



CUBEWEALTH



STITCH FIX EQUITY REPORT

FEBRUARY 18TH, 2020

STITCH FIX SUMMARY

BY THE NUMBERS

TICKER: SFIX
PRICE: \$26.63



STITCH FIX

Stitch Fix, Inc. sells a range of apparel, shoes, and accessories through its website and mobile app in the United States.

It offers denim, dresses, blouses, skirts, shoes, jewelry, and handbags for men, women, and kids under the Stitch Fix brand.

The company was formerly known as rack habit inc. and changed its name to Stitch Fix, Inc. in October 2011. Stitch Fix, Inc. was founded in 2011 and is headquartered in San Francisco, California.

N/A

DIVIDEND YIELD

+12.3%

Y/Y RETURN

\$2.8B

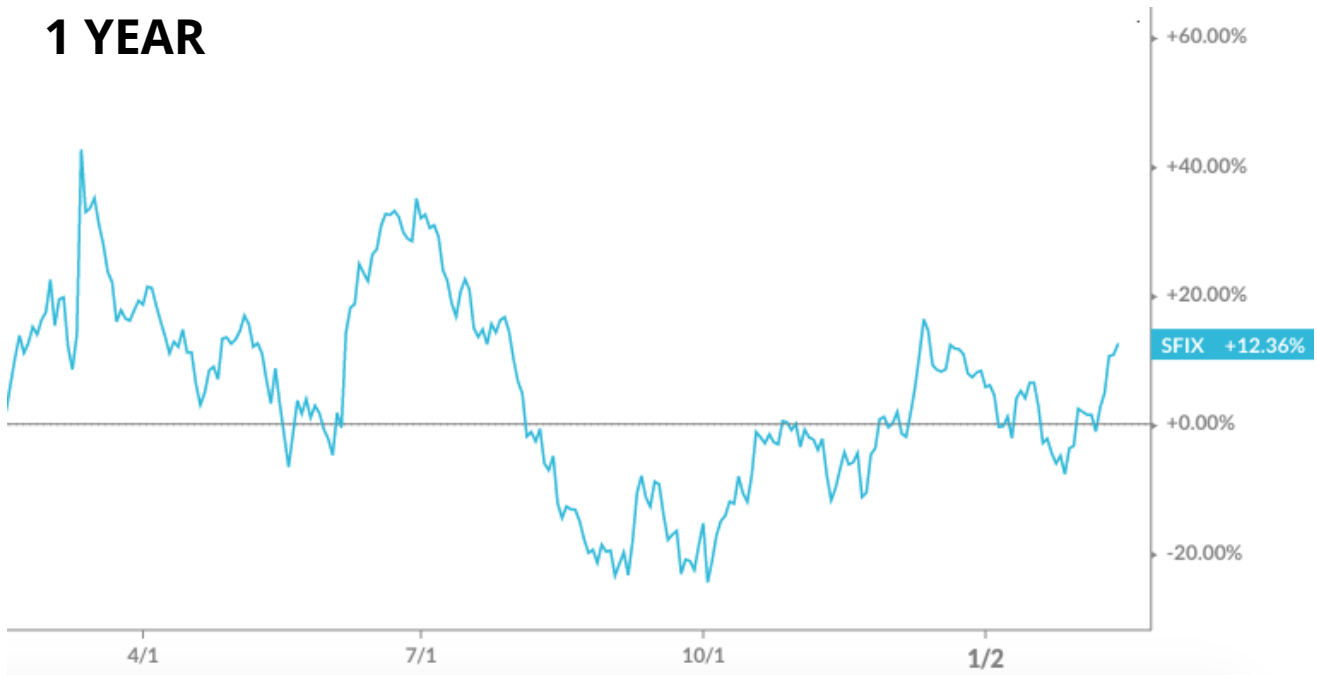
MARKET CAP

SFIX

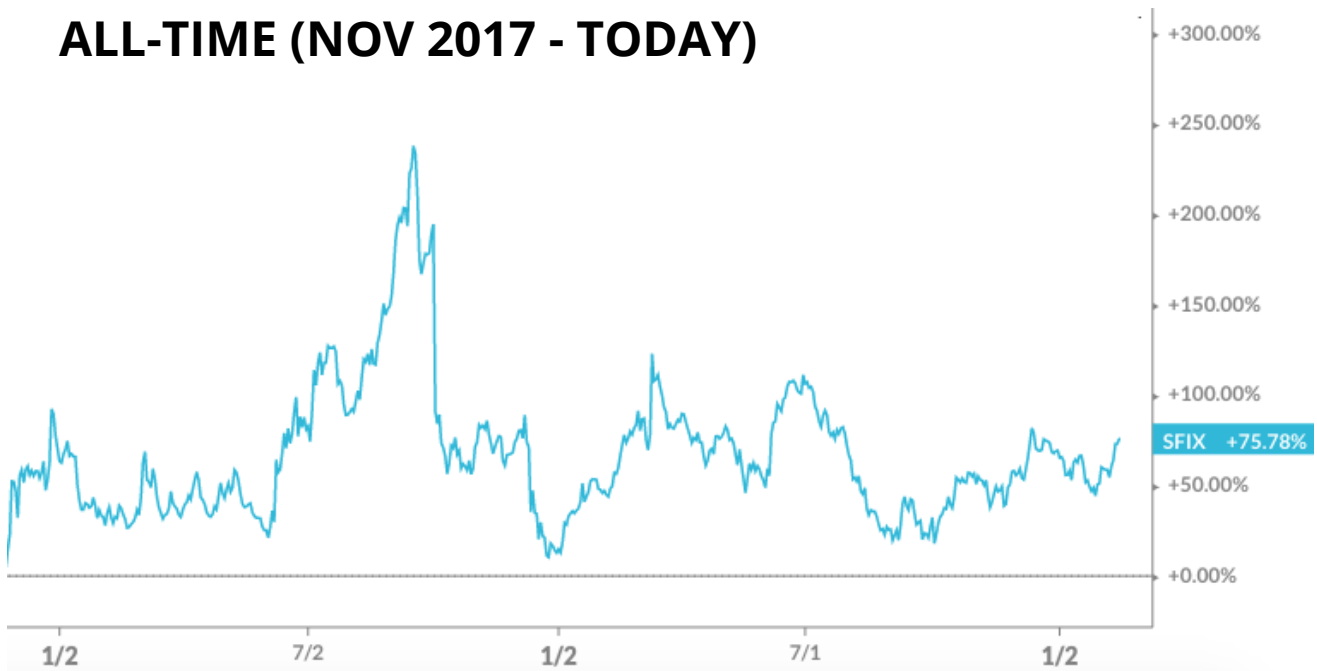


SHARE PRICE PERFORMANCE

1 YEAR

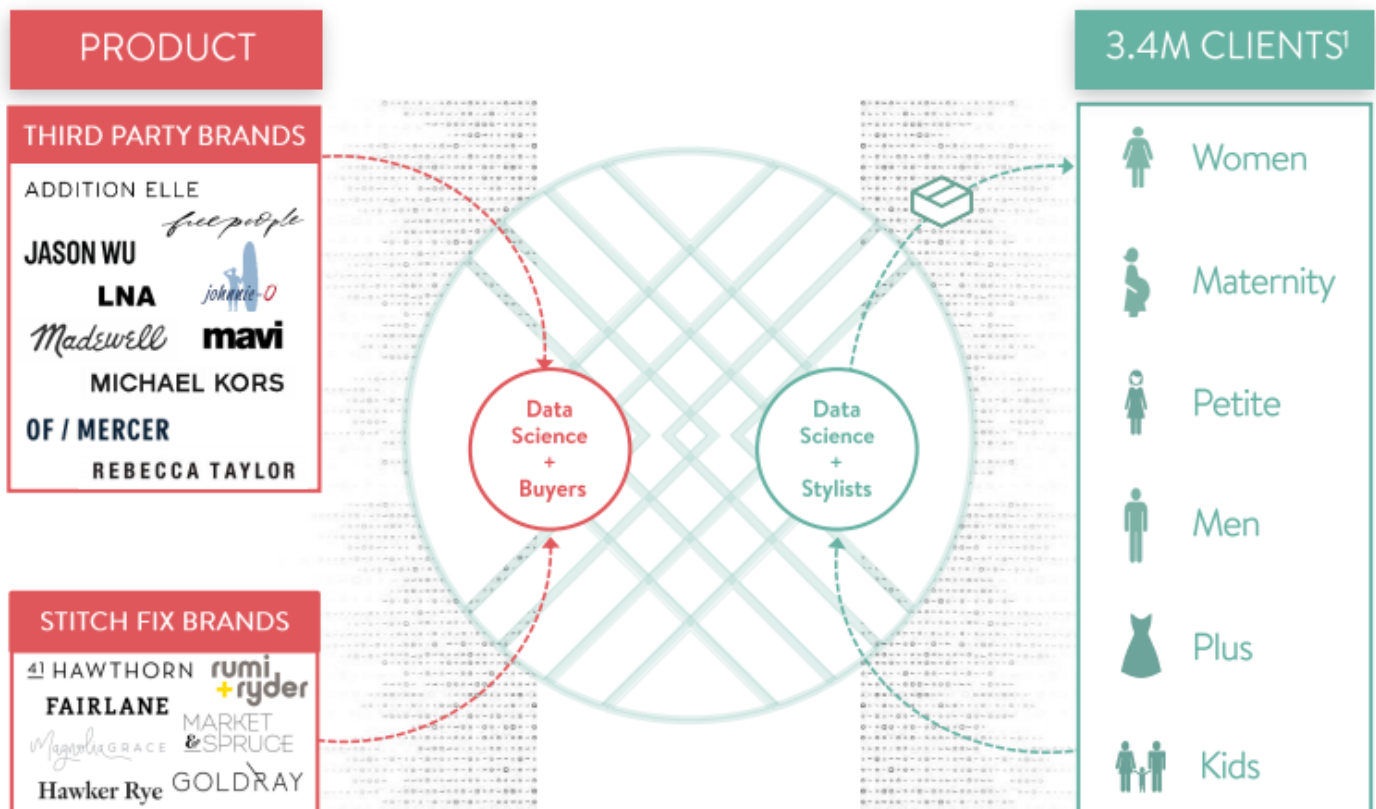


ALL-TIME (NOV 2017 - TODAY)



ANALYSIS

Stitch Fix is a personalized subscription box service that started in 2011. On average, each client directly provides them 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.



HOW DOES IT WORK?

Once the shipment is received, you have three days to decide what to keep and what not to keep. If you choose to select an item, a \$20 styling fee is credited to the price of the question. If all the five pieces excite you and you decide to keep them all, you get a 25% discount on the total cost of the five items. You can adequately select the intervals you want to receive outfits from the company; it can be every two weeks, once per month or after every two months. There are also options that don't require a subscription.

01



INTRODUCE YOURSELF

Tell us about your style, fit and price preferences by filling out our Style Profile.

02

GET STYLED

We match you with your own personal stylist who will curate five items for you to try on at home.



03

BUY WHAT YOU LIKE

Pay online after you decide on what you'll keep. You won't be charged for items up front.



04

SEND BACK THE REST

Drop your free USPS return envelope with the items you don't want in any mailbox—it couldn't be easier.



PRICING



YOU SET YOUR BUDGET

You tell us how much you want to spend. Simply set your budget in your Style Profile. Pieces range from \$20-\$600 and average items cost \$55.



AFFORDABLE STYLING

Traditional styling costs hundreds of dollars per hour. We charge just \$20 per order. Plus, we credit the \$20 towards anything you keep. You can't lose!



TRY BEFORE YOU BUY

You're never charged up front for items. Try everything on from the comfort of home, then only pay for what you choose to keep.



SAVE UP TO 25%

Love it all? Get 25% off your entire order when you keep all items. Save even more by inviting friends to try Stitch Fix & earn \$25 credit when they get their first Fix.

COMPETITION

Stitch Fix is most certainly not alone in the personalized and curated subscription box fashion space



gwynnie bee



Your closet. Expanded.

TRUNK CLUB

A NORDSTROM COMPANY

TRENDS

Curation and access subscribers, like those of SFIX, expect personalized subscriptions to become more tailored over time. To be more specific, 28% of both groups surveyed by Mckinsey said that a personalized experience was the most important reason for continuing to subscribe.

Curation subscribers also want to be surprised and delighted and to feel they are getting good value for the money. In contrast, access subscribers emphasize convenience as a reason to subscribe, in addition to personalization. For replenishment subscribers, convenience (24%) was the most important consideration, though value for the money (23%) and personalized experiences (22%) were also important.

Top 10 sites with highest number of current subscribers by gender

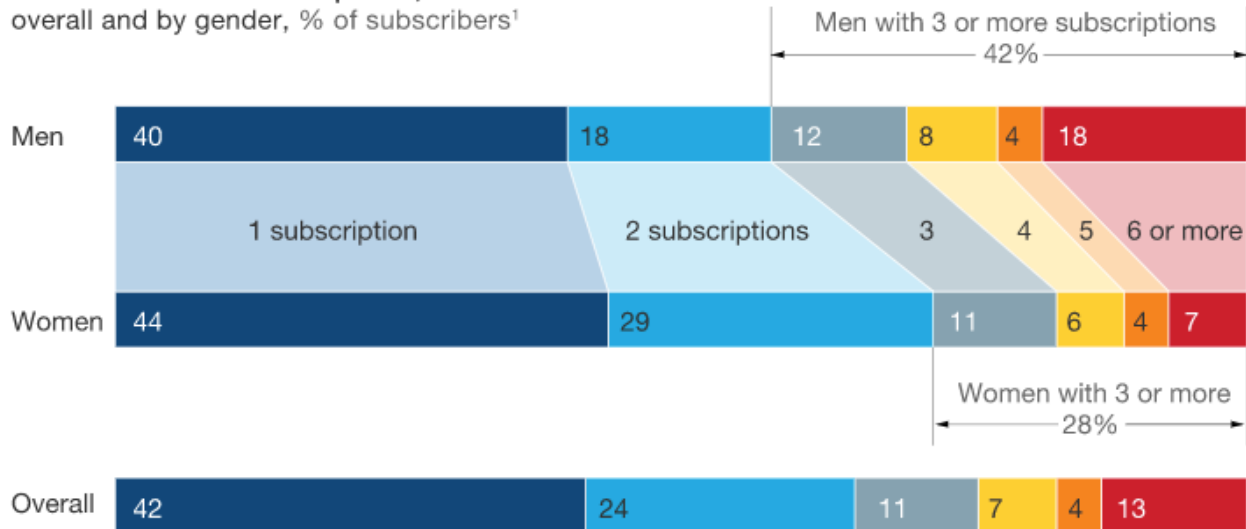


Women are actually more inclined to subscribe to services like Stitch Fix, but men are actually more likely to have more subscription services at once.

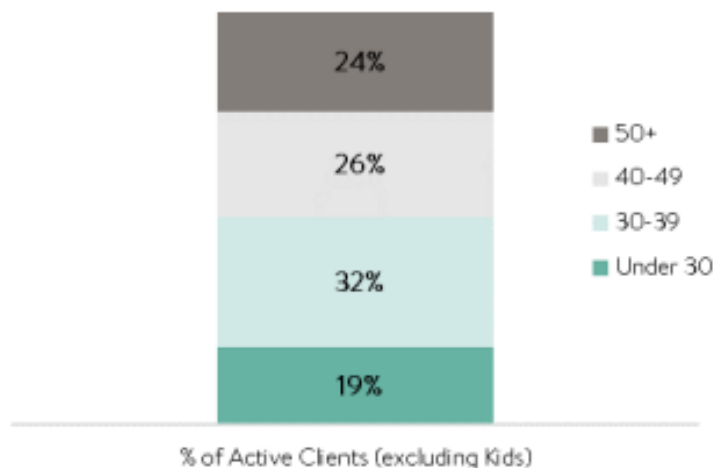
If we look at the chart below, 40% of men are subscribed to something while 44% of women are. 42% of men have three or more subscription services at a time while women are only at 28%.

Women account for the majority of subscriptions, but men are more likely to have three or more active subscriptions.

Number of active subscriptions, overall and by gender, % of subscribers¹

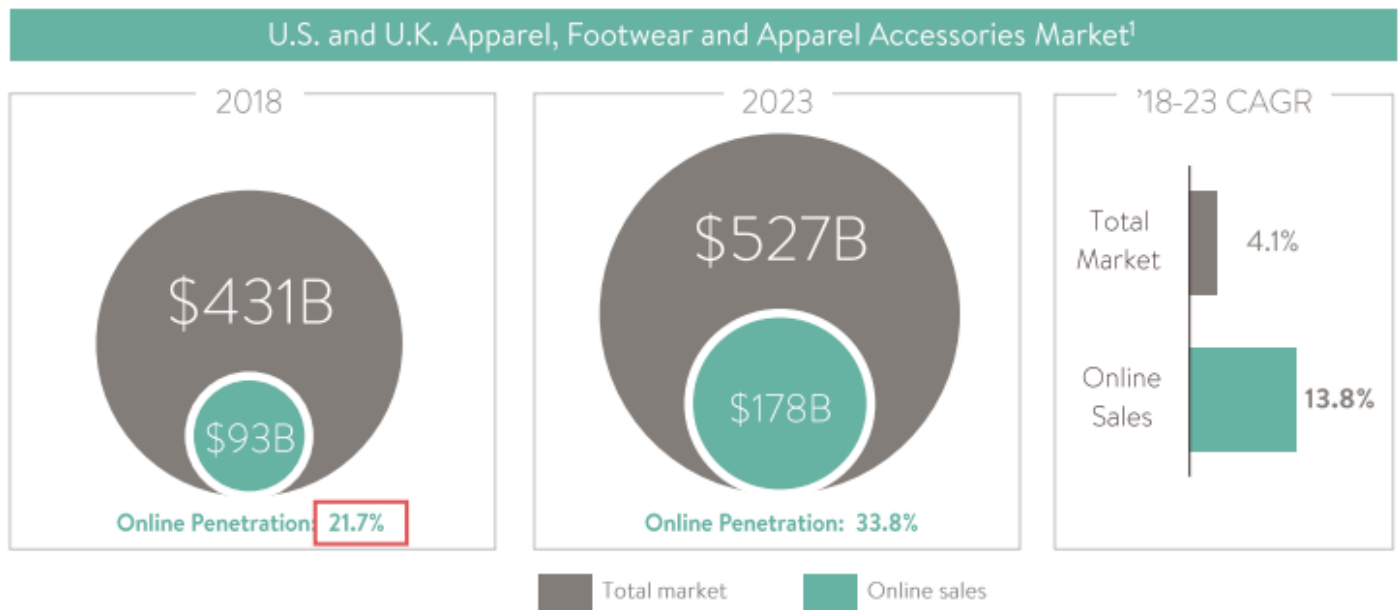


SFIX Demographic Breakout



MARKET SIZE

We all know 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 \$55B in calendar 2016. Euromonitor expects the eCommerce portion of this market to grow to \$94B by calendar 2021, a CAGR of 11.4%. This represents an expansion of eCommerce penetration of the U.S. apparel, footwear and accessories market from 15.5% of \$353B in calendar 2016 to 22.3% of \$421B in calendar 2021.



CUBE'S TOP PROS FOR SFIX



CLIENT GROWTH

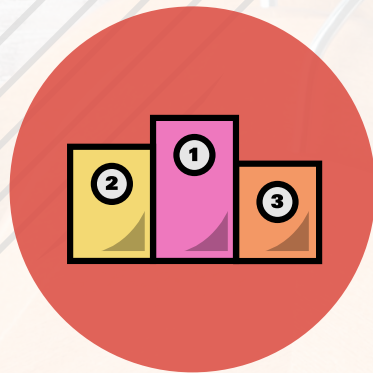


DATA DRIVEN &
HYBRID BIZ MODEL



HEALTHY
BALANCE SHEET

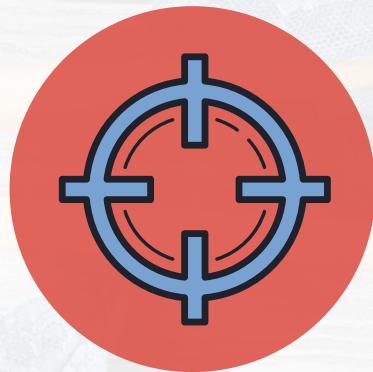
CUBE'S TOP CONS FOR SFIX



COMPETITION



LOW MARGINS



NICHE MARKET

FINANCIAL STATEMENTS

BALANCE SHEET

	November 2, 2019	August 3, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 151,779	\$ 170,932
Short-term investments	145,504	143,276
Inventory, net	148,502	118,216
Prepaid expenses and other current assets	39,702	49,980
Total current assets	485,487	482,404
Long-term investments	90,532	53,372
Property and equipment, net	65,369	54,888
Operating lease right-of-use assets	128,717	—
Deferred tax assets	23,865	22,175
Other long-term assets	3,358	3,227
Total assets	\$ 797,328	\$ 616,066
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 112,161	\$ 90,883
Operating lease liabilities	23,042	—
Accrued liabilities	86,249	69,734
Gift card liability	6,879	7,233
Deferred revenue	11,976	11,997
Other current liabilities	2,587	2,784
Total current liabilities	242,894	182,631
Operating lease liabilities, net of current portion	131,694	—
Deferred rent, net of current portion	—	24,439
Other long-term liabilities	14,126	12,996
Total liabilities	388,714	220,066
Stockholders' equity:		
Class A common stock, \$0.00002 par value	1	1
Class B common stock, \$0.00002 par value	1	1
Additional paid-in capital	290,720	279,511
Accumulated other comprehensive income	1,396	(187)
Retained earnings	116,496	116,674
Total stockholders' equity	408,614	396,000
Total liabilities and stockholders' equity	\$ 797,328	\$ 616,066

When looking at SFIX balance sheet, it is quite healthy. The company has about \$388M in cash, cash equivalents and highly rated securities and ZERO debt. Total assets are about \$800M while total liabilities stands at only \$388M, leaving equity at \$408M.

Inventory, accounts payable, deferred revenue, etc all look in-line and normal as well.

	2017	2018	2019	Q1 2020
Cash ²	\$110.6	\$297.5	\$170.9	\$151.8
Working Capital ³	63.8	274.8	299.8	242.6
Total Assets	257.2	481.6	616.1	797.3
Total Liabilities	153.1	166.5	220.0	388.7

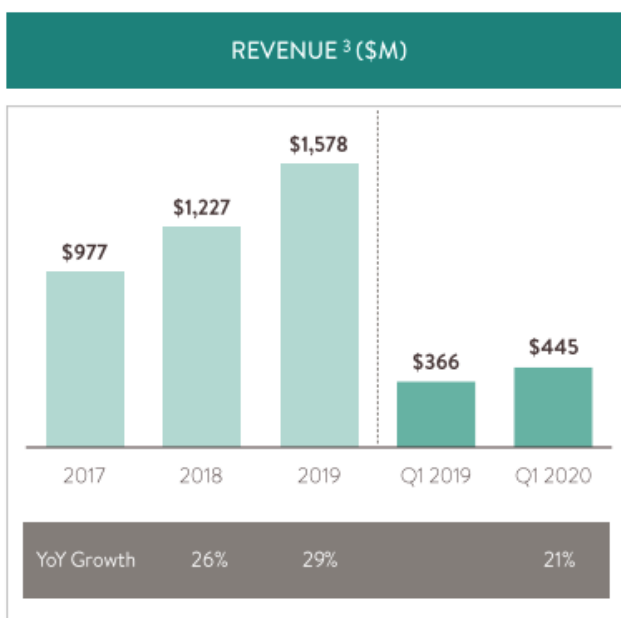
FINANCIAL STATEMENTS

INCOME STATEMENT

	For the Three Months Ended	
	November 2, 2019	October 27, 2018
Revenue, net	\$ 444,815	\$ 366,236
Cost of goods sold	243,513	201,068
Gross profit	201,302	165,168
Selling, general, and administrative expenses	201,142	154,271
Operating income	160	10,897
Interest (income) expense	(1,653)	(1,399)
Other (income) expense, net	834	(120)
Income before income taxes	979	12,416
Provision for income taxes	1,157	1,738
Net income (loss)	\$ (178)	\$ 10,678
Other comprehensive income (loss):		
Change in unrealized gain (loss) on available-for-sale securities, net of tax	(172)	(82)
Foreign currency translation	1,755	26
Total other comprehensive income (loss), net of tax	1,583	(56)
Comprehensive income	\$ 1,405	\$ 10,622
Net income (loss) attributable to common stockholders:		
Basic	\$ (178)	\$ 10,664
Diluted	\$ (178)	\$ 10,665
Earnings (loss) per share attributable to common stockholders:		
Basic	\$ (0.00)	\$ 0.11
Diluted	\$ (0.00)	\$ 0.10
Weighted-average shares used to compute earnings (loss) per share attributable to common stockholders:		
Basic	101,557,546	98,965,274
Diluted	101,557,546	104,539,452

It was a good Q1 for SFIX. The company displayed revenue growth that were above estimates and was also able to grow their clients and revenue per client at a healthy clip. Here are some stats:

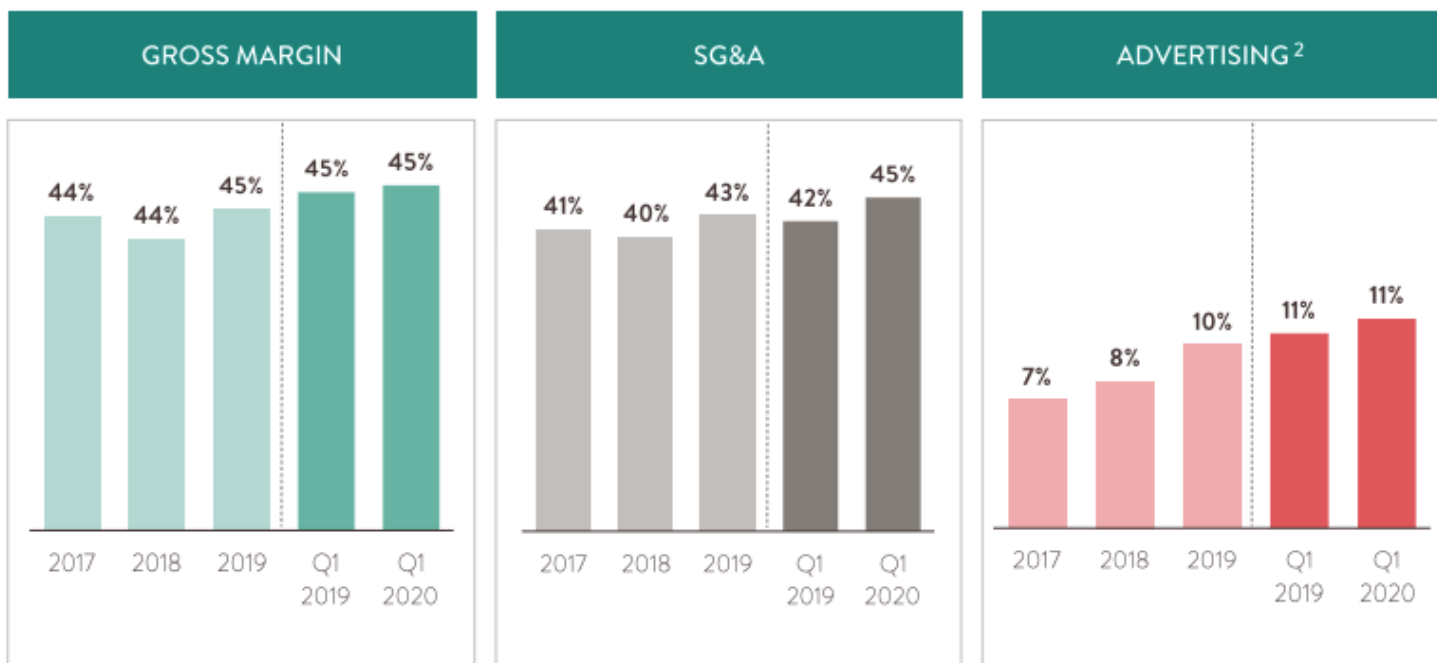
- Q1 net revenue of \$445 million, represented 21% growth Y/Y



- Active clients grew to 3.4 million or 16.6% Y/Y



- Net revenue per active client grew 9.5% Y/Y, representing their sixth consecutive quarter of growth. Excluding the impact of the extra week in Q4 '19, net revenue per active client grew by 7.9% compared to Q1 '19.
- Q1 gross margin was 45.3%, 20 basis points higher than Q1 of last year.
- Advertising was 11.4% of net revenue with brand spend representing approximately \$4M in the quarter or about 1% of net revenue.
- Other SG&A excluding advertising was 33.8% of net revenue in the quarter.
- Q1 adjusted EBITDA was \$5.1M or 1.2% of net revenue
- Adjusted EBITDA excluding stock-based comp was \$17.3M or 3.9% of net revenue.
- Q1 net loss was \$0.2M and diluted loss per share was \$0.00.



Gross margins haven't really budged over the years. They continue to remain flat around 44-45%. If we look below, we see SFIX's long-term targets. They believe that gross margins are going to stay put for the most part in this range going forward. They expect advertising to stay in the 9-11% range. As we know, it was 11.4% in Q1.

A lot of cost saving and efficiencies are expected from SFIX as we move down the income statement. The company expects other sales, general, and admin expenses to fall from 33% of revenues to a range of 24-26%. This is going to be vital for SFIX's future profitability and is what many investors are banking on and why they are willing to pay nearly 100x today's earnings (more later).

All in all, they expect long-term operating profits of 10-12% and adjusted EBITDA margins of 11-13%, which are increases of 11x and 4x, respectively.

	2016	2017	2018	2019	LT Target
Gross Profit (% Margin)	44%	44%	44%	45%	45-46%
Advertising Expenses (% of Revenue)	3%	7%	8%	10%	9-11%
Other SG&A (% of Revenue) ²	32%	34%	32%	33%	24-26%
Operating Profit (% of Revenue)	9%	3%	4%	1%	10-12%
Adjusted EBITDA (% of Revenue) ³	10%	6%	4%	3%	11-13%

In 2019, SFIX generated \$1.58B in revenue.

For fiscal 2020, SFIX expects net revenue in the range of \$1.90B-\$1.93B, representing growth of 20.5%-22.5% Y/Y. Adjusting for the impact of the 53rd week in FY19, the guidance range reflects growth of 23% - 25% Y/Y on a 52-week comparable basis. Because of their adjusted EBITDA strength in Q1, they also raised their adjusted EBITDA guidance to reflect a range of adjusted EBITDA excluding stock-based comp range of \$93M- \$107M.

Assuming they grow the business to \$2.5B in 2022 (15% CAGR), that would imply EBITDA of \$300M at the midpoint of their long-term 11-13% target. At \$300M, that would mean that SFIX would trade at less than 10x EBITDA which is very attractive.

This is exactly what investors are banking on and as we'll see in the next slides, 10x EBITDA would be cheaper than retailers like Abercrombie and Fitch, Express, and much cheaper than premium brands like LULU.

Over the next 3-5 years, revenue growth will most likely slip into the high-single digits and low teens for SFIX and investors will start to demand these margins and profits.

FINANCIAL STATEMENTS

CASH FLOW

	For the Three Months Ended	
	November 2, 2019	October 27, 2018
Cash Flows from Operating Activities		
Net income (loss)	\$ (178)	\$ 10,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(1,960)	(1,061)
Inventory reserves	1,801	1,563
Stock-based compensation expense	12,126	6,637
Depreciation, amortization, and accretion	4,652	3,175
Other	13	—
Change in operating assets and liabilities:		
Inventory	(31,837)	(23,172)
Prepaid expenses and other assets	2,973	1,252
Operating lease right-of-use assets and liabilities	272	—
Accounts payable	21,721	26,008
Accrued liabilities	16,170	24,360
Deferred revenue	(25)	2,532
Gift card liability	(354)	(141)
Other liabilities	2,150	(865)
Net cash provided by operating activities	27,524	50,966
Cash Flows from Investing Activities		
Purchases of property and equipment	(7,502)	(6,985)
Purchases of securities available-for-sale	(67,535)	(169,095)
Sales of securities available-for-sale	5,306	302
Maturities of securities available-for-sale	23,210	—
Net cash used in investing activities	(46,521)	(175,778)
Cash Flows from Financing Activities		
Proceeds from the exercise of stock options, net	518	2,000
Payments for tax withholding related to vesting of restricted stock units	(2,212)	(1,363)
Net cash provided by (used in) financing activities	(1,694)	637
Net increase (decrease) in cash, cash equivalents, and restricted cash	(20,691)	(124,175)
Effect of exchange rate changes on cash	1,538	—
Cash, cash equivalents, and restricted cash at beginning of period	170,932	310,366
Cash, cash equivalents, and restricted cash at end of period	\$ 151,779	\$ 186,191
Components of Cash, Cash Equivalents, and Restricted Cash		
Cash and cash equivalents	\$ 151,779	\$ 173,341
Restricted cash – current portion	—	250
Restricted cash – long-term portion	—	12,600
Total cash, cash equivalents, and restricted cash	\$ 151,779	\$ 186,191

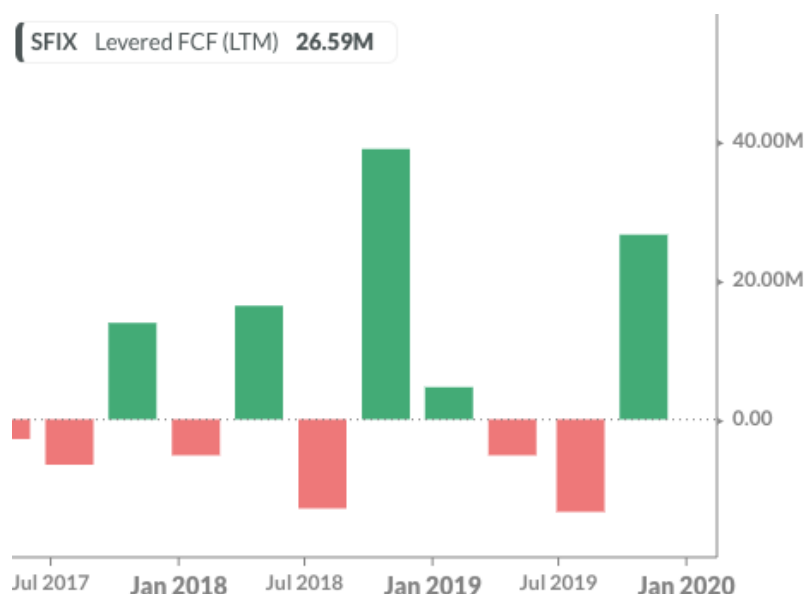
SFIX was able to generate \$27M in operating free cash flow during the quarter which was down from \$51M in the same quarter last year. Most of this difference was because of the \$10M swing in net income Y/Y.

Investing cash flow was -\$46M as the company put some of their cash to use in investments.

Financing cash flows were virtually flat as the company did not buy any stock or pay out any dividends.

Overall the quarter saw a cash outflow of \$20M but, as already mentioned, this was because of the shift from cash to short-term and long-term investments.

The number to really focus on here is that operating cash flow was positive \$27M and that pure cash on hand stands at nearly \$152M without any debt or interest payments to make.

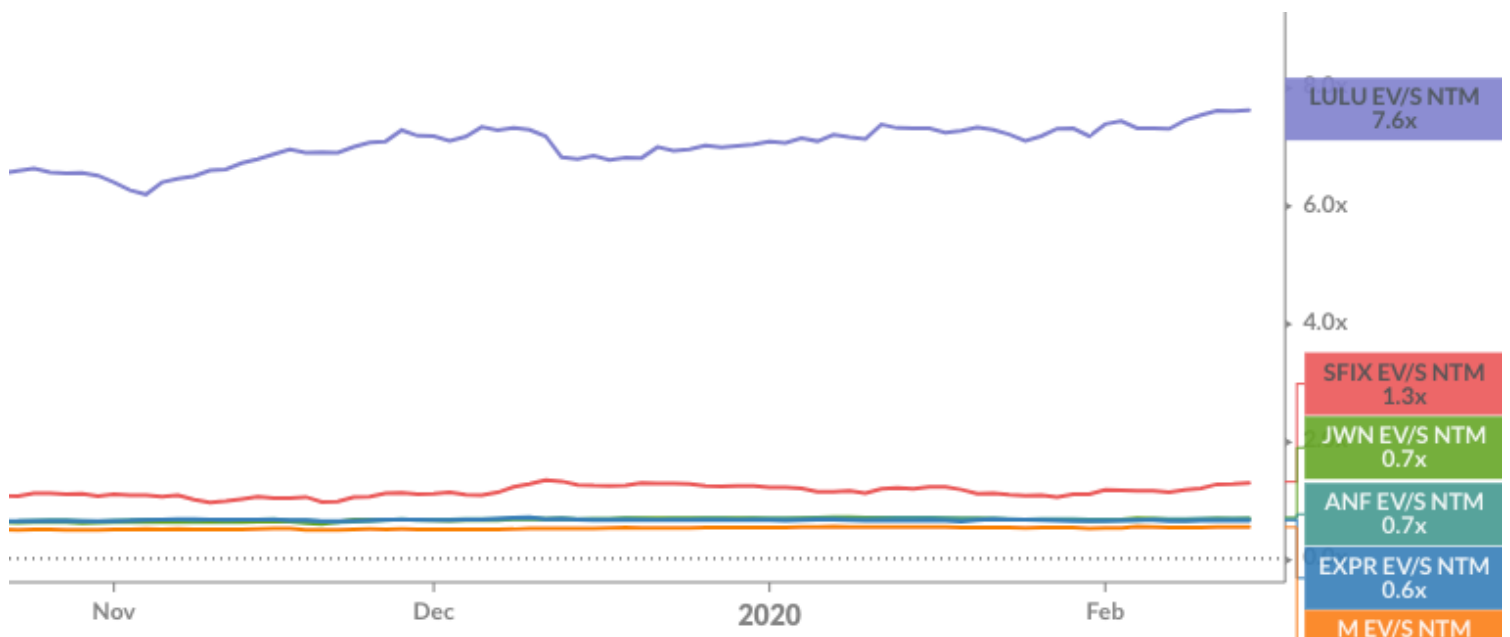




SFIX FUNDAMENTALS

When we look at the fundamentals, SFIX is a tough company to find direct comparables with. CUBE debated on placing Blue Apron (APRN) in the mix as they are also a subscription box but the two businesses are nothing alike with regard to service and/or business stages, capital structure, etc. Given that, we left them out and included old-school retail brick and mortar stores like Abercrombie and Fitch (ANF), Express (EXPR), Nordstrom (JWN), and Macy's (M) alongside a high-end clothing brand in Lululemon (LULU).

On an enterprise value to forward sales basis, LULU is at a very-high, 7.6x. SFIX, on the other hand, is trading at 1.3x while the stuck in the mud retailers trade at about half that at 0.5-0.7x.

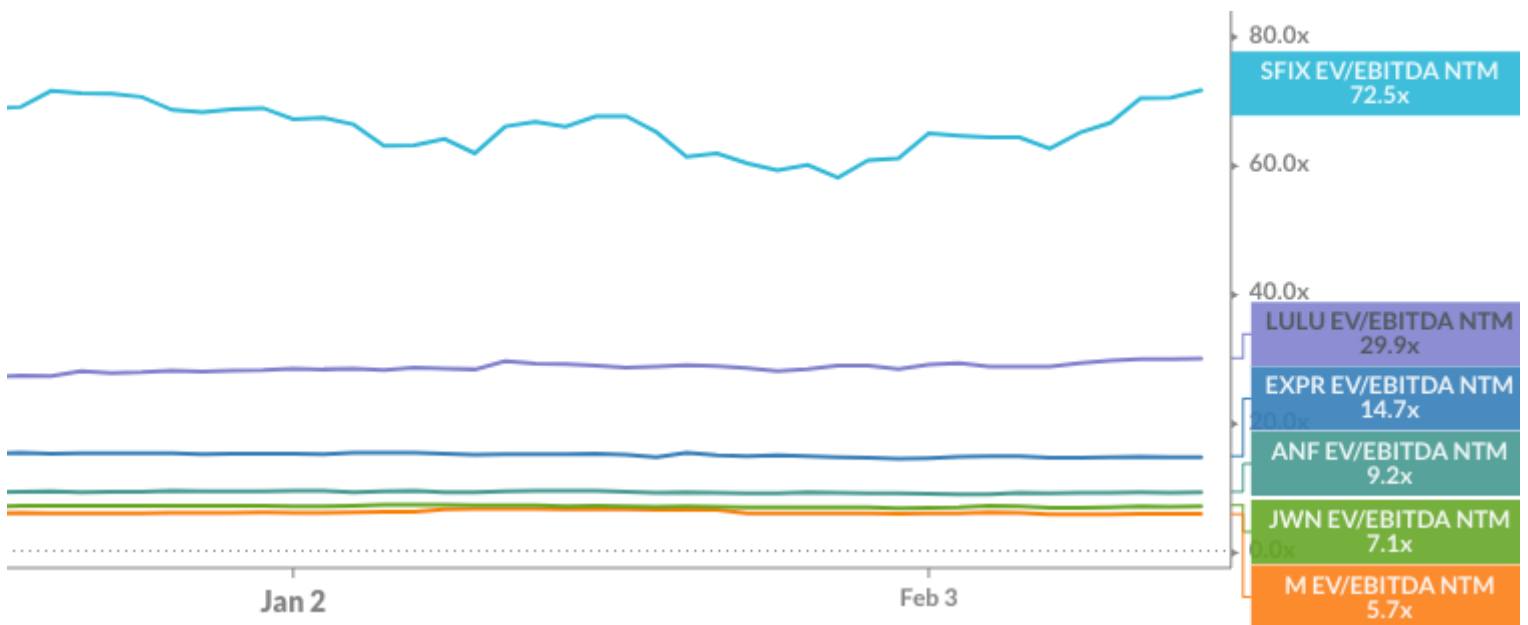




SFIX FUNDAMENTALS

When we slide further down the income statement and look at enterprise value to forward earnings before interest, taxes, depreciation, and amortization, SFIX moves to the top and is most expensive at 72.5x.

This is a very high because SFIX has been spending a ton on sales, admin, and marketing and has therefore not passed a whole lot of revenue down to the bottom line. LULU trades at about 30x, which some would consider premium, and the retailers are much lower between 5.7x-14.7x. As SFIX matures and is better able to send revenues down to EBITDA, this multiple will come down significantly.

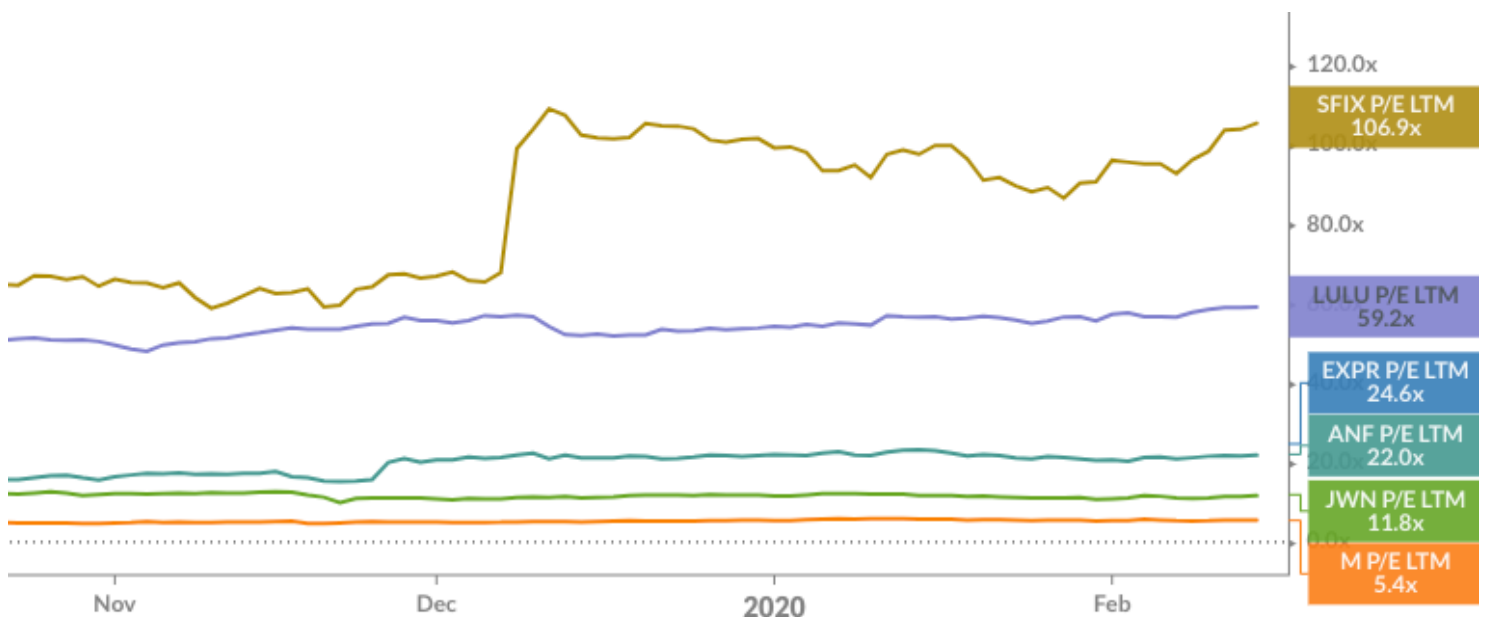




SFIX FUNDAMENTALS

The same as EBITDA goes for P/E. SFIX is not drawing in a very large profit right now and as a result trades at about 107x earnings. This is quite massive but must be taken with a grain of salt. Many investors jump straight to conclusions and write a stock off the second they see a high P/E.

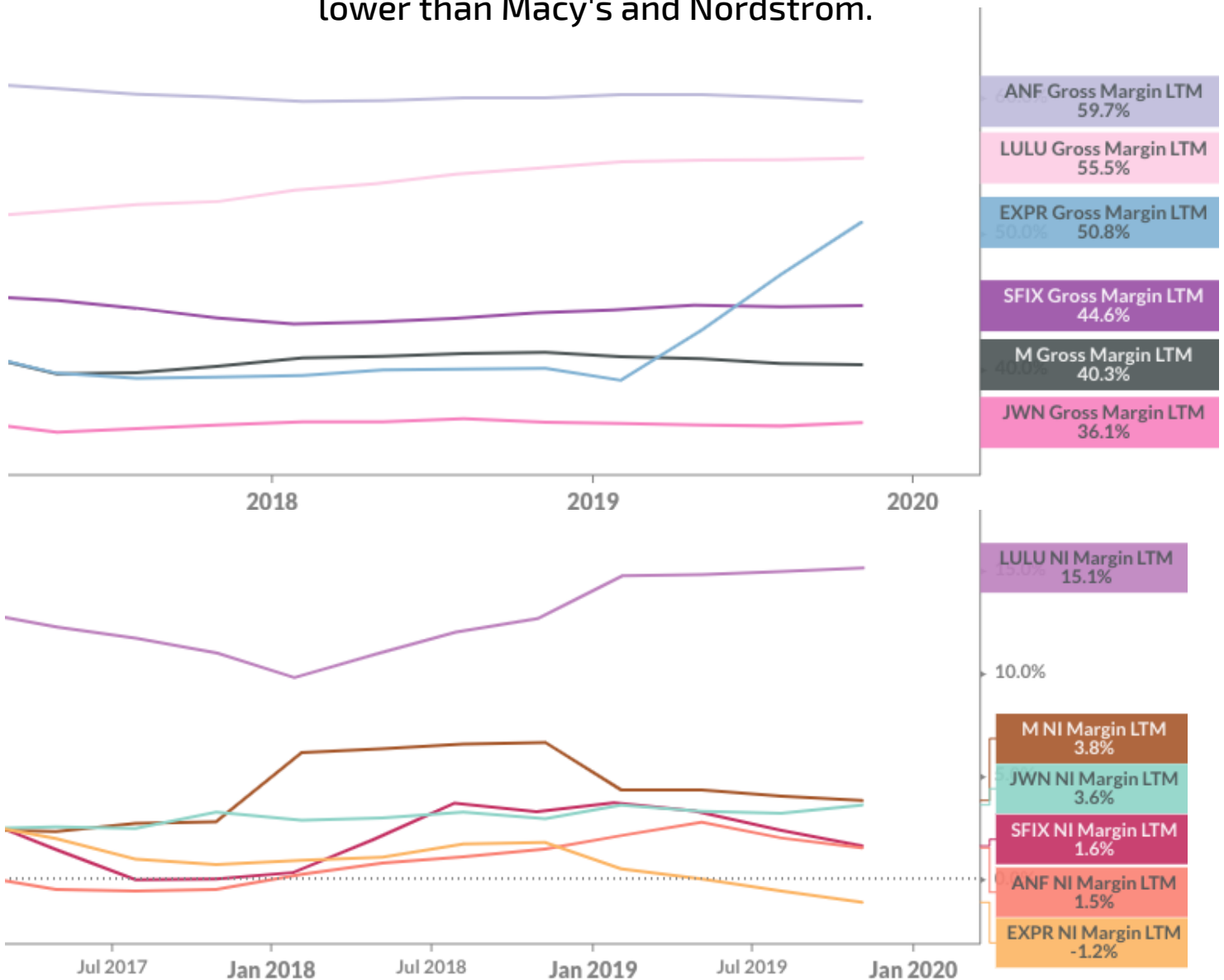
SFIX is not focusing on EPS right now, they are more focused on growing their client base and brand. We believe they deserve a premium valuation to retailers and quite honestly what surprises us more is the valuation in which EXPR and ANF trade at on P/E basis. In the coming years as growth begins to taper, SFIX will have to answer to this valuation and investors will not pay over 100x P/E for a stock that isn't growing anymore. For now, this is not the case as we have already covered above.





SFIX FUNDAMENTALS

This slide adds a bit of color and helps demonstrate why LULU trades at a premium to its retail peers. The company boasts 55.5% margins vs SFIX which is actually lower than EXPR and ANF. On the net income side, LULU pulls away by a mile while SFIX is at the bottom with retail and actually lower than Macy's and Nordstrom.





SFIX

TECH ANALYSIS

SFIX Stitch Fix, Inc. Nasdaq GS

© StockCharts.com

14 Feb-2020

Open 26.23 High 26.72 Low 25.77 Close 26.63 Volume 1.5M Chg +0.39 (+1.49%) ▲

▲ RSI(14) 66.13

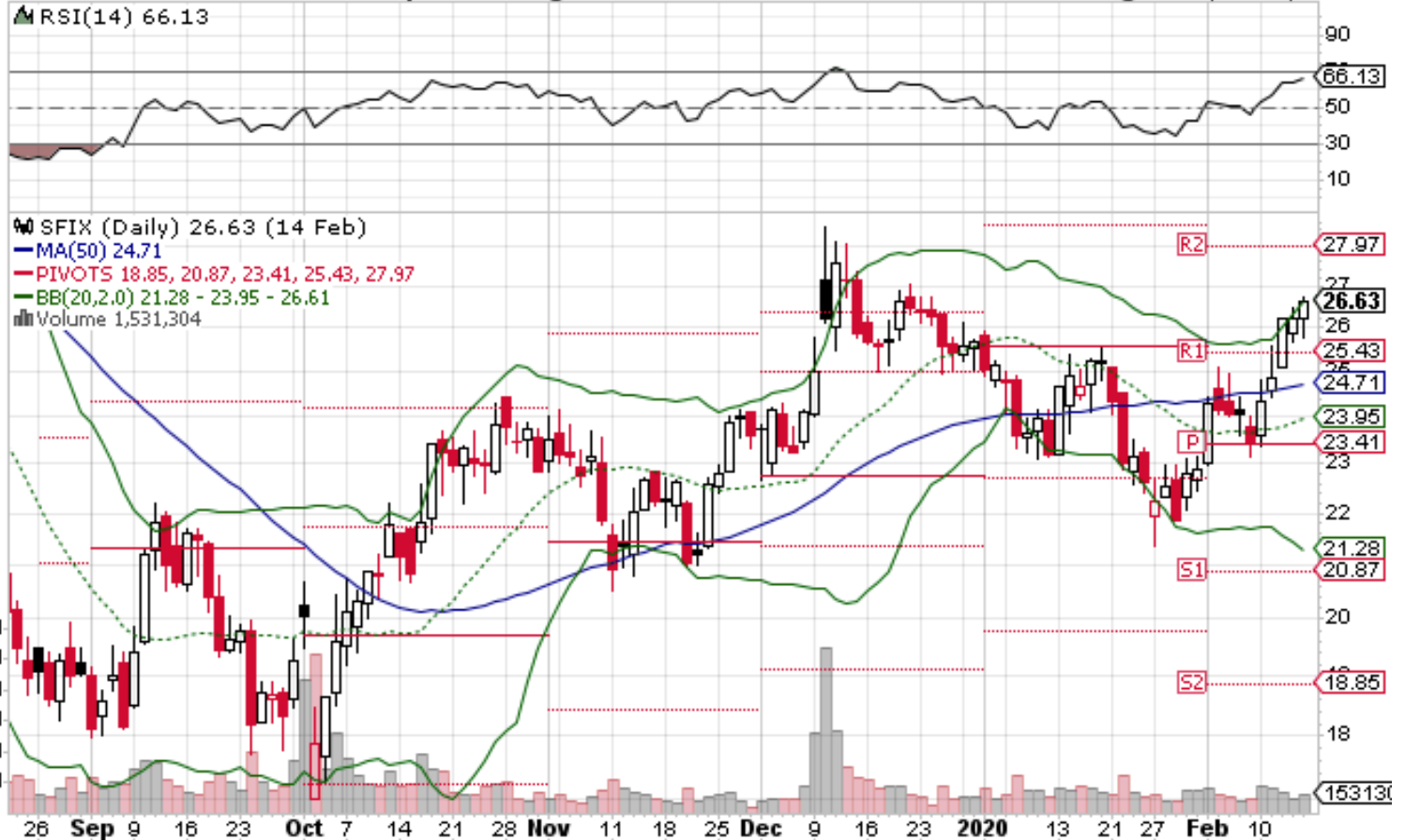
▲ SFIX (Daily) 26.63 (14 Feb)

— MA(50) 24.71

— PIVOTS 18.85, 20.87, 23.41, 25.43, 27.97

— BB(20,2.0) 21.28 - 23.95 - 26.61

■ Volume 1,531,304



▲ MFI(14) 79.98

▲ Wm%R(14) -1.85



TECH ANALYSIS SUMMARY

CUBE expects a near-term pullback in SFIX shares.

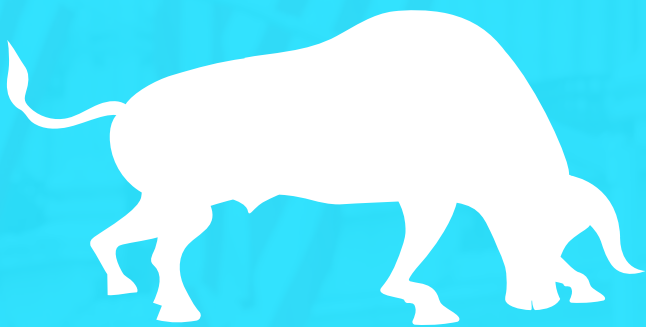
The stock has now hit overbought levels on the RSI, MFI, and W%R, and is now also pressing against the upper bollinger band of \$26.61.

CUBE believes shares will pullback to the R1 fibonacci level of \$25.43 in the near-term. There, we believe the stock will catch some support or fall a little more to its 50DMA of \$24.71, which should creep up closer to \$25 by this time. In short, there should be good support in the low-to-mid \$25s for SFIX.

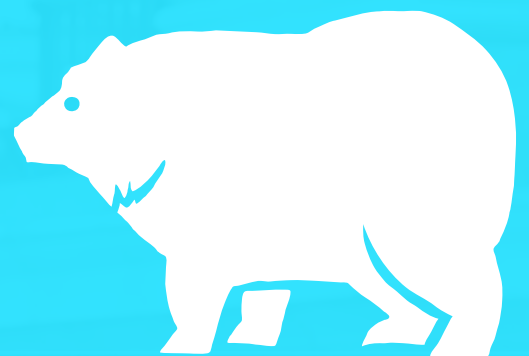
At that point, depending on where RSI, MFI, and W%R, the stock should gather itself and attempt the R2 line of \$27.97.



BULLISH OR BEARISH?



VS.



**MORE BULLISH
(POSITIVE)**

**MORE BEARISH
(NEGATIVE)**





SFIX CONCLUSION

Overall, CUBE is bullish on Stitch Fix. The company is growing their revenue and active clients at a double digit pace and growing their revenue per user at around 8% as well. We are huge fan of their balance sheet and wouldn't even be surprised if the company wanted to add to their scale and reach by acquiring one of their competitors as they certainly have the capabilities to do so. On the flipside, they could also be an attractive takeout candidate for retailers looking to expand their offerings.

Right now, it's all about growth but in the coming years investors are going to want to see progression towards those long-term margin targets. If SFIX is able to hit them, there is considerable upside in our view.

Another thing we need to keep an eye on are those competitors that we referenced but mainly Amazon. At over 3.4M active clients, we believe SFIX has shown the market that there is a demand for their service as it does save people a lot time but AZMN is, and always will be, a threat to virtually every industry. All in all, we believe there are still some huge areas of growth that the company has not tapped into and that includes foreign expansion and also greater market share in the male and children demographic.

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