Company Name: Purple Innovation, Inc. (PRPL)
Event: ICR Conference 2023
Date: January 9, 2023

<<Robert T. DeMartini, Chief Executive Officer>>

Good afternoon, everybody. I am Rob DeMartini, the CEO at Purple Innovation. And I want to talk to you a little bit about our company. Brad's going to – we're going to do a little question-and-answer session, but before we do that, I wanted to play a one minute video. If the guys could play that video, please do it right now.

[Video Presentation]

All right. Who out there wants a better night sleep? All right. Good. We're in the right room then. Before Brad and I chat a bit, I just want to make five points, and I was told I had a two-minute presentation, which is like 5 times better than a 10-minute presentation, so you guys are lucky. But the first is, we've got the most interesting technology in the betting market in 20 years. So that's a place to start from.

The second is we completed a small acquisition this year that gave us full control of our well defendable intellectual property when we bought Intellibed. We've got a very healthy route to market that's balanced across e-commerce showrooms in 3,300 wholesale doors.

Our path to premium strategy will allow us to play in about 80% of the categories revenue, and we've got a new marketing – a new management team that has been there and done that across different industries that's going to enable us to grow regardless of what the market throws at us over the next few years. So welcome the chance to chat with Brad about the category. Thank you.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

All right. Well, thank you, Rob. I'm Brad Thomas, the Hardlines Analyst with KeyBanc Capital Markets and I've had the pleasure of covering Purple since it went public a number of years ago and have followed the furniture – furnishing space for about 20 years. And we remain very excited about the innovation and disruption that's coming from Purple, so looking forward to talking about that more today with you, Rob.

<<Robert T. DeMartini, Chief Executive Officer>>

Good. Thanks, Brad.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Maybe as a starting spot, this feels like a very exciting year from a product perspective. Since Purple's launch, they haven't really ever refreshed the lineup. They've just added new products. Could you talk a little bit more about what's in-store here from products this year?

<<Robert T. DeMartini, Chief Executive Officer>>

We are excited about the year. And I think the company's long-term history was started with two entrepreneurs and having run a private company that was entrepreneur led before, I know that the good part of that is every morning you probably have a new idea to go after. And the bad part of that is you tend to do things one item at a time.

And we got to the place we are currently launching one product at a time. And they're all great products, but the way they're connected to each other and the story that's told by our people and our showrooms were online, were more importantly by the retail partners and their people didn't make as much sense as it could.

So in January at the Vegas market which is the primary trade industry show for us, we'll be repositioning all of our product into three groups, kind of essentials, the e-commerce stuff, our premium, which is in the data center, and then I spoke about Intellibed, the acquisition that we made, we'll repurpose that as Purple Lux, and we'll have some way finding in our product line that's going to make it much easier for consumers to find their way through it and for sales agents to sell their way. We'll be launching more mattresses in January than the company has launched in its history to date.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

That's really exciting. And so from a timing perspective, when should consumers, when would this audience be able to start seeing that product on floors and when might that start impacting financials for the company?

<<Robert T. DeMartini, Chief Executive Officer>>

Yeah. We're planning on the categories have been through a tough year, and we're planning on the first half being just about as tough, but we think by mid-year, independent of what happens in the market, assuming it doesn't get worse. I'm going to look for wood and knock on that. Assuming it doesn't get any worse. We're going to – we'll be positioned to start growing again.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Great. Great. Speaking of brand positioning, Purple launched with sort of a huge value oriented message. Intellibed's at the higher end of the market. Can you talk about how Purple's brand positioning should evolve here in the year ahead?

<<Robert T. DeMartini, Chief Executive Officer>>

Yeah. I hope the minute video gave you a little flavor of that, but it's time for the brand to mature and really start selling the health and wellness of a great night sleep. And so we did get great mileage out of some pretty quirky marketing early in our life, and it got the brand to be as young as it is to be relatively well known.

Our brand recall is competitive with Tempur and sleep number, but what people don't know is why is it better? And so we've got to make the shift to start talking about consumer benefits instead of product features, and then do that in a way that sends a richer message, because now with the acquisition of Intellibed, we'll cover price points from a $1,000 all the way up to $7,500.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Right. I think it's important also to talk about why the premium end of the market is more important for Purple at this stage of the company because of that's what wholesale wants to see. Can you talk about how you're leaning into the premium side of the market and how that changes your opportunity going forward here?

<<Robert T. DeMartini, Chief Executive Officer>>

Yeah. So it's dead on this category needs to grow through trade up. I mean, it's just everybody who's going to sleep on a mattress already does, and they replace it about every 7 years to 10 years. So accelerating purchase cycle, I guess that's noble ground, but I'm not sure I'm young enough to take on that strategy.

We got to get our retailers to trade up and it's proven in the market. Tempur has been doing this for years. They're really, really good at it. And the retailers want a similar alternative choice. We think we can be that, number one. Number two, with a strong showroom business, we have the chance to ensure that that works. And so in our showrooms, you'll see the mix more premium than anywhere else in the marketplace because we've got much more control of that environment.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Great. Maybe taking a step back, Rob, how do you think about the addressable market? Again, Purple is still a very young company, still early in its wholesale rollout. How do you think about what Purple could be longer-term?

<<Robert T. DeMartini, Chief Executive Officer>>

There are a lot of growth potential, and I'll start just at the mattress. That's the core of our business. It's 75% or 80% of our volume. And it's one of those businesses that in, in my first year, if we don't start winning more aggressively there, it will be hard to win in related infringe businesses from there.

So we got to get the mattresses right first. We think this launch coming is a great first step to do that. But below the bed, above the bed is step two. Whether it's bases or pillows or other sleeping kind of componentry, there's business there that the Purple brand can go. And then step three is beyond the bed. I mean, what else can we do in smart monitoring and smart sleep in places like that.

I want to be careful not to put the cart before the horse. We got to get the mattress business, right? We think we're headed in the right direction, but once we do, this is a pretty powerful brand name that can be more than just a mattress. It can be about wellness, sleeping better, and all other things that that connects to.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Since joining the company about a year ago, Rob, you've made a number of new hires on the management team. Can you talk about some of the new members of the leadership team and how you feel about the team in place today?

<<Robert T. DeMartini, Chief Executive Officer>>

I can, and I think in fairness to the team that was there before, this company grew very rapidly. And in some cases grew beyond the experience of that team. But we've replaced the Chief Operating Officer. He comes from a $7 billion supply chain with multiple plants across multiple continents.

So running we have kind of 2.5 plants right now. There's really nothing that's going to come up that he would not have been familiar with or had experience. We brought an innovation leader in who is I mean he's going to be bringing out more in his seven months than we brought out in the last 48. So it kind of speaks for itself.

We've got a marketing, a Chief Marketing Officer who is significantly deeper in e-commerce than I am or her predecessor. And I think that's an important step. And then the next step is our retail stores. We've got a big retail footprint for us right now, 55 stores. I would think that that could triple or quadruple. And I need somebody who's run retail and we're very close to finalizing that as well.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Great. Great. Maybe we could talk a little bit about 2022 and just sort of a recap of the results. Why don't you share with us a little bit more about that story? From our perspective, we were impressed that you were able to generally hit the numbers that you all set out and targeted in a very difficult environment for the mattress industry.

<<Robert T. DeMartini, Chief Executive Officer>>

Yeah. I think it was a tough year. I don't really want to do that one again. And the category had its worst year maybe ever. And most people have been saying unit volume was off 20% to 25%.

I think that's a combination of two things. I think one, the economy and the consumer's unwillingness to make what they see as a discretionary purchase, right? You can sleep on your mattress one more week, one more month, one more year, and that's – that starts with a long purchase cycle to begin with.

But on top of that, COVID shifted a lot of demand to our favor because we are so capable online. And so when mattress stores closed and people started nesting at home, we were an obvious place to go. So we had to go get used to a big adjustment there. The company was on allocation. We had a brand new factory that wasn't up yet, so we really didn't know what demand look like. And I've been in that situation before and it's scary because you just don't know where the top is.

We built a factory probably a bit prematurely that we didn't really need just yet. So in March, we had to do a significant restructure, significant, I'm talking to 45% of the people left were able to run the business that started to show up in margins in Q3. And I think most of what we got, we can keep, we're a little cautious about Q4 because of discounting we knew would be aggressive, but there's no reason this business can't perform as well as the leaders in the category. And I think we're on our way to getting there.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

And a question we get is just about the financial health of the business. Have you done enough from a cost perspective, from a capital perspective to be able to execute on these exciting growth plans that you have here for this year? Do you feel like you're in a good spot financially, Rob?

<<Robert T. DeMartini, Chief Executive Officer>>

I do. I mean, we went out in March and raised $90 million of equity. We've worked with our banks to make sure we have the head room to operate. We've planned as responsibly as we can and we do think we're in a pretty good place.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

That's great. And then maybe elaborating a little bit more on the changes since before you joined, can you talk about some of the areas where you think you had the biggest improvement? Some of them may be what Intellibed added, but just when we think about where the company is today at the start of 2023 versus a year ago. What are the areas that you're most excited about operationally?

<<Robert T. DeMartini, Chief Executive Officer>>

I'm really excited about the opportunity to have this balanced distribution channel. My last business that I ran for 12 years, I took a company from wholesale to omni. And I didn't think this through all the way, but going the other direction is significantly harder. The idea, the proposition of, hey, let's cut our margins in half and let's make our lead times 5 times longer is tough. And I think the company was really caught in that. We were moving and not advising our

partners appropriately and when you're direct, you can do that. But when you've got 3,500 or 3,400 retail stores, they want to know what you're doing before you do it. So they can either participate or push back or anything in between. That muscle tone didn't exist.

We've now built a wholesale selling team that understands the importance of coordination, that understands the importance of a reasonable return for that retailer space. And as we make progress with that, I'm optimistic that all three channels will grow nicely. In the past, we were simply swinging the door for the retailer and then they were selling them something else, because they didn't like the way we fit in their portfolio. I'm not going to sit here and say that's fixed, but it's headed in the right direction.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

That's great. We get asked often about the competitive landscape, and I want to talk about that for a second. But at KeyBanc, our belief is that it's really the technology being differentiated that gives you a leg up on your competition as we think about your growth prospects. There have been reports of Serta Simmons struggling potentially needing to go through another bankruptcy process. How do you think about the competitive landscape and if it's – and how tough that's going to be to go up against this year?

<<Robert T. DeMartini, Chief Executive Officer>>

Well, first, I'll make a couple of comments of being new to this category. This is maybe the most hand-to-hand competitive business I've ever been in. It is stunningly competitive, number one. Number two, it – there is a lot of smoke and mirror technology in here. So the fact that our technology works and that you can see it, to me is a really powerful opportunity. I mean, it's one thing to works and then say, trust me, it's in there. But when people walk up, I mean, we've got some of our bed set up in the conference room over here. You go feel them, you're going to know it's different. Now whether you like it or not, that's up to us to convince you of that, but it's definitely different.

So I think from that standpoint, in a market that's just competitive, I mean that – those are the components I want to build a brand. I've got differentiation, I've got it well defended from an IP standpoint and the consumer can see it. And that combination, I think is the best I can imagine to build a business on.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

That's great. Maybe we could talk about distribution a little bit. When I think about the number of some of the largest retailers in America, you're not even on all their floors right now. What does that conversation like and how much will the new assortment hopefully help you get more distribution going forward?

<<Robert T. DeMartini, Chief Executive Officer>>

If you're focusing on the wholesale business primarily, I mean, so the category is a little bit unique and that you've got a very dominant player. And then even the second biggest – isn't as big as you seems, because it's a very complicated network that's there. So there's this big division between the leader and everybody else. And I've worked with a lot of big customers before, not in this category, but in others. And if we reach an conceptual agreement and we shake hands, I'm going to expect, they're going to do what they're going to do and they're going to expect that I'm going to do what I'm going to do.

In that biggest customer, we're still only in a third of their doors just over a third. So there's significant growth potential. And I think where this company started in wholesale, they didn't, they being all wholesale customers, but that one in particular, they didn't carry us, because they wanted to sell us. They carried us, because they didn't want to tell the person on the phone, they didn't have us, because our margins were very dilutive for them.

And to the degree we can fix that, we'll never be on the high side of that line, but I got to be close enough to it that they want to build it. And our new product launches have all that built in. That's that move of going from e-comm to wholesale that it's just hard to fix without some significant reengineering. And we've done a lot in the product structure to give us room and to give them room, so they not only want to stock us, but they want to sell us.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

And I think Intellibed fits very well into what you need to do. Maybe you could share with the audience a little bit of that history of Intellibed and I'd love to hear more about how you're changing the Intellibed products themselves and perhaps the brand as we look forward here.

<<Robert T. DeMartini, Chief Executive Officer>>

So Intellibed had been a licensee of Purple forever, and it came to Intellibed when the Pearce brothers that founded the technology looked at mattresses for a while and then they went and looked other places and at that point, one of their employees broke off, started Intellibed and basically was using our product and it lived at very high price points. And it was really using our marketing and their product and basically they'd put their distribution where we were. And the sale that the retail associate made was, it's like Purple but better. Now, whether it was or wasn't, there's no reason to get too wrapped up in that, but that was the way they sold it. So having it under one house, I mean, think about it this way, we could either sue a licensee for stretching the license or own them to compliment our product lineup.

So we chose to go out and buy them. They were about 4% to 5% of our revenue, but had a sales force that was 50% the size of ours. Because it was a sales driven business, where we were much more poll based. So them coming together is a good move, as you said, Brad, it gives us margin room to work with them. A $7,000 bed does not cost 7 times more than a $1,000 bed to make. So everybody can benefit from that. And we're going to reposition it in the second quarter as Purple Lux. It's been – it's had our technology in it from the beginning. So I think the fits pretty easy. We're testing that right now with 50 wholesale partners with nothing but brute strength. We just

pushed Intellibed in said, call it Purple Lux and see what happens and the sales rates are very encouraging.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Really exciting. Can we talk a little bit about input costs and operational costs? How are you thinking about those for 2023 and potential tailwinds that may be coming up?

<<Robert T. DeMartini, Chief Executive Officer>>

Yeah. Well, I mean we're definitely seeing, we really have two businesses in our manufacturing. The stuff we make and then the stuff we source and the stuff we source that's coming from the far east is obviously getting some tailwind behind lower demand in China and much lower container rates on shipping. Our manufacturing side, we don't have a horribly complicated bill of materials. It's not a whole lot of products. It is pretty oil related. So we are tied to that. But we feel like we've got that covered in the short run and that we're in pretty good shape. And again, this is where Eric Haynor's experience, he knows how to think about not only gross margin in this quarter, but what about next quarter and the quarter after it. We feel like we're in pretty good shape.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Great. Coming back to the question of competition. When I think about the industry five years ago, I could probably have listed off a 100 different companies trying to sell beds online. It does feel like the funding for many of them has dried up and the – it's not a real growth area for the market anymore. What are you seeing on the D2C side in terms of your customer acquisition costs and the level of competition that you're up against?

<<Robert T. DeMartini, Chief Executive Officer>>

We – the Movado discussion, I didn't catch the gentleman's name. He was talking about the privacy changes that Google and Apple put in place and that hit us significantly. We were really good in 2020 and early 2021 on, I mean, if you even thought about us, we were going to find you and send you a message to get you to buy something. You just can't do that anymore. It's not possible. And I think the gentleman said it the same way I would, we're going back to marketing, the way marketing was, where you got to understand your consumer deeply and then find clever ways to talk to them that isn't just stalking.

And I think that's where we were for a while. So it's back to brand building and having a brand matters. You talked about the bed in the box guys, and I think, that was interesting when getting something delivered to your porch was innovative. I mean, you can get on your phone right now order from Amazon and it's going to be there when you get home. So it's no longer distribution disruption is not a thing anymore, because Amazon has reset the world's expectations. So you better have product differentiation and that's why I think Purple is in a great place.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

When you look out and think about the growth engines, the opportunity to keep growing wholesale, the opportunity to open up your own stores, what do you think the mix of business looks like a few years out if you're successful I think…

<<Robert T. DeMartini, Chief Executive Officer>>

I think if we're successful and we strengthen our wholesale business, we'll be 60% direct and 40% wholesale. I mean, the reality is as you move up the price points, touching and feeling still is an important part of it. If you're spending $3,000 or $4,000 or $5,000 on a bed, you want to go lay on it. When you're buying your first apartment bed, you just want a bed. So in the mail is good enough. I think our new product lineup with Purple Lux let's discover it from the top of the bottom to the middle of the top is kind of the way to think about it.

And so we're in a good place there. And now we just got to make sure people understand what gel said. I mean, I said it to you earlier today, but some of your research is the most important to me. It says that 8% of consumers have experienced gel beds, but 20% want to experience before they make their next purchase. That delta is the strongest one of any technology in the category, and if we stay on that, we'll be able to grow to a reasonable market share.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

And with about a minute left, I know that executing on this year's plans, you want to make sure you keep your blinders up and don't get distracted. But as we think longer term, clearly, there's an opportunity for ancillary products. There's an opportunity to sell overseas. When might you be able to do some of those things and how big could those opportunities be for you?

<<Robert T. DeMartini, Chief Executive Officer>>

The kind of other areas that influence the sleep environment is wide open. There's a lot of fragmentation. And we're thinking about people like whoop and other products that are kind of health and athletic and wellness related. There's definitely places we can go. I don't want to make any promises yet because we're – we got to get the mattress business, right. We got to get the U.S. right. But that's a small percentage of this category globally, both category and geographically. So there's a lot of upside. We just – we got to get the basics right before we're going to have permission to go to those things.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Well, with 20 seconds left, Rob, I guess, one year in on the job, how are you feeling today versus what you knew a year ago in the role?

<<Robert T. DeMartini, Chief Executive Officer>>

I feel great. It's a super competitive category. We got a team that I'd put up against any in the industry. There's a good mix of – from industry and from outside industry on that leadership

team. And I look at this brand and everything I believed 12 months ago when I took the role is definitely here. We just have to execute.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Wonderful.

<<Robert T. DeMartini, Chief Executive Officer>>

Yeah. Good.

<<Brad Thomas, Analyst, KeyBanc Capital Markets>>

Thank you, Rob. Thanks everyone.

<<Robert T. DeMartini, Chief Executive Officer>>

All right. Thank you.