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SONOS

**Third Quarter Fiscal 2021
Prepared Conference Call Remarks and Q&A Session
August 11, 2021 - 5:00 pm Eastern**

Cammeron McLaughlin - VP, Investor Relations

Good afternoon and welcome to Sonos' third quarter fiscal 2021 earnings conference call. I am Cammeron McLaughlin, and with me today are Sonos' CEO, Patrick Spence, Brittany Bagley, CFO and Eddie Lazarus, Chief Legal Officer. For those who joined the call early, today's hold music was inspired by our recent partnership with Liverpool FC featuring tracks from the Beatles.

Before I hand it over to Patrick, I would like to remind everyone that today's discussion will include forward-looking statements regarding future events and our future financial performance. These statements reflect our views as of today only and should not be considered as representing our views of any subsequent date. These statements are also subject to material risks and uncertainties that could cause actual results to differ materially from expectations reflected in the forward-looking statements. A discussion of these risk factors is fully detailed under the caption "Risk Factors" in our filings with the SEC. During this call, we will also refer to certain non-GAAP financial measures. For information regarding our non-GAAP financials and a reconciliation of GAAP to non-GAAP measures, please refer to today's press release regarding our third quarter results posted to the Investor Relations portion of our website. As a reminder, the press release, supplemental earnings presentation, and conference call transcript will be available on our investor relations website, investors.sonos.com.

I will now turn the call over to Patrick.

Patrick Spence, Chief Executive Officer

Thank you, Cammeron.

Before going into details on our record third quarter results, I want to first recognize the tremendous work that our people and partners continue to do. As I reflect on our continued strong execution and performance, I am extremely proud of what our team has been able to accomplish. The momentum in our business, the strength of our brand, and the unwavering consumer demand for our products makes me ever more confident and excited about our future.

We are pleased to report outstanding third quarter results driven in large part by the continued surging demand for our products. We're breaking records on both our top and bottom lines. We achieved a record third quarter adjusted EBITDA margin of 12.3% and delivered a record \$379 million in revenue, up 52% from the prior year.

As a result of our expected strong second half performance we are raising our fiscal 2021 outlook. We now expect fiscal 2021 adjusted EBITDA of \$275 million at the midpoint, up from our prior outlook of \$238 million, and revenue of \$1.702 billion at the midpoint, compared to our prior outlook of \$1.65 billion. This represents adjusted EBITDA growth of over 150%, adjusted EBITDA margin of over 16%, and revenue growth of over 30% excluding the 53rd week in fiscal 2020. It's important to remember this is not simply a favorable COVID comparison, this growth is on top of the growth we were able to deliver in fiscal 2020. And of course, we're doing it at a much larger scale, and doing it profitably. Our model is working.

Our upwardly revised outlook calls for revenue growth of approximately 30% in the second half of fiscal 2021 adjusting for the extra week last year, up from our prior outlook of 20% growth. This is comparable to the 33% growth we delivered in the first half of the year despite the fact that supply chain constraints, broadly shared across our sector, have increasingly impacted our efforts to fulfill the ever-growing demand for our products.

Fortunately, our customers have shown both patience and abiding loyalty. Their willingness to wait for our products while we continue to work to build supply, truly underscores the power of our system-based approach and our brand. Purchasing Sonos is a considered decision to enter the system, not just buy a single product like so much of consumer electronics. At this point, we expect to exit fiscal 2021 with a significant backlog, which we expect to work down in fiscal 2022.

Given the exceptional momentum we are experiencing and the unwavering demand for our products, we are ahead of schedule toward achieving our fiscal 2024 targets outlined at our investor event in March, and are on track for what we believe will be a promising fiscal year 2022.

Stepping back from our immediate results for a minute, I want to revisit the three macro trends we identified earlier this year and we believe are and will continue to help fuel our continued growth as we look to the end of fiscal 2021 and beyond.

First, the Golden Age of Audio. The sheer volume of music, audiobooks, and podcasts we have access to now is incredible. According to Futuresource's recent Audio Tech Lifestyles survey of audio product owners, the percentage of respondents listening at least an hour a week to streaming audio content in 2021 has increased to 73% across the US, Germany and UK combined, compared to 63% in 2020. And we believe that as more and more people become creators and find interesting new audio formats like social audio, even more time will be spent with audio. As the leading premium home audio brand, Sonos is well positioned to continue to capitalize on this.

Second, Hollywood is at Home. With more and more video content going direct-to-home, there has been a decade of change in the past year, with companies bringing the newest movies right into our homes. The number of straight-to-streaming movie premieres tripled last year and is not showing signs of letting up. As a result, consumers are demanding a theater-like audio experience in the home, and that is something we deliver better than anyone.

And the third trend fueling our growth is, "The Great Reshuffling" as coined by Zillow. This is the untethering of people from their commutes and offices which has enabled them to reevaluate how and where they want to live. According to recent Zillow research, fast-rising home values and new location options resulting from remote work drove US movers toward even larger homes last year with a shift from urban to suburban zip codes being the most prevalent. We believe this will be a multi-year cultural trend that benefits Sonos significantly as consumers will continue to invest in their homes and have even more spaces to fill with sound.

As we look toward the long-term, we remain focused on our three key strategic initiatives.

First, the expansion of our brand - this is all about understanding our customers better than anyone and how we're evolving our brand and marketing strategies to reach more of those customers.

As you have seen in recent weeks, we have announced exciting new partnerships that provide opportunities to extend the Sonos brand and introduce it to new and broader audiences.

To celebrate the launch of Roam, our first ultra-portable smart speaker, we recently kicked off a multi-faceted partnership with The North Face - a heritage brand that inspires all of us to get outside and explore the world. First up, a Sonos Radio station called *Never Stop Exploring*, which invites all of us to sonically experience some of its athlete's farthest flung adventures.

And just yesterday we announced a new partnership with Liverpool Football Club, marking Sonos' first-ever sports team partnership. After a year of empty stands, Sonos and Liverpool

FC are excited to welcome back the 12th man - the name for the fans whose very energy and sound can win games and intimidate the opposition. And with millions of Reds globally, Liverpool FC's sound sits well outside the walls of the stadium - reverberating through countless towns and cities, connecting people around the world. As part of the multi-year agreement, Sonos will amplify the Reds' passion for sound by creating immersive sound experiences within the stadium, focusing on internal lounges and player areas, as well as the AXA Training Centre, the club's training base. Starting on August 21, we will also be featured on Anfield's pitch side LED at every Premier League home game, with animation sequences featuring Sonos product, branding and key messaging.

We have a tremendous opportunity ahead in the categories we play in today. But we have ambitious plans to expand into new categories, to expand into new customer segments, and to layer services on top of everything we do.

Our newest product Roam, fits this profile. And it's been a huge hit, driving strong demand from both existing and new customers alike. In fact, Roam set a new record for the number of registrations for a new product release in the first full week after its launch.

We remain focused on our efforts to introduce at least two new products each year and have already exceeded this target for fiscal 2021 with the introductions of Sonos Radio HD, Roam, and new partner products with Audi and IKEA.

In July, IKEA introduced the latest product stemming from our long-term partnership - the SYMFONISK picture frame, a WiFi speaker enabling consumers to enjoy both room filling sound and a beautiful piece of art.

As we look ahead our long-term product roadmap remains robust and we are excited to unveil what comes next over time.

Third, driving operational excellence to achieve sustainable, profitable growth for the long term. You are seeing us continue to execute ahead of our plan and deliver margin expansion and healthy top-line growth. We're laser-focused on extending our trend lines as well as investing for the long-term.

In conclusion, I've never been more excited about our future at Sonos. We continue to see strong demand and we are in the best position we have ever been. We have a huge opportunity in front of us and we are just getting started.

Now I'll turn the call over to Eddie to provide a brief update on our IP litigation.

Eddie Lazarus, Chief Legal Officer

Thanks Patrick.

With the judge's initial decision in our International Trade Commission patent case expected on Friday, I thought I'd give everyone a brief refresher. As I shared at our investor event in March, we estimate that Google infringes over 150 U.S. utility patents from 30 different Sonos patent families. All of those patent families are still alive and we continue to obtain high-value patents from them. We included 5 patents in our action against Google at the ITC. That's basically the limit of what you can fit in one case before that tribunal. Those five patents were directed to grouping and synchronizing playback amongst smart devices, volume control for a group and individual devices, stereo pairing, and setup.

Google has thrown everything at us in this case. But we believe that the evidence before the ITC demonstrates Google to be a serial infringer of Sonos' valid patents and that the ITC case represents just the tip of the iceberg. We'll have more to say once the judge issues his initial decision, but for now we remain confident that the ITC will find Google to be a patent infringer and, as happened recently in Sonos' case against Google in Germany, that other courts will do the same.

Let me now turn the call over to Brittany to provide more details on our results and our outlook.

Brittany Bagley, Chief Financial Officer

Thank you, Eddie.

We are excited to report another quarter of strong results, further positioning us to deliver a record fiscal 2021. As Patrick mentioned, the continued strong demand for our products and our customers' willingness to wait for products while we navigate the industry-wide supply constraints, demonstrates the power of our platform and brand. That continues to show up clearly in our strong results.

Now let me add some color to the third quarter:

We delivered adjusted EBITDA of \$46.7 million compared to a loss of \$2.7 million last year.

Our adjusted EBITDA margin expanded to 12.3% during the quarter. We were able to deliver this tremendous result due to strong gross margins, record top-line growth and ongoing operating expense leverage.

Revenue in the quarter increased 52%, to nearly \$379 million.

The Americas grew 48% and EMEA grew 51%, or 37% on a constant currency basis. APAC grew 101%. All regions continued to see strong demand across our products.

Sonos Speaker revenue was up 58% year-over-year led by the introduction of Roam and the continued success of Arc and Sub. Sonos System Products revenue increased 13%, even while constrained due to product availability. Partner products and other revenue increased 103%, driven by accessories growth and our new product introductions with IKEA.

Gross margins reached 47.0%, an improvement of 300 basis points vs. last year. We received approximately \$5 million in tariff refunds and recognized approximately \$4 million in tariff expense during this quarter. Excluding the impact of tariffs from both quarters, gross margin increased 110 basis points to 46.8%. This 110 bps of gross margin improvement was primarily due to lower promotional discounts as we comped last year's At Home with Sonos campaign and fixed cost leverage on the higher sales volume. These improvements were offset by channel mix as we anniversaried the retail store closures and the outsized DTC growth we experienced last year, as well as by the increase in component costs and higher industry wide shipping and logistics costs we continue to experience.

Turning to operating expenses. As a reminder, we incurred \$26 million in restructuring and related charges in the third quarter of last year. Excluding these costs, we experienced a year-over-year increase in all opex categories as we invest to grow. As we stated last quarter, we expect to continue making additional opex investments in our product, marketing, and operations to support the higher revenue volumes and long-term growth initiatives. We also have experienced higher incentive compensation assumptions given our increased outlook.

Excluding \$4.9 million of restructuring costs in the year ago quarter, R&D increased 5% due to higher personnel and other R&D related costs to support our continued growth.

Sales and marketing, excluding \$19.8 million in restructuring costs last year, increased 17% due to higher marketing expenses as well as higher revenue-related sales fees.

G&A, excluding the \$1.4 million in restructuring costs and the \$1.2 million in incremental legal fees related to our IP litigation, increased approximately 26% during the quarter primarily related to IT investments and incentive compensation.

During the third quarter, we had \$70.8 million in cash from operations and had free cash flow of \$55.9 million, largely due to strong net income performance and working capital management. We are ending the quarter with \$671 million in cash and cash equivalents which continues to put us in a strong position to invest organically in our business, pursue M&A, and return capital to shareholders through our authorized share repurchase. As of the end of the third quarter, we repurchased \$22 million of our stock, and had approximately \$28 million outstanding on our authorization. We currently have no debt on our balance sheet.

Now turning to our outlook.

As you are aware, the global supply situation has continued to get more challenging. We, and others across the industry, are seeing significant increases in constraints on a variety of components. Our team continues to work to mitigate as much as we can to deliver on our strong demand. We appreciate that our customers have proven that they will wait for our products which is resulting in a backlog that we will work through in fiscal 2022.

Given our strong Q3 and what we know about product availability through the remainder of the year, we are increasing our total revenue for fiscal 2021 to \$1.695 billion to \$1.71 billion, representing growth of 28% to 29%. Excluding the 53rd week from fiscal 2020, this represents growth of 30% to 31% for the year. This a meaningful increase from our initial guidance of \$1.44 billion to \$1.5 billion provided at the start of the year underscoring the stronger than anticipated demand we continue to experience.

Our updated fiscal 2021 revenue outlook translates into fourth quarter revenue at the midpoint of approximately \$345 million, representing 10% growth adjusted for the 14th week last year. While we are continuing to experience strong demand for our products, our ability to fulfill that demand is being impacted during the fourth quarter due to the supply constraints we, and so many other companies, are facing. This is expected to offset some of our potential revenue growth in the fourth quarter. We do expect to exit the year with a backlog that we anticipate fulfilling in fiscal 2022.

We are increasing our gross margin outlook to a range of 46.5% to 46.9% from our prior range of 46.0% to 46.5% largely to reflect the benefit of tariff refunds received in the third quarter and leverage on the higher sales outlook offset by higher industry-wide component and logistics related costs.

Our fiscal 2021 gross margin guidance translates into a fourth quarter margin of 44% at the midpoint reflecting the higher industry-wide component and logistics related costs we are seeing, and consistent with past guidance, it assumes no additional tariff refunds are received in the quarter.

Year-to-date as of the third quarter, we have received \$11 million in tariff refunds and recognized \$9 million in tariff expense, representing a net tariff benefit of close to \$2 million. As a reminder, we have \$22.5 million of tariff refunds left that we expect to receive by the end of fiscal 2022.

We are increasing our fiscal 2021 adjusted EBITDA outlook to \$270 million to \$280 million from our prior range of \$225 million to \$250 million, and well ahead of our initial fiscal 2021 guidance of \$170 million to \$205 million.

This new outlook represents 15.9% to 16.4% adjusted EBITDA margin, an expansion of 770 to 820 basis points from the prior year. The higher adjusted EBITDA outlook compared to our prior guidance of 13.8% to 14.9% is primarily driven by opex leverage on the upwardly revised sales outlook as well as tariff refunds.

This updated guidance translates into fourth quarter adjusted EBITDA margin of approximately 4% at the midpoint driven by the higher costs impacting gross margin as well as increased operating expenses as we ramp investments into the holiday and fiscal 2022. Even with these higher costs, we are proud to report that we will have been adjusted EBITDA positive every quarter this year.

As we enter the final months of fiscal 2021, we remain focused on our continued strong execution and are well on track to deliver record fiscal 2021 results, which are meaningfully higher than what we set out to deliver at the start of the year. Even with constrained product supply, we are delivering strong top line growth of approximately 30% fueled by demand. We are also delivering a material improvement in profitability, with an expansion of 770 to 820 basis points in adjusted EBITDA forecasted relative to fiscal 2020. Our fiscal 2021 outlook has exceeded our expectations and as a result we are ahead of schedule on the fiscal 2024 financial targets we outlined at our investor event back in March.

We look forward to providing fourth quarter results and our fiscal 2022 guidance on our next earnings call.

With that I would like to turn the call over to questions.

Question & Answer Session

Katy Huberty, Morgan Stanley - Congrats on the really strong quarter. Maybe starting with Brittany, what is the specific revenue impact in the fourth quarter that's embedded in guidance due to supply constraints? And then how should we think about that backlog working lower through fiscal 2022? Does it happen in the first half? Or should we think about the backlog work down spread through most of fiscal 2022?

Brittany Bagley, CFO - Sonos - Katy, great question. We're not specifically quantifying backlog. We've had backlog in multiple quarters this year, and we continue to see pretty significant backlog numbers as that demand continues to drive higher with limited supply. So it's been an ongoing challenge for us, but also it's a pretty healthy backlog number. And we'll roll that into fiscal 2022, we will really be able to fulfill that when we get better in balance from a supply-demand perspective, and I really don't know when that will happen at this point.

Katy Huberty, Morgan Stanley - And a number of competitors in the smart home industry are raising prices of their products due to higher cost, is that something that you're considering? Or do you see this as an opportunity to leave list prices and perhaps take some market share?

Brittany Bagley, CFO - Sonos - We always evaluate our prices based not just on cost, but where we are from a supply perspective and what the demand is. And when we look at all of those factors, we will be raising some prices ahead of our next fiscal year.

Katy Huberty, Morgan Stanley - Okay. And then just finally, Eddie, since we have you, assuming the ITC decision does go in your favor on Friday, how should we think about next steps and a reasonable time line to any financial benefit that Sonos may see?

Eddie Lazarus, Chief Legal Officer - Sonos - Well, knock wood, your prediction comes true. But candidly, I think the rest of that question is going to have -- it's going to depend on Google. If Google is found to be an infringer of our patents, we would hope that they would basically accept that verdict, recognize that we have 30x that number of patents that they infringe and take a portfolio license at a fair rate. But all we can do is pursue our remedies as aggressively as possible. That's what we've been doing. That's what we're going to continue to do until we get a fair resolution, and we hope that the ITC decision is the next step and an important step along that way.

Rod Hall, Goldman Sachs - I wanted to come back to the number of homes penetrated. I know that you don't like to -- you give that number annually. But I'm just curious how the Roam has affected the trajectory of the number of homes you're penetrating? I would have assumed that these Roam sales would have been at least in some part to people that didn't have Sonos before, but I wanted to check and see just how much that's accelerated home penetration?

Brittany Bagley, CFO - Sonos - Rod, We're really excited about how Roam is doing. But you're right, we don't disclose new homes relative to specific products or outside of giving our annual number. But so all I can really say is we are very happy with how Roam is performing.

Rod Hall, Goldman Sachs - Would you be willing to say, Brittany, how many of them are selling to people that didn't have Sonos before?

Brittany Bagley, CFO - Sonos - Not something we disclose, Rod.

Rod Hall, Goldman Sachs - Okay. Fair enough. Second question I had, I wanted to come back to Eddie. When we look at the Qualcomm Apple case and the ITC injunction there, the ITC had determined that it was in the public interest not to force injunctions. And then has kind of implied since then that, that decision would be up to the President. And I wonder, do you agree with that, Eddie, let's assume that an injunction is granted and you don't come to a license agreement. Is that the process then? We're waiting on the administration to make a call on this? Or do you understand the mechanics different than that?

Eddie Lazarus, Chief Legal Officer - Sonos - I think that if we obtain an importation ban at the ITC, it's upheld by the full commission, that I would expect that the administration, I think, it's delegated to the USTR representative, will sign that order, and it will go into effect. The public interest calculation in the Qualcomm case is very different than the calculation here. And this is a case where very large companies infringe on the inventions of a much smaller innovative company. And there's no reason to think that the administration wouldn't follow through on the ruling of the ITC.

Rod Hall, Goldman Sachs - Right, right. And we have -- we understand that they have 60 days to sign that. Is that correct?

Eddie Lazarus, Chief Legal Officer - Sonos - Well, will go to the full commission first. And both parties, of course, can appeal to the full commission to revise the initial decision. And then once the full commission issues its order, yes, I believe, 60 days is right.

John Babcock, Bank of America - Just wanted to, I guess, follow up on one of the questions just earlier on the revenue guidance there. I know you didn't really mention too much about kind of the impact of backlogs. But I just want to get a sense, I mean, are you, by chance happening to see any slowing in demand at all? Is that implied in the 4Q guidance? Or should we take it that a lot of this comes down to the backlog side of things and not being able to kind of keep up on that front? Just want to get a clarification there.

Brittany Bagley, CFO - Sonos - We really attribute it to the backlog. Demand continues to be strong. There's nothing we see that implies any slowing of demand. And our product dates that we're able to fulfill continue to push out, which is really an indication of that demand supply challenge we're having.

John Babcock, Bank of America - Got you. And then another piece, and this has also come up across other companies as kind of the inflation side broadly, and it seems like you've navigated pretty well through this so far, including on the component cost side and also some of the challenging supply chain and logistics. That said, I mean, ultimately, what are you doing to spend off headwinds on this front? And also, how are you thinking about inflation? And how that might impact the business in fiscal 4Q, but then also over the next couple of quarters?

Brittany Bagley, CFO - Sonos - Yes. We're certainly seeing the impact of inflation and component shortages in the supply chain, which is fully factored into the guidance that we're giving for the rest of the year. That is one factor that we look at along with the overall supply demand, balance and really healthy demand we're seeing for our products. And so one of the ways that we are going to manage that other than continuing to have great relationships with our suppliers, trying to be disciplined around cost and all of that is to look at pricing, and we will look at pricing on our products ahead of the next fiscal year.

John Babcock, Bank of America - Got you. And are you -- I mean it sounds like you're primarily facing higher costs from the component side and then also supply chain. Are there any other areas where you're experiencing inflation? And also, do you expect any increases in wages over the next year or so? Can you provide any color on that?

Brittany Bagley, CFO - Sonos - I mean nothing I would specifically call out. It's, of course, a competitive market. And so we'll be impacted along with everyone else. But the main piece that we're sort of seeing and calling out and impacting our results and including in guidance is really around the component costs.

John Babcock, Bank of America - Okay. And then, I guess, just last question overall. Can you just provide any update on how Sonos Radio HD is doing so far? And then also I assume you had some expectations heading into the year. Just kind of curious because I would assume that part of that is going to be driven by future demand is going to be driven by the retail opening. So I wanted to get a sense, I guess, more on the retail side here, not just overall demand, how the pace of retail openings is kind of progressing relative to your expectations on that?

Patrick Spence, CEO - Sonos - So I'll take the radio one, John. So we're pleased with what we're seeing so far in terms of the listening. You've seen that every month, we're doing kind of new collaborations. We've done one with the North Face as well. So that's progressing, still early days on that front. We also have seen some reopenings then we've seen some backtracking when it comes to retail overall in terms of kind of the retail footprint and different channels that we have throughout the world. The one thing that stayed very consistent through that, to Brittany's point, is strong demand. And so this is -- all of our channel partners right now are installed solutions partners. Our retailers would prefer to have a lot more Sonos products, quite frankly, as would our customers we service through direct-to-consumer. So I think that just speaks to the demand for room and all of the products that we have at this particular point. You can get for that, obviously, on our website, too, in terms of what people are looking for.

But I expect we'll have some -- with retail channels, we'll have some openings and closings in different places, just depending on what's going on with the virus. But again, through this period, we've seen no change in the kind of strong demand that we're seeing regardless of what's happening with the pandemic.

Matt Sheerin, Stifel - My first question, Patrick, is regarding plans that the company recently disclosed to name a new head of your software operations. And I'm hoping you can share with us reasons for that change and what you envision for the company's software strategy going forward?

Patrick Spence, CEO - Sonos - Yes. So as you mentioned, we're looking for a new leader for our software team. This has been really the differentiator for Sonos. We often talk about Sonos being the story of software eats audio. It's a large proportion of our engineering team. And we have a lot of ambition around where we can take software from here. And it's across the stack, right? So firmware, cloud platform that we have, a variety of partnership APIs. And we'd like to use that to deliver some new experiences as well. And so we're actively out there. It is the first time we launched in a high-profile way, we got just a tremendous amount of qualified applicants. So I'm super excited about adding somebody new to help take our software to another level and our product experience. And so yes, that's one of my top priorities right now.

Matt Sheerin, Stifel - Okay. And then, Brittany, another question just regarding the product issues that you're having in terms of the supply constraints. I know there's also been manufacturing disruptions throughout Asia, particularly in Malaysia, due to COVID restrictions. And I know your manufacturing partners have been shifting manufacturing from China to Malaysia. So I'm hoping you can update us on that and whether that is also contributing to the disruptions?

Brittany Bagley, CFO - Sonos - Yes. So you're absolutely right. Malaysia has had movement control orders because of COVID. And that, what I would say, has had an impact. But because we're in the process of transitioning, I would really say that that's had more of an impact on how quickly we can transition into Malaysia. As you know, we've continued to push out the timing for when we will be fully up and running in Malaysia. We're hoping that happens at some point in fiscal year 2022 at this point for the very reasons you mentioned. But we have been able to do our best to offset those challenges by continuing to manufacture in China. And so the shortness of supply is really less about the challenges in Malaysia and more about the shortage of components and the component cost, really the component shortage issues that we're seeing.

David Lustberg, Jefferies - This is David on for Brent. Two, if I may. Is there any update that you guys can give into the size of the DTC business? And would you say you're prioritizing refilling inventory in that channel on the retail channels? And maybe just on the gross margin, I know you guys talked about being ahead of 2024 targets, looks like, especially so on the gross margin side. I guess, just structurally, how much higher do you believe gross margin can go over time? Is there any sort of soft target or color you could give there?

Patrick Spence, CEO - Sonos - Thanks, David. I'll take the first one and Brittany will take the second one. On the DTC front, we had mentioned at the beginning of the year, our expectation that it would largely be in line with what we had seen in last year's phenomenal increase in DTC sales. And so we'll -- we continue to feel good about where that is. In terms of inventory and replenishment and kind of how we're really focused on how do we get products to customers the fastest, it's a balance in terms of working in particular with our installed solutions partners, the people that are coming around and doing installs and those kind of things and making sure they have what they need, definitely servicing those direct to consumer, but we are, by no means, leaving our very valuable retail partners behind. And so it's a day-to-day balance in our sales, and go-to-market team has been doing that balance while our supply chain team really balances getting as many components and building as much as they can in going through it. So that's been the real challenge and a bit nuance to kind of work through. Brittany?

Brittany Bagley, CFO - Sonos - Yes. Thanks, Patrick. From a gross margin standpoint, what I would say is we committed to being between 45% to 47% gross margin, and we take that commitment very seriously, which is why we're making sure that we manage through component cost increases and all of that. And from our really incredible performance on gross margins this year, we're really already at almost the high end of that range. So we are exceeding our own expectations on how fast and how sustainable we think being in that range is, but we are not at a point where changing that guidance in any way right now.

David Lustberg, Jefferies - Got it. And then maybe one more, if I can. I'll try and get it out of you guys. But any commentary you could provide on maybe like the size of the Roam business and maybe how it compares to that of Move?

Brittany Bagley, CFO - Sonos - No, we don't disclose that, but good try.

Alexander Frankiewicz, Raymond James - This is Alex on for Adam. I was just curious, I believe you had a survey out to some users over the last few days that basically asked if they were interested in an on-device voice assistant rather than using it versus one that went to the cloud. I believe that would kind of help your Move and Roam business where may not always have Internet connection. I was just curious as to -- is that something that's in the pipe? And if so, is that Sonos Voice Assistant? Or would it be a partnership with Siri or an Alexa?

Patrick Spence, CEO - Sonos - We don't talk a lot about our future road map. We prefer to actually bring that out. And so I would say stay tuned.

Alexander Frankiewicz, Raymond James - Okay. And then secondly, we've just been kind of following up the Google Sonos lawsuit in Texas. And I believe it was stayed last week until January 22. And they -- and the courts decided to deny Google's motion to move the lawsuit to California. Is that kind of line with what you were thinking? And some of the courts wording was that Google's argument to fight all logic in some areas. Is that kind of in line with your thinking? And how does that kind of change your thoughts towards that lawsuit in particular?

Eddie Lazarus, Chief Legal Officer - Sonos - So we've thought from the outset that the venue is proper in Texas. That's why we filed there. And the trial court there has agreed with us, notwithstanding Google's efforts to move it. Google is seeking called the or emergency appeal of that order. But the case is moving forward while that's pending. And we are cautiously optimistic that, that case is going to stay in Texas and proceed on the track just as we have anticipated from the start.

John Babcock, Bank of America - I just want to follow up just on the Google ITC case. Can you just talk about the range of outcomes, I guess, that could come here because I assume it's not just black and white. It happens is when it happens that way. But how should we think about what could occur when things are kind of released on Friday?

Eddie Lazarus, Chief Legal Officer - Sonos - Well, in the middle of the night, I think of 1 million scenarios, but I'm really not going to speculate. We're just 48 hours away from hearing what the initial decision is. When we get it, we'll analyze it. I think it will be a lengthy opinion of what we're looking for are two main items. One, how did our patents stand up to Google's challenge to their validity? And second, of our patents, how many does Google infringe? And we're, as I said, confident that our patents are strong, and we believe deeply that Google infringes them. And those are the metrics we'll be looking for most closely when the decision comes out.

Alexia Tsimikas, DA Davidson - Can we expect any promotional activity for the quarter? And if so, how do you think that will affect revenue and profit?

Brittany Bagley, CFO - Sonos - For Q4, anything that would be promotional is really baked into our guidance already, and we're not commenting on anything related to the holiday quarter or fiscal year '22 at this point.

Operator - There are no further questions at this time. I will now turn the call over back to Patrick Spence for closing remarks.

Patrick Spence, CEO - Sonos - Thank you, and thanks to everybody for joining us today. I want to reiterate the fact that we have such strong demand right now, and I want to thank our customers and our channel partners for the patience and loyalty through this. One of the things that we watch most closely is how that backlog is standing up and people are proving patient in waiting for their Sonos. Like I said, it's a system, not a one-off product and people make a considered purchase. And again, I'd like to thank our teams that are navigating all of the supply chain challenges that we're seeing right now and continuing to outperform. So I appreciate all of those efforts. And I appreciate all of you joining. So thank you, and we will talk to you again next quarter.

Operator - This concludes today's conference call. Thank you for participating. You may now disconnect.