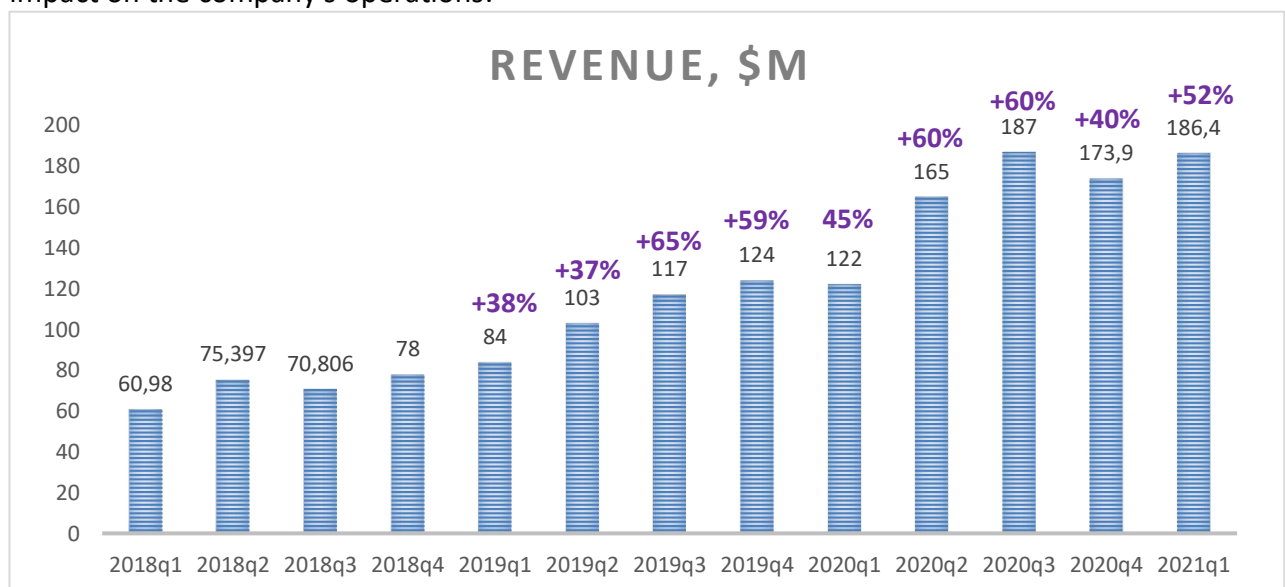


Purple Innovation – is an American fast-growing and profitable comfort technology company, manufacturing mattresses, pillows, seat and back cushions, frames, and sheets; with a growth outlook in adjacent segments and new countries; and with a relatively low valuation based on EV/EBITDA multiple.

Purple Innovation – is an American D2C (Direct to Customer) mattress and bedding manufacturer. The company owns several patented products and proprietary gel technology, Hyper-Elastic Polymer®. J.D. Power released a 2020 Mattress Satisfaction Report, in which Purple ranks highest in customer satisfaction among online mattresses sellers.

Continuous Revenue Growth at a High Rate

The net revenue growth rate for Q1'2021 was 52.3% (Y/Y). Due to the primary focus on D2C core competencies and digital channel sales, the COVID pandemic and restrictive measures had little impact on the company's operations.



Today we observe a growth slowdown regarding historical trends of 51.2%. In Q3'2020, the D2C segment generated 71% of the total revenue, while the rest came from wholesale operations. D2C segment showed an annualized growth of 97.5%; and wholesale of 6.9%. D2C startups must be able to scale to survive on the market, so the market size and the growth are two significant factors to consider.

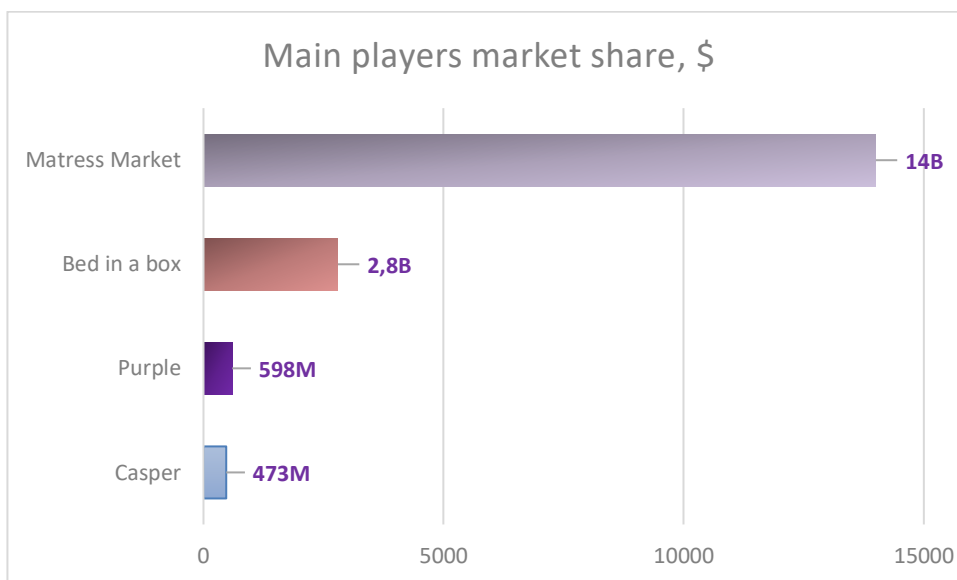
Purple and Other Bed-In-a-Box Players Are Dynamically Taking on a Market

Contrary to traditional players on the mattresses market, Purple is a so-called “bed-in-a-box” company, as well as Tuft&Needle, Casper, and Lessa – online D2C companies – that sell directly to customers its high-tech mattresses, which are compressed and rolled or folded (or both) before shipping.

The companies have outstanding performance due to D2C operations and return policies – usually 100 days.

For the last several years, the forenamed companies have been making steady gains in the market and threatening established players: In 2018, Mattress Firm, with 3600 branches, declared bankruptcy due to the increased competition and bed-in-a-box entrance to the market. Other companies also experience intensified competition and a fall in retail sales.

In the US, the overall mattresses market size is \$14 billion; and Purple market share of 4.3%. The projected annual market growth rate floats around 4-5 % for the next four years.



Tuft&Needle – is the price leader. In general, the company’s product is twice as cheap as Purple’s; however, there are no unique technologies implemented.

Casper. The company is publicly traded. Sales prices are 10% lower than Purple’s. The company uses liquid gel technology. Giving the promise to reach profitability in 2019, the company is still loss-making, with an average revenue growth rate of 20%, which is significantly below Purple standings.

Lessa Sleep – is a private firm that focuses on a social impact rather than on a qualified and technological performance. On average, Sales Prices are 10% lower than Purple’s. For every ten mattresses, the company gives out one mattress to private charitable foundations that support people in need. It improves the company’s image; nonetheless, it cannot be notable for the unit-economics performance.

Four Major Growth Drivers: New Production Facilities, Overcoming the Commodity Market Barriers, Canadian Market Entrance, and “Non-Mattress” Sales Growth

1. The Company plans to continue growing its business organically by engaging new capacities.

The management recognizes new avenues for product growth outside the United States, but this is challenging. The main problem is the allocation of production facilities. The company is currently building a plant that will eventually improve the logistics and reach new production rates.

The management is making plans for future development of the production.

2. Debottlenecking the Supply

In 2020, Purple and the whole industry had a shortage in supply of commodity - foam. It was caused by the problems in the chemical industry, harming every manufacturer. Thus, an increased demand had not been fully satisfied. Purple had stocks of finished goods and commodities but not enough to satisfy the demand. Hence, the sales growth was



constrained, however, when the problem is solved, sales will not be constrained by productional abilities and will reach the quantity demanded level.

3. New Country Entrance

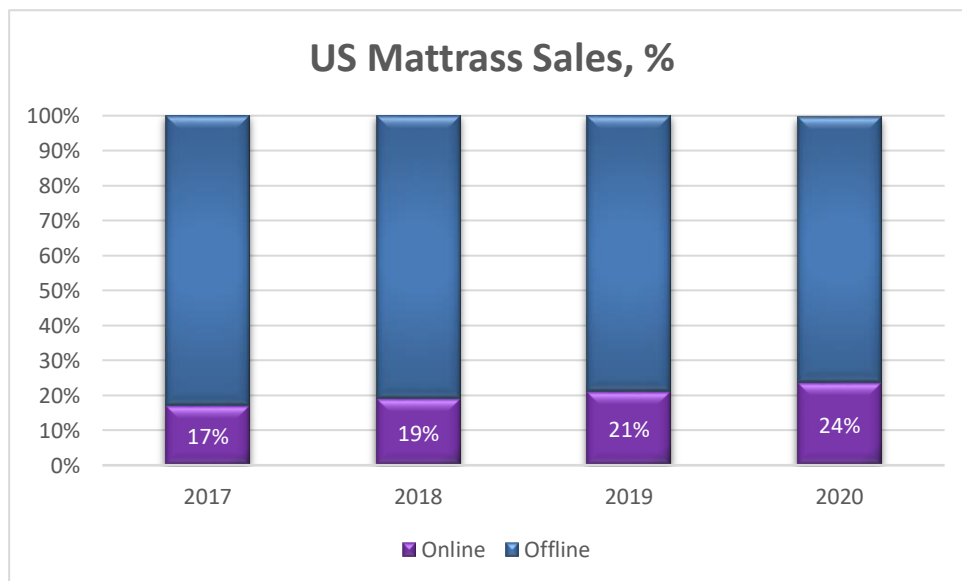
On its recent conference call, the management announced a Canadian market entrance via the partnership with Sleep Country, the company that holds half of the market share in the premium-matresses industry. Sleep Country will grant access to Purple products to online and offline segments through showrooms. The company is expecting to enter other markets after new plants are built.

4. Growth in the New Product Branch – “non-matras” sales grow by 100%

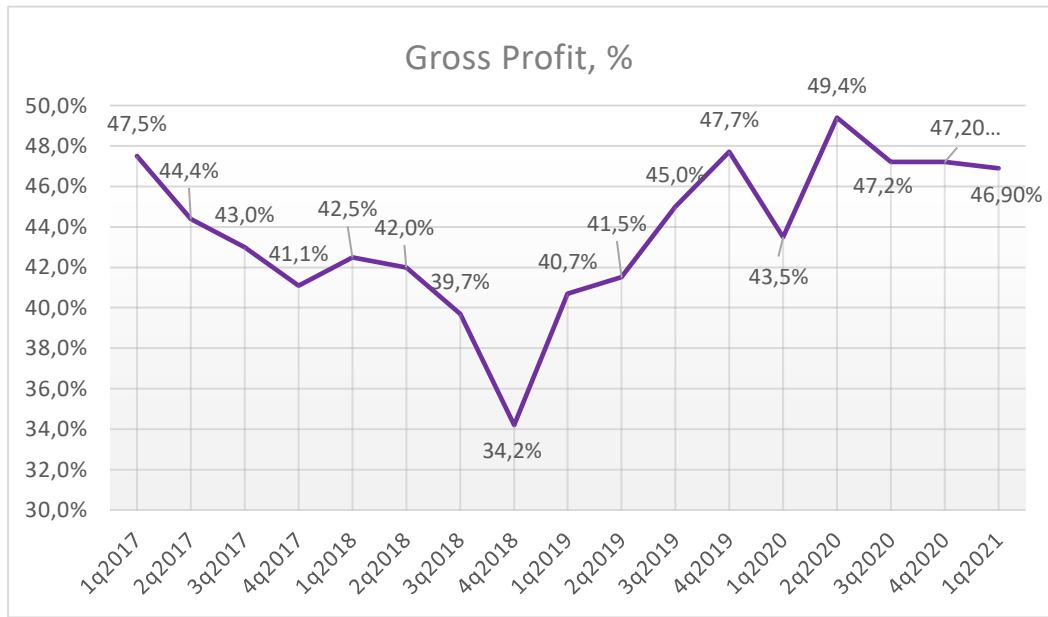
Apart from their main product line, Purple Inc also manufactures 4 kinds of pillows, 7 types of seat and back cushions, 3 types of frames, sheets, pillowcases, blankets, pajamas, pet beds, and kids’ mattresses with featured bedding. “Non-matras” sales have grown by 100%.



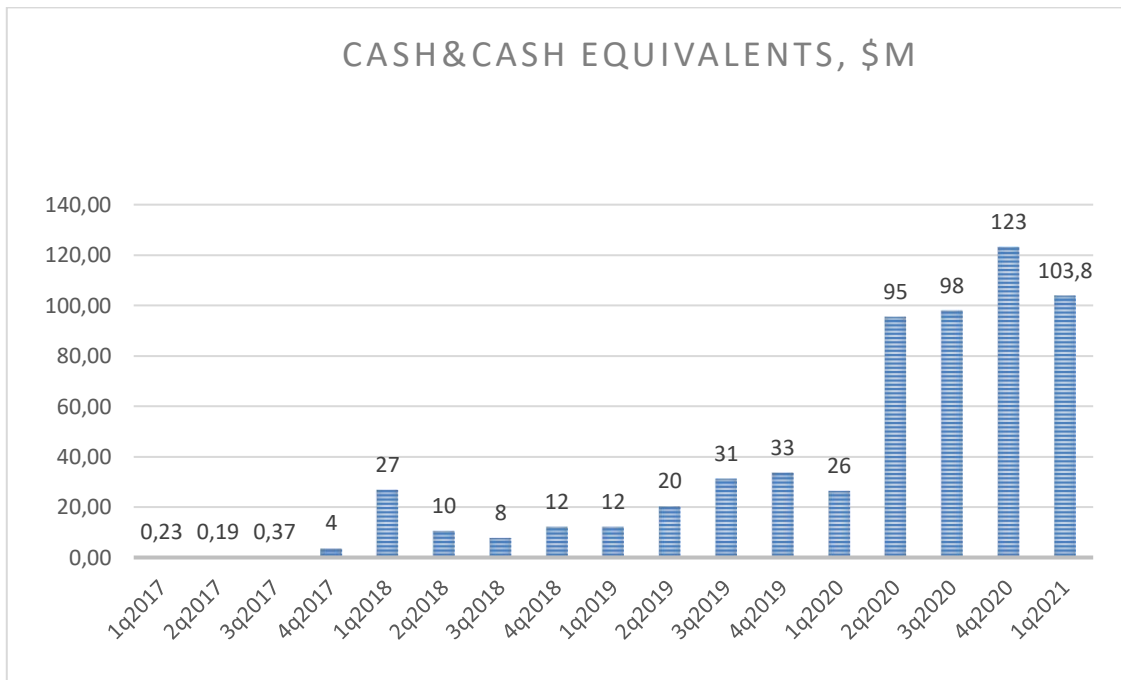
The R&D cost has increased by around one and a half times compared to 2019. Considering the preceding success, the company will introduce new inventions as well as renovate the catalogue with more recent technologies in the following periods.

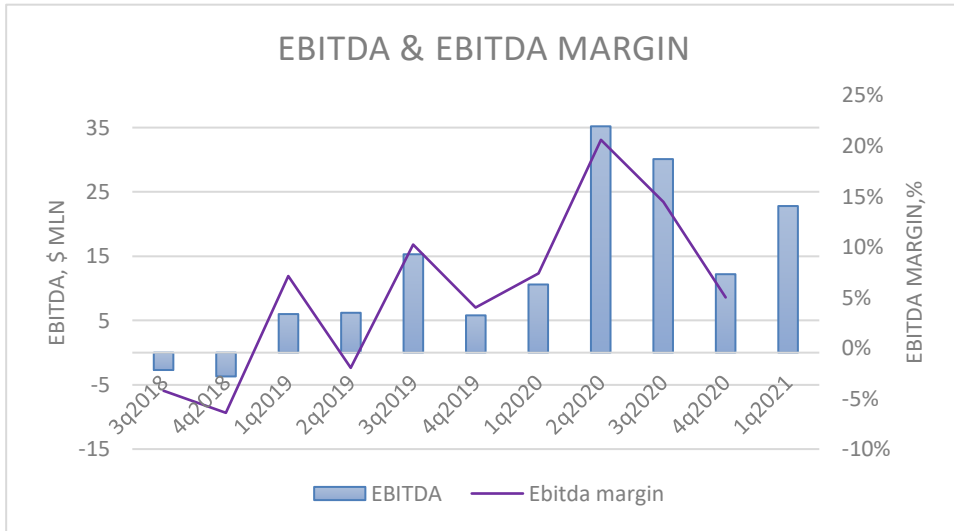


Positive Trends In EBITDA and EBITDA Margin, as Well as Positive Magic Ratio



Purple Innovation increases Cash Assets on the Balance Sheet. Free Cash Flow Yield of 6.5% (LTM) is an excellent indicator for a company at such a growth rate.



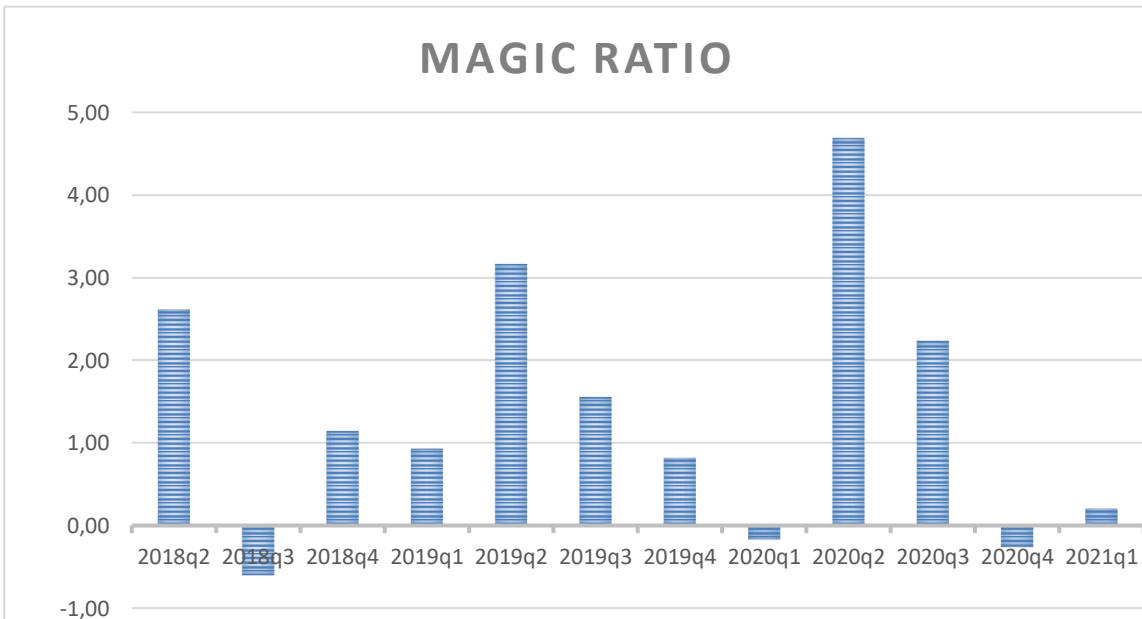


Purple is increasing EBITDA Margin and EBITDA in absolute terms— another positive indicator.

Also, consider the company’s magic ratio. This estimate is calculated using the following formula:

$$\text{Magic Ratio} = 4 * \frac{\text{Revenue } Q(N) - \text{Revenue } Q(N-1)}{\text{Sales \& Marketing expenses } Q(N-1)}$$

Magic Ratio shows the effectiveness of the company’s marketing costs, which is reflected in revenue delta. In general, ratio > 1 is considered to be optimistic.



Purple is valued a bit higher than other mattress manufacturers by EV/Sales due to the higher productivity, but lower than other fast-growing D2C companies, and cheaper than successful brands in EV/EBITDA

Let us take a look at the company's multiples compared to the aforementioned publicly traded companies: Casper, Tempur-Sealy, and Sleep Number Corporation.

Tempur-Sealy is a vertically integrated global company specializing in bedding manufacturing. According to J.D rating, the company is the market's top in customer satisfaction among retail mattresses (Purple ranks the highest in online mattresses).

Sleep Number Corporation is an American Manufacturer producing mattresses and beds. The company ranks second in customer satisfaction among both online and offline mattresses.

3 D2C startups are also shown below: Warby Parker is a manufacturer and an online glasses retailer, Dollar Shave Club и Harry's – a very identical D2C razor manufacturer, offering subscriptions for their product. The data below relates to the previous years, but the P/S ratio is accurate.

Ticker	Company	Mcap, \$m	Revenue, \$m	EV/S	EV/EBITDA	Last Revenue Growth	Gross Margin	P/S
PRPL US Equity	Purple	2 083	648	3,2x	24,2x	51%	47%	3,21
CSPR US Equity	Casper	395	497	0,5x	n/a	13%	51%	0,76
TPX US Equity	Tempur Sealy	7 462	3 898	2,3x	11,5x	18%	45%	1,9
SNBR US Equity	Sleep Number Corp	2 722	1 952	2,1x	11,5x	9%	62%	1,37
Average		3 165	1 749	2,0x	15,7x	23%	51%	1,81
	Warby Parker(2017)	1 200	250	4,8x				4,8
	Dollar Shave Club(2016)	1000	240	4,2x				4,2
	Harry's(2019)	1370	280	4,9x				4,9
Average		1 413	355	4,3x				4,1

As for now, the company is valued higher than any publicly held company because of the high growth rate along with the overall firm's potential. However, in the valuation of private companies, we see a compelling advantage: 3 companies have **P/S ratio= 4.1** against **Purple's ratio of 3.21**. Titans from different industries are valued sufficiently high – as they are backed not only by holding a significant portion of the market share but also by the recognized brands and a long background history.

Enclosure: The Company Has the Highest Selling Prices Among Ben-In-Box Leaders

Selling Price, King Size

Purple Innovation	\$1449
Casper	\$1295
Leesa Sleep	\$1199
Tuft&Needle	\$750

As for now, Purple Innovations offers the most expensive mattresses among the main competitors. This does not interfere with generating revenue and remaining high growth, although, price making policy may undermine the sales during financial crises and decreasing household disposable income.

Speaking of share performance, it is important to note the growth for the last two quarters, primarily due to the company's top performance and decreased competition.

Appendix – Product and Technology Quality Review

Apart from the selling price, there is a substantial qualitative difference between Purple's and competitors' products. There are many mattress materials with different pros and cons – Purple developed their own, combining only the advantages. So-called foam “mattresses with a memory effect” do not guarantee the proper shaping throughout the night and sometimes have an unpleasant smell, and also do not cool down and therefore overheat. This significantly impairs the quality of sleep and recovery. Also, latex foam tends to deteriorate and crack, which leads to increased consumers' spendings. Traditional spring



mattresses do not relieve the pressure and cause overstrain. Inflatable sleeping pads cause pains in the back and stiffened joints. The durable Purple material holds the hips and shoulders, creating a needed shape for the body and comfort during sleep. It is also ventilated, which perfectly solves the problem of overheating.

purple



Risk: Kickback After the Pandemic

The main concerns regarding Purple's strong performance in 2020: what if the increase in demand is derived from the pandemic and associated restricted measures — not due to the company's operations? It is noted that “with people staying at home, “the firm has enjoyed a huge tailwind as folks upgrade their bedding”.

[Click here for more information.](#)

Kind Regards,
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