UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 10, 2018

STITCH FIX, INC.
(Exact name of Registrant as Specified in Its Charter)

Delaware	001-38291	27-5026540
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1 Montgomery Street, Suite 1500 San Francisco, California	94104
(Address of Principal Executive Offices)	(Zip Code)

(415) 882-7765
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On December 10, 2018, Stitch Fix, Inc. (the "Company") announced its financial results for the first quarter of fiscal year 2019 ended October 27, 2018, by issuing a Letter to Shareholders (the "Letter") and a press release. In the Letter and the press release, the Company also announced that it would be holding a conference call on December 10, 2018, at 2 p.m. Pacific Time to discuss its financial results for the first quarter of fiscal year 2019 ended October 27, 2018. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference herein. A copy of the Letter is furnished as Exhibit 99.2 to this Current Report on Form 8-K and incorporated by reference herein.

The information included in Item 2.02 of this Current Report on Form 8-K and the exhibits attached hereto are being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any other filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in any such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release dated December 10, 2018
99.2	Letter to Shareholders dated December 10, 2018

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	Stitch Fix, Inc.
Dated: December 10, 2018	By: /s/ Paul Yee
	Paul Yee
	Chief Financial Officer

Exhibit 99.1

Stitch Fix Announces First Quarter Fiscal Year 2019 Financial Results

SAN FRANCISCO, December 10, 2018 (GLOBE NEWSWIRE) -- Stitch Fix, Inc. (NASDAQ:SFIX), the leading online personal styling service, has released its financial results for the first quarter of fiscal year 2019 ended October 27, 2018, and posted a letter to its shareholders on its investor relations website.

First quarter highlights

- Active clients of 2.9 million, an increase of 22% year over year
- Net revenue of $366.2 million, an increase of 24% year over year
- Net income of $10.7 million and adjusted EBITDA of $14.3 million
- Diluted earnings per share of $0.10

"*We are proud of our results; Q1 was another strong quarter for us,*" said Mike Smith, President and COO of Stitch Fix. "*We grew our active client count to 2.9 million, an increase of 22% year over year and delivered net revenue of $366.2 million for the quarter, representing 24% year-over-year growth, with adjusted EBITDA of $14.3 million. We continue to demonstrate our ability to deliver growth and exceptional client experiences across all of our categories.*"

Smith added, "*We continue to delight clients with our strong assortment by delivering access to the brands they love and new styles they're excited to discover. This quarter, we added new brands to the platform across Women's, Men's and Kids, including Michael Kors, Madewell, The North Face, Bonobos and Converse. In Men's, we launched expanded sizing, offering up to 3XL and a 48-inch waist as well as short and tall fit options. In Plus, we continue to get great client feedback on the fit of our denim, and have expanded our offerings there too. All of our assortment investments are deeply rooted in direct feedback from clients, so we're confident they're going to love our new additions.*"

Please visit the Stitch Fix investor relations website at https://investors.stitchfix.com to view the financial results included in the letter to shareholders. The Company intends to continue to make future announcements of material financial and other information through its investor relations website. The Company will also, from time to time, disclose this information through press releases, filings with the Securities and Exchange Commission, conference calls or webcasts, as required by applicable law.

Conference Call and Webcast Information

Mike Smith, President and Chief Operating Officer of Stitch Fix, and Paul Yee, Chief Financial Officer of Stitch Fix, will host a conference call at 2:00 p.m. Pacific Time today to discuss the Company's financial results and outlook. A live webcast will be accessible on Stitch Fix's investor relations website at investors.stitchfix.com. Interested parties can also access the call by dialing (888) 256-1007 in the U.S. or (323) 994-2093 internationally, and entering conference code 2226708.

A telephonic replay will be available through Monday, December 17, 2018, at (888) 203-1112 or (719) 457-0820, passcode 2226708. An archive of the webcast conference call will be available shortly after the call ends at https://investors.stitchfix.com.

About Stitch Fix, Inc.

Stitch Fix is reinventing the shopping experience by delivering one-to-one personalization to our clients, through the combination of data science and human judgment. Stitch Fix was founded in 2011 by Founder and CEO, Katrina Lake. Since our founding, we've helped millions of men, women and kids discover and buy what they love through personalized shipments of apparel, shoes and accessories, hand-selected by Stitch Fix stylists and delivered to our clients' homes.

Forward-Looking Statements

This press release and related conference call and webcast contain forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact could be deemed forward looking, including but not limited to statements regarding our future financial performance, including our guidance on financial results for the second quarter and full year of fiscal 2019; market trends, growth, and opportunity; profitability; competition; the timing and success of expansions to our offering and penetration of our target markets, such as the launch of our offering in the United Kingdom; our ability to leverage our engineering and data science capabilities to drive efficiencies in our business and enhance our ability to personalize; our plans related to client acquisition, including any impact on our costs and margins and our ability to determine optimal advertising methods; and our ability to successfully acquire, engage, and retain clients. These statements involve substantial risks and uncertainties, including risks and uncertainties related to our ability to generate sufficient net revenue to offset our costs; the growth of our market and consumer behavior; our ability to acquire, engage, and retain clients; our ability to provide offerings and services that achieve market acceptance; our data science and technology, stylists, operations, marketing initiatives, and other key strategic areas; risks related to international operations; and other risks described in the filings we make with the Securities and Exchange Commission, or SEC. Further information on these and other factors that could cause our financial results, performance, and achievements to differ materially from any results, performance, or achievements anticipated, expressed, or implied by these forward-looking statements is included in filings we make with the SEC from time to time, including in the section titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018. These documents are available on the SEC Filings section of the Investor Relations section of our website at: http://investors.stitchfix.com. We undertake no obligation to update any forward-looking statements made in this press release to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law. The achievement or success of the matters covered by such forward-looking statements involves known and unknown risks, uncertainties, and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, our results could differ materially from the results expressed or implied by the forward-looking statements we make. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management’s beliefs and assumptions only as of the date such statements are made.

Stitch Fix, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share amounts)

	October 27, 2018	July 28, 2018
Assets		
Current assets:		
Cash & cash equivalents	$ 173,341	$ 297,516
Restricted cash	250	250
Short-term investments	84,985	—
Inventory, net	106,701	85,092
Prepaid expenses and other current assets	33,036	34,148
Total current assets	398,313	417,006
Long-term investments	83,870	—
Property and equipment, net	37,629	34,169
Deferred tax assets	15,234	14,107
Restricted cash, net of current portion	12,600	12,600
Other long-term assets	3,146	3,703
Total assets	$ 550,792	$ 481,585
Liabilities, Convertible Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 105,662	$ 79,782
Accrued liabilities	67,098	43,037
Gift card liability	6,268	6,814
Deferred revenue	11,206	8,870
Other current liabilities	1,761	3,729
Total current liabilities	191,995	142,232
Deferred rent, net of current portion	15,635	15,288
Other long-term liabilities	9,659	8,993
Total liabilities	217,289	166,513
Stockholders' equity:		
Preferred stock, $0.00002 par value	—	—
Class A common stock, $0.00002 par value	1	1
Class B common stock, $0.00002 par value	1	1
Additional paid-in capital	243,086	235,312
Accumulated other comprehensive loss	(56)	—
Retained earnings	90,471	79,758
Total stockholders' equity	333,503	315,072
Total liabilities, convertible preferred stock and stockholders' equity	$ 550,792	$ 481,585

Stitch Fix, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(In thousands, except share and per share amounts)

	For the Three Months Ended	
	October 27, 2018	**October 28, 2017**
Revenue, net	$ 366,236	$ 295,563
Cost of goods sold	201,068	166,548
Gross profit	165,168	129,015
Selling, general and administrative expenses	154,271	119,471
Operating income	10,897	9,544
Remeasurement of preferred stock warrant liability	—	(9,071)
Interest income	(1,399)	(17)
Other income, net	(120)	—
Income before income taxes	12,416	18,632
Provision for income taxes	1,738	5,144
Net income	$ 10,678	$ 13,488
Other comprehensive income (loss):		
Change in unrealized loss on available-for-sale securities, net of tax	(82)	—
Foreign currency translation	26	—
Total other comprehensive loss, net of tax	(56)	—
Comprehensive income	$ 10,622	$ 13,488
Net income attributable to common stockholders:		
Basic	$ 10,664	$ 3,915
Diluted	$ 10,665	$ 1,347
Earnings per share attributable to common stockholders:		
Basic	$ 0.11	$ 0.15
Diluted	$ 0.10	$ 0.04
Weighted-average shares used to compute earnings per share attributable to common stockholders:		
Basic	98,965,274	26,329,495
Diluted	104,539,452	33,262,082

Stitch Fix, Inc.
Condensed Consolidated Statements of Cash Flow
(Unaudited)
(In thousands)

	For the Three Months Ended	
	October 27, 2018	October 28, 2017
Cash Flows from Operating Activities		
Net income	$ 10,678	$ 13,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(1,061)	(1,366)
Remeasurement of preferred stock warrant liability	—	(9,071)
Inventory reserves	1,563	4,224
Stock-based compensation expense	6,637	2,038
Depreciation and amortization	3,175	2,270
Loss on disposal of property and equipment	—	131
Change in operating assets and liabilities:		
Inventory	(23,172)	(24,208)
Prepaid expenses and other assets	1,252	4,084
Accounts payable	26,008	13,967
Accrued liabilities	24,360	16,942
Deferred revenue	2,532	1,663
Gift card liability	(141)	(119)
Other liabilities	(865)	748
Net cash provided by operating activities	50,966	24,791
Cash Flows from Investing Activities		
Purchases of property and equipment	(6,985)	(4,180)
Purchases of securities available-for-sale	(169,095)	—
Sales of securities available-for-sale	302	—
Net cash used in investing activities	(175,778)	(4,180)
Cash Flows from Financing Activities		
Proceeds from the exercise of stock options	637	444
Repurchase of Class B common stock related to early exercised options	—	(39)
Payment of deferred offering costs	—	(528)
Net cash provided by (used in) financing activities	637	(123)
Net increase (decrease) in cash, cash equivalents and restricted cash	(124,175)	20,488
Cash, cash equivalents and restricted cash at beginning of period	310,366	119,958
Cash, cash equivalents and restricted cash at end of period	$ 186,191	$ 140,446
Components of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$ 173,341	$ 131,096
Restricted cash – current portion	250	250
Restricted cash – long-term portion	12,600	9,100
Total cash, cash equivalents and restricted cash	$ 186,191	$ 140,446
Supplemental Disclosure		
Cash paid for income taxes	$ 42	$ —
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 224	$ 1,022
Capitalized stock-based compensation	$ 410	$ 121
Vesting of early exercised options	$ 90	$ 315
Deferred offering costs included in accrued liabilities	$ —	$ 920

Non-GAAP Financial Measures

We report our financial results in accordance with generally accepted accounting principles in the United States ("GAAP"). However, management believes that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance. Management believes that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net income and earnings per share ("EPS") provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. Management also believes that adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, and that this supplemental measure facilitates comparisons between companies. We believe free cash flow is an important metric because it represents a measure of how much cash from operations we have available for discretionary and non-discretionary items after the deduction of capital expenditures. These non-GAAP financial measures may be different than similarly titled measures used by other companies. For instance, we do not exclude stock-based compensation expense from adjusted EBITDA or non-GAAP net income. Stock-based compensation is an important part of how we attract and retain our employees, and we consider it to be a real cost of running the business.

Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS – diluted measures exclude the remeasurement of the preferred stock warrant liability, which is a non-cash expense incurred in the periods prior to the completion of our initial public offering;
- adjusted EBITDA excludes the recurring, non-cash expenses of depreciation and amortization of property and equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- adjusted EBITDA does not reflect our tax provision, which reduces cash available to us;
- adjusted EBITDA excludes interest income and other income, net, as these items are not components of our core business; and
- free cash flow does not represent the total residual cash flow available for discretionary purposes and does not reflect our future contractual commitments.

Adjusted EBITDA

We define adjusted EBITDA as net income excluding interest income, other income, net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented:

	For the Three Months Ended	
(in thousands)	**October 27, 2018**	**October 28, 2017**
Adjusted EBITDA reconciliation:		
Net income	$ 10,678	$ 13,488
Add (deduct):		
Interest income	(1,399)	(17)
Other income, net	(120)	—
Provision for income taxes	1,738	5,144
Depreciation and amortization	3,394	2,270
Remeasurement of preferred stock warrant liability	—	(9,071)
Adjusted EBITDA	**$ 14,291**	**$ 11,814**

Non-GAAP Net Income

We define non-GAAP net income as net income excluding, when present, the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to non-GAAP net income for each of the periods presented:

	For the Three Months Ended	
(in thousands)	**October 27, 2018**	**October 28, 2017**
Non-GAAP net income reconciliation:		
Net income	$ 10,678	$ 13,488
Add (deduct):		
Remeasurement of preferred stock warrant liability	—	(9,071)
Non-GAAP net income	**$ 10,678**	**$ 4,417**

Non-GAAP Earnings Per Share – Diluted

We define non-GAAP EPS as diluted EPS excluding, when present, the per share impact of the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of EPS attributable to common stockholders – diluted, the most comparable GAAP financial measure, to non-GAAP EPS attributable to common stockholders – diluted for each of the periods presented:

	For the Three Months Ended	
(in dollars)	**October 27, 2018**	**October 28, 2017**
Non-GAAP earnings per share – diluted reconciliation:		
Earnings per share attributable to common stockholders – diluted	$ 0.10	$ 0.04
Per share impact of the remeasurement of preferred stock warrant liability[(1)]	—	—
Non-GAAP earnings per share attributable to common stockholders – diluted	**$ 0.10**	**$ 0.04**

[(1)] For the three months ended October 28, 2017, the preferred stock warrant liability was dilutive and included in earnings per share attributable to common stockholders – diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS – diluted.

Free Cash Flow

We define free cash flow as cash flow from operations reduced by purchases of property and equipment that are included in cash flow from investing activities. The following table presents a reconciliation of cash flows from operating activities, the most comparable GAAP financial measure, to free cash flow for each of the periods presented:

	For the Three Months Ended	
(in thousands)	**October 27, 2018**	**October 28, 2017**
Free cash flow reconciliation:		
Cash flows from operating activities	$ 50,966	$ 24,791
Deduct:		
Purchases of property and equipment	(6,985)	(4,180)
Free cash flow	**$ 43,981**	**$ 20,611**
Cash flows used in investing activities	$ (175,778)	$ (4,180)
Cash flows from (used in) financing activities	$ 637	$ (123)

IR Contact:

David Pearce
ir@stitchfix.com

PR Contact:

Suzy Sammons
media@stitchfix.com

Exhibit 99.2

STITCH FIX

Q1 Fiscal 2019
Letter to Shareholders

DECEMBER 10, 2018

One Fix at a Time, One Client at a Time

To illustrate the client and stylist interactions during a Fix order, we've included an example below.

1. After being a client for over four years, Ashley signed up her daughter, Kaili, for Stitch Fix Kids

ASHLEY, CLIENT / MOTHER
Age: 43
Location: Winston Salem, NC
Profession: Health practitioner
Fixes received to date: 42

KAILI, ASHLEY'S DAUGHTER
Fixes: first Fix
Age: 8
Personality: sporty, artistic, curious
Avoid: pink, sequins, glitter, faux fur
School uniform: no

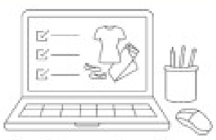
Style Profile Note:

"Kaili does not wear jeans. She would probably try leggings that are soft jean material in the fall. She likes to look matched but is definitely an active girl. She prefers comfortable clothing that is soft and loose fit. Would love to try some new styles that are comfortable but also look put together and cute enough for her to wear out to dinner or the movies."

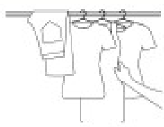
Fix Note:

"Kaili will start school August 27th. She would like a new outfit to wear the first day. Something comfortable and easy to play in! Her favorite color is gray."

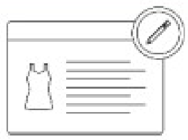
2. A patented algorithm matches Kaili to her stylist, Grace.



With each fix, Grace logs into a custom styling application, which recommends product based on our algorithm



Along with the recommendations, Grace uses her judgment and considers specific requests from Ashley for Kaili



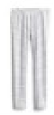
Grace writes a personal note for Ashley and Kaili

3. In Kaili's Fix, she and Ashley receive a personalized delivery and decide what to keep

7 of 10 Items Kept: $114.00 Total

4. Ashley provides direct structured & unstructured feedback on Kaili's Fix

At checkout, Ashley provides written feedback and rates each of the ten items in Kaili's fix:

	*Stitch Fix Exclusive Brand*	*"She loved the gray stripes."*
	*Stitch Fix Only*	*"Perfect sweatshirt to wear around the house, to school or pull over her leotard on her way to dance."*
	*Market Brand*	*"She has already tagged this dress to wear in her school picture! Score!"*

5. Grace reviews the feedback

In the styling application, Grace reads Ashley's feedback and captures any learnings. The feedback is simultaneously aggregated into our full dataset to drive future algorithmic learnings.

Q1 Fiscal 2019 Highlights:

- **We delivered $366.2 million in net revenue, representing 23.9% year-over-year growth, $10.7 million in net income, and $14.3 million in adjusted EBITDA in Q1'19. We achieved these results as we continued to invest in recently launched categories, technology headcount, and marketing.**
- **We grew our active client count to 2.9 million as of October 27, 2018, an increase of 534,000 and 22.3% year over year.**
- **We increased net revenue per active client and drove a record number of items purchased per Fix among Women's clients through our improved assortment.**
- **We used Men's client feedback to introduce extended sizes and expand our Exclusive Brand offering.**
- **We drove client re-engagement through personalized outreach.**
- **We continued to generate operating efficiencies through our strategic investments in automation.**

Dear Shareholder:

We are pleased to share our results for Q1 fiscal 2019, which ended October 27, 2018. We reached 2.9 million active clients, a 22.3% increase year over year, and grew net revenue to $366.2 million, a 23.9% increase year over year. Our results demonstrate our focus on delivering disciplined growth while making measured investments in our business.

During the quarter, we generated net income of $10.7 million, or diluted earnings per share of $0.10, and adjusted EBITDA of $14.3 million.

Q1'19 Highlights

ACTIVE CLIENTS
2.9 million
22.3% YoY growth

NET REVENUE
$366.2 million
23.9% YoY growth

GROSS PROFIT
$165.2 million
45.1% of net revenue

NET INCOME
$10.7 million
2.9% of net revenue

ADJUSTED EBITDA[1,2]
$14.3 million
3.9% of net revenue

[1] We define adjusted EBITDA as net income excluding interest income, other income, net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability.
[2] For more information regarding adjusted EBITDA and the other non-GAAP financial measures discussed in this letter, please see the reconciliations of our non-GAAP measurements to their most directly comparable GAAP-based financial measurements included at the end of this letter.

Q1’19 Business Highlights:

We increased net revenue per active client and drove a record number of items purchased per Fix among Women’s clients through our improved assortment.

We believe our continued focus on maintaining an optimal Women’s assortment to best meet client needs has resulted in higher levels of personalization in our Women’s category. In recent quarters, we’ve partnered more closely with our vendors and leveraged our increased scale to drive shorter lead times. These shorter lead times enable us to react faster to client preferences to better align our assortment with client needs, which results in greater personalization for our Women’s clients. As an example, product success in Q1’19 was driven in part by our ability to deliver seasonally appropriate products, even when seasonal weather was unpredictable. Given recent warm weather trends, we were able to react quickly and shift investment into short-sleeve styles and out of long-sleeve silhouettes.

As a result of our efforts, the number of items our Women’s clients purchased per Fix in Q1’19 reached its highest level on record. We believe this is a strong signal of client satisfaction and a testament to improvements in our personalization capabilities. Our ability to personalize each client’s experience coupled with our improved inventory assortment resulted in reduced Q1’19 clearance rates, which decreased 50 basis points year over year.

We believe that our success in delivering more personalized Fixes to our Women’s clients played a large role in driving our second consecutive quarter of growth in net revenue per active client, which reflects trailing 12 month net revenue divided by active clients at the end of the period. While we expect this metric to fluctuate as we further penetrate newer categories like Men’s and Kids, the recent growth helps to highlight our success in serving and engaging clients.

We used Men’s client feedback to introduce extended sizes and expand our Exclusive Brand offering.

We recently celebrated the two-year anniversary of our Men’s offering. Since launching Men’s, we’ve continued to use our rich client feedback to more closely align our inventory with client preferences across fit, size, and style.

Introducing Extended Sizes

Similar to the approach we used in adding Plus and Petite offerings to broaden our Women’s offering, we recently extended our Men’s sizing assortment to better serve clients. Based on client feedback, we identified opportunities to improve and expand the fit and size options we offer Men’s clients. Approximately 40% of our clients told us that pant inseams and sleeve lengths for merchandise available in the market were either too long or too short for them.

To address these pain points, we introduced our short offering in Q3'18 and our big and tall offering in Q1'19. Our short offering includes 28-inch pant inseams and shorter sleeve lengths, and our big and tall offering includes shirt sizes up to XXXL and waist sizes up to 48 inches.

We believe our introduction of extended sizes and our continued focus on fit have driven an improvement in the percentage of clients who like or love the fit of their merchandise in Q1'19 compared to Q1'18. Factors such as fit improvements, as well as our ongoing price and inventory expansion initiatives, contributed to an increase of approximately 3% in Men's average order value year-over-year in Q1'19. As a result of this success and our continued investment in personalizing our assortment, we've meaningfully grown the number of fit and size combinations we offer since the launch of Men's. We believe that this expanded offering allows us to meet the size needs of approximately 95% of our addressable men's market.

Expanding Exclusive Brands

To serve the diverse style preferences of our expanding client base, we continue to leverage our rich merchandise and client feedback data to broaden our portfolio of Men's Exclusive Brands (EB). In recent quarters, our Men's EB assortment has grown to include a broad spectrum of aesthetics ranging from rugged to refined styles, and multiple price points, allowing us to better serve our clients' diverse needs and lifestyle preferences. For example, we recently added our Even Tide brand for casual coastal styles, as well as Fairlane & Sons and A Frame to serve refined and contemporary styles across lower price points. By customizing our Men's EB assortment to better meet the preferences of our Men's clients, in Q1'19 we drove a 6% improvement in the percentage of clients who like or love the fit and a 4% improvement in clients who like or love the style of our Men's EB, compared to Q1'18.

Our business has benefited from our EB expansion. Our Men's EB products have, on average, a higher initial mark-up and higher sell-through rates than the third-party, market brands we sell. Men's gross margins have continued to expand as a result of these two factors.

We drove client re-engagement through personalized outreach.

We believe we have a significant opportunity to use highly personalized outreach to re-engage with our clients who have not recently ordered a Fix. In Q1'19, we began using our rich client data set and algorithms to predict the optimal timing and form of outreach to more effectively re-engage clients. Our timing and method of outreach is individualized to each client. Based on our initial test, our personalized outreach methods drove an increase in both client engagement and revenue per client.

The data we use reflects feedback from a client's style profile, as well as his or her historical Fix characteristics and performance. We leverage these insights to better understand who our clients are, why they originally chose to engage with us, what aspects of our service resonate most with them, and how our relationship has been with them to date. Using this data to better identify how and when to re-engage with clients is a key piece of our strategy to retain clients over time.

We continued to generate operating efficiencies through our strategic investments in automation.

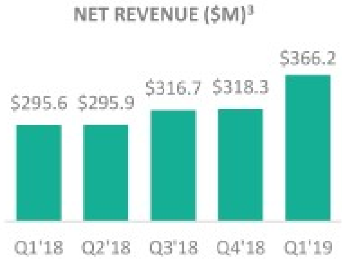
In August 2018, we began reducing per Fix labor costs and improving our shipping accuracy by implementing an automated outbound Fix conveyor and labeling system in our Phoenix fulfillment center. Based on the results from our work in Phoenix, we expect that this system will help us realize labor savings of approximately 1.5% per Fix. We plan to begin rolling out this system to our other fulfillment centers in the second half of FY'19. Given the promise of this initiative, we anticipate finding many additional opportunities to invest in automation in our fulfillment centers and deliver further cost savings.

Q1'19 Financial Highlights:

Our Q1'19 results demonstrate our continued commitment to balancing growth and profitability. While growing net revenue by 23.9% compared to Q1'18, we expanded our gross margin year over year and delivered strong EBITDA margin as we scaled existing and new categories, gained efficiencies, and managed our costs. During the quarter, we also continued to fund investments for the long term, enabled by our capital-light model, inventory management focus, and positive free cash flow.

Active Clients

We grew our active client count to 2.9 million as of October 27, 2018, an increase of 534,000 and 22.3% year over year. We define an active client as a client who checked out a Fix in the preceding 12-month period, measured as of the last date of that period. A client checks out a Fix when he or she indicates which items he or she is keeping through our mobile app or website. We consider each Kids account as a client for calculating our active client number.



Net Revenue

We grew our net revenue to $366.2 million in Q1'19, compared to $295.6 million in Q1'18, an increase of 23.9% year over year. Our performance was driven by our growth in active clients from both our Women's and Men's categories. In addition, net revenue per active client for the 12 months ended October 27, 2018, was $443, an increase of 2.3% compared to the 12 months ended October 28, 2017. This improvement was driven by stronger personalization through improved styling and merchandising as well as our efforts to acquire clients better matched for our service. This metric demonstrates the effectiveness of our continued efforts to engage and re-engage with clients, comprise a larger portion of their wallet, and drive higher client satisfaction. Looking forward, we expect both active clients and net revenue per client to play a role in driving our top-line performance. In any given quarter, one figure may outpace the other depending on the initiatives that we deploy in that period.

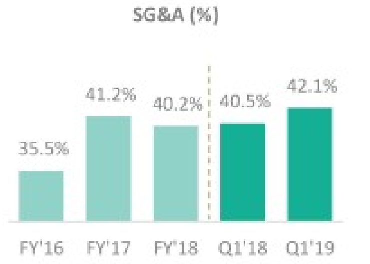
Gross Margin

Q1'19 gross margin was 45.1%, compared to 43.7% in Q1'18, an increase of 140 basis points. This improvement was primarily driven by the decrease of our inventory reserve and, to a lesser extent, reduced clearance and shrink.

[3] *Discounts, sales tax, and estimated refunds are deducted from revenue to arrive at net revenue.*

Selling, General & Administrative Expenses

Q1'19 SG&A was $154.3 million, or 42.1% of net revenue, compared to Q1'18 SG&A of $119.5 million, or 40.5% of net revenue, an increase of 160 basis points. This increase was driven by our investments in talent as we expanded our data science and engineering teams and the associated stock-based compensation expenses related to these investments.



Advertising. We continued to make strategic marketing investments designed to achieve near-term payback as we capitalized on the efficiencies we saw across our digital channels. Advertising expense increased year over year from $28.2 million in Q1'18 to $38.9 million in Q1'19.[4] Advertising as a percentage of net revenue increased 110 basis points year over year from 9.5% in Q1'18 to 10.6% in Q1'19.

Net Income and Earnings Per Share

Q1'19 net income was $10.7 million, or 2.9% of net revenue, compared to Q1'18 net income of $13.5 million, or 4.6% of net revenue, a decline in margin of 170 basis points. Q1'19 diluted earnings per share was $0.10 and non-GAAP diluted earnings per share was $0.10. In Q1'18 diluted earnings per share was $0.04 and non-GAAP diluted earnings per share was $0.04.[5,6]

Adjusted EBITDA

Q1'19 adjusted EBITDA was $14.3 million, or 3.9% of net revenue, compared to Q1'18 adjusted EBITDA of $11.8 million, or 4.0% of net revenue, a decrease of 10 basis points. This decline in margin was driven by our continued investments in talent and marketing. Note that we do not exclude stock-based compensation expense, which we consider to be a real cost of running the business, from our adjusted EBITDA calculation.

Inventory and Free Cash Flow

In fiscal year 2019 to date, we delivered inventory growth that was in line with our net revenue growth and turned inventory at a rate of approximately six times annually on a merchandise cost basis. These results are a testament to the health of our inventory and the strength of our algorithms that support our buying, allocation, and styling activities. Our capital-light business model has also allowed us to generate strong free cash flow even as we invest in new merchandise offerings and expand our client base through category and geography expansions. In Q1'19, our capital expenditures totaled $7.0 million, or 1.9% of net revenue, while we generated free cash flow of $44.0 million.[8]

For more information regarding the non-GAAP financial measures discussed in this letter, please see "Non-GAAP Financial Measures," below, including the reconciliations of our non-GAAP measures to their most directly comparable GAAP financial measures included at the end of this letter.

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[4] Advertising expenses include the costs associated with the production of advertising, television, radio, and online advertising.
[5] All earnings per share figures reflect amounts attributable to common stockholders.
[6] We define non-GAAP EPS as diluted EPS excluding, when present, the per share impact of the remeasurement of preferred stock warrant liability.
[7] We define adjusted EBITDA as net income excluding interest income, other income, net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability.
[8] We define free cash flow as cash flow from operations reduced by purchases of property and equipment that are included in cash flow from investing activities.

Guidance:

Our financial outlook for Q2'19, which ends on January 26, 2019, and for fiscal year 2019, which ends on August 3, 2019, is as follows:

Q2'19		
Net Revenue	\$360 – \$368 million	22% – 24% YoY growth
Adjusted EBITDA	\$8 – \$12 million	2.2% – 3.3% margin

FY'19		
Net Revenue	\$1.49 – \$1.53 billion	21% – 25% YoY growth
Adjusted EBITDA	\$20 – \$40 million	1.3% – 2.6% margin

As a reminder, the holiday season is during our second fiscal quarter. We do not expect seasonality in our business to follow that of traditional retailers, which often experience a concentration of revenue in the holiday season. Historically, we have experienced lower quarter-over-quarter net revenue growth in fiscal Q2 due to slower active client growth during the holiday season. We believe this is reflective of our clients' focus on buying gifts for others rather than themselves. We view our lack of seasonality as a positive; it makes staffing and planning easier and we don't need to compete on advertising spend for consumers' attention. As such, we expect our advertising as a percent of sales, as planned, will be lower in Q2 than it was in Q1, similar to our spending pattern last year. Given this cadence of advertising spend, we expect our Q2 active client count to be relatively flat quarter over quarter, while we expect revenue per client to grow.

We have not reconciled our adjusted EBITDA outlook to GAAP net income (loss) because we do not provide an outlook for GAAP net income (loss) due to the uncertainty and potential variability of other income, net and provision for (benefit from) income taxes, which are reconciling items between adjusted EBITDA and GAAP net income (loss). Because such items cannot be reasonably predicted, we are unable to provide a reconciliation of the non-GAAP financial measure outlook to the corresponding GAAP measure. However, such items could have a significant impact on GAAP net income (loss).

Closing

We will host a conference call and earnings webcast at 2:00pm Pacific time/5:00pm Eastern time today to discuss these results. Interested parties can access the call by dialing 888-256-1007 in the U.S. or 323-994-2093 internationally, using conference code 2226708. A live webcast will also be available on Stitch Fix's investor relations website at investors.stitchfix.com. Thank you for taking the time to read our letter, and we look forward to your questions on our call this afternoon.

MEDIA CONTACT
media@stitchfix.com

INVESTOR RELATIONS CONTACT
ir@stitchfix.com

Sincerely,

Katrina Lake, Founder and CEO
Mike Smith, President and COO
Paul Yee, CFO

Stitch Fix, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share amounts)

	October 27, 2018	July 28, 2018
Assets		
Current assets:		
Cash & cash equivalents	$ 173,341	$ 297,516
Restricted cash	250	250
Short-term investments	84,985	—
Inventory, net	106,701	85,092
Prepaid expenses and other current assets	33,036	34,148
Total current assets	398,313	417,006
Long-term investments	83,870	—
Property and equipment, net	37,629	34,169
Deferred tax assets	15,234	14,107
Restricted cash, net of current portion	12,600	12,600
Other long-term assets	3,146	3,703
Total assets	$ 550,792	$ 481,585
Liabilities, Convertible Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 105,662	$ 79,782
Accrued liabilities	67,098	43,037
Gift card liability	6,268	6,814
Deferred revenue	11,206	8,870
Other current liabilities	1,761	3,729
Total current liabilities	191,995	142,232
Deferred rent, net of current portion	15,635	15,288
Other long-term liabilities	9,659	8,993
Total liabilities	217,289	166,513
Stockholders' equity:		
Preferred stock, $0.00002 par value	—	—
Class A common stock, $0.00002 par value	1	1
Class B common stock, $0.00002 par value	1	1
Additional paid-in capital	243,086	235,312
Accumulated other comprehensive loss	(56)	—
Retained earnings	90,471	79,758
Total stockholders' equity	333,503	315,072
Total liabilities, convertible preferred stock and stockholders' equity	$ 550,792	$ 481,585

Stitch Fix, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(In thousands, except share and per share amounts)

	For the Three Months Ended	
	October 27, 2018	October 28, 2017
Revenue, net	$ 366,236	$ 295,563
Cost of goods sold	201,068	166,548
Gross profit	165,168	129,015
Selling, general and administrative expenses	154,271	119,471
Operating income	10,897	9,544
Remeasurement of preferred stock warrant liability	—	(9,071)
Interest income	(1,399)	(17)
Other income, net	(120)	—
Income before income taxes	12,416	18,632
Provision for income taxes	1,738	5,144
Net income	$ 10,678	$ 13,488
Other comprehensive income (loss):		
Change in unrealized loss on available-for-sale securities, net of tax	(82)	—
Foreign currency translation	26	—
Total other comprehensive loss, net of tax	(56)	—
Comprehensive income	$ 10,622	$ 13,488
Net income attributable to common stockholders:		
Basic	$ 10,664	$ 3,915
Diluted	$ 10,665	$ 1,347
Earnings per share attributable to common stockholders:		
Basic	$ 0.11	$ 0.15
Diluted	$ 0.10	$ 0.04
Weighted-average shares used to compute earnings per share attributable to common stockholders:		
Basic	98,965,274	26,329,495
Diluted	104,539,452	33,262,082

Stitch Fix, Inc.
Condensed Consolidated Statements of Cash Flow
(Unaudited)
(In thousands)

	For the Three Months Ended	
	October 27, 2018	October 28, 2017
Cash Flows from Operating Activities		
Net income	$ 10,678	$ 13,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(1,061)	(1,366)
Remeasurement of preferred stock warrant liability	—	(9,071)
Inventory reserves	1,563	4,224
Stock-based compensation expense	6,637	2,038
Depreciation and amortization	3,175	2,270
Loss on disposal of property and equipment	—	131
Change in operating assets and liabilities:		
Inventory	(23,172)	(24,208)
Prepaid expenses and other assets	1,252	4,084
Accounts payable	26,008	13,967
Accrued liabilities	24,360	16,942
Deferred revenue	2,532	1,663
Gift card liability	(141)	(119)
Other liabilities	(865)	748
Net cash provided by operating activities	50,966	24,791
Cash Flows from Investing Activities		
Purchases of property and equipment	(6,985)	(4,180)
Purchases of securities available-for-sale	(169,095)	—
Sales of securities available-for-sale	302	—
Net cash used in investing activities	(175,778)	(4,180)
Cash Flows from Financing Activities		
Proceeds from the exercise of stock options	637	444
Repurchase of Class B common stock related to early exercised options	—	(39)
Payment of deferred offering costs	—	(528)
Net cash provided by (used in) financing activities	637	(123)
Net increase (decrease) in cash, cash equivalents and restricted cash	(124,175)	20,488
Cash, cash equivalents and restricted cash at beginning of period	310,366	119,958
Cash, cash equivalents and restricted cash at end of period	$ 186,191	$ 140,446
Components of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$ 173,341	$ 131,096
Restricted cash – current portion	250	250
Restricted cash – long-term portion	12,600	9,100
Total cash, cash equivalents and restricted cash	$ 186,191	$ 140,446
Supplemental Disclosure		
Cash paid for income taxes	$ 42	$ —
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 224	$ 1,022
Capitalized stock-based compensation	$ 410	$ 121
Vesting of early exercised options	$ 90	$ 315
Deferred offering costs included in accrued liabilities	$ —	$ 920

Non-GAAP Financial Measures

We report our financial results in accordance with generally accepted accounting principles in the United States ("GAAP"). However, management believes that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating our performance. Management believes that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net income and earnings per share ("EPS") provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. Management also believes that adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, and that this supplemental measure facilitates comparisons between companies. We believe free cash flow is an important metric because it represents a measure of how much cash from operations we have available for discretionary and non-discretionary items after the deduction of capital expenditures. These non-GAAP financial measures may be different than similarly titled measures used by other companies. For instance, we do not exclude stock-based compensation expense from adjusted EBITDA or non-GAAP net income. Stock-based compensation is an important part of how we attract and retain our employees, and we consider it to be a real cost of running the business.

Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

- our non-GAAP net income, adjusted EBITDA and non-GAAP EPS – diluted measures exclude the remeasurement of the preferred stock warrant liability, which is a non-cash expense incurred in the periods prior to the completion of our initial public offering;
- adjusted EBITDA excludes the recurring, non-cash expenses of depreciation and amortization of property and equipment and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- adjusted EBITDA does not reflect our tax provision, which reduces cash available to us;
- adjusted EBITDA excludes interest income and other income, net, as these items are not components of our core business; and
- free cash flow does not represent the total residual cash flow available for discretionary purposes and does not reflect our future contractual commitments.

We define adjusted EBITDA as net income excluding interest income, other income, net, provision for income taxes, depreciation and amortization, and, when present, the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to adjusted EBITDA for each of the periods presented:

	For the Three Months Ended	
(in thousands)	October 27, 2018	October 28, 2017
Adjusted EBITDA reconciliation:		
Net income	$ 10,678	$ 13,488
Add (deduct):		
Interest income	(1,399)	(17)
Other income, net	(120)	—
Provision for income taxes	1,738	5,144
Depreciation and amortization	3,394	2,270
Remeasurement of preferred stock warrant liability	—	(9,071)
Adjusted EBITDA	**$ 14,291**	**$ 11,814**

We define non-GAAP net income as net income excluding, when present, the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to non-GAAP net income for each of the periods presented:

	For the Three Months Ended	
(in thousands)	October 27, 2018	October 28, 2017
Non-GAAP net income reconciliation:		
Net income	$ 10,678	$ 13,488
Add (deduct):		
Remeasurement of preferred stock warrant liability	—	(9,071)
Non-GAAP net income	**$ 10,678**	**$ 4,417**

We define non-GAAP EPS as diluted EPS excluding, when present, the per share impact of the remeasurement of preferred stock warrant liability. The following table presents a reconciliation of EPS attributable to common stockholders – diluted, the most comparable GAAP financial measure, to non-GAAP EPS attributable to common stockholders – diluted for each of the periods presented:

	For the Three Months Ended	
(in dollars)	October 27, 2018	October 28, 2017
Non-GAAP earnings per share – diluted reconciliation:		
Earnings per share attributable to common stockholders – diluted	$ 0.10	$ 0.04
Per share impact of the remeasurement of preferred stock warrant liability[1]	—	—
Non-GAAP earnings per share attributable to common stockholders – diluted	**$ 0.10**	**$ 0.04**

[1] For the three months ended October 28, 2017, the preferred stock warrant liability was dilutive and included in earnings per share attributable to common stockholders – diluted. Therefore, it is not an adjustment to arrive at non-GAAP EPS – diluted.

We define free cash flow as cash flow from operations reduced by purchases of property and equipment that are included in cash flow from investing activities. The following table presents a reconciliation of cash flows from operating activities, the most comparable GAAP financial measure, to free cash flow for each of the periods presented:

	For the Three Months Ended	
(in thousands)	October 27, 2018	October 28, 2017
Free cash flow reconciliation:		
Cash flows from operating activities	$ 50,966	$ 24,791
Deduct:		
Purchases of property and equipment	(6,985)	(4,180)
Free cash flow	**$ 43,981**	**$ 20,611**
Cash flows used in investing activities	$ (175,778)	$ (4,180)
Cash flows from (used in) financing activities	$ 637	$ (123)

Forward-Looking Statements

This shareholder letter contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact could be deemed forward looking, including but not limited to statements regarding our future financial performance, including our guidance on financial results for the second quarter and full year of fiscal 2019; market trends, growth, and opportunity; profitability; competition; the timing and success of expansions to our offering and penetration of our target markets, such as the launch of our offering in the United Kingdom; our ability to leverage our engineering and data science capabilities to drive efficiencies in our business and enhance our ability to personalize; our plans related to client acquisition, including any impact on our costs and margins and our ability to determine optimal advertising methods; and our ability to successfully acquire, engage, and retain clients. These statements involve substantial risks and uncertainties, including risks and uncertainties related to our ability to generate sufficient net revenue to offset our costs; the growth of our market and consumer behavior; our ability to acquire, engage, and retain clients; our ability to provide offerings and services that achieve market acceptance; our data science and technology, stylists, operations, marketing initiatives, and other key strategic areas; risks related to international operations; and other risks described in the filings we make with the Securities and Exchange Commission, or SEC. Further information on these and other factors that could cause our financial results, performance, and achievements to differ materially from any results, performance, or achievements anticipated, expressed, or implied by these forward-looking statements is included in filings we make with the SEC from time to time, including in the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018. These documents are available on the SEC Filings section of the Investor Relations section of our website at: http://investors.stitchfix.com. We undertake no obligation to update any forward-looking statements made in this shareholder letter to reflect events or circumstances after the date of this shareholder letter or to reflect new information or the occurrence of unanticipated events, except as required by law. The achievement or success of the matters covered by such forward-looking statements involves known and unknown risks, uncertainties, and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, our results could differ materially from the results expressed or implied by the forward-looking statements we make. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

STITCH FIX