Note: This transcript is provided for the convenience of investors only; for a full recording, please see our fourth quarter and Fiscal 2023 webcast.

SONOS

Fourth Quarter and Fiscal 2023
Conference Call Remarks
November 15, 2023 - 5:00 pm Eastern/2:00 pm Pacific

James Baglanis, Investor Relations

Good afternoon and welcome to Sonos' fourth quarter and Fiscal 2023 earnings conference call. I am James Baglanis, and with me today are Sonos' CEO, Patrick Spence and CFO and Chief Legal Officer, Eddie Lazarus. For those who joined the call early, today's hold music is a sampling from the new Sonos Radio HD exclusive station, Lazy Day Country.

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 fourth quarter and Fiscal 2023 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 would also like to note that for convenience we have separately posted an investor presentation to our investor relations website, which contains certain portions of our supplemental earnings presentation.

I will now turn the call over to Patrick.

Patrick Spence, Chief Executive Officer

Thank you, James, and hello, everyone.

Earlier today we announced our Q4 and fiscal year 2023 results, which came in roughly in-line with the midpoint of our guidance for revenue and Adjusted EBITDA. Revenue of $1.66 billion was down 6% year over year, or down 3% excluding foreign exchange, and Adjusted EBITDA was $154 million.

While our business is more resilient than many of our competitors, thanks to our strong brand and loyal customer base, it was a challenging year in the categories in which we play today.

The good news is that we've retained strong market share positions in the countries we play today, despite our competitors offering deep discounts throughout the year. In fact, we recorded our highest market share in home theater in both the US and Germany this year since 2019. This is a testament to the strength of our brand, our product portfolio, and the execution of our team.

We know we're in a down part of the business cycle when it comes to home audio, and we know that eventually consumers will return. There are strong secular trends that will help drive our business over the long term. Work from home is going to be an enduring phenomenon. So too will the increased home consumption of video content. And as the touring success of Taylor Swift and Beyoncé attest, music and the joy it brings remains an essential and thriving part of our culture. Sonos benefits from all of this.

In Fiscal 2023 we once again proved that we're willing to make necessary changes towards driving sustainable, profitable growth. We made the difficult decision to rightsize our expense base in mid-June when we conducted a 7% reduction in force and substantially reduced our real estate footprint. I am confident that we are investing at the right level to achieve our long term growth objectives and our plan is to strictly limit any future headcount growth to initiatives that will drive incremental growth. We appointed three highly accomplished executives to key leadership roles at Sonos. They have hit the ground running, and I have high expectations for the contributions they will make across marketing, sales and product in the years to come.

Most importantly, we further expanded our lead over the competition by doing what we do best - producing great products. This year's new product introductions were focused primarily on raising the bar in our existing categories to ensure that picking Sonos over the competition is the easiest decision in the world. We already had great products on the market with the One and Move, but these products are often a customer's first Sonos purchase so it is of critical importance we continue to innovate and further separate ourselves from the competition.

This is why we launched Move 2, our new and improved premium portable all-in-one speaker, which we are confident is the best on the market. And our customers agree. Sales are ahead of expectations, and Move 2 is rated 4.9 out of 5 stars on Sonos.com, driven by the immense benefit of a higher-fidelity stereo sound stage, deeper base and 24-hour battery life. It is a similar story for the two Era speakers we launched. We have the best in class all in one at an entry level price point with Era 100 and the best Dolby Atmos speaker on the market with Era 300. Time Magazine recently named the Era 300 one of the Best Inventions of 2023. The down cycle in consumer discretionary spending put a damper on the revenue growth from these products in Fiscal 2023, but they will be best in class for years to come and they will drive our brand and category strength well into the future.

As we start our new fiscal year, I would like to take a moment to reintroduce the key pieces of the Sonos story - why we are different from virtually every other consumer electronics company out there.

We have a large and growing installed base of ardent Sonos supporters who consistently purchase additional products to expand their Sonos systems. They generate buzz for our new product launches. They eagerly flock to our retail partners' stores to test and purchase our new products. They pre-order from our DTC channel, Sonos.com. They ask their local custom installers to outfit their homes with our products. And most importantly, they sing our praises to their friends and family, as evidenced by word of mouth being one of the top contributors to our household growth.

Our installed base is a layer cake of cohorts of new households acquired over the last 18 years. Each year, our business is driven by both the acquisition of new households that enter our install base and by our loyal customers who continue to make subsequent purchases over time. In recent years, our customers have started with an average of 1.6 products and within a 3 year window over one-third of those customers have repurchased additional products at a relatively steady clip. As more recent years' cohorts continue to age, early indications are that their behavior is consistent to that of the pre-COVID cohorts which we have illustrated on page 31 of the earnings deck and page 15 of the investor presentation. We see tremendous opportunity to drive repurchase participation even higher via marketing efforts and new product introductions.

This steady, consistent behavior across our install base is why we saw average products per household grow to 3.05 at the end of Fiscal 2023, up from 2.98 in the prior year. Simultaneously, through price optimization and favorable product mix, we have increased the revenue we generate per product sold. We expect this trend of driving greater lifetime value across our cohorts to continue.

As we have noted in the past, 40% of our households are single product households, whereas our average multiproduct household has 4.4 products. We are starting to get into the range we have previously discussed 4 to 6 products for every mature Sonos household. We estimate that converting our single product households to the average multiproduct household install size represents a $6 billion revenue opportunity. This highlights the long runway we have to further monetize our install base, and gives confidence in our ability to eventually deliver on our long term financial targets. Today we have just 2% of the $100 billion global audio market, and a 9% share of the households in our core markets.

To be prudent, we have built our Fiscal 2024 plan with the assumption that the weak consumer demand we saw in this quarter will persist. Obviously we cannot control the conditions affecting our categories, but we can control the products we will be bringing to the market, so that's where we have concentrated our efforts. Fiscal 2023 was a year of raising the bar in our existing categories. Fiscal 2024 will be different. Fiscal 2024 marks the beginning of a multi-year product cycle which will demonstrate the payoff of the investments we've made in R&D over the past few years.

In the second half of the year, we will be launching a major product in a new multi-billion dollar category that will complement our current offerings, excite customers, and drive immediate revenue. All told, we expect to generate over $100 million from new product introductions this year, with this exciting new product accounting for a large portion of this revenue in the second half.

Our expectation of revenue between $1.6 and 1.7 billion is effectively flat to Fiscal 2023 at the midpoint. This is far short of what we believe the growth rate for our company can be in normal times, but we believe this is prudent given that we have been in a post-pandemic downswing in the cycle for our categories that may not yet be at its end. As I've lived through multiple times in my 25 years in tech, we fully expect that consumer behavior will normalize in time, and our relentless focus on innovation, execution and an exciting product roadmap will result in us returning to low double digit revenue growth.

We also expect to return to our annual target range GAAP gross margin in Fiscal 2024, and are setting our guidance midpoint at 45.5%. We fell short of where we wanted to be in Fiscal 2023, but have a line of sight to improvement in Fiscal 2024 which Eddie will discuss shortly.

We will be monitoring and adjusting expenses as necessary to drive some margin expansion this year. We have already taken the extraordinary step of holding salaries flat this year except for a small number of employees receiving promotions. We have been and will continue to work the balance between constraining costs in a down environment with prioritizing investments to deliver the new products and services that will yield significant revenue and margin expansion this year and the following years.

Bringing it all together, we are targeting $165 million of Adjusted EBITDA at the midpoint of guidance, which is a margin of 10%, up 70 basis points from Fiscal 2023 despite our guidance for revenue to be flat at the midpoint. Once we return to a normalized demand environment, we will make more swift progress toward our target of 15% to 18% Adjusted EBITDA margins.

As we navigate this challenging environment, we do so with a strong balance sheet — more than $200 million of cash and no debt. And that is after repurchasing $55 million of stock in Q4, more than we ever have done in a single quarter. We recognize the importance of returning capital to shareholders and mitigating dilution to our share count. To that end, I am pleased to announce that our Board of Directors has authorized a new $200 million share repurchase program. We have an exciting few years ahead of us and believe that repurchasing stock at these levels is a great use of capital. We improved our cash generation in Fiscal 2023 and expect to continue to do so in Fiscal 2024. We will continue to pursue a balanced capital allocation strategy between organic investment, returning capital to shareholders and opportunistic M&A to accelerate our roadmap and drive profitable growth.

In closing, I want to reiterate that we are laser focused on what we can control, and our long term commitment is to drive both top and bottom line growth. We are positioning the company and our capital allocation to accelerate our growth as our categories regain their footing, and we are excited to enter new categories as you will see later this year. Our investments in R&D over the last several years will begin to pay off more significantly this year, and should drive accelerating growth in FY25 and FY26 as economic conditions normalize. The opportunity ahead remains large, and our ability to capture a disproportionate share only improves with the proactive measures we have and will continue to take. While it's certainly turbulent in the short term, I have great confidence that our plans will drive value for our shareholders over the long term.

Now I'll turn the call over to Eddie to provide more details on our results and our outlook.

<u>Eddie Lazarus, CFO and Chief Legal Officer</u>

Thank you, Patrick.

Hi everyone. As Patrick observed we finished a year characterized by three things: first, softening consumer demand in our categories as we work through economic transitions following the pandemic; second, important improvements in our product line-up that will serve us for years to come; and, third, a tight focus on costs to match the softer demand environment.

Turning to the numbers: Fiscal 2023 revenues were $1.66 billion, a year over year decline of 3.3% constant currency and 5.5% reported. Foreign exchange was a $39 million headwind to revenue and a very significant portion of that headwind flowed through to reduce gross profit and adjusted EBITDA.

Product registrations, which reflect consumer demand, grew +5% year over year whereas products sold, which reflects sales to our retailers and installers and our DTC channel, declined -9% year over year. The variance between these two figures represents the reduction in channel inventory levels that we saw across both the retailer and installer channels. This reduction puts us in a healthy channel inventory position across our channels and geographies as we enter the holiday season.

Products sold declined by more than revenue on a percentage basis due to a 4% increase in revenue per product sold. This increase resulted from some price increases and favorable product mix, partially offset by increased promotional activity and FX headwinds.

Performance varied significantly on a regional basis. Revenue in the Americas was up slightly year over year, which continued our unbroken streak of increasing revenue every year in the Americas since we went public in 2018. By contrast, revenue in EMEA declined 10% and in APAC 32% year over year. The softer performance in EMEA and APAC relative to the Americas reflects the particularly difficult macroeconomic environment affecting the regions, which impacted both retailer sell-in and run-rate registration trends.

On a channel basis, retail and “other,” which includes IKEA and other business initiatives, declined 7% and was cumulatively 55% of sales. As previously noted, EMEA and APAC were particularly challenged in the year whereas the Americas were more resilient. DTC was roughly flat year over year and was 24% of sales. Installer solutions came in at 21% of sales, declining 7% year over year as our dealers worked down channel inventory. As we called out on previous calls, we entered FY23 with too much stock in the installer channel and, thanks to registrations significantly outpacing sell-in, we are entering FY24 in a much cleaner channel inventory position.

GAAP gross margin was 43.3%, down -220bps year over year. Gross margin was impacted by a return to normal level of promotional activity versus FY22, higher component costs, a 120bps FX headwind and over 100bps of excess component provisions, partially offset by fewer spot component purchases, price increases and lower air freight expense. While this year’s gross margin is below our annual target range of 45-47%, I am confident that we can get gross margins back into this range in Fiscal 2024.

Adjusted EBITDA was $154 million, representing a margin of 9.3%. The year over year decline was driven by lower revenue, gross margin contraction and ongoing investments in our product roadmap.

Non-GAAP adjusted operating expenses were $612 million in Fiscal 2023. There were a number of moving pieces impacting our expense base in the year, including lower bonus payout for our employees, deferred program spend to protect profitability, and the 7% RIF we announced in mid-June. Taking these factors into account, we estimate that our normalized expense base was approximately $665 million, or 40% of revenue. I will discuss this further while providing guidance, but I would note that the midpoint of our guidance assumes operating expenses stay roughly flat to this normalized level.

We ended the year with $220 million of cash and no debt. Free cash flow was $50 million, an increase of $125 million year over year. This result was primarily driven by working capital improvements resulting from a focus on better managing our inventory.

Our total inventory balance ended the year at $347 million, down 24% year over year. I am proud of our team's efforts to work down our finished goods balance sheet. We are entering the holidays carrying $108 million less inventory on our balance sheet than we did in Q4 of Fiscal 2022.

Finished goods were $282 million, up 17% sequentially as we built inventory into the holidays. Our component balance of $65 million was up 12% sequentially. As previously discussed, we expect our component balance to continue to increase in the near-term before reaching a peak sometime in this fiscal year. Further managing our owned inventory and improving cash conversion remains a top priority, and we expect to exit the first quarter in an even better inventory position.

We completed our $100 million share repurchase authorization by repurchasing 4.0 million shares for $55 million at an average price of $13.71 per share, representing 3.1% of common shares outstanding as of Q3. For the full year, we repurchased 6.6 million shares at an average price of $15.25 per share, which more than offset our equity grants for the year, taking our basic share count down by 1.7 million shares, a net reduction of 1.3%.

As Patrick mentioned, our Board announced a new $200 million share repurchase authorization. Returning capital to shareholders and managing dilution remains a high priority within our balanced capital allocation framework.

And finally before turning to guidance, I'll now quickly recap our Q4 results. We reported revenues of $305.1 million, toward the higher end of our guidance range of $290 to $310 million.

Revenue in the Americas increased +2% year over year, which was relatively in-line with our expectations for the quarter. Revenue in EMEA and APAC declined by 9% and 28% year over year, respectively, due to softening demand. As we noted last quarter, we see the challenging macroeconomic climates in both regions weighing on our results.

Q4 gross margin came in below our expectations at 42.0%, up +270 basis points year over year, but down -400bps sequentially from Q3. This decline was due to timing of recognition of contra-revenue related to select channel fill ahead of holiday season and higher excess component provisions. Gross profit dollars increased +3.2% year over year.

Adjusted EBITDA was $6.3 million, slightly above our expectations primarily due to lower operating expenses.

Total non-GAAP adjusted operating expenses of $135.6 million declined by $14.0 million, or -9%, from Q3 due to lowered bonus accrual and a full quarter's impact of the mid-June RIF.

<u>Guidance</u>

Now for our Fiscal 2024 guidance.

<u>Revenue</u>

We expect revenue in the range of $1.6 to $1.7 billion dollars, representing a year over year decline of -3% at the low end, growth of +3% at the high end and roughly flat year over year at the midpoint. Embedded in this guidance is the key assumption that we will generate more than $100 million of revenue from new product introductions in FY24, the lion's share of which will come from the new, multi-billion dollar category that we will be entering in the second half of Fiscal 2024.

Because of the timing of our new product launches and their associated revenue contributions, we expect the shape of the year to differ from past years with the first half representing somewhere between 51% and 53% of our full year's revenue.

Our guidance assumes that the weak consumer demand we saw in Q4 of Fiscal 2023 persists throughout Fiscal 2024, with the low end assuming trends soften somewhat further. Any recovery in run-rate trends or our categories broadly would drive upside to our guidance.

Gross Margin

We expect GAAP gross margins in the range of 45 to 46%, which would bring us back into our annual target range with a midpoint of 45.5%. This implies GAAP gross profit dollars flat to up 9% year over year, with the midpoint being 5% growth. We foresee improvements in component costs, favorable product mix, fewer spot component purchases and lower excess component provisions all contributing to a recovery from the 43.3% we reported in Fiscal 2023. As a reminder, Fiscal 2023's GAAP gross margin was impacted by approximately 120bps of FX headwind and over 100bps of excess component provisions.

We will continue to guide GAAP gross margins as we have done in the past, but to make it easier to model our business, we have begun providing GAAP to non-GAAP gross profit and gross margin reconciliations. As such, Non-GAAP gross margin is expected to be 45.4-46.4% due to approximately $7 million of stock-based comp and amortization of intangibles allocated to GAAP cost of revenue.

Adjusted EBITDA

Adjusted EBITDA is expected to be in the range of $150 to $180 million, representing a margin of 9.4% to 10.6%. At the midpoint, Adjusted EBITDA is $165 million, representing a 10.0% margin, up from 9.3% in Fiscal 2023.

Non-GAAP operating expenses are expected to be between 39% and 40% of revenue. At the midpoint, this is approximately $649 million, a decrease of 2% year over year from our normalized non-GAAP operating expense base in Fiscal 2023. We have other expense reduction initiatives underway as well as we relentlessly seek out cost savings. As Patrick mentioned earlier, we are entering a period of harvesting the fruits of our past investments, enabling us to strictly limit hiring going forward. Any future headcount growth will be tied to a significant incremental benefit to our growth ambitions.

In the event that we see topline performance tracking ahead of our outlined expectations, we will balance investment and allow some of the incremental gross profit dollars to flow to Adjusted EBITDA.

We are not providing formal guidance for free cash flow in Fiscal 2024 at this time, however we do expect to significantly improve our conversion ratio from the 33% we saw in Fiscal 2023.

As for Q1, we expect to see revenue increase sequentially by approximately 90% to 100%, roughly in-line with past seasonality. Note that the +113% sequential growth observed in Q1 of Fiscal 2023 was driven by non-recurring factors related to past supply constraints, including a significant amount of Amp backlog that was cleared in the quarter, as well as the launch of Sub Mini. We expect GAAP gross margin to be a bit below the low end of our annual guidance range of 45% to 46%, and non-GAAP operating expenses to increase by $45 to $50 million sequentially resulting in Adjusted EBITDA margin in the mid-teens.

Last but not least, to touch briefly on our Google litigation. We suffered a setback in our litigation against Google as the Northern California District Court overturned the jury verdict awarding us $32.5 million for Google's infringement of one of our zone scenes patents. We disagree with this ruling and will appeal it. On a positive note, an administrative law judge comprehensively rejected Google's second case against us at the International Trade Commission, with a different judge having already indicated that she would be ruling against Google in the first of the cases Google filed. And finally, last week the Federal Circuit held oral argument on the appeal and cross-appeal from the case we brought against Google at the ITC, where the Commission ruled that Google infringes five valid Sonos patents covering the set up, synchronization, equalization, and volume control of smart speakers. Once the appeal process ends, we will be free to pursue our damages case based on these patents that is pending (but stayed) in the federal district court in Los Angeles.

While the road has been long, and the journey has a ways to go, we remain confident we will ultimately prevail in our efforts to hold Google accountable for infringing on our patents and that we will obtain a handsome return on our investment in defending our innovations.

To wrap up, I'd just like to commend our team for all their work through a challenging year. It speaks volumes about the strength of both our brand and product portfolio that we were able to continue our strong market share performance despite everyone else in the industry deeply discounting their products. We will continue to drive innovation and quality, as that sets us apart in good times & bad, and we can't wait to show you one of the things we've been working on in the second half of the year.

With that, I'd like to turn the call over for questions.

<u>Question and Answer Session</u>

<u>Tom Forte - D.A. Davidson</u>
So Patrick and Eddie, thank you for the thoughtful comments as always. I have two quick initial questions and then one quick follow-up. So my first two quick ones, are you seeing disproportionate numbers in your sales for lower-priced items? And then how are consumers responding to your promotions?

<u>Eddie Lazarus, CFO and Chief Legal Officer - Sonos</u>
So Tom, we're not seeing anything special at the low end. In fact, the average sales price of our products went up 4% this year, year-over-year, and it has gone up significantly the year before as well. So we're seeing the premiumness is working for us. And remind me the second question, Tom, sorry.

<u>Tom Forte - D.A. Davidson</u>
Yes. So thank you for that, Eddie. So how are consumers responding to your promotions?

<u>Eddie Lazarus, CFO and Chief Legal Officer - Sonos</u>
Promotions. Yes, there are responding -- the consumer is definitely looking for promotions. There's just no doubt about that. We've seen overperformance in the fourth quarter, and that was one of the things that hit our gross margin, and we've taken that into account in computing our guide for fiscal '24.

<u>Tom Forte - D.A. Davidson</u>
Great. And then my second follow-up question. What data points are you looking at to gauge future demand, such as housing starts or anything else. I think the challenge for everyone right now in consumer electronics is to try to determine when the demand returns. I'm curious what high-level data points you're looking at?

<u>Patrick Spence, CEO - Sonos</u>
Yes. Tom, you're exactly right. I mean, I think that is the challenge for everybody. And I think having been in this cycle for about a year now, we're just being very prudent about how we look at our business and what we're hearing from our channels, how we're planning as we go through it. And so we're looking at all the data points that you probably look at. But at the same time, I think we really -- before we would say things are normalizing, we'd want to see it in our actual numbers. And that's going to be our approach for right now is -- as you heard from us, we have been prudent and assumed that the environment we've seen in '23 will continue. And until we start to see something different in our categories, or our results, we won't change our perspective on that.

Steve Frankel - Rosenblatt

Let me just backtrack for one minute. And could you repeat the Q1 revenue guidance. Are you saying -- just remind me again exactly what you're saying there in terms of...

Eddie Lazarus, CFO and Chief Legal Officer - Sonos

The revenue guidance -- right. So the revenue for Q1, we expect to be up sequentially from Q4, 90% to 100%, which is -- reflects kind of typical seasonality between Q4 and Q1.

Steve Frankel - Rosenblatt

Okay. Great. And then given what's going on with the consumer and what your partners like Best Buy are doing in terms of inventory. Are you contemplating doing anything different in '24 to drive more business to your DTC channel?

Patrick Spence, CEO - Sonos

No. I mean we -- the one thing we've been working on, Steve, is we do experiment with the -- what we're trying to do on our customer relationship management through our DTC. So trying to tap into that $6 billion opportunity with our existing customers. We have a team that is focused on trying to tap into that group and experimenting with a variety of offers and information and reach out and some of these things. And so there are activities there that will be occurring during the year to try and accelerate repurchase, if you will. So there is something -- there's always things that we're doing in DTC, I would say, that are experiments to see how we might drive sales, particularly with our existing base. And then we'll usually take those learnings and share those with some of our large retail partners as we go through it. But we believe there continues to be opportunity in every channel, and we have a plan with each of our partners and in DTC that attempts to drive growth as well. So we certainly don't see it as trading off from one channel to the other.

Erik Woodring - Morgan Stanley

Awesome. Patrick, maybe if we start and take a step back, it's clear that your flywheel was still working last year, right? You saw your kind of important installed base metrics grow again year-over-year, some of them on an absolute basis accelerated. But revenue was down obviously and is expected to be flat next year. So maybe my question is how should we pair those two dynamics together? The flywheel is working, but it's not translating into growth. What changes that?

Patrick Spence, CEO - Sonos

Yes. And I think this is -- it gets to the fact that we also held a strong market share position despite in our categories, sales overall being down 10% to 20% year-over-year. And so -- and that's with tons of discounting by our competition as well and consistently throughout the year, pretty unprecedented from everything that I've seen. And so the fact that we can hold our own in an environment like that, the model continues to work with, people come back. If anything, that part of the flywheel where we have existing customers returning to purchase helps us in a period like this because that is different than most consumer electronics company and creates revenue that helps make sure that we can work through this period.

And then, Erik, I think through both the combination of the new product categories that we're going into, plus consumers coming back to purchasing audio products, electronics as we go into that, I think will allow us to get back to where we want to be from a growth perspective overall on the revenue front. And so I think it's one of those periods. We obviously had upcycle the previous couple of years, and now we've had a challenging '23, and we're going to be prudent in how we look at '24 given what we've seen over the last year. And -- but I also know, having been at this for a long time that these things are cyclical, and we will see people coming back to the category, and we are going to be in an excellent position when they do. And in the meantime, we're also going to focus on going into new categories that present new opportunities with new customers, and we know that those customers will come back and purchase more products too. And so I think those things combined will put us in a good position to return to growth.

Erik Woodring - Morgan Stanley
Okay. No, that's awesome. And then, Patrick, you also made the comment that we're kind of sitting ahead of a multiyear product cycle. Would just love for you to expand on why you believe that is?

Patrick Spence, CEO - Sonos
That's -- that really is a result of the investments we've been making the last few years. And so I talked about last year at this time, the fact we're going to four new categories. We went into one last year, which was Sonos Pro, which is more of a slow build in terms of that one, but a big opportunity for us long term. The one we'll get into this year has more immediate benefits to our business in terms of we go through that. And so we have more coming, and we feel like we're in a good position now where we will be able to leverage those entries into new categories to drive good growth in each of fiscal years ahead. And so that's something that we're very excited about.

We know it's difficult on your side to model for things you don't know about like our road map, and we felt it was important this year to give an indication of the new category we will be entering as it's quite material to what we're laying out for fiscal 2024. And -- but obviously, we don't get into the road map on a ticktock basis, but it's something that we've been investing in, and we feel it's going to help us as we try to drive that kind of consistent growth every year.

Erik Woodring - Morgan Stanley
Okay. That's helpful. And maybe just a quick follow-up on that. You've never necessarily shared that $100 million new product contribution type of metric historically. Just curious if you can give us any color on maybe how that compares the past years. Just to help us gauge how truly important you believe this new product and kind of new market could be for you? And that's it for me.

Patrick Spence, CEO - Sonos
Thanks, Erik. This category is a multibillion-dollar category. So we're super excited about it and super excited for what we have planned. The team has been doing a great job. Every category is a little different in terms of where we've been, timing, the existing customer base we have and all of those things. And so we wanted to just give people an idea of the kind of impact they could expect from this year. And so -- we're super excited about it and looking forward to this category and the ones we have to follow as well.

Jason Haas - BofA Securities
I'm curious if this recent unfavorable ruling changes your litigation strategy at all if it will have any impact on future court cases if there's any implications from this?

Eddie Lazarus, CFO and Chief Legal Officer - Sonos
It doesn't change our strategy. We -- the judge in Northern California adopted what we think is a legal doctrine that bears -- that simply doesn't bear on our case and that the fact that he brought to bear to support the ruling are inaccurate. And so we intend to appeal. We feel very strongly that we have a good chance on appeal. So it doesn't otherwise affect our strategy. It also doesn't have implications for our other cases. The next big damages case that we'll be teeing up in California in a different court involves five completely different patents. So there's just no overlap in either doctrinally or in terms of the patent. So we're just full steam ahead on the current strategy.

Jason Haas - BofA Securities
Got it. That's good to hear. And then as my follow-up, I'm curious if you could talk about where you think your share gains are coming from as you mentioned, I think it's been a few quarters now, you mentioned that competitors have been very promotional. So it's good to see in light of that you picked up share. So yes, I'm just curious if you had any sense of where those are coming from?

Patrick Spence, CEO - Sonos
Yes. I mean, I would say I hope theater has been a particularly strong part, and I think that's a testament to our portfolio. You'll recall we haven't introduced anything new in home theater over the last year despite some of our competitors doing so. So I think it just speaks to the

quality of our product portfolio and the execution by our team at retail, our DTC team and making sure that we're making it clear why our products in that category are better than the others that are out there, leveraging so great communications, marketing, go-to-market efforts around those kind of things.

And then our strong customer base that speaks loudly to their friends and family about the quality of Sonos products. And I -- we've been believers in this model for 18 years. We've seen the power of it. And I think in challenging times, even you see the power of it because we haven't had to discount like so many across the industry have and we've held up well. And so I think it comes from building a strong loyal customer base with a great innovative product portfolio over 18 years.

Alex Fuhrman - Craig-Hallum
It looks like the repeat customer metrics were really strong and seeing nice growth in the number of units owned per customer. Curious if you're seeing Move 2 helping to bring in new customers as you were expecting to after that came out? And then just thinking about the new category that you plan on entering later this fiscal year. Do you think that's something that's really going to be appealing more to new customers? Or do you see that more as a natural extension to your existing customers?

Patrick Spence, CEO - Sonos
Yes. Thanks, Alex. I think the thing I'm always -- what would I say, so pleased with in every product launch is how strong the turn from our existing customers is ultimately for whatever product is that we're building and bringing to the world. And we have a very strong following that follow -- so Move 2 lots of existing customers coming in and purchasing that product and kind of in line with what we'd expect for new. And as we enter these categories, we certainly expect that existing customers will go out and buy products, maybe multiple.

And then over time, we expect any of the products that we're working on to help bring new customers into the Sonos ecosystem. And that's what we typically see through everything that we build. And so we have our eye on trying to achieve kind of both of those things that usually phases where we'll see the existing quickly jump on it, add it to their collection and then we'll start to bring in new. And as you know, we have a long product life as well. So I think it works very well from a return on investment perspective, too.

Jake Norton - Raymond James
I just wanted to double click on what is the internal thinking on product philosophy -- or product velocity and a number of product launches for fiscal '24? And then further, how should we think about when is the right time to get marketing dollars behind Sonos Pro and drive up customer awareness?

Patrick Spence, CEO - Sonos

Yes. So no changes to our leased senior products every year as we think about what it is that we're building. And as we've laid out and why we wanted to give some indication, this year, we happen to be entering a very large multibillion-dollar category. So I wanted to give a little color on that, but the overall philosophy remains trying to introduce at least two new products every year. Fiscal '23 was definitely a year of raising the bar in existing categories and fiscal '24 is a story of entering new categories, which we're very excited about.

On the Sonos Pro front, we continue to see good traction in the companies that we're in today. And we're doing some things in our IT side to make it easier for customers to be able to sign up for that service. And I think as we do that and we learn if we've got that right, then we can pour some gas on that fire and take it from there. So that's kind of the way we're thinking about that. We've got lots of plans and exciting ideas of how we do more in Sonos Pro so stay tuned for that over time.

Brent Thill - Jefferies

This is David Lustberg on for Brent. Two, if I may. Maybe to start, could you just walk through your expectations for promotions this holiday quarter and how that level of promotion compared to prior years? I know you guys have pointed to deeper discounts at your competitors. So just curious how you're thinking about being competitive on price this holiday season?

Eddie Lazarus, CFO and Chief Legal Officer - Sonos

So we aren't going to change our philosophy, which is really around promotional moments as opposed to being on promotion all the time. But this -- the holiday season is the time for that. I mean Black Friday, Cyber Monday is a crucial component of the quarter, and we are going to be putting out some very interesting and compelling offerings during that period. And so I don't think you're going to see a significant departure from past practice, but we've always promoted during this period, and we will do so again.

Brent Thill - Jefferies

Got it. That's helpful. And then maybe to follow up, I don't know how much visibility you guys have here, but it looks like you guys did about $33 million in legal and transaction-related costs this year, which is roughly up 50% from last year, I think, primarily related to the Google litigation. Is there any color that you provide or you can provide that you have visibility into what that expense could look like in '24 as you guys keep on the gas as it relates to the Google litigation?

Eddie Lazarus, CFO and Chief Legal Officer - Sonos

We would expect it to be very, very significantly lower. Last year was an unusual year in that we had multiple trials including two that we had to prepare for at the ITC, only one of which turned out went forward, plus the trial in Northern California, which was very hotly contested. We don't have anything comparable to that on the map for '24. So at least as things stand at the moment, I would expect the expense to go down very dramatically.

CLOSING REMARKS
Patrick Spence, Chief Executive Officer

I just want to hit three things in closing:

First, we are at the beginning of a multi-year product cycle. We have a product roadmap that builds on the success you have seen thus far: growing products per household and revenue per product. As you'll see from the new cohort data we released in the earnings slide, our flywheel is real and the lifetime value of our cohorts continues to build over time. This gets turbocharged when we enter new categories, starting with the one we enter in the second half of Fiscal 2024. The runway to continue to monetize our installed base is very long.

Second, while the environment remains challenging, our market share performance shows that we are holding our own. Our innovation, brand and product portfolio continue to enable us to lead this category without having to sacrifice margin the way all of our competitors have. We are well positioned to accelerate revenue growth back to low-double digits as our categories return to normal and these headwinds subside.

And finally, we feel good about the size of the team we have now. We don't see a need to add a lot more people to deliver on our long term growth objectives. As you saw from our actions in fiscal 2023, we are always managing and optimizing our expense base to ensure the business will deliver sustainable, profitable growth. We are confident we have a path to drive our EBITDA margins to our long term target range of 15-18%.

Thank you for your time & we look forward to updating you again next quarter.