Q4 & Fiscal Year 2021 Financial Results

SONOS

November 17, 2021

Forward Looking Statements

This presentation contains forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding our outlook for the fiscal year ending October 1, 2022; our fiscal 2024 targets; our long-term focus; financial, growth; business strategies and opportunities; growth metrics and targets; our business model; new products, services and partnerships; profitability and gross margins; our direct-to-consumer efforts; our market share; our tariff expenses; and other factors affecting variability in our financial results.

These forward-looking statements are only predictions and may differ materially from actual results due to a variety of factors, including, but not limited to, the duration and impact of the COVID-19 pandemic and related mitigation efforts on our industry and supply chain; supply chain challenges, including shipping and logistics challenges and significant limits on component supplies; changes in general economic or market conditions that could affect consumer income and overall consumer spending; our ability to successfully introduce new products and services and maintain or expand the success of our existing products; the success of our efforts to expand our direct-to-consumer channel; the success of our financial, growth and business strategies; our ability to meet product demand and manage any product availability delays; and the other risk factors set forth under the caption “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended July 3, 2021, and our other filings filed with the Securities and Exchange Commission (the “SEC”), copies of which are available free of charge at the SEC’s website at www.sec.gov or upon request from our investor relations department.

All forward-looking statements herein reflect our opinions only as of the date of this letter, and we undertake no obligation, and expressly disclaim any obligation, to update forward-looking statements herein in light of new information or future events, except to the extent required by law.

Non-GAAP Measures

Additional information relating to certain of our financial measures contained herein, including non-GAAP financial measures, is available in the appendix to this presentation.

Fiscal Year 2021 Highlights

- **Record Fiscal Year (FY) results driven by continued strong demand**
- **Record FY adjusted EBITDA margin of 16.2%** driven by strong demand, opex leverage on higher sales, and gross margin expansion
- **Record FY revenue of $1.717B**, **+29%** from LY (+32% ex 53rd week LY) driven by strong overall product demand, success of new product launches, and partially offset by continued constrained product availability
- **Record FY gross margin of 47.2%**, **+410 bps.** Excluding net effect of tariffs, +130 bps driven by product mix, lower promotional activity, and partially offset by higher supply chain related costs
- **Record 3.0 products per household vs. 2.9 LY; ending year in 12.6M homes and existing households represented 46% of new registrations**
- **Generated $208M of free cash flow**

Note: Unaudited. See appendix for reconciliation of GAAP to non-GAAP measures.

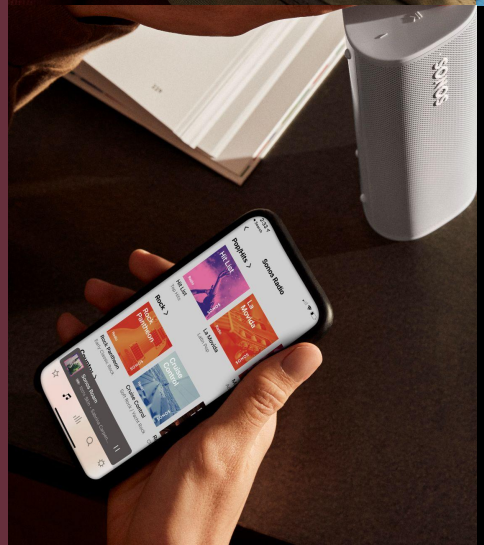
Expansion of our Offerings - FY21

Sonos Radio HD - Launched November 2020 - $7.99/mo
New ad-free, high-definition streaming tier. Sonos Radio HD features even more exclusive content directly in the Sonos app, now in lossless, CD-quality audio.

Roam - Launched April 2021 - $179 MSRP
The ultra-portable smart speaker built to deliver great sound at home and on any adventure.

Audi Partnership - Announced April 2021
First-ever automotive audio partnership featuring a Sonos-tuned premium sound experience in the Audi Q4 e-tron and future models, including the A1, Q2 and Q3.

IKEA Partner Products - Launched June and September 2021
Latest evolution of our long-term partnership, including the new SYMFONISK picture frame, which delivers room-filling sound and doubles as a piece of art, and updated SYMFONISK table lamp speaker featuring a completely new acoustic architecture that delivers wider, richer sourd.



SONOS | AUDI

Expansion of our Brand - FY21

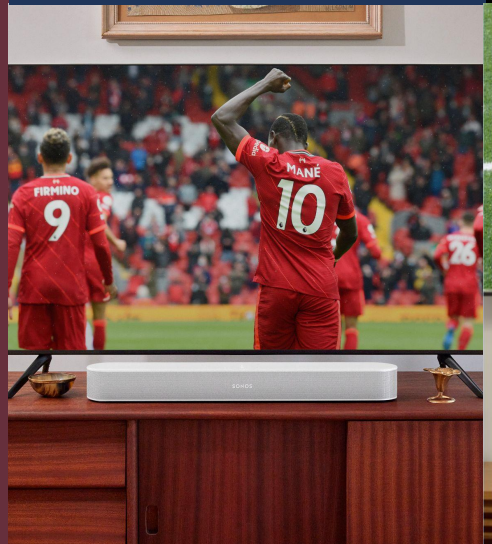
Named to *Fast Company's Brands that Matter in 2021,* a list that captures brands who are inspiring all of us, whether it be leading in pop culture or responding meaningfully to current events.

First-ever sports team partnership with Liverpool Football Club, a multi-year partnership naming Sonos the Official Sound Partner of Liverpool FC and creating immersive sound experiences within Anfield Stadium.

Teamed up with ESPN as an **Official Sponsor of ESPN College Football.**

Multi-faceted partnership with the North Face and Sonos Radio in celebration of the launch of Roam.

Launched new exclusive programming on Sonos Radio, partnering with artists such as Brian Eno, Erykah Badu, M.I.A., and more, and grew Sonos Radio HD with geo expansion to five new countries: Austria, Canada, France, Germany, and The Netherlands.



Delivering Operational Excellence - FY21

Continued **strong execution delivering margin expansion and healthy top-line growth** in fiscal 2021.

Tremendous efforts of our team **navigating a challenging supply chain and logistics** environment.

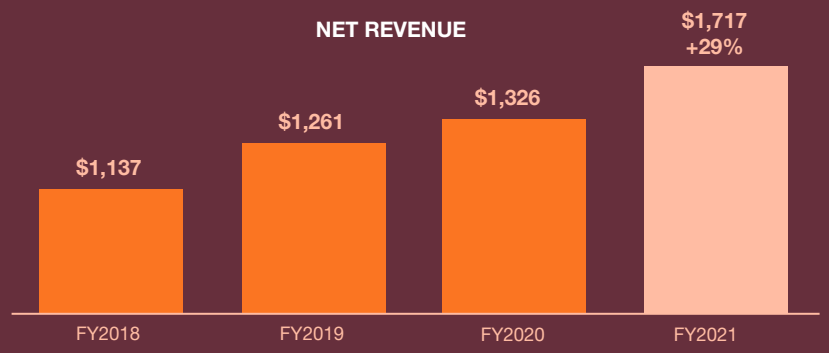
Included in *Inc. Magazine*'s first-ever list of the 250 Best-Led Companies, coming in at #13. The list highlights America's thriving midsize companies that are the unsung heroes of the US economy and the standout CEOs who are setting the gold standard for leadership.

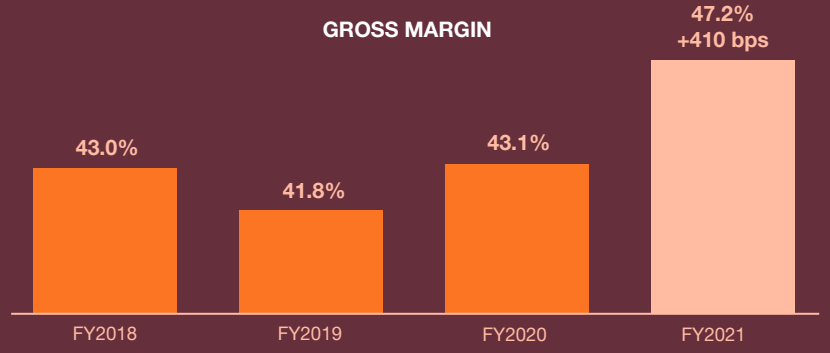
Published annual Listen Better Report, highlighting the work we have done to improve our efforts as a responsible company. In 2021, we developed our first climate action plan, which we will be sharing alongside our annual Listen Better report in December.

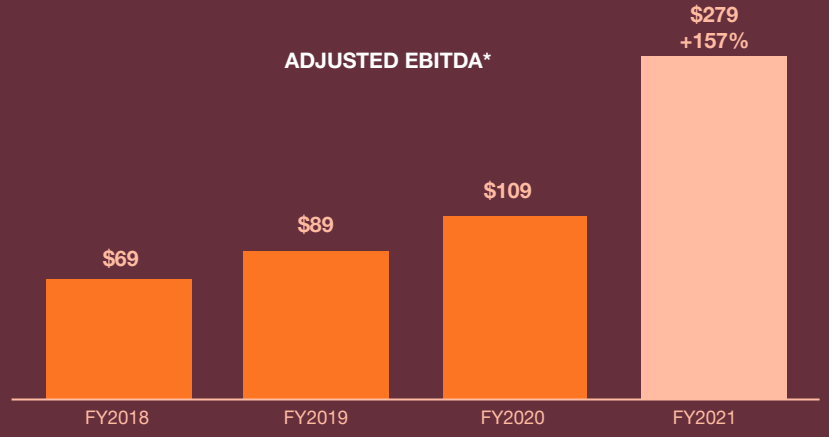
Inc. Best-Led Companies

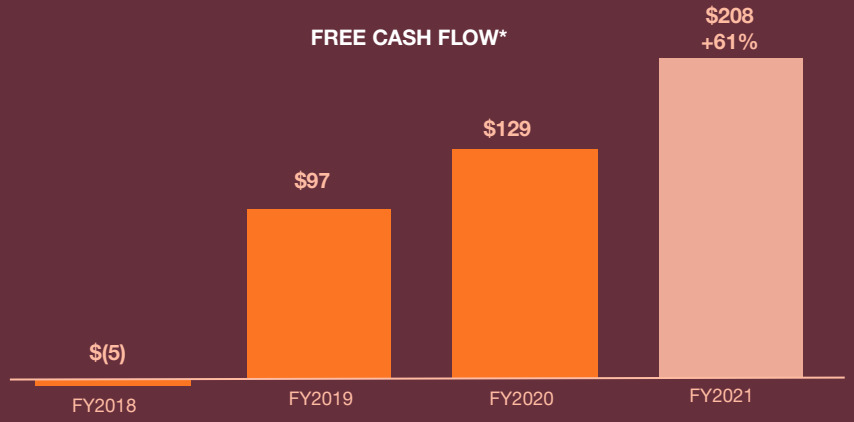
Listen Better
Listen Better
Listen Better
Listen Better

Strong Financial Performance and Execution







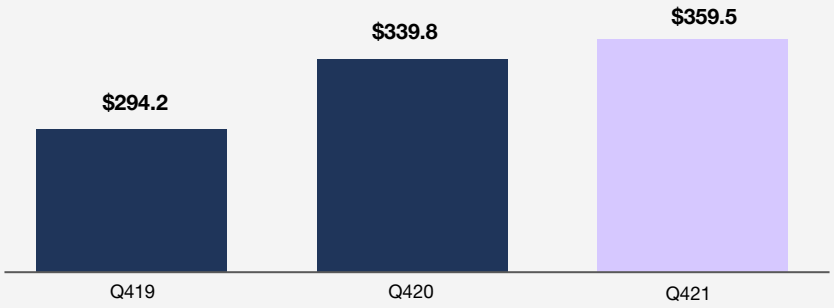


Note: $ in millions. *See appendix for reconciliation of GAAP to non-GAAP measures.

Q4 Highlights

Record Q4 Revenue; Adjusted EBITDA Impacted by Industry-Wide Supply Chain Dynamics and Investment

Q4 Revenue



Q4 Adjusted EBITDA

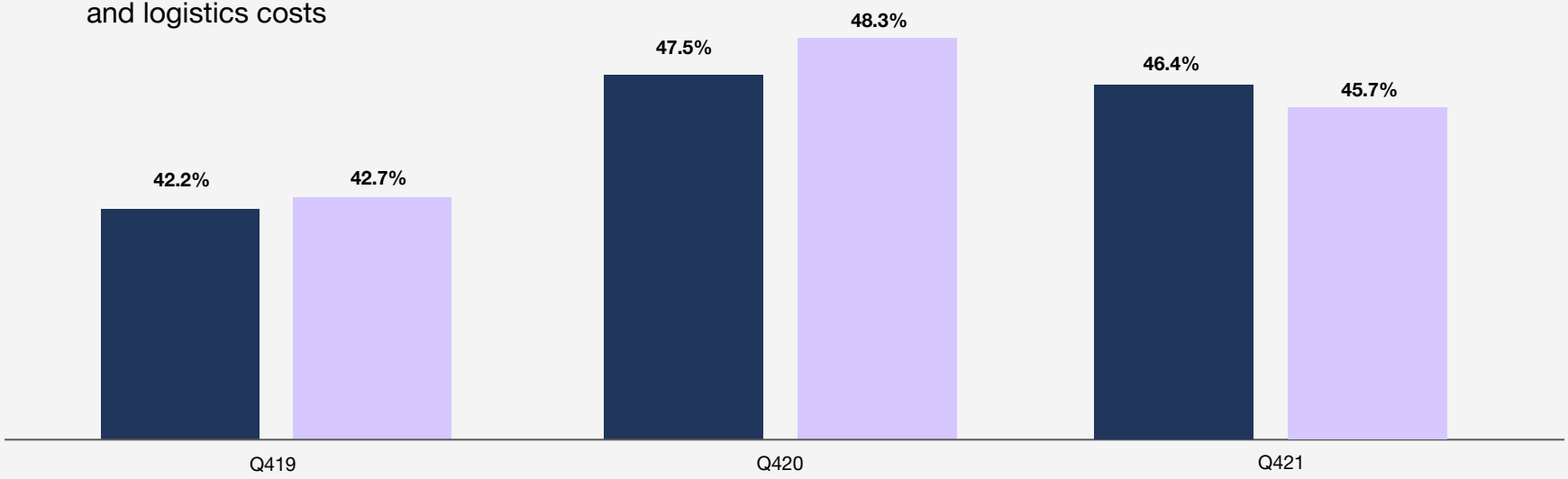
- Revenue +14% ex 14th week LY (+6% reported) due to strong product demand and partially offset by continued constrained product availability
- Adjusted EBITDA declined to $17.1M; adjusted EBITDA margin decreased to 4.8% from 13.7% LY driven by impact of constrained product availability on revenue, opex investments in future growth, and increased component and logistics costs
- Gross margin -110 bps to 46.4%; ex tariff duties and refunds, gross margin -260 bps to 45.7% primarily due to increased component costs, and shipping and logistics costs related to broader industry-wide supply chain challenges.

Note: $ in millions, unaudited.
See appendix for reconciliation of GAAP to non-GAAP measures. Percentages have been calculated using actual, non-rounded figures and, therefore, may not recalculate precisely.

Gross Margin Impacted by Industry-Wide Supply Chain Dynamics

Gross margin -110 bps Y/Y (ex tariffs -260 bps).
Key drivers:

- $7M tariff refund; $4M tariff expense
- Increased component costs
- Ongoing higher industry-wide shipping and logistics costs



Note: Unaudited. See appendix for reconciliation of GAAP to non-GAAP measures. Percentages have been calculated using actual, non-rounded figures and, therefore, may not recalculate precisely.

Opex Investments to Support Long-Term Growth

	Q421	Q420	Y/Y Change
Research and Development (GAAP)	$65.8	$54.8	20.1%
Restructuring and related charges	-	0.1	n/m
Adjusted Research and Development (Non-GAAP)	**$65.8**	**$54.7**	**20.4%**
% of revenue	***18.3%***	***16.1%***	***220 bps***
Sales and Marketing (GAAP)	$73.2	$58.3	25.5%
Restructuring and related charges	0.2	-	n/m
Adjusted Sales and Marketing (Non-GAAP)	**$73.1**	**$58.3**	**25.3%**
% of revenue	***20.3%***	***17.2%***	***310 bps***
General and Administrative (GAAP)	$39.5	$33.0	19.6%
Restructuring and related charges	-	-	n/m
Legal and transaction related costs	5.0	6.2	(18.5%)
Adjusted General and Administrative (Non-GAAP)	**$34.4**	**$26.8**	**28.4%**
% of revenue	***9.6%***	***7.9%***	***170 bps***
Total Operating Expenses (GAAP)	$178.5	$146.1	22.2%
Restructuring and related charges	0.2	0.1	32.0%
Legal and transaction related costs	5.0	6.2	(18.5%)
Adjusted Operating Expenses (Non-GAAP)	**$173.3**	**$139.8**	**23.9%**
% of revenue	***48.2%***	***41.1%***	***710 bps***

- Excluding restructuring and related charges and legal and transaction related costs, opex increased 24% driven by the following factors:
  - R&D +20% primarily due to higher product development and other R&D costs
  - S&M +25% primarily due to higher marketing expenses related to supporting new product launches, as well as higher bonus compensation
  - G&A ex legal and transaction costs +28% due to IT investments and increased bonus and stock comp

Note: $ in millions, unaudited.
See appendix for reconciliation of GAAP to non-GAAP measures. Percentages and sums have been calculated using actual, non-rounded figures and, therefore, may not recalculate precisely.

Fiscal Year 2021 Highlights

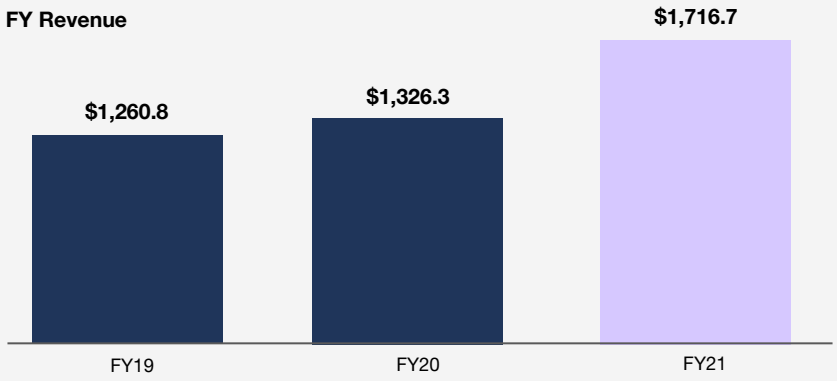
Strong Household Growth; Continued Expansion in Products per Household

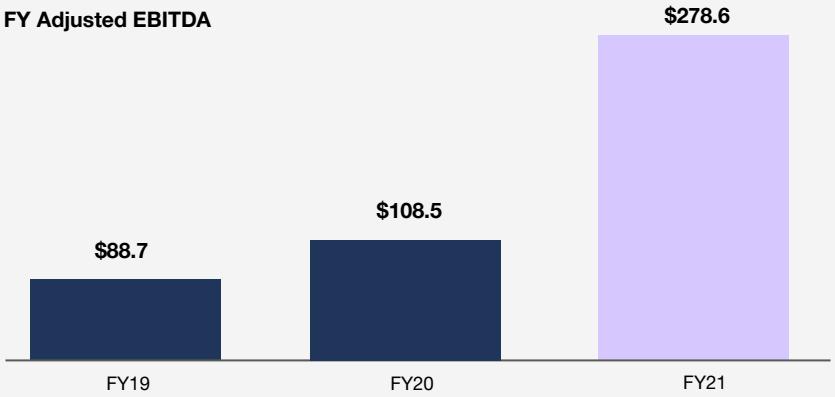
	FY21	FY20	Y/Y Change
Total Households (cumulative - in millions)	12.6	10.9	15%
% Registrations to Existing Households	46%	41%	
Average Registrations per Total Households	3.0	2.9	
Total Listening Hours (in billions)*	12.1	10.2	19%

- Ending FY2021 with 12.6M households, +15% vs LY on top of 20% growth last year
- Existing households accounted for 46% of new product registrations up from 41% last year
- Average number of registered products per household increased to 3.0 vs 2.9 LY
- Listening hours +19% on top of +33% last year

Note: Total listening hours excludes Bluetooth listening

Demonstrating Significant Scale and Profitability





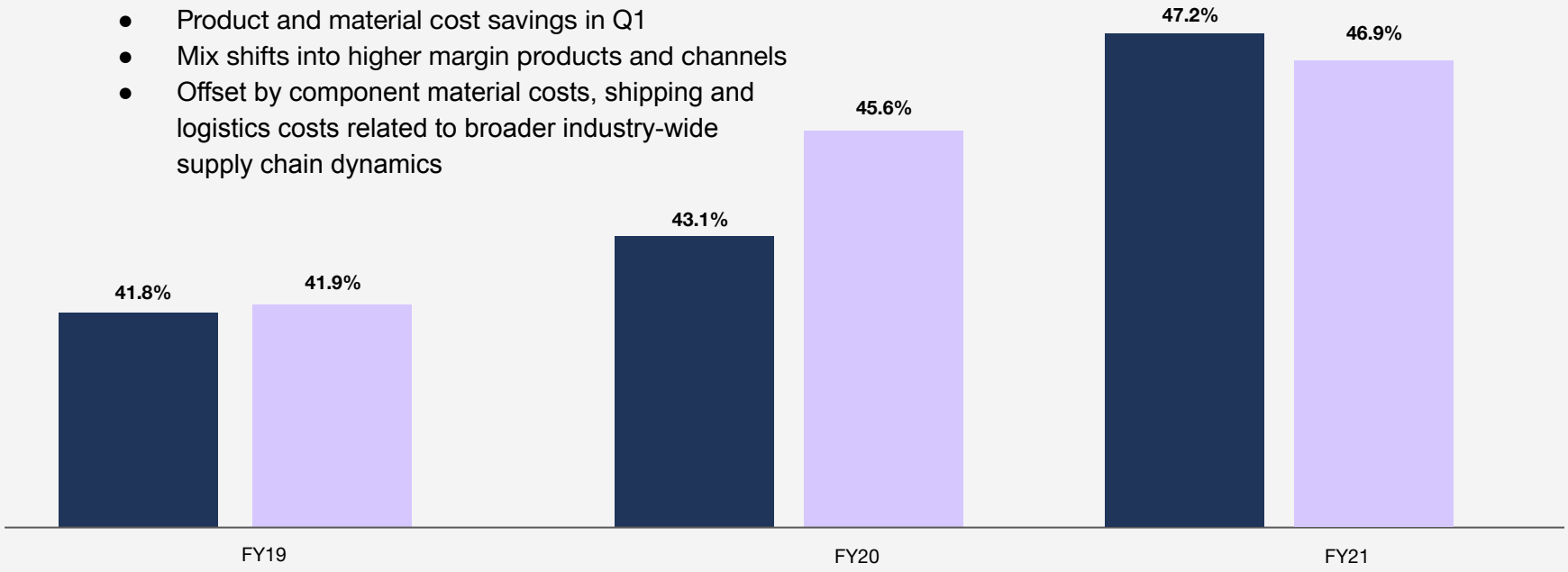
Note: $ in millions.
See appendix for reconciliation of GAAP to non-GAAP measures.

- Revenue +29% to $1.717B; excluding 53rd week, revenue +32%
- Adjusted EBITDA +157%; adjusted EBITDA margin +800 bps to record 16.2% driven by strong demand, opex leverage on higher sales, and gross margin expansion
- Gross margin +410 bps to 47.2%; ex net tariffs, gross margin +130 bps to 46.9% driven by lower promotional activity, product and material cost reductions in Q1, product mix, and partially offset by higher supply chain related costs
- Free cash flow $207.7M vs $129.0M LY

Continued Strong Gross Margin Expansion

Gross margin +410 bps (ex tariffs, gross margin +130 bps). Key drivers:

- $18.3M tariff refunds; $13.7M tariff expense
- Lower promotional discounts (LY included "At Home With Sonos" campaign)
- Product and material cost savings in Q1
- Mix shifts into higher margin products and channels
- Offset by component material costs, shipping and logistics costs related to broader industry-wide supply chain dynamics



Note: See appendix for reconciliation of GAAP to non-GAAP measures.

Significant Opex Leverage on Higher Sales

	FY21	FY20	Y/Y Change
Research and Development (GAAP)	230.1	214.7	7.2%
Restructuring and related charges	-	5.1	(99.5)%
Adjusted Research and Development (Non-GAAP)	**230.1**	**209.6**	**9.8%**
% of revenue	**13.4%**	**15.8%**	**(240 bps)**
Sales and Marketing (GAAP)	272.1	263.5	3.3%
Restructuring and related charges	(2.5)	19.8	(112.5)%
Adjusted Sales and Marketing (Non-GAAP)	**274.6**	**243.8**	**12.7%**
% of revenue	**16.0%**	**18.4%**	**(240 bps)**
General and Administrative (GAAP)	152.8	121.0	26.3%
Restructuring and related charges	-	1.4	(100)%
Legal and transaction related costs	30.1	15.5	94.5%
Adjusted General and Administrative (Non-GAAP)	**122.8**	**104.1**	**17.9%**
% of revenue	**7.2%**	**7.8%**	**(60 bps)**
Total Operating Expenses (GAAP)	655.0	599.2	9.3%
Restructuring and related charges	(2.4)	26.3	(109.3)%
Legal and transaction related costs	30.1	15.5	94.5%
Adjusted Operating Expenses (Non-GAAP)	**627.4**	**557.4**	**12.6%**
% of revenue	**36.5%**	**42.0%**	**(550 bps)**

- R&D +10% ex restructuring primarily driven by increased headcount, higher stock-based compensation and bonus, and new product development costs
- S&M +13% ex restructuring due to higher marketing, higher revenue related fees, and higher bonus costs
- G&A +18% ex restructuring and legal costs due to higher personnel-related costs and IT investments

Significant Cash Flow and Strong Balance Sheet

	FY21	FY20	Y/Y Change
Cash flow from operations	$253.2	$162.0	56%
Capital expenditures	$45.5	$33.0	38%
Capex % of revenue	*2.7%*	*2.5%*	
Free cash flow	$207.7	$129.0	61%
Free Cash Flow / Adj EBITDA	*75%*	*119%*	
Ending cash & cash equivalents	$640.1	$407.3	57%
Ending total debt	$0	$24.9	NM

- Cash flow from operations of $253M, +56% from LY
- Free cash flow of $208M, +61% from LY
- Free cash flow / adjusted EBITDA of 75%
- Capex of $46M, 2.7% of revenue, largely driven by manufacturing-related investments to support the launch of new products
- Cash and cash equivalents of $640M, no debt

Note: $ in millions, unaudited.
See appendix for reconciliation of GAAP to non-GAAP measures. Percentages have been calculated using actual, non-rounded figures and, therefore, may not recalculate precisely.

FY22 Outlook:
Continued Strong Demand Offset by Supply Constraints

	FY21 Actuals	FY22 Outlook
Revenue	$1.717 billion	$1.925 billion - $2.0 billion
% growth	29%	12% - 16%
Gross Margin	47.2%	46 - 47%
Adjusted EBITDA	$278.6 million	$280 million - $325 million
Adjusted EBITDA Margin	16.2%	14.5% - 16.2%
Other Key Assumptions:		
Tariffs	*$4.6 million net tariff benefit ($18 million refunds; $14 million expense)*	*Minimal net tariff benefit*

Note: Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP measures. We do not provide a reconciliation of forward-looking non-GAAP measures to their comparable GAAP financial measures . See “Non-GAAP Measures” for more information.

FY22 outlook only as of the date of this presentation. See “Forward-Looking Statements” for more information.

Our Strategic Initiatives

Expand Our Brand

Expand Our Offerings

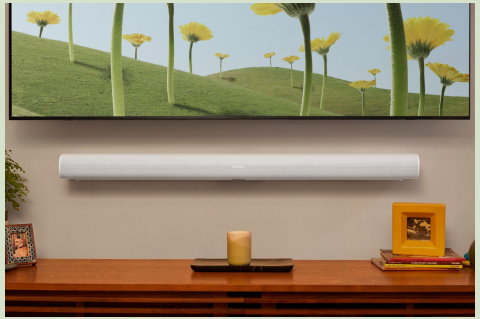
Drive Operational Excellence

Trends Fueling Our Growth

1
The Golden Age of Audio

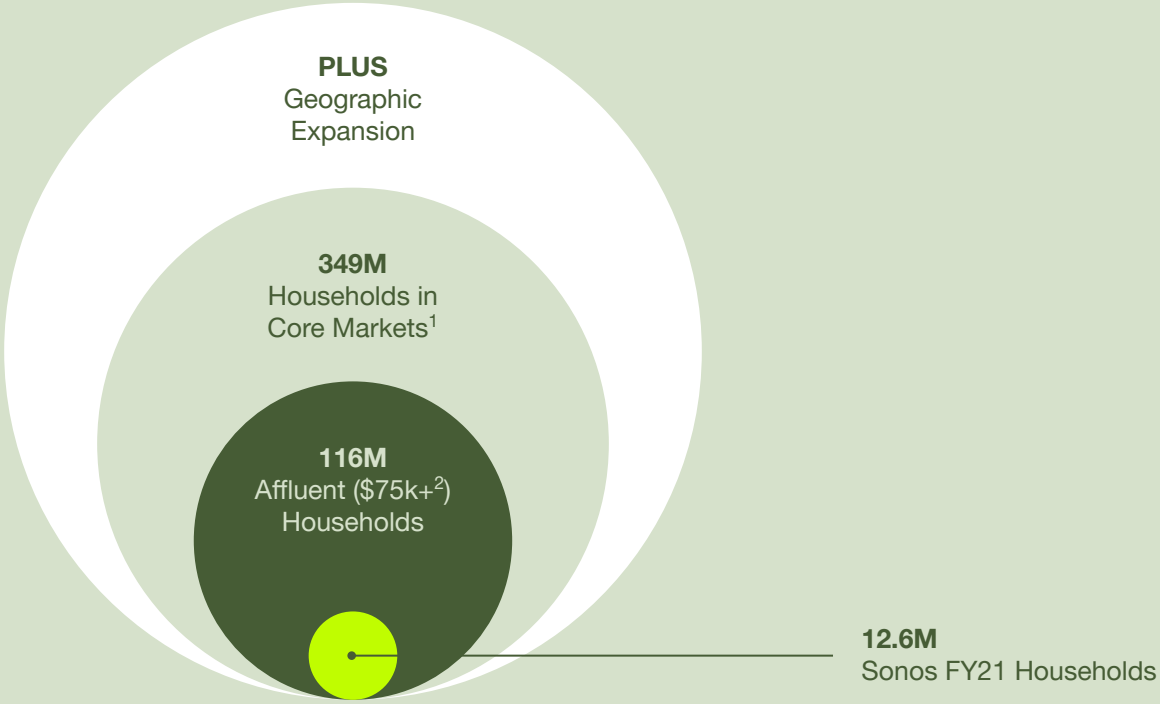
Spotify
YouTube Music
audible
pandora
TIDAL
Pocket Casts
deezer
Yandex Music
Calm
amazon music
Music
Clubhouse

2
Hollywood at Home



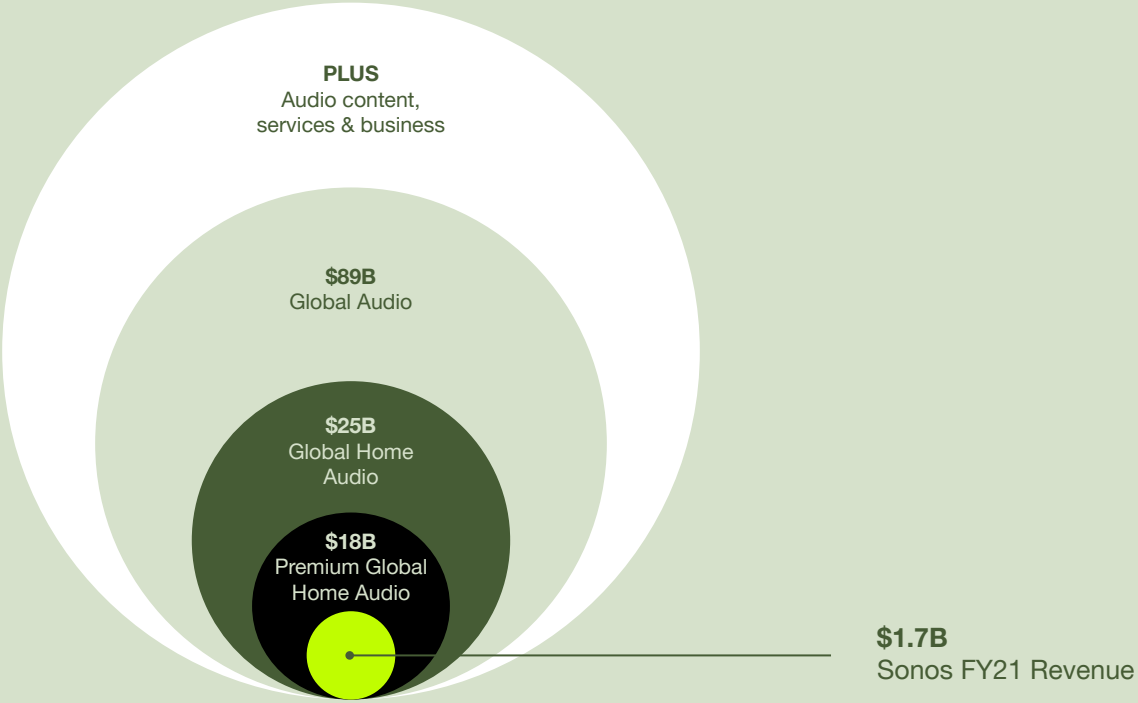
3
The Great Reshuffling

Our Opportunity: Homes



Source: Euromonitor CY2020 - CY2021 report not yet available and using CY2020 market data.
1. Core Markets include the United States, Canada, Australia, United Kingdom, Germany, Netherlands, Sweden, Denmark, France, Switzerland, Norway, Belgium, Italy, Austria, Spain, Ireland, Finland and Poland
2. Represents disposable income as defined by the OECD

Our Opportunity: Revenue



Source: Futuresource CY2020, Premium defined as $100+ wireless speakers, $200+ soundbars, $300+ Hi-Fi systems, $250+ in-wall/in-ceiling speakers, CY2021 report not yet available.
$250+ bookshelf speakers (pairs), and all AV receivers, Floor-standing speakers, home theater speakers and home theater in a box products and Hi-Fi separates

Confidence in FY2024 Financial Targets

Revenue

~13%

CAGR

Gross Margin

45-47%

Adjusted EBITDA Margin

15-18%

Appendix

Non-GAAP Measures

We have provided in this presentation financial information that has not been prepared in accordance with GAAP. We use these non-GAAP financial measures to evaluate our operating performance and trends and make planning decisions. We believe that these non-GAAP financial measures help identify underlying trends in our business that could otherwise be masked by the effect of the expenses and other items that we exclude in these non-GAAP financial measures. Accordingly, we believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to a key financial metric used by our management in its financial and operational decision-making. Non-GAAP financial measures should not be considered in isolation of, or as an alternative to, measures prepared in accordance with U.S. GAAP.

We define adjusted EBITDA as net income (loss) adjusted to exclude the impact of depreciation, stock-based compensation expense, interest income, interest expense, other income (expense), income taxes and other items that we do not consider representative of our underlying operating performance. We define adjusted EBITDA margin as adjusted EBITDA divided by revenue. We calculate gross margin excluding the impact of tariff duties and refunds as gross profit dollars removing the impact of tariffs imposed on goods imported to the U.S. from China and any tariffs refunds subject to a tariff refund claim approved by U.S. Customs and Border Protection divided by revenue. We define free cash flow as net cash from operations less purchases of property and equipment. We calculate adjusted EBITDA excluding the effect of tariff duties and refunds as net income excluding the effect of tariffs imposed on goods imported to the U.S. from China and any tariffs refunds subject to a tariff refund claim approved by U.S. Customs and Border Protection and adjusted to exclude the impact of depreciation, stock-based compensation expense, interest income, interest expense, other income (expense), income taxes and other items that we do not consider representative of our underlying operating performance.

We do not provide a reconciliation of forward-looking non-GAAP financial measures to their comparable GAAP financial measures because we cannot do so without unreasonable effort due to unavailability of information needed to calculate reconciling items and due to the variability, complexity and limited visibility of the adjusting items that would be excluded from the non-GAAP financial measures in future periods. When planning, forecasting and analyzing future periods, we do so primarily on a non-GAAP basis without preparing a GAAP analysis as that would require estimates for certain items such as stock-based compensation, which is inherently difficult to predict with reasonable accuracy. Stock-based compensation expense is difficult to estimate because it depends on our future hiring and retention needs, as well as the future fair market value of our common stock, all of which are difficult to predict and subject to constant change. In addition, for purposes of setting annual guidance, it would be difficult to quantify stock-based compensation expense for the year with reasonable accuracy in the current quarter. As a result, we do not believe that a GAAP reconciliation would provide meaningful supplemental information about our outlook.

Reconciliation of Net Income (Loss) to Adjusted EBITDA

	Three Months Ended		Twelve Months Ended	
	October 2, 2021	October 3, 2020	October 2, 2021	October 3, 2020
Net income (loss)	($8,744)	$18,411	$158,595	($20,115)
Add (deduct):				
Depreciation and amortization	8,093	8,733	33,882	36,426
Stock-based compensation expense	15,372	15,971	62,127	57,610
Interest income	(33)	(43)	(146)	(1,998)
Interest expense	67	300	592	1,487
Other (income) expense, net	2,271	(3,273)	(2,407)	(6,639)
Provision for (benefit from) income taxes	(5,106)	34	(1,670)	32
Restructuring and related expenses [1]	165	125	(2,446)	26,285
Legal and transaction related costs [2]	5,028	6,170	30,058	15,455
Adjusted EBITDA	$17,113	$46,428	$278,585	$108,543
Revenue	$359,539	$339,837	$1,716,744	$1,326,328
Adjusted EBITDA margin	4.8%	13.7%	16.2%	8.2%

(1) Restructuring and related expenses for the twelve months ended October, 2021, include a gain of $2.8 million, related to our negotiation for the early termination of a facility lease that was part of the 2020 restructuring. The gain represents the difference between the related operating lease liability and previously accrued restructuring expenses versus the early termination payment.

(2) Legal and transaction related costs consist of expenses related to our intellectual property ("IP") litigation against Alphabet Inc. and Google LLC as well as legal and transaction costs associated with our acquisition activity, which we do not consider representative of our underlying operating performance.

Note: $ in thousands, unaudited.

Gross Profit and Margin
Excluding the Impact of Tariffs

	Three Months Ended		Twelve Months Ended	
	October 2, 2021	**October 3, 2020**	**October 2, 2021**	**October 3, 2020**
Revenue	$359,539	$339,837	$1,716,744	$1,326,328
Reported gross profit	166,931	161,536	809,994	571,956
Add/deduct:				
Tariffs, net of refunds	(2,705)	2,442	(4,564)	32,342
Adjusted gross profit	164,226	163,978	805,430	604,298
Gross margin	46.4%	47.5%	47.2%	43.1%
Adjusted gross margin	45.7%	48.3%	46.9%	45.6%

Note: $ in thousands, unaudited.

Reconciliation of Cash Flows Provided by Operating Activities to Free Cash Flow

	Twelve Months Ended	
	October 2, 2021	**October 3, 2020**
Cash flows provided by operating activities	$253,226	$161,986
Less: purchases of property and equipment, intangible and other assets	(45,531)	(33,035)
Free cash flow	207,695	128,951

Note: $ in thousands, unaudited.

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