

# Sleep Number Corp.

## Financial Analysis Report

March 25, 2025



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## Report Author

**Sheersh Patel** is a 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](#).





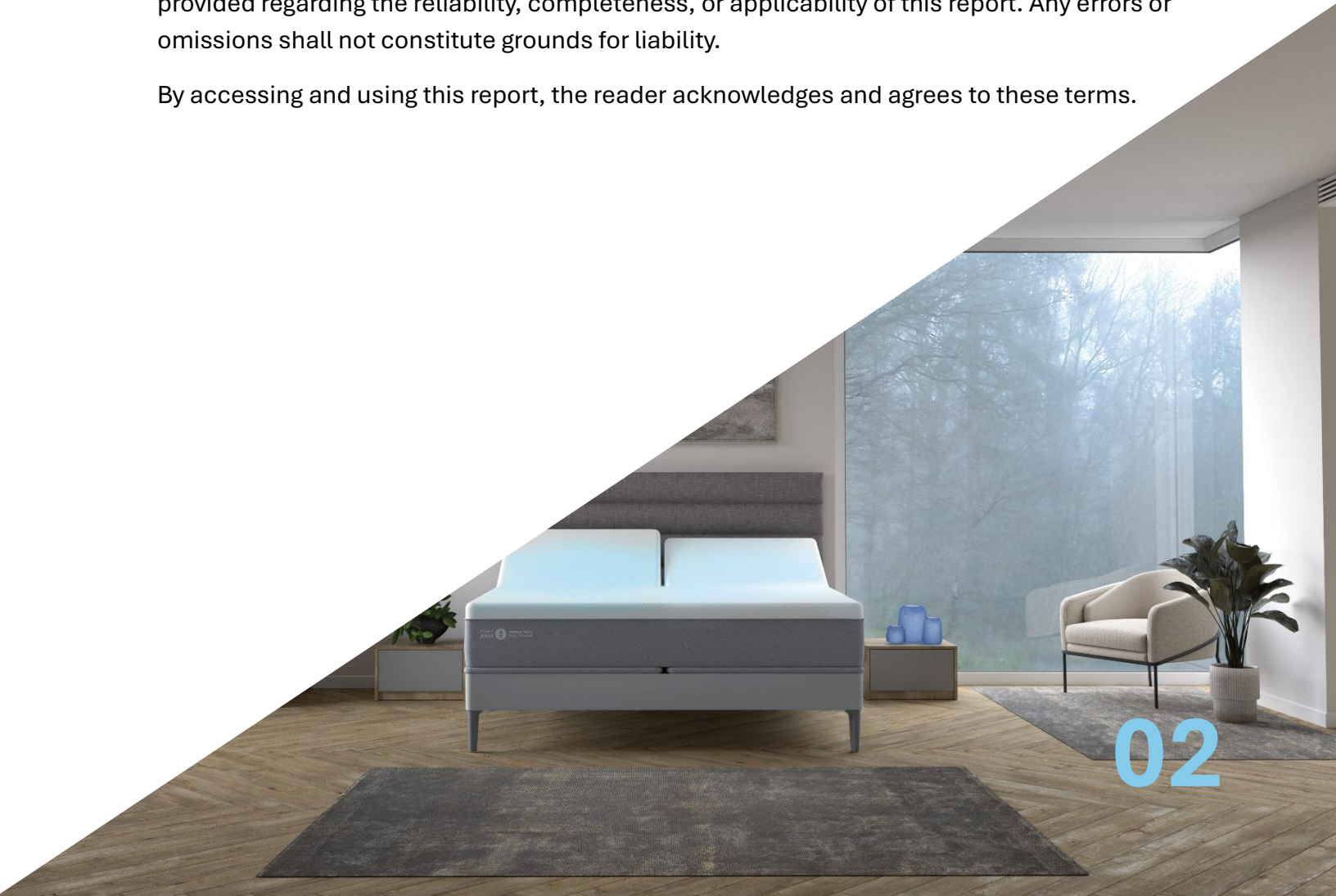
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## Executive Summary

This report provides a **financial analysis of Sleep Number Corp. (NASDAQ: SNBR)**, assessing its performance, liquidity, and market position.



### Overview

Sleep Number is a specialty mattress manufacturer known for its adjustable, smart beds that enhance sleep through technology.



### 2024 Key Financials

|                           |         |
|---------------------------|---------|
| Revenue:                  | \$1.68B |
| Gross Margin:             | 59.6%   |
| Adjusted EBITDA:          | \$120M  |
| Net Cash from Operations: | \$27M   |

- **Gross Profit Margin:** 59.6%, an improvement of 190 basis points from the previous year.
- **Operating Expense Reduction:** \$88 million decrease for the full year (before restructuring costs).
- **Net Sales Decline:** 11% decrease, totaling \$1.68 billion.
- **Net Loss:** \$5 million in Q4 2024, an improvement from a \$25 million loss in the same period the previous year.
- As of March 26, 2025, Sleep Number Corp. (SNBR) is trading at \$6.30. The stock has experienced a decline from its **52-week high of \$20.75**, reflecting challenges in the consumer durables sector.



# Historical Performance

## Historical Metrics

| 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      |

## Summary of Financial Performance

- **Declining Revenue & Profitability:** Revenue declined by 23% from its 2021 peak, while net income fell sharply, turning negative in 2023 and 2024 due to rising costs & weaker demand.
- **Gross Margin Stability:** Despite revenue decline, gross margin remained above 56%, suggesting pricing power and cost management efforts.
- **Deteriorating Net Margin:** Net margin dropped from 7.5% in 2020 to -1.2% in 2024, indicating profitability pressures.
- **Weakening Liquidity:** The current ratio decreased from 27.7% to 2020 to 20.0% in 2024, showing tighter liquidity conditions.
- **Rising Financial Risk:** The interest coverage ratio plunged from 31x in 2021 to 0.5x in 2023 and 2025, signaling potential difficulty in meeting interest obligations.



## Investment Outlook

Sleep Number faces a challenging operating environment marked by economic uncertainty, competitive pressures, and legal risks. While the company has shown resilience in its financial recovery, macroeconomic headwinds, including high interest rates and shifting consumer spending patterns, may impact demand in the short term.

Our valuation analysis, using both DCF and Comparable Company Analysis (CCA), indicates that Sleep Number's stock is currently undervalued compared to historical levels and industry peers. However, legal concerns and operational risks remain potential obstacles to sustained growth.

Key factors influencing the investment outlook:

- **Financial Performance:** Revenue and profitability are projected to recover as consumer spending stabilizes.
- **Competitive Positioning:** Sleep Number's focus on innovation and premium bedding solutions supports its market presence, but intense competition from industry leaders could limit expansion.
- **Valuation:** The stock appears undervalued based on DCF and peer comparison, presenting a potential upside if the company can navigate its challenges effectively.
- **Risks:** Legal uncertainties, supply chain disruptions, and macroeconomic headwinds could pressure margins and investor confidence.

***Overall, Sleep Number presents a cautious investment opportunity, with potential upside if financial performance and legal risks stabilize.***



## Industry Overview

The U.S. mattress industry, valued at over \$18 billion, is driven by consumer demand for comfort, technology, and health-focused sleep solutions, with steady growth fueled by rising sleep quality awareness and high-tech customization.

### Market Trends & Growth Drivers

1. **Technological Innovation** – Smart mattresses with adjustable settings, sleep tracking, and temperature regulation are gaining traction.
2. **E-Commerce & Direct-to-Consumer Sales** – Online mattress brands and digital retail channels have reshaped the traditional brick-and-mortar landscape, offering convenience and competitive pricing.
3. **Health & Wellness Focus** – Consumers are prioritizing mattresses designed for back support, pressure relief, and better sleep quality, driving demand for premium, personalized solutions.
4. **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 Tempur Sealy, 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.

As Sleep Number operates in the premium, tech-driven segment, its ability to innovate and align with evolving consumer trends will be critical for sustaining growth in this competitive market.





## Company Overview

### Business Model

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.

### Revenue Streams

- **Smart Mattresses & Bases** – Core product line with patented technology.
- **Bedding Accessories** – Pillows, sheets, and protectors.
- **Services & Warranties** – Delivery, installation, and extended protection.
- **Sleep Health Solutions** – Emerging subscription-based sleep insights.

### Competitive Landscape

Sleep Number competes with Tempur Sealy, Serta Simmons, and Purple Innovations in the premium mattress segment, while Casper and online DTC brands challenge its digital presence. It differentiates through smart bed technology and personalized sleep solutions.

### Recent Developments

- **Economic Pressures** – Inflation and shifting consumer spending have impacted demand.
- **Supply Chain Challenges** – Rising material and logistics costs.
- **Technology Investments** – AI-driven sleep tracking and health monitoring.
- **Retail & Digital Growth** – Expanding e-commerce while optimizing stores.



## Financial Analysis

### Key Assumptions

| Fiscal Years            | 2025   | 2026  | 2027  | 2028  | 2029  |
|-------------------------|--------|-------|-------|-------|-------|
| Revenue Growth (YoY)    | (4.0%) | 1.0%  | 1.2%  | 1.5%  | 1.9%  |
| Gross Margin            | 59.0%  | 59.0% | 59.0% | 59.0% | 59.0% |
| Total Operating Expense | 57.2%  | 56.9% | 56.7% | 56.7% | 56.7% |
| Interest Expense        | 2.9%   | 2.4%  | 0.9%  | 0.4%  | 0.5%  |
| Borrowings Under RCL    | 29.6%  | 25.2% | 20.5% | 14.9% | 10.8% |

### Summary of Key Assumptions

- **Revenue Growth:** Expected to decline by 4.0% in 2025, followed by a slow recovery, reaching 1.9% by 2029.
- **Gross Margin:** Remains steady at 59% throughout the forecast period, indicating stable cost structure.
- **Total Operating Expense:** Gradually declines from 57.2% in 2025 to 56.7% by 2029, suggesting cost control efforts.
- **Interest Expense:** Drops from 2.9% in 2025 to 0.5% in 2029, reflecting reduces debt burden.
- **Borrowings under RCL:** Decreases significantly from 29.6% in 2025 to 10.8% in 2029, indicating a shift towards lower financial leverage.

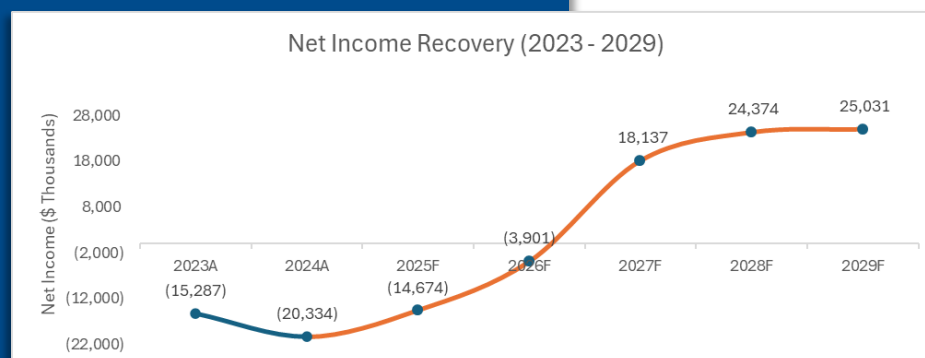
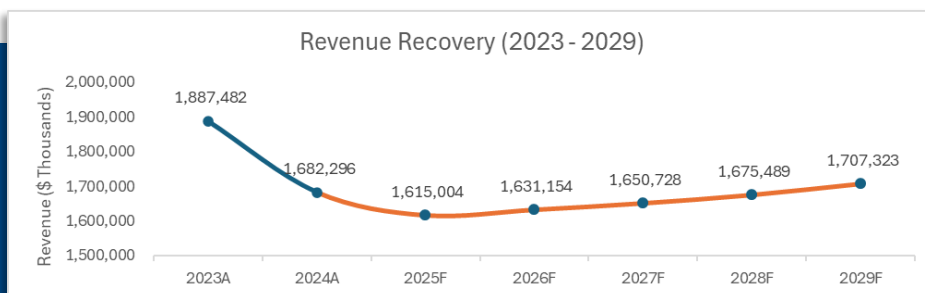
These projects suggest a gradual revenue recovery, stable margins, controlled expenses, and declining debt reliance over time.



## Financial Analysis

### Revenue & Net Income Recovery

- The financial forecast assumes on increase in demand and cost-cutting.
- The company's revenue is expected to see a downfall in the year 2025 and recover from their in 2026.
- Growth trend resumes from 2026 onward, with revenue gradually increasing to \$1.71B by 2029.
- Based on the recent finding from Q4 2024 result, operational cost cutting is expected in 2025 as well.
- The recovery is expected to be moderate and steady, suggesting a slow but stable demand rebound.
- Due to the expected reduction in operating costs, the net income is expected to recover much quicker.
- Net Income is expected to nearly break even in 2026 at -\$3.9M, followed by a sharp turnaround in profitability.
- Net Income is forecasted to reach \$18.1M in 2027 and \$25M by 2029, reflecting cost improvement and potential margin expansion.



## Financial Analysis

### Business Valuation

Valuing a company is essential for assessing its financial health, investment potential, and strategic direction. In this section, two widely used valuation methodologies—Discounted Cash Flow (DCF) Analysis and Comparable Company Analysis (CCA)—are employed to estimate Sleep Number’s intrinsic value.

The DCF valuation method estimates the company’s worth by forecasting future cash flows and discounting them to present value using an appropriate discount rate. This approach provides a fundamental perspective on Sleep Number’s long-term financial potential.

In contrast, the Comparable Company Analysis evaluates Sleep Number’s valuation relative to its industry peers using key financial multiples such as EV/EBITDA & Price-to-Earnings (P/E). This method helps determine how the market perceives Sleep Number compared to competitors.

By integrating both methodologies, this analysis provides a comprehensive assessment of Sleep Number’s valuation and helps determine whether the company is undervalued, fairly valued, or overvalued in the market.





## Financial Analysis

### Discounted Cash Flow (DCF) Valuation

The Discounted Cash Flow (DCF) method estimates a company's intrinsic value by projecting future cash flows and discounting them to present value. It follows these key steps:

- **Project Free Cash Flows** based on revenue growth, costs, and capital expenditure.
- **Determining the Discount Rate** using risk-free rate, beta & equity risk premium.
- **Calculating Terminal Value** to estimate long-term worth beyond projections.
- **Discounting to Present Value** using WACC to derive the enterprise value.

### Key Inputs & Unlevered Free Cash Flow (UFCF)

| Risk Free Rate | Beta | Equity Risk Premium | Tax Rate | WACC | Terminal Growth Rate |
|----------------|------|---------------------|----------|------|----------------------|
| 4.3%           | 2.15 | 3.8%                | 23.7%    | 8.0% | 2.0%                 |

| 30-12-2025 | 30-12-2026 | 30-12-2027 | 30-12-2028 | 30-12-2029 | Terminal Value |
|------------|------------|------------|------------|------------|----------------|
| 98,208     | 98,239     | 96,428     | 98,042     | 79,729     | 81,323         |

### DCF 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.



## Financial Analysis

### Comparable Company Analysis

Comparable Company Analysis (CCA) is a valuation method that estimates a company's value by comparing it to similar publicly traded firms. This approach relies on key financial multiples such as **EV/EBITDA & P/E**, derived from peer companies operating in the same industry.

### Peer Companies & Valuation Multiples

| 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       |

### CCA Conclusion

- Enterprise value estimates range from \$776.7 million (minimum) to \$2.6 billion (maximum).
- The average enterprise value is \$1.67 billion, while the median is \$1.60 billion.
- The valuation is based on applying peer **EV/EBITDA multiples** to Sleep Number's financials.
- Sleep Number's valuation aligns closely with the industry median but varies depending on the multiple used.



## Financial Analysis

### Conclusion

#### Revenue & Net Income Recovery:

- Revenue is expected to decline in 2025 but recover in 2026, reaching \$1.71 billion by 2029.
- Net income is projected to turn positive in 2027, reaching \$25 million by 2029.
- Cost-cutting measures and operational efficiencies will drive profitability improvement.

#### DCF Valuation:

- The Implied share price of **\$33.88**, significantly higher than the current market price of **\$6.73**.
- Enterprise value is estimated at **\$1.3 billion**, with 71% contribution from terminal value.

#### Comparable Company Analysis (CCA) Valuation:

- Enterprise value ranges between **\$776.7 million** (minimum) and **\$2.6 billion** (maximum).
- The average enterprise value is **\$1.67 billion**, with a median of **\$1.60 billion**.

#### Overall Outlook:

Despite short-term challenges, Sleep Number shows strong recovery potential, with revenue and net income expected to rebound through demand stabilization and cost-cutting. The DCF valuation indicates a significantly higher intrinsic share price, while CCA valuation aligns with industry peers, reinforcing long-term growth prospects and value creation.



## Risk Analysis

### Legal and Reputational Risks:

- **Deceptive Pricing Class Action Lawsuit:** Sleep Number faces allegations of deceptive sales practices, with claims that the company misrepresented pricing 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 Disruptions:** 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 acquisitions. Such consolidations can intensify competition and pressure Sleep Number's market position.

### 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.





## Conclusion & 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 Considerations

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.



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