Sleep Number Corp.

Financial Analysis & Valuation

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Report Author

Sheersh Patel is a investment banking & corporate finance enthusiast currently pursuing an MS in Management degree at University of Illinois Urbana-Champaign (UIUC). With a strong interest in financial modeling and business valuation, Sheersh has developed this report as part of a broader effort to apply analytical skills in real-world scenarios.

Focusing on financial forecasting, valuation methodologies, and corporate financial analysis, Sheersh has built a comprehensive financial model for Sleep Number Corp., incorporating key financial metrics, financial modeling, financial forecasting, and industry insights.

This report represents a culmination of rigorous research and analytical techniques aimed at assessing Sleep Number's financial health and market position.

For any inquiries or discussions, Sheersh can be reached at his LinkedIn.

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Executive Summary

Company Overview

- **Company Overview:** Sleep Number was **founded in 1987** and headquartered in Minneapolis, Minnesota, is a leading innovator in sleep technology, offering customizable mattress and sleep solutions designed to improve overall well-being.

- **Business Model:** The company generates revenue from premium adjustable mattress, smart beds, and sleep accessories via retail and e-commerce.

- **Target Market:** Sleep Number cater to consumers seeking personalized, data-driven sleep solutions for better health and wellness.

- **Technological Advancement:** Proprietary SleepIQ technology personalizes the sleep experience by tracking real-time sleep data.

- **Financial Performance:** As of 2024, Sleep Number reported **revenue of $1.68 billion, down by ~11%** from last year due to .

Investment Overview

- **Technology-Driven Business Model** – Sleep Number differentiates itself with AI-powered smart beds that offer personalized sleep tracking and adjustable comfort, positioning the company in the premium mattress segment.

- **Financial Performance & Valuation** – The company has faced **profitability challenges due to economic pressures** but remains focused on **margin recovery** through innovation and cost management. Current valuation suggests an undervalued status based on DCF and market multiples as the **implied DCF share price ($33.88)** and **average CCA enterprise value ($1.67 billion)** indicate a higher intrinsic value compared to the **current market price of $6.45**.

- **Recommendation:** Sleep Number offers moderate upside but carries risks, making it a "Hold" with "Buy" potential for risk-tolerant investors.

Key Financial Metrics

Revenue	$ 1.68 Billion
Enterprise Value	$ 1.3 Billion
Adjusted EBITDA	$ 120 Million
Share Price (Mar 31, 2025)	$ 6.34

Stock Price Trend (Jan 1, 2020 – Mar 31, 2025)

1	2	3	4	5	6	7	8
Executive Summary	Industry Outlook	Company Overview	Historical Performance	DCF Valuation	CCA Valuation	Risk Analysis	Investment Recommendation

Industry Outlook

Industry Outlook

Market trends & Growth Drivers

- **Technological Innovation:** Smart mattress with adjustable settings, sleep tracking, and temperature regulation are gaining traction.

- **E-Commerce & DTC Sales:** Online mattress brands and digital retail channels have reshaped the traditional brick-and-mortar landscape, offering convenience and competitive pricing.

- **Health & Wellness Focus:** Consumers are prioritizing mattress designed for back support, pressure relief, and better sleep quality, driving demand for premium, personalized solutions.

- **Sustainable & Eco-Friendly Products:** The shift towards organic, non-toxic, and recyclable materials is influencing purchasing decisions.
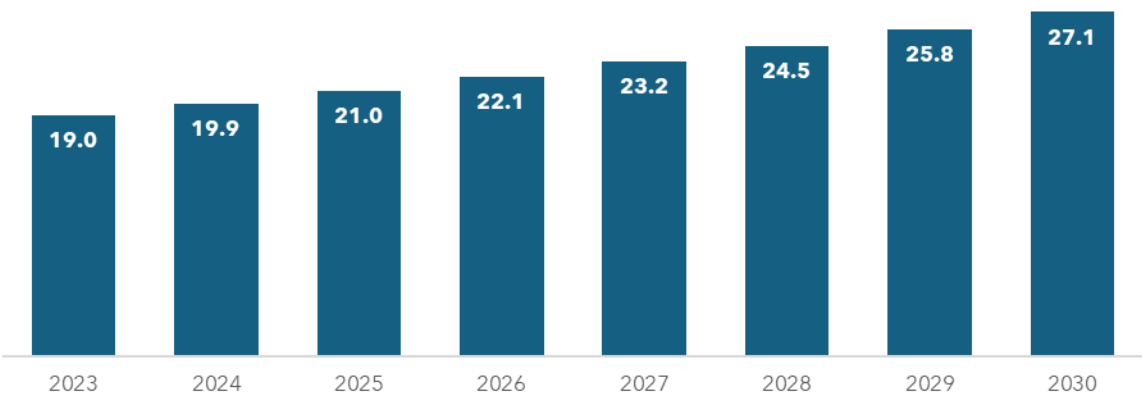
Challenges & Competitive Landscape

- **High Competition & Pricing Pressure:** Established brands like SomniGroup International, Purple, and Serta Simmons compete aggressively in product innovation and pricing.

- **Economic Uncertainty & Consumer Spending:** Inflation and interest rate fluctuations impact discretionary spending on premium mattresses.

- **Supply Chain & Manufacturing Costs:** Global disruptions and raw material price fluctuations pose challenges for manufacturers.

Key Statistics

- **Market Segmentation by Product Type:** Memory foam mattress is the fastest-growing segment with a **CAGR of 5.6% during 2024 to 2023.**

- **Distribution Channel:**
  - **Offline Sales:** Accounted for approximately **66% of the market share** in 2024.
  - **Online Sales:** Expected to grow at a **CAGR of 8.2%** from 2025 to 2030.

- **Regional Insights:**
  - **Southern US:** Held a **40% market share** in 2023.
  - **Western US:** Projected to be the fastest growing region during the forecast period.

US Mattress Market Size Growth ($ Billion)

2023	2024	2025	2026	2027	2028	2029	2030
19.0	19.9	21.0	22.1	23.2	24.5	25.8	27.1

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Company
Overview

Company Overview

sleep number

Founded	1987	**Revenue**	$1.68B
No. Stores	637	**EBITDA**	$120M

Company Overview

Current Share Price	$ 6.45
Shares Outstanding	22.38 Million
Market Cap	$ 141.95 Million
Enterprise Value	$ 1.3 Billion

Leadership Team

Chief Executive Officer	Shelly R. Ibach
Chief Sales Officer	Melissa Barra
Chief Innovation Officer	Annie L. Bloomquist
Chief Marketing Officer	Kevin K. Brown
Chief Legal & Risk Officer	Samuel R. Hellfeld
Chief Financial Officer	Francis K. Lee

Business Overview

Sleep Number Corp. (NASDAQ: SNBR) operates a vertically integrated, direct-to-consumer model, designing, manufacturing, and selling its adjustable, smart mattresses through company-owned stores and online channels. Its Sleep Number 360® smart beds use AI-driven sleep tracking and customization to enhance sleep quality.
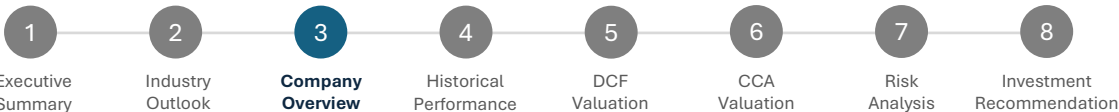
Business Model

Sleep Number operates a **vertically integrated, direct-to-consumer (DTC) business model**, designing, manufacturing, and selling its smart mattresses exclusively through company-owned stores and its e-commerce platform. This approach allows the company to maintain control over pricing, customer experience, and product innovation.

Sleep Number's core revenue streams include **smart mattresses and bases**, **bedding accessories**, **sleep health solutions**, and **warranty services**, with a focus on **technology-driven sleep personalization** through its patented **Sleep Number 360® smart beds**.

Recent Developments

- **Product Innovation:** On March 25, 2025, Sleep Number introduced BreatheIQ, a sleep health app designed to help approximately 116 million Americans understand their snoring patterns and improve sleep quality.

- **Financial Performance:** On March 5, 2025, Sleep Number announced its fourth quarter and full-year 2024 results. The company **reported a net loss of $5 million for the quarter**, an **improvement from a $25 million loss** in the same period the previous year. Adjusted EBITDA increased by 43% to $26 million.

- **Leadership Transition:** In March 2025, Sleep Number appointed **Linda Findley**, formerly of Blue Apron, as the new President and CEO, effective April 7, 2025. She succeeds Shelly Ibach, who is set to retire.

- **Board Restructuring:** In March 2025, Sleep Number entered into an agreement with its largest shareholder, Stadium Capital Management, leading to the planned retirement of five board members. This move aims to create a more agile board focused on strengthening company performance and achieving profitable growth.

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Company Overview: Key Growth Opportunities

sleep ⬍ number

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Key Growth Opportunities

AI-Driven Sleep Technology & Data Monetization

- Expand AI-powered features (e.g., BreatheIQ) and integrate with wearables & smart home devices.
- Introduce subscription-based sleep analytics & coaching services for recurring revenue.
- Develop machine learning-driven sleep personalization for improved product differentiation.

Digital & Direct-to-Customer Expansion

- Strengthen e-commerce & digital sales through AR/VR tools for visual mattress trials.
- Offer personalized online sleep consultations to enhance the customer experience.
- Partner with Affirm/Klarna for flexible financing, making products more accessible.

**Expansion into New Demographics & Global Market**

- Develop mid-tier smart mattress to attract Millennials & gen Z customers.
- Expand into high-growth international markets (Europe & Asia) where sleep tech adoption is rising.
- Leverage influencer marketing & digital campaigns to target younger, health-conscious consumers.

Healthcare & B2B Partnership

- Strengthen Partner with hospitals, wellness centers, and corporate wellness programs to promote better sleep solutions.
- Offer Collaborate with insurance providers to offer Sleep number beds as part of health incentive programs.
- Expand presence in luxury hotels for brand exposure and direct-to-business sales.

Sustainability & Smart Materials Innovation

- Develop eco-friendly mattress using recyclable & plant-based materials.
- Launch a mattress recycling program to promote sustainability and align with ESG goals.
- Introduce a "Sleep Green" product line to cater to environmentally conscious consumers.
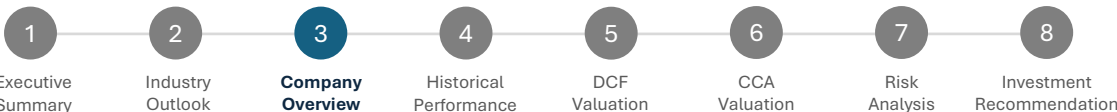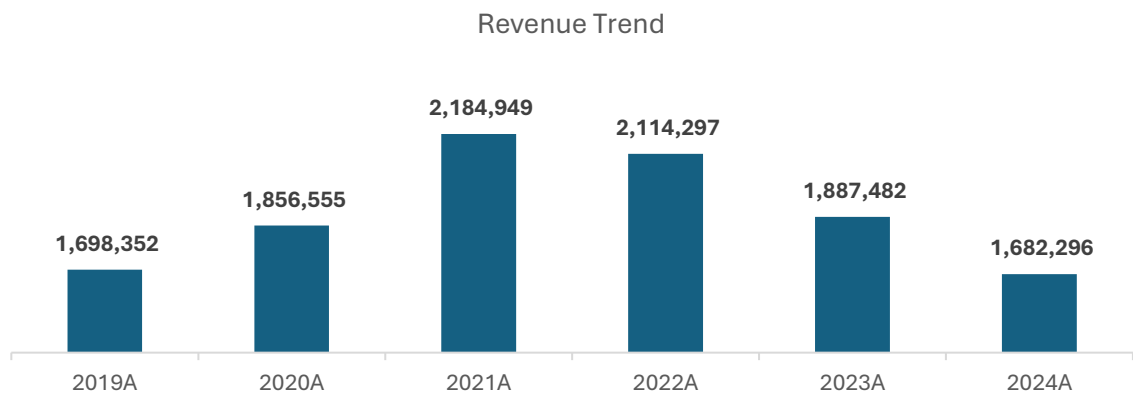
Historical
Performance

Historical Performance

Historical Performance Summary

- **Net sales** decreased to $1.68 billion, down by ~11% from last year.

- **Gross margin** of 59.6%, up by 190 bps from last year including benefit of product cost reduction through value engineering and ongoing supplier negotiation and ongoing efficiencies in home delivery and logistics operations.

- **Operating expenses** of $962 million were reduced by %88 million compared to last year.

- **Net loss** of $20 million compared to last year with net loss of $15 million in 2023.

- **Adjusted EBITDA** of $120 million, with an adjusted EBITDA margin of 7,1%, up by 40 bp from last year.

Key Statistics

Fiscal Years	2020	2021	2022	2023	2024
Revenue	1,856,555	2,184,949	2,114,297	1,887,482	1,682,296
Net Income	139,189	153,746	36,610	(15,287)	(20,334)
Gross Margin	62.3%	60.4%	56.9%	57.7%	59.6%
Net Margin	7.5%	7.0%	1.7%	(0.8%)	(1.2%)
Current Ratio	27.7%	22.9%	21.3%	22.0%	20.0%
Interest Coverage Ratio	20.7x	31.0x	2.6x	0.5x	0.5x

Revenue Trend (20219 – 2024) ($ thousands)

Revenue Trend

2019A	2020A	2021A	2022A	2023A	2024A
1,698,352	1,856,555	2,184,949	2,114,297	1,887,482	1,682,296

Net Income Trend (20219 – 2024) ($ thousands)

Net Income Trend

2019A	2020A	2021A	2022A	2023A	2024A
81,845	139,189	153,746	36,610	(15,287)	(20,334)
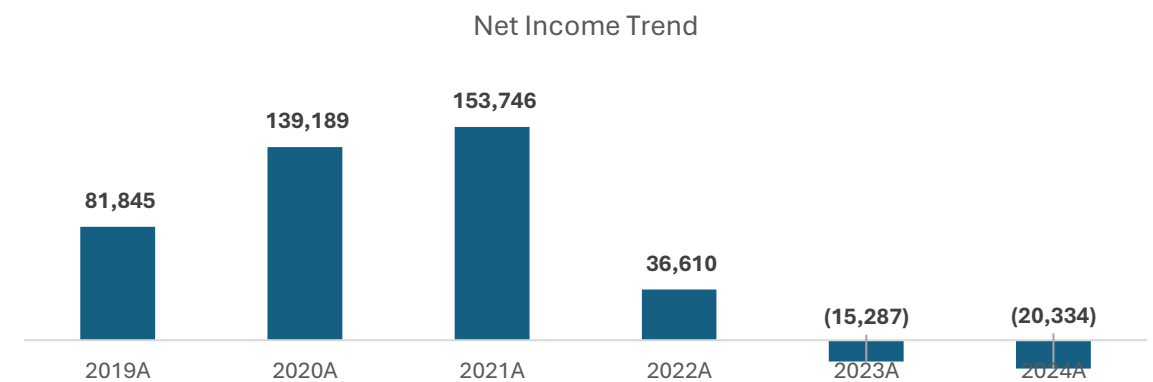
Historical Performance: Key Events

Stock Price Performance (2020 – 2025)

- **April 2020 (Q1):** Sleep Number reported net sales of $473 million, a 7% decrease YoY, primarily due to the impact of COVID-19.

- **April 2021 (Q1):** Net sales increased by 20% to $568 million.

- **February 2022 (Q4 & Annual 2021):** Sleep Number reported net sales of $607 million, a 7% increase, and full year net sales of $2.18 billion.

- **February 2023:** Sleep Number reported full year 2022 net sales of $2.18 billion, up by 17%.

- **March 2023:** A lawsuit was filed against the company, alleging safety failures resulting the death of an 80-year-old woman named Rosalind Walker.

- **April 2023:** Sleep Number introduced its net-generation smart beds and lifestyle furniture, designed to support sleepers' changing needs over time.

- **February 2024:** Sleep drive participated in Presidents Day sales, offering significant discounts on mattress and bedding products.

- **June 2024:** Sleep Number presented new research at SLEEP 2024 in Houston, showcasing studies leveraging smart bed data collected in real-world environment.

- **Late 2024:** Stadium Capital management, holding 11.7% of Sleep Number's stock, criticized the board's CEO search process and called for a board overhaul.

- **October 2024:** Sleep Number continued to implement cost-saving initiatives, resulting in reduced operating expenses and improved adjusted EBITDA margins.

- **February & March 2025:** Participated in Presidents Day sale offering 50% on mattress & 30% off on furniture. Company also announced Linda Findley as the new President & CEO, effective April 7, 2025

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DCF
Valuation

DCF Valuation

Methodology

- **Project Free Cash Flows** based on revenue growth, costs, and capital expenditure. This involves forecasting future cash inflows and outflows, ensuring that all operating expenses, reinvestments, and working capital changes are properly accounted for.

- **Determining the Discount Rate** using risk-free rate, beta & equity risk premium. The Weighted Average Cost of Capital (WACC) is calculated to reflect the required return by investors, incorporating both debt and equity components.

- **Calculating Terminal Value** to estimate long-term worth beyond projections. This can be done using the Gordon Growth Model or the Exit Multiple Approach, capturing the company's residual value after the explicit forecast period.

- **Discounting to Present Value** using WACC to derive the enterprise value. The present value of projected free cash flows and terminal value are summed up to determine the company's intrinsic valuation.

Key Inputs & Unlevered Free Cash Flow

Risk Free Rate	4.3%	**30-12-2025**	98,208
Beta	2.15	**30-12-2026**	98,239
Equity Risk Premium	3.8%	**30-12-2026**	96,428
Tax Rate	23.7%	**30-12-2027**	98,042
WACC	8.0%	**30-12-2028**	79,729
Terminal Growth Rate	2.0%	**30-12-2029**	91,323

Enterprise Value Sensitivity Analysis

Enterprise Value

1,303,299		Terminal Value				
		1.0%	1.5%	2.0%	2.5%	3.0%
	6.0%	1,606,077	1,747,346	1,924,062	2,151,482	2,455,081
	7.0%	1,347,796	1,440,461	1,551,715	1,687,772	1,857,969
WACC	8.0%	1,163,085	1,227,787	1,303,299	1,392,577	1,499,763
	9.0%	1,024,322	1,071,583	1,125,611	1,187,969	1,260,745
	10.0%	916,181	951,902	992,097	1,037,662	1,089,750

Conclusion

The DCF valuation estimates an Enterprise Value of $1.3 billion, with 71% from terminal value and 29% from discrete cash flows. After adjusting for net debt of $544.7 million, the Equity Value is $758.6 million, translating to an **implied share price of $33.88, significantly higher than the current market price of $6.73**.

Comparable Company Analysis

Comparable Company Analysis

Methodology

- **Selection of Peer Group** – Identify publicly traded companies operating in the same industry, with similar business models, revenue scale, and market positioning.
- **Key Valuation Multiples** – Use industry-relevant valuation metrics such as **EV/EBITDA, P/E, EV/Sales, and P/B** to assess relative valuation.
- **Financial Data Collection –** Gather financial data from company filings, earnings reports, and market sources to calculate multiples for each peer.
- **Multiple Calculation & Benchmarking –** Compute valuation multiples for each peer company and analyze trends across average, median, high, and low multiples.
- **Valuation Application –** Apply relevant multiples to Sleep Number's financial metrics to estimate its implied enterprise value and equity value.
- **Final Valuation Range –** Determine the valuation range based on different multiple scenarios, highlighting the implied share price and investment outlook.

Peer Companies & Key Metrics
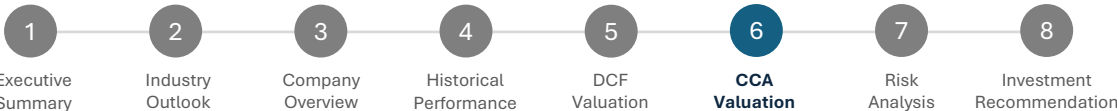
Company Name	Ticker	Share Price	EV / EBITDA	EPS	P / E Ratio
Sleep Number Corp.	SNBR	6.96	12.21	(0.90)	(18.29)
SomniGroup International Inc.	SGI	55.87	19.90	2.16	25.87
Purple Innovation Inc.	PRPL	0.88	(30.56)	(0.91)	(1.54)
La-Z-Boy Inc.	LZB	38.42	5.91	2.91	12.89

Valuation Range

Target Company Valuation	Enterprise Value ($ Thousand)	EBITDA (LTM)	EV / EBITDA (LTM)
Average	1,665,605	131,426	12.67
Median	1,604,711	131,426	12.21
Maximum	2,615,377	131,426	19.9
Minimum	776,728	131,426	5.91

Conclusion

- Enterprise value estimates range from $776.7 million (minimum) to $2.6 billion (maximum).
- The average enterprise value is $2.67 billion, while the median is $1.60 billion.
- The valuation is based on applying EV-to-EBITDA multiples to Sleep Number's financials.
- Sleep Number's valuation aligns closely with the industry median but varies depending on the multiple used.

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Risk Analysis

Risk Analysis

Macroeconomic Risks

- High interest rates and inflation can weaken consumer spending on discretionary items like premium mattress.
- Economic downturns may impact Sleep Number's revenue & profitability.

Legal & Reputational Risks

- **Deceptive Pricing Class Actions Lawsuit:** Sleep Number faces allegations of deceptive sales practices, with claims that the company misrepresented to consumers. This lawsuit could lead to financial penalties and damage the brand's reputation.
- **Product Liability:** A lawsuit alleges that an 80-year-old woman died after being trapped in a malfunctioning Sleep Number bed. Such incidents can result in significant legal costs and negatively impact consumer trust.

Operational Risks

- **Supply Chain Disruption:** Sleep Number relies on global sourcing for components like air chambers and electronic parts. Disruptions in the supply chain can hinder production and affect the company's ability to meet consumer demand.
- **Product Innovation:** The company's success depends on continuous innovation to meet consumer preferences. Failure to introduce new products, such as the recently launched ClimateCool smart bed, could impact market share.

Competitive Risks

- **Market Competition:** The bedding industry is highly competitive, with companies like Tempur Sealy expanding through acquisition. Such consolidations can intensify competition and pressure Sleep Number's market position.
- Growth of direct-to-consumer (DTC) online mattress brands could erode Sleep Number's retail-driven model.

Financial Risks

- **Shareholder Activism:** Significant investors have expressed concerns over Sleep Number's leadership and strategic direction, which could lead to management changes and impact company stability.
- High debt levels could restrict financial flexibility and future investments.

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Investment Recommendation

Investment Recommendation

Financial Health & Stock Valuation

- Sleep Number's financial performance has shown volatility due to slowdown in demand & legal challenges from 2023 & 2024. Considering the operation cost cutting and recent launch of new product, revenue and net income are expected to recover. The DCF valuation suggests an intrinsic value higher than the current market price, while the CCA valuation presents a mixed outlook based on industry multiples.

Investment Recommendation

- Based on financial analysis, valuation results, and market conditions, the stock presents moderate upside potential but also carries notable risks. If the company successfully implements cost efficiencies and drives product innovation, long-term investors may consider a "Hold" stance, while risk-tolerant investors could view it as a speculative "Buy." However, the ongoing legal challenges, competition, and macroeconomic uncertainties should be carefully monitored.

Limitations & Future Consideration

- This analysis is based on publicly available financial data, historical trends, and valuation assumptions, which may not capture all external risks. Future research should incorporate updated earnings reports, industry shifts, and evolving consumer demand trends. Additionally, factors like inflation, interest rate changes, and supply chain resilience could significantly impact Sleep Number's financial trajectory.