2020 with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to the acquisition of MIRROR and its related tax effects. Please refer to Note 6. Acquisition included in Item 8 of Part II of our Report on Form 10-K to be filed with the SEC on or about March 29, 2022 for further information on these adjustments.

	Q4 2021					
	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
GAAP results	$ 590,556	27.7%	$ 156,228	26.4 %	$ 434,504	$ 3.36
Transaction and integration costs	1,130	0.1			1,130	0.01
Acquisition-related compensation	330	—			330	—
Tax effect of the above			—	—	—	—
Adjusted results (non-GAAP)	$ 592,016	27.8 %	$ 156,228	26.4 %	$ 435,964	$ 3.37

	Q4 2020					
	Income from Operations	Operating Margin	Income Tax Expense	Effective Tax Rate	Net Income	Diluted Earnings Per Share
GAAP results	$ 457,905	26.5 %	$ 127,181	27.8 %	$ 329,837	$ 2.52
Transaction and integration costs	285	—			285	—
Acquisition-related compensation	7,517	0.4			7,517	0.06
Tax effect of the above			270	(0.4)	(270)	—
Adjusted results (non-GAAP)	$ 465,707	26.9 %	$ 127,451	27.4 %	$ 337,369	$ 2.58